



CARLETON UNIVERSITY
CANADA-US
PROJECT

FROM CORRECT TO INSPIRED:
A BLUEPRINT FOR
CANADA-US ENGAGEMENT

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Foreword

A new administration and a new Congress in Washington provide a once in eight-year opportunity to recalibrate the Canada-US relationship. Particularly at a time of deep economic apprehension and continuing global insecurity, Canadians need bold and inspired leadership determined to make the best of Canada's unique position next door to the United States. The key question is whether the government has the will to assert and defend Canadian interests in a relationship that is the lifeblood of the Canadian economy and the foundation of its security.

For a start, the global financial crisis demands early and sustained cooperation. The interconnections between the two countries' financial and manufacturing sectors doom any effort to find made-in-Canada solutions. The problems of the auto sector illustrate the continued need to work together and find common solutions that limit the impact of the recession.

Second, policies affecting energy and the environment cry out for coherence and prudence in both countries. Today, there is a veritable spaghetti bowl of initiatives, regulations, congressional bills, and state and provincial measures complicating business and confusing citizens on both sides of the border. The two countries should get their mutual act together to ensure that they move in tandem to address concerns about climate change while preserving their capacity to supply energy. Some clear thinking and firm leadership by both governments are needed. We applaud the government's resolve to engage early and intensively with the new administration to develop approaches to climate change and energy security that make sense for both countries. This should also strengthen the two countries' respective positions in global negotiations on climate change. Above all, both governments should move beyond the hollow rhetoric of Kyoto and implement some practical solutions.

Third, there is a need for some common sense to undo the thickening of both sides of the border and to ease the congestion that currently impedes the success of key, highly integrated sectors of the two economies. The two governments should re-examine the benefits of a perimeter approach to the border and find a better balance between legitimate concerns about security and the need, particularly in a recession, for smooth, unfettered movement of goods and services across the border. The two governments should also take a blowtorch to regulatory differentiation and overlap that serve no useful purpose other than to preserve some government jobs and to perpetuate a preference for differentiation for its own sake.

President Obama will have to respond in some fashion to his campaign pledge to negotiate new labour and environmental standards for NAFTA. Canadians should not lose sleep over this, primarily because the concern is directed at Mexico, not Canada. Nonetheless, the prime minister should urge the president not to tamper with the fundamentals of an agreement that has been fully implemented, has served all three countries well, and should be the least of his immediate concerns. US trade problems today have nothing to do with NAFTA.

The scope for initiative and action rests ultimately with the will and political stamina of the prime minister. Given the range and extent of the problems that the United States faces, it is in Canada's interest to be a credible contributor to their solution rather than an annoying diversion.

The agenda the prime minister proposes must also highlight the mutual benefits from bilateral cooperation in addressing the broader economic and security challenges the Obama administration will need to tackle. Partnering with the United States on global issues may well prove critical to gaining the administration's attention and, at the same time, may enhance Canadian influence on issues that matter to Canada.

There is no guarantee that the prime minister will succeed in getting sufficient attention from the new president at a time when his desk will be flooded with urgent priorities. Nevertheless, Canada brings some important cards to the table, none more obvious than that of the Canadian contribution in Afghanistan. Obama is committed to strengthening American involvement in what is, in fact, a two-country war – involving the no-man's land that straddles the Afghanistan-Pakistan border. There are no easy answers, but Canada certainly has earned the right in blood and treasure to influence stronger US leadership and to spur a more substantive, more cohesive international effort.

On the financial debacle and the deepening global recession, Canada also has a record of performance at home that should have more appeal to America than the *dirigiste* approaches favoured by some Europeans. If the prime minister and the president can act together to stymie protectionist impulses from the US Congress, it would send a powerful signal to other decision makers in the global economy.

As an earnest of its commitment, and in Canada's own interest, there are initiatives the government can pursue on its own. Canada can, for example, reduce the impact of regulatory differences by taking steps to align more of its regulatory regimes with those in the United States. In many instances, Canada would achieve better outcomes and, at the same time, build a strong foundation for cross-border regulatory cooperation. Similarly, the government can eliminate many of the remaining industrial tariffs, as the prime minister promised during the last election, and provide the United States with an incentive to do the same and thus do away with cumbersome rules of origin. Such initiatives can send a strong message to US interests that Canada is serious about fighting protectionism and finding cooperative solutions to global and bilateral problems.

Canadians should not underestimate the obstacles. Domestically, the enthusiasm that greeted the election of Obama will fade in the face of the persistent unease of Canadians about getting too close to Canada's giant neighbour. In Washington, drawing attention to Canadian interests is not easy at the best of times. The prime minister needs to lead and motivate Canada's best talents to articulate and pursue a national strategy that includes sustained efforts with the Congress and at the state and provincial level.

To give impetus to a more robust bilateral agenda, the prime minister should, in the first instance, propose to the president that annual summits be reconstituted. These would offer the opportunity for firm direction and for the necessary therapeutic push on both bureaucracies. Leadership at the top is critical to ensuring priority attention in both capitals. It will only be successful if it flows

from a foundation of mutual respect and trust, carefully built and nurtured by the two leaders, and with an attainable agenda. Canada will have to take the lead on this with creative ideas and will have to demonstrate convincingly that what is being proposed carries mutual benefit. This bilateral agenda should take precedence over ephemeral trilateral approaches.

A wide range of cross-border institutional contacts already exists at the federal and sub-federal levels, as well as among private sector players. These need to be harnessed to reinforce bold national goals and objectives and would be considerably enhanced by inspired leadership at the top.

Complementing the importance for strong leadership at the top is the need to make shrewder use of Canadian face time at major multilateral and regional summits and ministerial meetings, particularly those that matter to the United States. The Obama administration is committed to a vigorous renewal of US multilateral engagement. In those circumstances, Canadian capacity to move its bilateral agenda with the United States in productive directions will be considerably enhanced as a result of credible engagement in such forums as the United Nations, the World Trade Organization, and the Summit of the Americas.

The blueprint set out in these pages touches upon the full range of issues where Canadian and American interests intersect and where cooperative approaches will pay dividends in both countries. It is as much a security and defence agenda as it is a trade and competitiveness one. It touches upon Arctic stewardship and climate change, energy security and regulatory convergence. Given the depth and extent of cross-border issues, it follows that only a whole-of-government approach will provide the expertise and commitment required to pursue these issues, led by the prime minister and with the full engagement of his most senior colleagues.

Over the course of the past year, Carleton University's Norman Paterson School of International Affairs and its Centre for Trade Policy and Law have assembled a team of experienced former officials and scholars to consider how Canada can best pursue vital Canadian interests through more productive relations with the incoming administration in Washington. This Blueprint is a record of our discussions and provides suggestions on what Canada's government should consider in preparing an agenda for bilateral engagement. More detailed analysis and proposals are set out in the seventeen papers contributed by the participants in this project and are available at the project's website at <http://www.carleton.ca/ctpl/conferences/Canada-US-Project-2008.htm>.

Conference Conclusions

At the conclusion of the conference on December 8, 2008, that considered the papers appended to this Blueprint, the conference co-chairs, Derek Burney and Fen Hampson, shared their conclusions on the day's discussions. They indicated that:

1. *The time for re-engagement is opportune* – The election of a new president committed to reaching out and pursuing a new internationalism provides a compelling prospect for Canadians to engage the United States and place the relationship on a more productive footing. To do so, the government will need to present an agenda that responds not only to Canadian concerns, but also to those of the United States. *Crisis, a convergence of national interests, and the need for economic recovery* should help to bring us together.
2. *Canadians are ready* – Frank Graves confirmed what many of us know: Canadians are generally comfortable with a relationship that works to their benefit and are prepared to support government efforts to gain greater economic and security benefits. They accept that the border has become dysfunctional and that minor regulatory differences make little sense. There is *political room*, therefore, for the government to craft an agenda aimed at engaging the United States on issues of common interest. But for the partnership to be strategic, it must also engage with strategic issues as America sees them, from climate change and the turbulent global economy, to the rise of China and the challenge of Iran.
3. *The agenda is clear* – Our work, and that of others over the past few years, provides increasingly firm intellectual underpinnings upon which to build. Canada needs to move beyond the incrementalism and irritants management that have characterized the recent past and focus on an integrated and mutually beneficial agenda of major unresolved issues. As the title of this overview paper suggests, the government needs to move from *correct* to *inspired* relations. It should not shrink from bold ideas. Canada is engaging a superpower that happens to be a neighbour. Success will require an agenda that addresses both the neighbourhood and the wider global concerns of that superpower.
4. Obstacles to achieving this agenda are chronic indifference in Washington and wariness or narcissism in Canada. *The answer is leadership and mutual respect*. Both the current and two former US ambassadors to Canada – David Wilkins, Gordon Giffin, and James Blanchard – noted in their roundtable discussion that mutual respect and personal relations at the top are the *sine qua non* of good relations. Canadians and Americans have developed a vast network of contacts and informal institutions, nationally and regionally, that work well to solve the many small issues that are a normal part of bilateral life. But the government also needs to find the best way to *build the political chemistry* at the top that is so essential to moving the relationship forward and providing the momentum to deal with new and difficult issues. It is essential that the prime minister engage the attention of the president at the earliest opportunity and that they meet regularly thereafter to review

the relationship and provide the vision and political impetus needed to fuel continued productive relations. Personal relationships matter; in our experience, we have seen examples of both the good and the ugly on this score; we prefer the good.

5. *Finally, a touchy issue* – One of the constraints to resolving bilateral issues has been an obsession with trilateral approaches. The dividends have been meagre, largely because Canadian interests and issues are not the same as those of Mexico. Canada can do more bilaterally, as was eloquently endorsed by the panel of ambassadors and by the audience. There is much more common ground between Canada and the United States – i.e., “Upper North America” – than there is between Mexico and either of its northern partners. The best diplomatic description may be “trilateralism when necessary but not necessarily trilateralism.”

Prescriptions

Over the course of the day-long conference, discussions pointed to three broad themes that should inform the agenda the government needs to pursue with the new administration:

1. The first is *partnership and trust*. In a world of economic upheaval and continued insecurity, Canadians need to recognize the critical role of the United States and work with its leaders in an effective partnership that is focused not only on bilateral issues but also on global ones. To that end, US leaders need to be confident that Canada will be a reliable and effective partner in defence of its own interests, prepared to provide support when needed and in a position to provide constructive criticism when necessary. The world’s problems, and the US role in addressing them, will prove easier to manage if the United States can count on the support of allies. As the US ambassadors confirmed, Canada can best advance its own agenda by being one of those allies. Revamping the military was a critical first step. Redefining the way the two governments manage the interoperability of Canadian and US forces is an important next step. Putting NORAD on a permanent footing was a start, but there is a need for appropriate institutions for land and maritime forces as well. Canada’s role in Afghanistan is proving critical to re-establishing its credentials as a credible security partner. The government will need to be prepared to offer help in other trouble spots. Its stated interest in strengthening bonds in the Americas may be one area ripe for fruitful collaboration. Emerging US interest in concepts such as Responsibility to Protect, a Canadian invention, offers further scope for collaboration.
2. The most pressing bilateral issue is the need to *re-think the architecture for managing North America’s common economic space*. The recession should trigger bold thinking, including actions Canada can take on its own, from regulatory reform to unilateral trade liberalization. As Glen Hodgson and others argue, Canada and the United States no longer trade with each other; they build things together using value chains and other modern production

techniques. The growing competition from China, India, and the other emerging economies indicates that they do not have the luxury of maintaining rules that were suited to an earlier era of national production. Four key areas call for immediate attention:

- *Energy security and environmental sustainability* are the two hottest political buttons in both countries, and increasing public concern with global climate change has made them two sides of the same coin. Both must be considered seriously but as *part of a broader economic agenda*. Greater US energy security cannot happen without Canada. On no two files is there greater need and scope for constructive collaboration. To start, the two federal governments need to craft a joint approach to carbon control in place of proliferating local and regional plans. Next, they should recognize that oil and gas will be part of the energy equation for years to come, and that sensible management of their exploitation and distribution is critical to both energy security and environmental sustainability. Third, support for new technologies needs to be pursued prudently and realistically. Finally, Canadians should accept that the energy cards they hold are not a weapon to use against the United States but an incentive to work together and find common solutions. They are key to mutual solutions – just as the FTA led to success on acid rain.
- *Re-imagining the border*. As Shirley-Ann George and Perrin Beatty make plain, the border has become an instrument to address yesterday's problems. Perversely, modern technology is being used to frustrate rather than facilitate trade. Rather than relying on preclearance and away-from-the-border audit techniques, the two governments have piled increasingly onerous demands on shippers and travellers. Modernizing the border will require that the two countries manage it together and see it less as a line dividing the two countries and more as a joint responsibility to maintain the security and economic integrity of both Canadians and Americans. Trusted traveller and shipper programs need to be expanded and improved so that they actually reflect trust. It may be time to resurrect the "perimeter" concept and find a better balance between security and economics.
- *Integrating national regulatory regimes into one that applies on both sides of the border*. Kathleen Macmillan points out that Canadians are increasingly shooting themselves in the foot by maintaining and even expanding minor but annoying regulatory differences. To be sure, there are a few areas where Canadian regulatory requirements have proven superior, such as in the financial sector, but they are the exception rather than the rule. To get this right, the two governments must embark on an aggressive effort to reduce duplication, overlap, and difference in the two regulatory structures. Canada will be required to do much of the heavy lifting for two reasons: it is the smaller partner, and US rules are typically more demanding and effective. But to make this work, the two governments must also develop joint rules and procedures to coordinate regulatory policy on an ongoing basis. This is clearly an area where *Canada can do more on its own and in its own interest*.

- *Building an enhanced capacity for joint rule making.* Ad hocery is not good enough. A new architecture to deal with border and regulatory issues will require a capacity for dynamic, continuous, joint rule making. The two governments may need to establish a few institutions that are capable of providing political leadership as well as political oversight. Canada and the United States do not need to emulate the institutions established by the Europeans, but they surely need to learn some lessons from their experience. Part of the solution may lie in *making better use of the “hidden wiring” in the relationship*. Over many years, relations have grown and deepened at many levels – from the state-provincial and business-to-business to nongovernmental, and legislative levels. It will be important for national leaders to harness and mobilize these networks on the wide range of economic and security challenges that now confront the relationship. None of this will work, however, unless there is leadership and commitment at the top.
3. A good example of constructive mutual cooperation would be a commitment on the part of both governments to *responsible stewardship of the fragile Arctic waters and archipelago*. As Don McRae so persuasively argues, harping on Arctic sovereignty is the surest way to undermine it. No one questions Canada’s Arctic sovereignty, but there are legitimate concerns about Canada’s capacity to exercise stewardship in the region. Given shared interests in responsibly exploiting the energy reserves in the Arctic, Canada and the United States should build on the pragmatic solution they have used to manage the issue of navigation rights through the Northwest Passage. The two countries need to be equally pragmatic on Arctic energy and environment issues and ensure that Russia does not succeed in its grandiose claims over the resources of the Arctic.

In conclusion, we believe there is scope for critical breakthroughs on issues that serve both Canadians and Americans. Putting this agenda before the new administration soon after it takes office should be the *Government of Canada’s highest priority*. To that end, the prime minister should seek an early meeting with President Obama and seek to set the tone and priorities for the relationship. Vision and commitment at the very top will be key to unblocking lethargy and kindling imagination. Canadians have done it before. They can do it again. The only question is whether there is the will in Canada to initiate and the stamina to persist.

From Correct to Inspired

A Blueprint for Canada-US Engagement

On January 20, 2009, Canadians' southern neighbours will swear in a new president and vice-president. President Barack Obama comes into office with a strong mandate and will be able to call on a Congress firmly controlled by members of his own party. An air of renewal and suspense hovers over the US capital, not least because the challenges that the new administration will face at home and abroad could not be more daunting, ranging from deep unease in global financial markets to continued terrorist outrages, war in the Middle East, and economic turmoil at home.

The arrival of a new administration and a new Congress in Washington provides the federal government with a golden opportunity to recalibrate Canada's relationship with the United States and engage its political leadership in the pursuit of a joint and mutually beneficial agenda. It is in the interest of Canada, and the global community, for America to prosper and provide global leadership. While the Obama administration will not be looking for wish lists from traditional allies, there is an opportunity for creative diplomacy rooted in Canada's national interest. The prime minister should propose an agenda that constitutes a blueprint for addressing the bilateral and broader global issues at the heart of the relationship. To make this agenda a reality, he must commit to a sustained effort with the new administration backed by persistent engagement with the Congressional leadership and complemented by diligent networking at the state and provincial level.

Why a New Blueprint?

Over the course of the Bush presidency, the United States was at the center of two cataclysmic upheavals that will define global and North American governance for years to come: the terrorist attacks of 9/11 and the financial market meltdown of 2008. The first brought to a crashing halt the rosy view of the potential for a new, more peaceful world order ushered in by the implosion of the Soviet Empire and the end of the Cold War. The second deeply undermined confidence in the long-term viability of a US-led global economy.

The "global war on terror" in response to 9/11 has not worked out as the Bush administration had hoped. Rather than bringing the world together to address a common scourge, it has divided both Americans and their friends and allies. There is enough blame to go around for this sad state of affairs, but the fact remains that the international institutions and alliances that were supposed to promote cooperation and joint action proved totally inadequate. Instead, there has been a steady spiral of mistrust and recrimination among world leaders, as the United States doggedly pursued a controversial anti-terror policy and others stood on the side, more often as critics than as supporters. The outrage in Mumbai at the end of November 2008 reminded everyone that terrorism remains a challenge of global proportions; each incident may be confined to a single location, but the repercussions remain global.

Similarly, the global financial crisis, stock and commodity market gyrations, and an impending deep recession are corroding the structures and traditions of international economic cooperation laboriously constructed over the last half century. Waning US commitment to global economic leadership further undermined the capacity of the international system to respond. The arbitrary nature of the US bailout package, combined with European efforts to save their own banks and depositors in what *The Economist* called “beggar-thy-neighbour” rescues, has probably made the crisis worse. The G-20 Summit process has, to date, provided more photo-ops than leadership and has eroded confidence in the ability of the leading economies to deal with the situation.

Despite disappointments, US leadership remains critical to the way the world deals with these and other challenges. President Obama ran as the candidate of change, of fresh thinking. A change in tone and a fresh start will prove critical to addressing both sets of problems. For Canadians, dependent on good relations with the United States for both their prosperity and their security, it is critical that they reach out and become part of the dialogue and offer ideas that appeal to the new administration and the Congress and serve Canadian interests at the same time.

For more than a decade, Canada-US relations have suffered from a lack of focus and purpose – problems compounded by a lack of resolve, even a determined detachment by Canada’s leaders about the importance of the US connection and the best way to make it work to Canada’s advantage. Over the past two years, Canada-US relations have recovered, becoming what can best be characterized as “correct,” but in the global and bilateral context in which Canadians now find themselves, correct will not get the job done. Canada needs productive relations, inspired by a bold and confident leadership determined to make the best of Canada’s unique position next door to the United States and Canadians’ long-standing – and mutually beneficial – economic and security relations with their southern neighbours. The rewards of commitment are clear; the price of neglect is incalculable.

The real danger facing the world is that the United States may retreat further from global leadership and focus on domestic problems. Some Americans are worried about their diminished presence in the world in the face of mounting challenges to their economic and military supremacy and are determined to reverse the trend. Others revel in it. A recent survey reported in the *Wall Street Journal* found that more than a third of Americans want their country to stay out of world affairs. This new and growing sense of isolationism is reinforced by a tide of fiscal red ink and economic recession at home. Protectionist sentiments are resurfacing as economic circumstances deteriorate. Military interventions in Iraq and Afghanistan have proven deeply unpopular in spite of the positive impact of the surge in Iraq. These trends should be of grave concern to Canadians and their leaders, not least because their economic fortunes and security are so closely intertwined with those of the United States.

President-elect Obama is highly popular with Canadians, but Canadians know a lot more about him than he does about Canada. His only comments about Canada during the campaign were in the context of NAFTA. He is on record attacking NAFTA on the grounds that it does not do

enough to enforce labour and environmental standards – problems that pertain more to Mexico than to Canada. He even mused that if he did not get his way, he would seek to renegotiate the agreement. He subsequently backtracked and stated on more than one occasion that he is firmly committed to the principles of free trade. The lesson Canadians should glean from these musings is that it is better for Canada to define a constructive agenda than to react to a negative one emanating from the cauldron of short-term Washington politics.

The key question that now confronts Canada's government, therefore, is what does Canada want out of the US-Canada relationship – a relationship that is the lifeblood of the Canadian economy and the foundation of Canada's security. To ask the question is to answer it, and yet, over the recent past, it has become increasingly clear that Canadians undervalue the importance of the US relationship to their welfare and security.

The cross-border flow of goods and services added up to more than \$700 billion in 2007, the equivalent of more than half of Canada's GDP. The United States absorbs roughly four-fifths of Canada's exports and supplies nearly two-thirds of its imports. The Canadian market, in return, takes up more than a fifth of US exports and provides a sixth of its imports. Canada is a larger market for US goods and services than all 27 countries of the European Union combined. Additionally, as Gary Hufbauer and Claire Brunel point out, "The United States and Canada have traditionally been pillars of the world economy. Their combined GDP exceeds US\$15 trillion and their total population encompasses 335 million people. They have played a guiding hand in shaping the global commercial system, both in terms of trade and investment rules." This is not a time to reverse this legacy.

On the security front, the US umbrella has been essential to Canadian defence and security needs for more than half a century. Geography ensures that Canada will always occupy a unique role in US strategic and defence considerations. Canada and the United States share a continent, and neither country can mount a credible defence of the homeland without the active support of the other. US and Canadian commitments to the defence of North America are thus not matters of altruism but of vital national interests. As David Bercuson points out, "Canada is not only the 'front porch' of the United States in that the entire northern border of the US is Canada's southern boundary, but Canada also geographically dominates the sea and air approaches If Canadian defences across this vast region are not effective, then US defences cannot be effective either. . . . Canada is also important to the United States as a political ally. . . . Canada's symbolic support of US foreign and defence policy has long been desirable to Washington. It is not that Canada's support gives the US legitimacy – that would be a gross overstatement – but it does somewhat comfort America's European allies if Canada is aboard on any particular initiative." Not surprisingly, the basis for a productive partnership in solving economic problems often lies in persuading US leaders that Canada is, and will remain, a reliable security partner.

In its November Speech from the Throne, the government signaled a renewed commitment to engagement. The call for negotiations of a bilateral energy security and climate change accord is

an important starting point on which to build. The United States depends on Canadian energy supplies and there is considerable scope for joint expansion of transmission grids, collaborative technology initiatives to expand renewable energy sources, and other constructive ways to address the energy security/climate change nexus. Cooperation on these issues could prove an important catalyst to bolder initiatives on the economy, the border, regulations, defence, and more.

Key Challenges

Canada confronts a number of key challenges in redefining its relationship with the United States. *The first is to engage the United States at the highest level in order systematically to drive a mutually beneficial agenda.* The government needs to restore an atmosphere of mutual trust, respect, and partnership to the relationship. This has to begin at the highest levels of government, especially between the two political leaders. Trust, respect, and personal relations are essential to securing the attention and engagement of America's leaders on issues that matter to Canada.

Officials and citizens alike take their cue from the depth and strength of relations between their elected leaders, particularly the prime minister and president. The army of bureaucrats engaged in managing the myriad ways in which the two societies intersect can prepare the ground, but only leaders can decide and set the tone. Now is the time to provide the basis for a new direction and set in motion the machinery that will translate words into action. In Robin Sears' words, "a high-level agenda, with public deadlines and goals, endorsed by the PMO and the White House, would help revive moribund bureaucratic structures, in support of serious dialogue and deal-making between government leaders. They could lay the foundation for a long missing ingredient in our relationship – permanent consultative institutions at the cabinet and leader level."

Over the years, as day-to-day Canadian and American interaction has grown, premiers and governors, state, provincial, and federal legislators, and officials and business leaders have built extensive networks and contacts, many of which have contributed importantly to resolving individual issues. This "hidden wiring" has been useful in resolving specific issues – cleaning up the Great Lakes, for example, and introducing a "smart" driver's licence for border transit. It can be made even more effective and productive, however, within a framework of leadership at the top committed to moving the relationship to the level required to deal with the major economic and security challenges Canadians now face.

Engaging US leaders will require adroit management and inspired ideas. Given the range and extent of the problems that will confront President Obama and his colleagues on being sworn into office, it is critical that Canada be seen as a credible contributor to their solution rather than as an annoying diversion. The agenda, therefore, while attentive to bilateral issues, must be, and be seen to be, responsive to the broader economic and security challenges the new administration will need to tackle. As Si Taylor reminds us, on Inauguration Day "relations with Russia will still be problematic, Iranian intentions obscure, the Karzai government imperiled, the reconstruction of Iraq unfinished, the Palestinians divided, and the Israelis on the eve of an

election.” In responding to these and other challenges, Mr. Obama will look to friends and allies to provide support. It is critical that Canada be one of these, ready to provide not only support, but also ideas and proposals that make sense and meet joint needs. Again, in Taylor’s words, “It is in our national interest to see the United States restored to economic health and strength and international leadership.”

As Obama takes office, he will pursue a faster drawdown in Iraq with compensatory emphasis on Afghanistan. This may put pressure on the prime minister’s vow to take Canadian combat troops out of Afghanistan by 2011. Cutting Canada’s losses on a costly and unpopular mission may prove popular at home but will at the same time reduce Canadian influence and visibility with a new administration that is confronting a very difficult set of international challenges. More to the point, it will undermine Canada’s ability to work with the United States to resolve global issues on which Canada and the United States have shared concerns and objectives. As both Taylor and Bruce Jentleson point out, experience demonstrates that this is often the best way of gaining US attention on more immediate Canadian concerns.

An Obama foreign policy will almost certainly be pragmatically internationalist – resembling that of President Bill Clinton. Some sense of Democratic thinking can be gleaned from the report, *Strategic Leadership: Framework for a 21st Century National Security Strategy*, co-authored by Anne-Marie Slaughter, Ivo Daalder, Bruce Jentleson, and others, that emphasizes that the United States should work through international institutions and alliances and support a conception of “common security” that gives priority to the problems of failed and failing states and to the use of force for humanitarian as well as counter-terrorist objectives. The bipartisan *National Commission on Genocide Prevention*, chaired by former Secretary of State Madeleine Albright and former Defense Secretary William Cohen, similarly argues that the United States should seek to regain its moral authority and leadership in the world.

Many of the ideas, such as the emphasis on “common security” and the Responsibility to Protect, being served up by Obama’s Democratic advisers, were Canadian inventions. Canada is thus well positioned to bring its own ideas and practice to the table with an Obama administration that seeks to reposition America’s place in the world. John Graham suggests that cooperation in the Americas may prove appealing to both governments. The prime minister has already indicated that the Americas constitute a region for priority attention. Graham adds, “if we can be helpful in areas of particular relevance to the huge majority of Hispanic Americans who voted for him, Obama is likely to be more attentive.”

Similarly, the current economic crisis presents risks but also political opportunity. Canadians can get the attention of the next administration if they focus their efforts on advancing a focused agenda for cooperation to make North America strong in a changing global economy. It should be a call to “hang together so we do not hang separately.” In that package, alongside the energy security and environment initiative, the government should include proposals to heighten regulatory compatibility, border management, labour mobility, and North American defence and security.

As Gary Hufbauer and Claire Brunel point out, “digging out from the immediate financial crisis will occupy much of 2009. But before too long, North American leaders should lift their sights and address the long-term challenges posed by dynamic economies in other regions.”

The second challenge is energy and the environment. The North American energy market is one of the most deeply integrated in the world. Canada is the largest supplier of crude oil and petroleum products to the United States, supplying 2 million barrels a day of crude oil and 2.4 million barrels per day of total petroleum products. On a regional basis, Canada is the key supplier of oil to the Rocky Mountain and Great Plains/Midwest regions of the United States. Canada is also the principal foreign supplier of gas and the only foreign supplier of electricity to US customers. There was much talk during the US election campaign about enhancing US energy security by privileging new and existing sources of production within the continental United States. Much of this rhetoric has more than a residual echo of the protectionist energy policies of half a century ago. Canada has to ensure that its energy supplies are treated equally to those of the United States so that they do not have another “softwood lumber” problem on their hands in the near future.

Section 526 of the Energy and Security Independence Act of 2007 introduced by Henry Waxman, a California Democrat and the new chair of the House Committee on Commerce and Energy, requires that the US government not enter into contracts that would lead to the purchase of “synthetic, alternative, or non-conventional fuels with higher global warming-related emissions than conventional fuels.” It also obliges the US government, especially the US Forces, which are the largest single fuel purchaser in the United States, from using taxpayer dollars to buy “dirty” fuels such as tar sands, liquid coal, and oil shale. It passed, despite Canada’s opposition and that of US energy companies and the Department of Defense.

Canadians should be under no illusions that energy is a useful bargaining chip in their relations with the United States, especially if there is an attempt by the next administration to modify provisions in the NAFTA. As André Plourde cautions, Canada should “resist the urge to use access to Canadian energy resources as a bargaining tool. Quite simply, from a policy perspective, it is not in Canada’s best interests to restrict energy exports to the United States at this time – a situation that will remain unchanged for quite a number of years: there are no other commercially viable export markets for Canadian-produced energy. And US officials know this. Instead, our strategy should continue to emphasize the fact that Canada is a secure and stable source of energy supplies for US markets.”

In Plourde’s view, climate change policy is the other “elephant in the room.” As noted above, US policy makers have already sought to restrict the use of refined products that come from the Alberta tar sands on the grounds that they are the result of extraction processes that contribute disproportionately to greenhouse gas emissions. Obama himself focused on clean energy development in his election platform and proposed a US emissions reduction target of “80 percent less than 1990 by 2050” along with a cap-and-trade system and the imposition of “carbon tariffs” on imported goods from countries that do not have similar policies in place.

As the United States moves in this direction, the government will want to ensure that Canadian producers are treated the same as US energy producers under an emissions trading scheme. At the same time, Canada will have to develop a credible climate change policy that is not inconsistent between federal and provincial levels of government and that does not become an easy target for US legislators. Developing a joint energy and environment security agreement, as proposed by the government, is a pragmatic way to put this on the North American agenda. In the words of Peter Burn, “Canada and the United States should make common cause in a collective effort to enhance North American energy and environmental security. They need to devise a coordinated, transnational action plan based on multilateral trade and environmental principles that could drive North American economic renewal through investment in clean technologies and the expansion of domestic energy supply.” Discussions should encompass investment in infrastructure, research and development, conservation, and a commitment to agree on climate change policies on both sides of the border that are consonant with sustained economic growth.

The third major challenge is to bring the rules governing the cross-border movement of goods and services into line with the reality of deep integration. Border security has become economic protectionism in a new guise. Cross-border trade ground to a halt in the days immediately following the 9/11 terrorist attacks. As a direct consequence of new policies introduced by the Bush administration that include mandatory cargo reporting rules, onerous inspection requirements and fees, and new traveller rules and restrictions, the border has not only thickened but has also become increasingly unpredictable. Estimates put the new transaction costs of doing business across the border at 2-3 percent of total trade, i.e., \$15-20 billion annually. Patrick Grady points to econometric studies indicating a 12.5 percent decline in Canadian exports of goods, excluding energy and forest products, than what could have been expected in the seven years since 9/11, and an 8 percent decline in the potential export of services. The problem is not confined to the US side of the border. Canada’s own customs and security officials have taken their cue from their counterparts in the US Department of Homeland Security by beefing up Canada’s own border inspection and regulatory procedures.

The Smart Border Agreement (2001) and the Security and Prosperity Partnership (2005) have done little to reduce the mounting pile of red tape and congestion at the border. Although these partnerships have laid a foundation of sorts for security and enforcement collaboration, they are hampered by the absence of any long-term strategy or vision about how the two countries can work more effectively together. New inspection and identification procedures spell long lines, delays, frustrations, and extra costs for “just-in-time” deliveries. The situation cries out for wholesale reform, balancing genuine security concerns with the overwhelming need for efficient movements of people, goods, and services.

Shirley-Ann George catalogues not only the many new obstacles to cross-border commerce, but also identifies a series of straightforward steps that the two governments can take to ease the burden of border administration. She sets out five guiding principles that both countries

should embrace as they rethink how to manage the shared border, and advances four short-term, practical, recommendations that could quickly be put into action. These include:

- expanding trusted shipper and traveller programs;
- providing 24/7 access at major border crossings;
- establishing a single system for importing and exporting reporting requirements; and
- committing to the rapid roll-out of enhanced drivers' licences.

Additionally, it is critical that the two governments find a joint approach to border management in the event of a major terrorist attack in either the United States or Canada. There is no agreed contingency plan to deal with such a crisis. It is essential that Canada engage the United States in a discussion of homeland security concerns and mismatches – from critical infrastructure protection, port management, and transport security to cyber crime, drugs, and human smuggling – each of which can affect key interests on both sides of the border.

US and Canadian security concerns relate not only to commercial traffic and crime, but also to the half million Canadians and Americans who cross the border every day, virtually all for peaceful, law-abiding, everyday purposes. A special sub-set of these concerns relates to immigrants. Canada and the United States have similar, but not identical, immigration programs. US concerns focus particularly on the credibility of security checks of recent immigrants from non-traditional sources. Critical to a better functioning border, therefore, will be a willingness by both governments to work out agreed standards and share basic information. At the same time, the government will want to disabuse US officials of some of the self-serving myths initiated and perpetuated by Homeland Security officials. Where there are real weaknesses or gaps, Canada needs to take remedial action; where US officials are misinformed, Canada needs to set them straight.

Related to the problem of border administration is border infrastructure. As too many travellers and shippers have experienced, there are major bottlenecks at key border crossings, such as the Ambassador and Peace Bridges crossing the Detroit and Niagara Rivers, and a real need to expand bridge, tunnel, highway, and rail connections between the two countries to ease congestion at key transit points and ensure the smooth flow of trade. The current infrastructure, much of it built in the first half of the last century, is woefully deficient and ill-suited to the needs of the 21st century. While there have been some significant improvements – such as the twinning of the Blue Water Bridge and the new rail tunnel under the St. Clair River – new investments have not kept up with the tripling in trade volumes over the past quarter century. Two solutions in particular will need to be pursued to keep Canada competitive: making investments in border infrastructure an integral part of broader improvements in the overall road and rail networks, and moving as much of commercial border administration as possible away from the border in order to ease congestion.

US officials need to be reminded that a North America that can compete with the emerging juggernauts in Asia is one that builds on the deep integration that has developed between Canada and the United States over the past quarter century. As George makes plain, officials on both sides of the border need to take an integrated, whole-of-government approach that recognizes shared

interests and the reality of deep integration. The era of individual agencies of government pursuing their border agendas with little reference to the requirements of other agencies needs to be replaced by an approach to border management that reflects coordination not only between Canada and the United States but even more among the many agencies active on both sides of the border.

Finally, the smooth operation of the integrated Canada-US economy requires that the two countries come to grips with what some have called the narcissism of small differences in the regulatory structures of the two countries. Kathleen Macmillan points out that “Canada and the United States maintain parallel processes and structures across almost all areas of regulatory activity.” There are many regulatory differences – most of them small but irksome – and many regulatory redundancies, few of which serve any useful public policy purpose other than to keep legions of bureaucrats busy. Fortified orange juice is classified as a drug in Canada but as a food product in the United States. Auto manufacturers have to comply with different safety and product standards in the two countries, adding to the price Canadian consumers pay for cars and trucks. Health Canada spends an enormous amount of time and money testing drugs that have already been tested and approved by the US Food and Drug Administration. As Macmillan points out, “regulatory incompatibility means reduced trade, higher compliance costs for business, extra expenses for consumers, and less than optimal outcomes. ... This damages our competitiveness unnecessarily.”

Why does any of this matter? As Glen Hodgson explains in his paper, “North American economic integration has grown and an enhanced Canada-US trading relationship needs to reflect that reality. Firms span the border, with as much as 40 percent of bilateral trade now being intra-firm, i.e., involving different parts and services from within the same company. Many of our companies operate continentally; our energy infrastructure is also largely integrated along continental lines.” Much of cross-border trade is now based on “value chains” where products are assembled out of a wide range of different components made by suppliers who are scattered across North America and even across the globe. This is especially true in key manufacturing sectors such as automotive, aerospace, and telecommunications. Although tariff barriers have come down, integrative trade is hampered by divergent regulatory standards and procedures in different jurisdictions, which in turn are reinforced by burdensome border administration.

According to the Canadian Federation of Independent Business, Canadians spend almost 2.6 percent of their total gross domestic product complying with numerous federal and provincial regulations – of which more than 4,500 are new or amended each year. Canada’s trade, investment, and innovation all suffer as a consequence of these regulatory burdens. To be sure, there is reason to be vigilant when it comes to some of Canada’s regulatory regimes. Canada’s stringent bank rules, for example, helped to attenuate the collateral fallout in Canada of the US mortgage and credit crisis. But many rules and regulations in other key Canadian manufacturing, agricultural, and industrial sectors serve little more than misplaced national pride and have an undesirable protectionist effect.

A comprehensive effort to align regulatory standards would remove anti-competitive measures and open trade opportunities. This could be achieved by developing a more integrated Canada-US regulatory regime via a system of mutual recognition as the default for product, services and labour standards, a system of mutual notification when regulations change, and perhaps even a common set of external tariffs. A good start would be to introduce a requirement in both countries that all new or amended regulations be compatible with requirements in the other country unless there are persuasive public policy reasons to maintain the difference. Over time, given the pace of regulatory activity in both countries, the extent of differences would steadily shrink and be limited to those that serve an identifiable and transparent public policy purpose.

Canada can speed the process of convergence by making a concerted effort to align a wide range of regulatory requirements with those in place in the United States. This can be done now. Many Canadians would be pleasantly surprised to learn that in many instances, Canadian regulatory requirements and outcomes would be strengthened as a result. The much ballyhooed fear of a race to the bottom is not based on any objective analysis of Canadian and US regulatory requirements.

Reducing regulatory differences also feeds back in a virtuous loop to the problem of border congestion. The bulk of border administration today flows from regulatory concerns. As a matter of administrative convenience, customs officials have become the front line in ensuring compliance with regulatory requirements in both countries. Reducing regulatory differences to any significant extent, therefore, will at the same time reduce the need for inspection at the border, relying instead on agreed certification measures that are acceptable on both sides of the border.

Border administration could also be simplified to a considerable degree by unilaterally eliminating the most-favoured-nation tariff on most industrial products and consumer goods. Challenging others to do the same might even provide a basis for renewing global trade negotiations. Little purpose continues to be served by this remnant of the industrial policy of the past. Its purported value as negotiating coinage in future trade negotiations is much exaggerated, whereas the benefit of reducing the cost of customs administration, particularly the burden of meeting onerous rules-of-origin requirements, would be immediate and significant. With few exceptions, Canadian-based firms would find their ability to compete, both at home and abroad, materially enhanced.

To improve competitiveness more generally, both federal and provincial governments should take a hard look at their tax regimes. Instead of tweaking their systems with features distinct to Canada, shutting down efficient cross-border tax planning structures in a way that harms only indigenous Canadian companies, or adding new complexities to already cumbersome tax rules, common sense would suggest that both levels of government consider reforms that would make the system less discriminatory, more efficient, and more competitive.

The Advisory Panel on Canada's System of International Taxation should help the federal government recover lost ground on tax competitiveness. While this is something that can be done unilaterally, it is myopic to think that the government can make changes without taking due account of the global implications. Jack Mintz and Ken McKenzie point out that "the challenges

facing the US economy might be viewed by some as good news for Canada. In contrast to the United States, Canada's fiscal and trade balances look very good, and the basic structure of our tax and expenditure system (independent of the level) is competitive. However, this is a very superficial conclusion, reflecting a view that whatever hurts the United States is somehow good for Canada. Recent events in financial markets illustrate how faulty this reasoning is. A faltering US economy has significantly negative implications for Canada. To the extent that it helps lift the country out of its economic malaise, an improved policy landscape in the United States will clearly benefit Canada. However, if the United States does manage to get its house in order, this will make it all the more important that Canada follow suit." Even better, Canada should take the lead in becoming a competitive tax jurisdiction.

The fourth challenge relates to the defence relationship, not only in North America, but around the globe. Canada and the United States have developed an intense and mutually beneficial defence relationship that has evolved to meet their joint interests during the Second World War, the Korean War, and the Cold War. Its evolution, however, has not kept pace with the security challenges of the past twenty years. The two governments may, for example, want to broaden the scope and command structures of existing partnerships, as some have argued, to secure the North American perimeter on land, sea, and air. Additionally, in the words of David Bercuson, "Americans don't expect Canada to be a military superpower, but they do expect Canada to do as much as a wealthy and advanced democracy can do to help the United States defend itself and the democratic world. This is no more than Americans expect of their European allies. President Obama will want the same from Canada; if his administration is disappointed, it will not go out of its way to accommodate Canadian needs in other areas."

In pursuing this challenge, Canada brings some important cards to the table. Globally, nowhere is this more evident than in Afghanistan. President Obama is committed to strengthening American involvement in what is, in fact, a two-country war – involving the no-man's land that straddles the Afghanistan-Pakistan border. There are no easy answers, but Canada certainly has earned the right in blood and treasure, more so than many erstwhile European allies, to influence stronger US leadership and to spur a more substantive, more cohesive international effort. More generally, Canadians will find that the Obama administration will take a more internationalist approach to foreign policy, broadly in line with long-standing Canadian goals and objectives, providing scope for cooperative action along a broad front.

Finally, Canada needs to assert pragmatic stewardship – in concert with the United States – in the Arctic. This can be done without revisiting the issue of who controls navigation in Arctic waters. Canada claims ownership over the waters of the Northwest Passage, with the United States taking the view that these are international waters and open to all ships. Despite these conflicting claims, Canada and the United States have cooperated on security matters in the north, and the US government has not objected to measures that Canada has taken to control shipping in Arctic waters. In 1988, Canada and the United States concluded the Arctic Cooperation Agreement

under which US vessels can only transit the Northwest Passage with Canada's consent which, in practice, Canada agreed not to withhold.

The opening of the Northwest Passage and competition for resources will increase interest in the Arctic. Russia has already dropped its flag on the seabed at the North Pole and is pressing its claims on the Lomonosov Ridge that runs from Russia across the North Pole to Canada and Greenland. There is a similar issue with respect to the Alpha-Mendelev Ridge between Russia and Canada. Don McRae concludes that "Canada has a substantial Arctic coastline that carries with it significant rights to the resources of the waters and seabed off that coast. It is a major Arctic player. It is time for Canada to stop worrying about losing Arctic sovereignty and act instead as an Arctic leader, giving voice to the indigenous peoples of the North and engaging the United States in forging a new partnership among Arctic states to act as responsible stewards for this unique and fragile environment for the benefit of all Arctic peoples."

Obstacles to Productive Relations

In pursuing these objectives, Canadians need to be mindful of a number of obstacles that they confront in their dealings with Washington.

The first is the combined impact of chauvinism on the Canadian side of the border and indifference on the US side. One of the biggest challenges for anyone trying to prescribe a relationship for Canada with the United States is to separate the emotional or psychological undercurrents in Canada from common sense. Relations between countries are driven by a combination of interests and sentiments. This is only normal. Canadians reflect a wide range of sentiments about "America" – from a clear sense of power inferiority to more than occasional spasms of moral superiority – and with a hodgepodge of often contradictory impulses in between. But, the balance between interests and sentiments is often out of kilter. The fact that most Americans have a generally benign view of things Canadian – that is, those who think about Canada at all – only compounds the challenge of finding common ground. In Canada, it takes political courage to climb over the emotional constraints and there are few rewards for those who do. It is often easier to "keep a safe distance" or, worse, for Canadians to measure their significance by the manner or frequency with which they differ from Americans.

Canadian sensitivity about the United States is more than offset by American indifference to Canadian concerns. Part of this indifference flows from the US role as a superpower. From the perspective of Washington's political leaders, Canada is a peaceful neighbour. Any problems between the two countries are relatively minor and flow largely from the application of domestic policy decisions rather than from foreign policy considerations. In their view, such problems are the proper purview of technicians and need not take up the time of leaders preoccupied with far more intransigent issues, from nuclear proliferation to peace in the Middle East. Indifference also flows from the sheer size and energy of the United States. Americans by themselves occupy a very large space and provide little room for "others." Convincing US leaders that Canada matters and that Canadian issues are important is, therefore, a major challenge and requires action at many levels.

These attitudes limit the margin of manoeuvre for Canadian governments, especially minority governments. Efforts to work with the United States on either bilateral or global issues of common interest are inevitably criticized as “kowtowing” or “going along” with the United States, not as Canadian interests and aspirations. This juvenile reflex by the media and others is a major reason why Canadian politicians approach the US relationship with a degree of trepidation. Nevertheless, as Robin Sears points out, “only at the highest levels of statesmanship does one find more peculiar bedfellows than in ordinary politics – that’s why Stephen Harper and Barack Obama should work quickly to develop a strong personal relationship. For Mr. Harper, the risks are smaller than they may appear. Barack Obama is widely popular among Canadians, even Conservatives. For Mr. Obama, being able to demonstrate a shared agenda on energy, the environment, and the economy with his most important partner on each is proof of his international skills – and with a leader with whom he needs to reach across the political aisle. Each man faces the same crisis in their new administrations: a North American economy heading fast for a deeper ditch than most of us can recall.” The scope for crafting a more interest- and less sentiment-oriented relationship, therefore, may be better than has been the case for some years.

The *second is the impact of congressional politics on Canadian interests*. Following his convincing victory, President Obama will enjoy a high level of political legitimacy and clout, at least for a time. As US political analyst Ron Brownstein points out: “Obama attracted a higher share of the vote than all but one Democratic presidential nominee since World War II and produced Democratic House and Senate majorities larger than Republicans ever enjoyed during their years of control from 1994 to 2006.” As a result, during the first year or so of his presidency, he will have the heft to push his agenda with a heavily Democratic Congress. Nevertheless, having solid Democrat majorities in Congress may be little comfort. The unique separation of powers in America inevitably trumps notions of party loyalty: in America, all politics is local. Obama’s major battles will be with the Democratic barons of Congress, powerful Committee Chairs who share his party label but traditionally put their own positions and interests above all other considerations. The selection of Rahm Emanuel as Chief of Staff suggests that Obama knows this and is prepared to play hardball with his own.

Given the dire economic situation in the United States, Obama’s initial focus will have to be domestic. He is likely to introduce a major stimulus program – focusing on infrastructure and job creation, in the first 100 days. He is Rooseveltian in his optimism, deliberative by nature and outlook. How much protectionism will be larded into this stimulus package remains an open question. In February 2008, in Janesville, Wisconsin, Obama promised: “When I am president, I’ll pass the Patriot Employer Act that I’ve been fighting for ever since I ran for the Senate – we will end the tax breaks for companies who ship our jobs overseas, and we will give those breaks to companies who create good jobs with decent wages right here in America.”

However, it is likely that it will not be presidential initiatives but what comes out of Congress and state legislatures that will drive “Buy American” policies and regulations – what some call the agenda promoted by CNN broadcaster Lou Dobbs. NAFTA may offer some shelter, but with

new protectionist initiatives almost a certainty, Canada's government will need to be vigilant and creative in offering constructive alternatives. It will also have to redouble its advocacy efforts to ensure that Canadians are "in the tent," not outside.

All of which is to say that Canada's chief problems will lie more with the actions of the next US Congress than with the White House. Given the money politics of Congress, the majority faction is beholden to union and allied interests, which will be pressing for legislation designed to "save" American jobs. Solid Democratic majorities in both the House and the Senate will lead to increased prospects for pet "progressive" projects making it through both Houses. In these circumstances, the best defence will be an aggressive and credible offense made up of creative and pragmatic initiatives that address the same concerns but on a more sustainable and less destructive basis. A less intrusive Canada-US border and more convergent regulations, for example, will do more for the ability of US industry to compete with China and India than restrictive procurement rules, tougher trade remedy legislation, higher minimum wages, or easier unionization rules.

The third obstacle is the lack of institutions – formal and informal – to manage Canada's relationship with the United States. Although there has been a proliferation of networks at the local, i.e., province-to-state level, at the lower levels of the federal bureaucracy, and even with business (the North American Competitiveness Council, for example), there is a dearth of institutions at the highest levels of government. Such institutions are needed to engage political leaders and focus the work of government officials on both sides of the border. Robin Sears laments that "we have nothing like the French-German summit framework, with its supporting institutions of a permanent secretariat, an ongoing agenda and agreed priorities and deadlines. We don't even have the newer and looser framework developed among ASEAN members that sees summits of finance, foreign affairs, and trade officials separate from annual first ministers' forums. This consigns our heads of government relationship to a 'disaster avoidance' or 'crisis management' frame, rather than one committed to creative problem solving or new initiatives."

The agenda identified in this paper will not move far along its desired trajectory unless the two governments are prepared to rethink this aspect of the relationship. Traditionally, they have shied away from deliberate institution-building, Canada for fear of being dominated by the United States and the United States out of concern for congressional mandates. Nevertheless, as Matt Morrison points out, "The US sees Canada not as a 'foreign' country, but more as a domestic partner. Canadian issues are not 'foreign policy' in America, but in practice part of the domestic policy of the US." Unfortunately, as he also makes clear, Canada is rarely invited to participate in the discussions that lead to decisions on these domestic issues.

Given the domestic nature of many of the issues that now dominate the Canada-US agenda, the vast, informal network of contacts among Canadian and American officials needs to be energized by political commitment at the top as well as participation at the decision-making stage. Both Congress and Parliament legislate broad mandates and leave it up to the executives to translate these into specific rules and regulations. It is at this "secondary" decision-making level

that there is need for much greater cooperation. In his review of these issues, Louis Bélanger concludes that there is more scope for creative secondary rule-making that relies, for example, on less formal institutions than proved necessary in the European context. Nevertheless, he and others agree that little can be accomplished in the absence of inspired leadership at the top and regular interaction at the highest level. At a minimum, regular meetings of the prime minister and the president, as well as of ministers and secretaries, are needed to provide the necessary goad for productive preparatory effort at the working level and a basis for national decisions that are in harmony with the interests of both countries. Already in 1964, veteran diplomats Livingston Merchant and Arnold Heeney pointed to the need for effective diplomacy at the top to resolve issues arising from the extensive interaction between the two countries. If nothing else, the passage of time has underlined the wisdom of their insight.

The two governments may also want to revive – albeit in a much broader, more ambitious, and more encompassing form – the Canada-US Partnership as a model for how to move beyond NAFTA. The CUSP was a Clinton-era initiative, which should make it appealing to Democrats. It involved all levels of government, which provides a useful precedent. It focused on border management but had a broader mandate that allowed it to explore issues such as regulatory compatibility. The CUSP was effective and provided, for example, the elements of the Smart Border Accord when it was needed in 2001. Best of all, an approach along these lines would help square the circle: It would allow the Obama administration to claim that it was fixing the shortcomings of NAFTA bilaterally. The Canada-US partnership would invite the formation of separate Mexico-US and Mexico-Canada Partnerships within the NAFTA framework, but without renegotiating the agreement.

Many of the problems in Canada-US relations are *sui generis*. They do not concern Mexico. The addition of Mexico as a partner could, on some issues, complicate pragmatic solutions. This is especially true on matters of defence, border security, the environment, Arctic development, and regulation – issues which are either of limited concern to Mexico or in which Canada’s national interests are arguably more closely aligned with those of the United States than with Mexico.

Indeed, trilateral meetings of the heads of the three governments may have contributed to high-level neglect or inattention to key bilateral issues and concerns by all three. Giving greater and more consistent attention to the bilateral relationship does not preclude doing more trilaterally where it makes sense to do so, but Canada needs to place the priority where it belongs. Canada’s motto should be, “trilateralism when necessary, but not necessarily trilateralism.”

Even so, Mexico is important to Canada as a growing trading partner. More to the point, Mexico is a big domestic problem for the US Administration, a problem for which Canada may be well placed to help. US policy makers desperately want Mexico to become “more like us,” and Mexican modernizers are keen to oblige. In addition to implacable immigration, drug, and crime issues with Mexico, the United States has found it difficult to gain traction in promoting reform in Mexican governance. Canada is working with Mexico on these and other issues but needs to be prepared to do more. Helping Mexico will help the United States, as well as being to Canada’s benefit.

The National Mood

Are Canadians ready to take on a venture of the scale and scope outlined in these pages? Our view is that they are. Similar to the mood a quarter century ago when Canada embarked on historic free trade negotiations with the United States, Canadians recognize that they have reached a point at which the status quo is no longer sustainable. They accept the fact of deep integration in their daily choices about what to eat, drink, wear, see, read, and drive; in their common preferences for vacation spots, leisure activities, and associations; and in their everyday decisions about organizing and making the best of their talents and productive skills. Corporations have facilitated this integration, as have governments, in their willingness to forge arrangements and negotiate agreements aimed at removing the artificial barriers they have previously erected, but it is people who make it happen. Deeper integration reflects their everyday needs, wishes, and values.

Similarly, few Canadians question the cozy arrangements that allow them to shelter under the US security umbrella. Here too, deepening interdependence is part of accepted reality. Nearly seven decades of cooperative arrangements from the Permanent Joint Board on Defence (PJBD) and NATO to NORAD and the Defence Production Sharing Arrangements have developed deep ties among all the branches of the two militaries, as well as ancillary and support services such as intelligence, border protection, and, now, homeland security.

Most Canadians, conventional political wisdom declares, wish the relationship to be neither particularly close nor especially distant and will punish the government for letting the relationship slide intemperately in one direction or the other. Polling over the past decade or more, however, does not bear out this favourite mantra of elites. It suggests that worrying about distance is almost exclusively limited to the chattering classes. Instead, polling indicates the extent to which most Canadians have come to terms with closer Canada-US trade and economic ties, and more productive bilateral security relations. Success requires careful balance between the desire for more productive relations and the fear of US dominance. As pollster Frank Graves observes, "Despite the fact that we find Canadians close to unanimous (95 per cent) in their desire to see the federal government strengthen the relationship with the United States to at least some extent (Americans, by the way, feel the same way), heaven forbid if the leader is seen as casting Canada in an obsequious or servile position."

The economic malaise in the United States will prompt some to suggest that efforts to stimulate more trade and investment with the United States could be a waste of scarce political capital. There are hints about free trade with Europe, or something similar with the major Asian economies. There is nothing intrinsically wrong with either, provided the enthusiasm is not unilaterally Canadian. History demonstrates that efforts to diversify away from the United States tend to reflect more a political than a commercial agenda. In any event, a common sense approach to initiatives with the United States, intended to improve mutual competitiveness, would strengthen, not weaken, Canada's negotiating position with others, should there actually be substantive, reciprocal interest.

While some may take comfort in the humbling of the United States, only Canada's inveterate anti-Americans can take satisfaction in seeing their neighbours in such trouble. The over-hyped talk among the pundits about the death of the American market economy model is nonsense. It would be a gross error to underestimate the resilience of Americans and their power of recovery. The economy's inherent strengths of innovation and entrepreneurship and its world-class education system make it still a country to be envied. The prospect of an alternative superpower or even a collective of powers that would replace American leadership is illusory. As Brett Stephens pointed out in the *Wall Street Journal*, "when the tide laps at Gulliver's waistline, it usually means the Lilliputians are already 10 feet under."

In sum, the national mood suggests that Canadians are receptive to bilateral initiatives that can be shown to benefit Canadian trade, economic, and security interests, but that building and maintaining support for such initiatives will require leadership. Latent anti-Americanism may not have disappeared from attitudes of Canadians, but its more corrosive aspects seem to be held by a diminishing minority.

Getting US Attention

It has become a commonplace in discussions of Canada-US relations for skeptics to intone that a Canadian agenda might well respond to Canadian interests, but what's in it for the United States? As the above analysis makes clear, two realities should inform any efforts to engage the new US leadership on a bilateral agenda: Canada has to be clear about its own priorities and it has to be prepared to engage on issues that are paramount to the United States. Fortunately, these are not two solitudes. On most of the issues identified above, Canada and the United States have compatible and even mutually reinforcing interests. A more open border and less regulatory divergence, for example, engage interests on both sides of the border. A cooperative approach to energy security and environmental issues are similarly not Canadian or US issues, but ones that touch people in both countries. The defence of North America is no more a US than a Canadian preoccupation.

Partnering with the United States to address global issues is also in the mutual interest of both countries. As Si Taylor points out, "the list of opportunities for co-operation between Canada and the United States could be extended almost endlessly," from nuclear disarmament to reform of the United Nations. He concludes: "Canadians are accustomed to see themselves as best friends and closest allies of their great neighbour. As a new administration comes to power, dedicated to restoring the United States to economic health and world leadership, there will be no lack of occasions to put this friendship to the test."

Getting political traction with the Obama administration on any – or all – of the problems and challenges identified in this paper is not going to be easy. Canada has never loomed large in the political or economic conscience of Americans. Canadians' influence and ability to wrest concessions at the negotiating table has depended largely on their wits and good ideas, on their skill at the negotiating table, and on close personal ties between the leaders of the two countries.

But the times are uncertain and Canada's calculus in dealing with the new administration and Congress should not operate under the false assumption that it will be business as usual. The government needs to set its priorities and craft them into a package that complements US priorities and appeals to US political leaders.

Lee Hamilton, former Democratic US Congressman and Chair of the House Foreign Relations Committee, and now President of the Woodrow Wilson International Center for Scholars in Washington, summed up US interest in a well-functioning Canada-US relationship in the following words:

- expanded law enforcement and military cooperation;
- more intelligence sharing;
- a mutual commitment to a cleaner environment and more conservation;
- the creation of a North American common economic space, reducing even further the barriers to the flow of goods, services, labour, and people;
- more exchanges of tourists, students, scholars, athletes, activists, and entertainers; and
- strengthened government-to-government relations – including, perhaps, an annual summit meeting – and strengthened links between government at all levels, including the two parliaments.

More generally, he noted that “despite American misgivings about working with the world, we need the cooperation of friends and allies to tackle urgent challenges. So the point on this first reality is that American power may be dominant, but we cannot succeed alone.” That was in 2005. Little has changed, except that there is a new administration in Washington eager to reach out, and challenges that have become more urgent. With new leaders prepared to pursue their country's national interests, the basis for making progress on the bilateral front has never been more auspicious.

Conclusions

Over the past fifty years, Canada and the United States have developed and profited from the necessary architecture within which to pursue shared security and trade objectives. They now need to develop the architecture necessary to pursue shared and mutually reinforcing homeland security and domestic economic objectives. The platform upon which to build is solid and ideas on how to proceed are not lacking. In the seventeen policy papers prepared for this project alone, there are enough ideas to keep a legion of officials on both sides of the border busy for years to come. The missing ingredient is political leadership and commitment.

The sequence of events in Canada and the United States this fall has provided the two countries with new or renewed leadership as well as an urgent need to rethink their relationship. Early in 2009, the government of Canada should be ready to deploy a strategy aimed at convincing US political leaders that it is in the mutual interest of both countries to pursue a bold initiative to place Canada-US relations on a more sustainable and constructive long-term footing commensurate with the reality of deep integration and modern threats to their common security.

To give impetus to a more robust bilateral agenda the prime minister should, in the first instance, propose to the president that annual summits be reconstituted. These would offer the opportunity for firm direction and for the necessary therapeutic push on both bureaucracies. It has to be top down, to ensure priority attention in both capitals. It will only be successful if it flows from a foundation of mutual trust carefully led and nurtured by the two leaders and with an agenda and goals that are attainable. Canada will have to take the lead on this with ideas and will have to demonstrate convincingly that what is being proposed carries mutual benefit.

Canada's leadership needs to pursue the challenge of cross-border engagement on a multi-front basis, involving not only the two federal governments, but also state, provincial, and private leaders. As useful as the many informal networks linking Canadians and Americans have been in the past, they need now to be upgraded and put to greater use on the basis of an informed and committed leadership at the top that knows what it wants and why. Canadian interests need to be pursued not only bilaterally but also through constructive engagement at multilateral and regional forums. American decision makers and opinion moulders need to become much more aware of Canada and its ability to contribute to American goals and help resolve common concerns.

Some may believe that much of this agenda can be pursued without any reference to the United States. To the extent that this is true, there is no reason to hesitate. The government should proceed. If nothing else, it will make clear to US officials that Canada is serious. A number of issues come readily to mind. As already noted, the government can make a head start by aligning many regulatory requirements with those in place in the United States. The government can eliminate the most-favoured-nation tariff on industrial products and consumer goods. It can reduce ownership restrictions in sectors such as transportation and telecommunications, restrictions that serve little purpose other than to increase the cost of capital for competitive Canadian firms. It can reduce the tax burden on firms competing in the global economy. There remains room to reduce barriers to the inter-provincial movement of labour, goods, and services. Each of these reforms serves Canadian interests by strengthening the competitiveness of Canadian firms in global markets, thus improving the prospect of sustained Canadian prosperity.

Additionally, however, experience has demonstrated that the ability to proceed on many of the issues identified above is immensely facilitated if they form part of a larger bilateral agenda that provides the reward not only of doing what is in Canada's interest at home, but also of bringing the extra benefit of more open and secure access to the North American market as a whole. Similarly, as the federal government has already demonstrated, revamping the Canadian military and equipping it to meet contemporary and anticipated challenges are not only in Canada's interests, but add to Canada's ability to contribute to broader defence and security needs, including in concert with their American allies.

It may be audacious for any Canadian government to believe that it can exercise influence in Washington. There is also not a guarantee of a constructive response, but as Bruce Jentleson reminds us, "the nature of the US presidential transition makes engaging a new administration

on anything other than a crisis or a top priority inherently difficult well into its first year in office. There are the start-up tasks of confirmations, building intra-administration relationships, and 190+ other countries with their own agendas to press. Still, a stronger US-Canadian global partnership can be in our shared interests. To that end, the government of Canada needs to engage the new administration as early as possible.”

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