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Chair

The Honourable Robert Nault

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● (0845)

[*English*]

The Chair (Hon. Robert Nault (Kenora, Lib.)): Colleagues, we'll bring this Standing Committee on Foreign Affairs and International Development to order. Pursuant to Standing Order 108(2), this is the study of United States and Canadian foreign policy.

In front of us, on video conference, is Laura Dawson, director of the Canada Institute, Woodrow Wilson Center. She's in Washington, D.C., this morning. As well, we have Christopher Sands, senior research professor, and director, Center for Canadian Studies, Johns Hopkins University.

Welcome to both of you. I understand the clerk has briefed you on how we proceed.

We'll get Ms. Dawson to start with her presentation, and then we'll go straight to Mr. Sands' presentation. Then we'll go to questions for both of you for the remainder of the hour, if that's suitable to all here.

Good morning, and thanks for appearing this morning.

Ms. Laura Dawson (Director, Canada Institute, Woodrow Wilson Center, As an Individual): Good morning, everyone, and thank you for the invitation.

I wish I were there in person, because I understand you might actually be getting some spring in Ottawa. That's great news. My son and grandchild live in Ottawa, so it's always very close to my heart.

As mentioned, I am the director of the Canada Institute at the Woodrow Wilson Center in Washington, D.C. The center is supported by a modest congressional appropriation as well as private sector contributions. Because of the bipartisan nature of the Wilson Center, and also my respect as a Canadian living and working in Washington, D.C., my remarks this morning, first of all, are my opinions and not those of my employer, and also they indicate my great respect for the U.S. democratic process.

I have spent the past 25 years working on international trade issues, primarily bilateral trade—Canada, U.S., and Mexico—so those are the two issues I want to address here today. As a former university professor, it's hard to say anything in eight minutes, so I'm going to try to be disciplined. If there's more that you want to work with in the question-and-answer session, I'd be happy to delve deeper into these issues.

On the issue of Canada-U.S. commercial relations, the campaign promises about ripping up the NAFTA have been very worrisome for Canadians. With around 7% of Canadian exports going to the United States, ripping up the NAFTA could seriously destabilize the Canadian economy and the integrated supply chains, investments, and joint ventures we've come to rely on to sustain the Canadian economy.

We are each other's largest trading partner—everybody knows that—but Canada is much more vulnerable in the relationship. The asymmetry is not just a matter of size; it's also because, even though we are the largest buyer of each other's exports, some 20% of Canadian GDP comes from exports to the United States while less than 2% of U.S. GDP comes from their sales to Canada. Frankly, Canada does not matter as much to the United States.

For this reason, Canada is often overlooked in U.S. foreign policy and commercial policy considerations. Canada is not going anywhere. Canada is not a problem. So sometimes there is some complacency. Canada gets caught in the crosshairs of punitive actions that were not intended to hit Canada in the first place. We're hearing about targeted trade actions towards Mexico and China, and those may very well have a negative effect on Canada as well.

The Government of Canada has been really successful at managing this relationship through the turbulent early days of the Donald Trump administration. A lot of credit goes to Canadian Ambassador David MacNaughton, who has been a skilful quarterback, managing the multiple dimensions of the relationship. We hear about elder statesmen Conservatives meeting with members of Trump's inner circle. We hear about young Liberals meeting with Ivanka Trump and Jared Kushner.

They are hitting all the right notes and meeting at all the right levels. In particular here in Washington, it's terrific to see Liberal, Conservative, MPs from all parties, doing joint meetings together with U.S. partners. We also see provincial premiers and federal representatives. There's very much a united front and common messaging here. I think Canada is doing the right things so far in managing this relationship.

However, Canada needs to move from rapid response mode to a more targeted strategy that focuses on sectors where Canada can benefit from upgraded provisions in the trilateral space. I think we focus too much on defensive...and on what happens if this and what happens if that. This is an opportunity to open up a 20-year-old trade agreement, and it is an opportunity for Canada to take the long view and figure out what it needs to be more competitive on a North American scale in the coming decades. I would suggest an initial focus on the auto sector, on aerospace, agrifoods, energy, and services.

● (0850)

A couple of weeks ago, a draft notification from the Office of the U.S. Trade Representative was available for public viewing. This is the notification that will have to precede congressional approval for the U.S. to start new NAFTA negotiations. In some ways, the draft text was very reassuring for Canada, because what we saw in that text was not ripping up the deal or ripping up the rules of the road. It conformed to some fairly traditional, fairly predictable trade rule conventions and orthodoxies and patterns. Canadian negotiators are very skilful, and they're very used to working within that WTO language and framework, so for Canada there's some comfort in that draft notification.

At the same time, it's clear that the United States wants to go after certain protected sectors. It's likely they're going to go after Canadian dairy. It also seems likely they're going to import some of the measures that they liked from the trans-Pacific partnership, like state-owned enterprise controls and increased protection for intellectual property.

I would say the NAFTA is reason to be vigilant; it is reason to be focusing on our defensive interests but also on a forward-leaning agenda.

More disruptive for Canada than a NAFTA renegotiation is the border adjustment tax. We keep hearing that Donald Trump doesn't love it, but it is such an appealing fundraising tool to enable the U.S. administration to raise funds for the initiatives that they want to undertake, that they can't seem to shake it. That border adjustment tax would have serious implications for Canada across all sectors.

I would be happy to discuss my opinions on that tax during the Q & A, but what I'd like to move on to now is Mexico. In Canada, it is tempting, perhaps, to just get out of the way and let Mexico and the United States fight it out. It's not a fight that Canada started. Also, Canada and the U.S. do have an existing priority commercial relationship through the Canada-U.S. Free Trade Agreement, so there are some who are saying just let Mexico go its own way.

In my opinion, that is a short-sighted view. Mexico is a young, growing consumer economy, with a population four times that of Canada. Our commercial policies are already closely linked through more than 20 years of the NAFTA, and most of the effective trade barriers have been eliminated. Companies like Scotiabank, Linamar, Bombardier, and Grupo Bimbo remind us of the important opportunities that relationship creates and will continue to create.

Also, many Canadians don't realize the important retaliatory power that Mexico has against the United States. Even though Canada is the largest buyer of U.S. products across the board, Mexico's purchases are more focused in key commodities. Mexico buys all of U.S. exported corn, so if Mexico turns around and puts a more than 100% tariff on that corn, that's going to be very punitive against the United States. Leaving trade aside, Mexico has been a very important partner on southern border control. If they stop being so co-operative and just open up the gates for Central American migrants right up to the United States, that will have a very destabilizing effect on the U.S.

Meanwhile, Mexicans feel insulted by the rhetoric that they heard during the presidential campaign. As a result, Mexico's leading candidate in the upcoming election is running on an anti-Trump campaign and a promise to restore Mexican dignity, so Mexico is going to take some very hard negotiating positions in the upcoming NAFTA. The U.S. has already carved out hard negotiating positions, so it seems to me Canada has an important role to play as a flexible negotiator, as a mediator, and as a consensus-builder, so that the NAFTA issue can be resolved in a way that's productive for everybody.

The most significant threat for Canada is not embedded in any one action. It's not the NAFTA. It's not Mexico. It's not the border adjustment tax. It is the aggregated effects of policies that disrupt efficient supply chains and generate unnecessary volatility in exchange rates and border taxes, as well as any other factors that make it difficult for businesses to engage in long-term planning and investment in North America.

While I didn't have time to address the security dimension of the trilateral relationship, I would be happy to take that up in the question and answer period.

Thank you very much for your invitation this morning and your attention.

● (0855)

The Chair: Thank you, Ms. Dawson.

We'll go to Mr. Sands, please.

Dr. Christopher Sands (Senior Research Professor and Director, Center for Canadian Studies, Paul H. Nitze School of Advanced International Studies, Johns Hopkins University, As an Individual): [*Technical difficulty—Editor*]

The Chair: We can't seem to get the audio going. Mr. Sands, we'll hold off on your presentation. We'll go to questions to Ms. Dawson then we'll come back to you and hopefully, they'll have the issue resolved by then. I apologize for that. It was working fine before the committee started because it was tested.

Colleagues, with that in mind, we'll go to questions regarding the presentation by Ms. Dawson and then we'll revert to Mr. Sands, once we get it sorted out.

Mr. Allison.

Mr. Dean Allison (Niagara West, CPC): Laura, great to see you again. I'm glad to see that you're doing well in Washington. I'm going to ask a couple of questions and then pass it over to Mr. Kent.

It seems that the administration is still proceeding with pre-clearance and all these other things, which obviously, would be great. How do you square that with the border tax and some of the disruptive things you talked about? You said you may expand a bit on the border tax.

A second question, and a subset of that, is whether you could talk to us about your knowledge of what the subsidies are for agriculture in the U.S. I know they talk about dairy, but I've heard from supply-managed people that subsidies are upwards of $30 billion. We asked our officials and they're going to get back to us, but do you have any knowledge or understanding of subsidies that the U.S. provides to agriculture as well?

● (0900)

Ms. Laura Dawson: Thank you, Mr. Allison; it's good to see you again long-distance.

One great challenge—and maybe we shouldn't fault the United States for it, as it may be just a function of government—is that there's very little coherence among the silos of different policies. The United States still seems quite amenable to issues such as pre-clearance and still seems quite amenable to continuing with the agenda of the beyond the border agreement, which sought to improve movement for people and goods and travellers across the border. We're seeing that moving forward, but at the same time we're seeing a border adjustment tax.

In my opinion, the border adjustment tax is antithetical not only to the NAFTA but to participation in the World Trade Organization. The fundamental principle of both of those agreements is national treatment, which means that you treat domestic products the same way you treat imported products. When you discriminate, treating one differently from the other, you're violating the rules of those agreements, and I don't know how you can stay in or maintain those agreements.

The United States likes many of the provisions of the WTO. It likes protection for intellectual property. It likes to be able to use anti-dumping and countervailing duty mechanisms. I don't see the United States walking away from the WTO or the NAFTA. It just seems to be a real paradox—just two things existing at the same place that are mutually incompatible.

I can't go into the details on agricultural subsidies, but I'm going to underscore what you said. It is my understanding that whatever subsidies—agricultural supports, etc.—Canada might have, it has them in spades. One thing, though, is that Canada often will support its agricultural sector through mechanisms that affect prices for the consumer, whereas the United States focuses more on subsidies at the front end, and because of these different ways of providing agricultural supports, the American ones seem to slip under the WTO radar much more often.

As you also know, however, Canada has had an exclusion from the trade rules of WTO rules on most aspects of supply-managed dairy. It has agreed not to export its dairy products in exchange for the ability to maintain high domestic protections. It looks to me as though the Harper government might have been willing to relax some of those supports in the TPP but was not actually asked to do so. There may be a plan up on a dusty shelf somewhere that might set out what Canada could be willing to do in reducing incrementally its supports for supply management.

Hon. Peter Kent (Thornhill, CPC): Thank you, Director Dawson. I'd love to give you an opportunity now to discuss the security and defence considerations that you didn't have time for in your opening remark. President Trump has made it quite clear that in multilateral terms he expects more from America's allies, certainly in NATO. By implication, I think we should read that bilateral security and defence co-operation and prioritization may go quite some distance on the commercial side to assist the commercial relationship with the United States.

Could you discuss the considerations regarding greater defence investment and perhaps expansion of NATO? Also, we know that the ballistic missile defence is back on the table, being considered by Canada's defence minister, so.... The floor is yours.

● (0905)

Ms. Laura Dawson: Chris is probably going to be bringing a more fulsome security approach to his presentation, but I will say, first of all, that there has been a lot of focus on the 2% NATO commitment. That's what the Trump government is looking for from its allies, but I am hearing increasingly, and I believe that Canada's Foreign Affairs Minister Chrystia Freeland has also been putting the case forward, that there is recognition for all of the other ways in which Canada contributes to the security of North America and the security of territorial United States.

When you add in all of the other mechanisms, whether they're NORAD, border security, border infrastructure, or information sharing, etc., that package is being taken into account in the United States.

When we started the NAFTA in 1994, the idea was to integrate North America on an economic level but also to work towards greater levels of shared foreign policy and shared integrative mechanisms such as we've seen in the European Union. We didn't have a method for doing that and, as a result, the trilateral security initiatives that might have gone along with the NAFTA have been a little bit piecemeal and have not really been formalized.

Every time we come up with an entity like the security and prosperity partnership of North America or the beyond the border agreement, people get nervous with all those initials and they throw it away.

Therefore, there has been an ad hoc and incremental alignment and integration of Canada, U.S., and, to a certain extent, Mexico in security measures to do with immigration and policing and cybersecurity and resilience against shared threats, both man-made and environmental, but there has not been any systemic institutional approach to doing this.

As a result, what we see now—what I see now—is that as we become more integrated in things like pre-clearance for air passengers, Canadians are getting a little nervous and saying, “How much information are we sharing with the United States? Is that a good idea? What are the costs and benefits of that trade-off between information sharing and easier access or information sharing and more co-operation?”

I think Canada, as it moves forward with greater North American security integration with the United States—which is not necessarily a bad thing and could be a very positive thing—needs to have an internal conversation to figure out its principles and values going forward in terms of information sharing, co-operation, and collaboration.

The Chair: Thank you, colleagues.

Now we're going to go to Mr. Sands' presentation.

Dr. Christopher Sands: Excellent. Thank you very much, Mr. Chairman.

Thank you, committee, for putting up with another appearance by me and also the technological glitches. I hope I don't repeat too much of what Laura said. I heard her formal testimony but not the Q and A. Let me just say that she's fantastic. We've known each other since we were in grad school, and I'm a huge fan of her work and her analysis, so you can disregard everything I have to say. As long as you have her guidance, you're going to be doing just fine. But, since you did invite me, I'll have a little guidance of my own.

What I want to begin with is a kind of commonplace observation, but one that I think is very reassuring right now with regard to the relationship between Canada and the Trump administration. That is, the two countries—Canada and the United States—are friends, fundamentally because the people of Canada and the United States are friends. That guides everything, and even in a moment when American politics are very populist, Canada shouldn't worry because most people, including Trump voters, think Canada-U.S. relations should be good, constructive, not without their disagreements, but managed in a constructive way. I think that's really important because it's going to keep a boundary on just how chaotic or difficult relations with the Trump administration might be. We have no reason to think that the president has any animus against Canada either, but there are some concerns in the relationship now, and I'll echo some of what Laura said and try to cover the remit that was given to me by the committee.

First of all, in regard to the commercial relationship, we have a great trading relationship. Thanks to trade liberalization, thanks to regulatory cooperation, and thanks to security co-operation, we have been able to knit tremendous value chains together that allow firms with specializations on both sides of the border to work together to build products that are world class. This has kept the American economy as well as the Canadian economy going. Canadians create millions of good American jobs, and the United States economy helps to fuel the Canadian economy by creating jobs there as well.

The problem, however, is that the Trump administration has created a great deal of uncertainty about those foundations of the relationship. Specifically, he's talking about renegotiating NAFTA, which Laura addressed, and however that comes out, whether it's a tweak or a twerk, or something grander, I think the uncertainty over the trade rules is going to be bad for our business community in both countries. It's going to cast a doubt about whether we can continue to invest and expand on that economic activity. The sooner we resolve that, the better. There's no resolution like a final resolution. Even though we're going to keep hearing rumours, and tweets will fly, it's very important that we resolve this as quickly as possible.

Secondly, since the Trump administration has begun, and in part, since the Trudeau government has taken power, our vehicles for border security co-operation, the beyond the border working group, and regulatory co-operation, the Canada–United States Regulatory Cooperation Council, have all but disappeared from the scene. We don't hear much from them. They've been moved within the Canadian government, and they haven't been particularly highlighted in the U.S. government, not in the meetings between Trump and Trudeau, and not elsewhere. That work is extremely important because it provides a way for the economies to get closer that doesn't have to be managed by the president or the prime minister; it can be managed by officials on both sides. We need a green light for that to continue, and we can't afford to let that work split.

At the same time, I think that our approach to NAFTA renegotiation—and this something that, I think, Laura pointed to—has been remarkably defensive. Those of us who care about Canada-U.S. trade have gone into this saying we'd like to keep exactly what we have now, if possible. I think it's very short-sighted. We ought to be looking to expand labour mobility, particularly by, for example, treating business travellers as though they were tourists. Allow three months of visa-free, hassle-free visits to each other's countries in a row so that a business person can come up to a conference or a sales call in Canada, or vice versa, without being given the third degree at the border over whether they may or may not have a tax liability or who's paying them. We could open up business travel.

We could, similarly, maintain our good investment relationship. We could look at doing joint infrastructure projects as a way of heading off Buy American or Buy Canadian provisions in our government's infrastructure spending plans. There are a lot of things we might hope to achieve in NAFTA renegotiation if we have a bit of vision and ambition.

● (0910)

Let me add another thing I'd like to see us consider. I would like to see Canada and the United States negotiate a mutual recognition agreement of functional equivalency in regulatory standards and inspections, so that if a product has been certified as safe in Canada, it would be considered automatically safe in the United States and vice versa.

This is not to harmonize our standards to the exact same level, but to recognize that while there are some minor differences our standards are functionally equivalent. This would cut tremendous amounts of regulatory red tape on our businesses that operate on both sides of the border. I would argue that it is consistent with President Trump's commitment to cut red tape and ease the regulatory burden, especially on our small and medium-sized enterprises.

I echo what Laura said about Mexico. On a positive note, Mexico is a tremendous emerging market. It is a market with a middle class almost as big as the entire Canadian population. It is a huge business opportunity for Canada. Yet, since Canada was able to get access to the Mexican market in NAFTA some 20 years ago, I think a lot of Canadians have tended to overlook or take for granted their access to the Mexican market as they look to expand trade with China, India, and Europe. All this is good, but don't forget Mexico.

There's a huge opportunity. Laura underscored the energy component of this, and I would concur, but there are so many ways in which the Mexican market would be a good diversification of Canada's export portfolio and a great opportunity for Canadians. I think that's going to require some diplomacy, because Mexicans are feeling Trump's ire. They need a friend right now, and I think Canada can be that friend.

With regard to the security relationship, President Trump has brought burden-sharing front and centre in the NATO alliance. This is not a new concern for the United States, but it's one that he's made with a particular focus for the first time since the end of the Cold War. I think this has been translated by many people as meaning that NATO allies need to reach the 2% of GDP contribution that all of the NATO countries agreed to aim for at the Wales Summit. I think that's a reasonable benchmark. I would think, however, that Canada needs to have a wider accounting of security contributions than simply the military contributions it makes.

Our European allies have a tendency to throw in all sorts of things to try to make their figures look like they're closer to 2%—veterans benefits, contributions to diplomacy. They consider these things as contributions to security, and they count them in to make their numbers look better.

The problem is that Canada is too darn honest. Canada considers only military expenditures as contributions to collective security. In my view, given the deep integration between Canada and the United States, the RCMP together with Canada's efforts in intelligence gathering and border security contribute to the national security of the United States and should be counted in Canada's favour. When you add military expenditures to these domestic law and order expenditures, Canada is at 2%.

That doesn't mean Canada shouldn't resolve defence procurement and try to buy a new jet fighter. I think that it also would refound the relationship if the United States could acknowledge its dependence on Canadian contributions beyond the military in North America.

I would like to urge, as a concerned observer, the Trump administration and the Trudeau government to return to Ogdensburg. I think we need a new bilateral discussion, or statement, on the Canada-U.S. security partnership that incorporates domestic and traditional military contributions and that endorses these contributions within a strong partnership, just as Franklin Delano Roosevelt and William Lyon MacKenzie King did 70 years ago.

It's particularly important now because this year is the 60th anniversary of our NORAD agreement. It's also the 15th anniversary of the reorganization of American defence in North America, which created the U.S. Northern Command. In these anniversary years, it is particularly important for us to renew our commitments to the past in a forward-looking way.

On the rest of the world, you have given me a wide remit. I can say that I'm only an expert on Canada-U.S. relations, so my observations are going to be bit cursory, but I'm happy to discuss them at greater length.

The world today, partly because this has been Donald Trump's emphasis, has returned to great-power politics, something we saw last saw at the beginning in the last century. It is an uncertain time. Donald Trump has taken on as a global strategy the banner that Ronald Reagan brought forward of peace through strength.

● (0915)

He wants increased defence spending but he wants to maintain an international order by being a very international strong player. This has shown up since he's become President in renewed commitment to NATO. I think you'll see that underscored at the NATO summit coming up in May, which the President will attend, and you've seen it also in his direct challenge to Russia. Despite all of the media speculation about his relationship with Russia, he's been remarkably tough with the Putin government.

We saw it just this week with the invitation to Montenegro to join as the 29th member of NATO, with his willingness to challenge Russia over its claim that chemical weapons weren't used in Syria and to push back on that disinformation that Russia has put out. I think you will see it in the months ahead in a stronger commitment by the United States to Ukraine. I know that's very important to Canada, but I think it's also important to the United States. It wasn't where Trump wanted to lead, but it fits with the way in which he tends to remind countries how important the United States is to their plans.

We saw this particularly with China, where the President reached out to Taiwan, took a phone call from the Taiwanese President and rattled Beijing. The President has also said, with regard to China, that he wants China to step up on the North Korean peninsula issue and help discipline North Korea. I think that's tremendously important. We've seen China at least moving somewhat in that direction, because it challenges China as a rising power to act like a rising power and to take some responsibility for security in its own neighbourhood.

I think this is an important pivot for the U.S. and not unrelated to the U.S. action in Syria, showing that the U.S. is willing to act in a proportionate way, but in a decisive way in defence of international security and norms. At the same time, China knows that the United States is very committed to resetting the trade relationship between the United States and China. There's some peril for Canada in this, which is simultaneously reaching out to China and trying to establish a bilateral investment treaty, and also a trade treaty.

If there's daylight between Canada and the U.S. on China, it will be potentially an issue between the United States and Canada. I think it's important for our two governments to come together on a common approach and in a way be a Team Canada-U.S. with regard to China, rather than having the Chinese try to play on our differences and perhaps use Canada as its access point to the North American economy, raising issues for our trade officials as well as for the President.

The Middle East is an area in which we're both involved in fighting the Islamic State. The President has a strong commitment to Israel but a desire to play a more secondary role in the Middle East, not get drawn into its conflicts and its chaos. I think it's a very difficult thing for the United States to do. We can't just withdraw and expect peace and security. The President is also very skeptical of the Iran deal that was put together by the Obama administration.

I do not think that the Trump administration is going to break the Iran agreement, but I do think that the Iranians will break it for him. I think they've already pushed the limits of what the agreement has required of Iran. I suspect that we'll see, in the next month or so, the administration publish and fully disclose the details of the Iran deal so that the media and others can scrutinize compliance. I think the administration will impose consequences on Iran for its violation of the deal.

As with Syria, we hope those consequences are proportionate and fall well short of war. But interestingly, this week the former president of Iran, Ahmadinejad, has stepped back into politics suggesting that Iranian politics themselves may be an issue. I think that's a vulnerability for Iran that the U.S. will put pressure on to try to change Iranian behaviour. This could be a moment for an opening, but I think the administration takes Iran very seriously. In this regard, the Iranian situation is going to be tied to the situation in North Korea.

The U.S. attitude on non-proliferation has become much more assertive with regard to North Korea. I believe it will be equally assertive with regard to Iran, and it's important, I think, for the United States to have Canada in its corner on that.

Lastly, there was a question that the committee raised regarding multilateral institutions, and in this area I only want to say the funding cuts that the President's budget proposed need to be taken in the context of funding cuts in the U.S. domestic economy.

● (0920)

We've seen that Laura's organization, the Woodrow Wilson Center, was zeroed out in the President's budget. It's not the President who decides where funding goes; it's Congress. The President's budget is a suggestion like the budget of the Prime Minister. This is illustrative and sends a signal, but is not the final word. I don't think Laura is going to lose her money, but more importantly I don't think multilateral institutions will be zeroed out or cut as drastically as the President has suggested. But it's a shot across the bow; it's a challenge to those organizations to reform; and it's difficult to reform an organization like the United Nations or its parties. It's going to be difficult to reform the World Trade Organization, the IMF, and the World Bank. By signalling a willingness to step back from those organizations, the U.S. is finally active on its concerns of the past and said they expect change or they will change their posture. This will put pressure on every one of those organizations to reconsider the trajectory they've been on.

Resolutions condemning Israel at the UN are really not constructive for either the UN's reputation or the UN's relationship with the United States. As those organizations try to recalibrate their position, re-establish the trust and conscience of the United States, and address problems in their organizations, they can have no better friend than Canada, which is a committed multilateralist with a professional diplomatic corps that has helped it make those organizations as successful as they have been. Canada's commitment on multilateralism is not at odds with what the U.S. is doing, but may enable the U.S. to get what it ultimately wants, which is functioning international institutions. The U.S. role as such a big country is to threaten funding perhaps, but Canada's role could be to take that, translate it into reform that can make, if you like, the United Nations great again, and all these other organizations more functional and more supportive of the international order.

With that let me stop. I'll be happy to take any questions, and maybe now I can hear Laura if she jumps in too.

● (0925)

The Chair: Thank you very much, Professor Sands.

We will go to questions, right to Mr. Fragiskatos, please.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you to both of you for being here today.

Dr. Dawson, I wanted to ask you about the border tax suggestion that's been made by some American policy-makers. You have said of the border tax that it "makes no logical or economic sense. It's complicated and may not deliver what [the U.S.] wants, and may result in retaliatory tariffs of up to $100-billion from trading partners." Furthermore, you've made the point that those who would be hit hardest are low-income Americans. I wonder if you could expand on these points.

Ms. Laura Dawson: The border adjustment tax is premised on the notion that, first of all, you can impose a tax on imports but not apply it to domestic sales. That's why it's quite a bit different from Canada's value-added tax, the GST, or different from provincial sales taxes or state-level sales taxes. The border adjustment tax just targets products that are coming in. Any consumers who are dependent on a higher level of imported products—think Costco, Walmart, and Dollar Tree—are going to be most affected by a potential 20% increase in prices. Also, with the threatened increase on prices of gasoline, a border adjustment tax is going to hurt considerably those with a long commute, a minimum wage job, and an inefficient vehicle.

The success of the border adjustment tax is premised on the idea that it's going to adjust exchange rates by increasing the value of the U.S. dollar. I think that number is 20% as well. In the United States even 1% is a big deal and causes a lot of volatility. I don't know what a 20% change would do. I'm not a monetary policy specialist, but I do know there are lots of things that impact exchange rates. A one-for-one correlation between this tax and that exchange rate change is quite difficult to make. All sorts of other things affect exchange rates, as well, such as global activities, business activities, and currency speculation. The basic premise of that tax is that the exchange rate is going to rise as they predict, and I don't think they can make that prediction.

This being said, I have been receiving inquiries from moderate folks in the Republican Party who are saying, "Okay, if this doesn't work, tell me again how the GST works. Tell me how you do it in Canada. How do you manage to have a value-added tax as a revenue fundraising mechanism? How do you provide a credit if you import a product, add some value to it, and then export it? Tell me how you make that neutral." So they are looking at other models, too, as a fundraising mechanism.

This is so complicated. Can you imagine small and medium-sized businesses trying to administer all the paperwork required to get the benefits for a border adjustment tax? We know in Canada that SMEs are reluctant to even manage the extra paperwork to get a NAFTA credit or a trade agreement with Costa Rica credit. They tend to default to the WTO level because the paperwork is easy. I don't see how U.S. small and medium-sized enterprises could benefit from this border adjustment tax. Again, this is just my opinion, but that's what I see.

● (0930)

Mr. Peter Fragiskatos: You have mentioned a number of sectors —auto, agrifood, energy, services, and aerospace—and made the point that Canada ought to put these areas forward in terms of a focus. Obviously members of the Canadian government will be fanning out across the United States—well outside of Washington—in the American heartland, so to speak, in places like Kentucky and Iowa.

Could you expand on the point that you made in the media? You suggested that it's also up to business leaders within Canada, in the various sectors you talked about in your presentation, to also go to the United States to make the case about the importance of Canada for the U.S. economy, not just in Washington but across the United States. I wonder if you could go into that.

Ms. Laura Dawson: Thank you, and it's nice that you are following my media. Do you follow me on Twitter?

Mr. Peter Fragiskatos: I will now.

Ms. Laura Dawson: Thanks.

As Chris mentioned—and I think I mentioned it as well—it is wasting a great opportunity to really improve North American trade and competitiveness by just dealing with this negotiation as clinging to defensive interests, or defending traditionally protected sectors, or maintaining the status quo. That's what the USTR notification looks like: very traditional, orthodox trade policy.

Canada has been pushing to expand competitiveness and expand its opportunities in North America as a result of the agreement. The sectors I pointed to are areas where we can really build North American competitiveness and where positive voluntary undertakings could really assist with our competitiveness.

Take aerospace, for example. Aerospace is already very well integrated on a trilateral basis. They're doing great things in training in all three countries. Universities in Montreal and universities in Mexico are lined up on that. What else can we do in terms of workforce development, in a co-operative effort for all three countries, to better promote great jobs in the aerospace sector?

Similarly, on energy, there's a very tiny energy component to the NAFTA. Energy companies could walk away from it and not pay much attention to what's going on in the NAFTA negotiations. Instead, if we look at all the ways in which the three countries can work together to be better collaborators.... Yes, I understand that we are also competitors in certain energy sectors, but what can we do on pipeline permitting, on regulatory issues, on reducing transaction costs, and on ensuring that we get affordable and accessible energy to manufacturers and consumers all over the three countries in order to make North America an economic powerhouse?

Finally, on the issue of what businesses ought to be doing, we're seeing a lot of Canadian MPs and businesses in Washington. You are always welcome. I've always got a cup of coffee in my office, and Chris Sands will do a meeting with you. The legislators inside the Beltway are different when they're in Washington than when they're at home in Bismarck, or Detroit, or Lansing.

I think it's really important now to focus on what Canada's positive asks are in these new negotiations and to go out on the road to the districts of U.S. legislators and remind them of how important their relationship with Canada can be and how much better it can be, and to travel in a pack that includes local U.S. supply-chain partners that can mobilize votes and jobs and help to underscore the message of the importance of Canada.

The Chair: Thank you very much, Mr. Fragiskatos.

Madam Laverdière, *s'il vous plaît*.

[*Translation*]

Ms. Hélène Laverdière (Laurier—Sainte-Marie, NDP): Thank you very much, Mr. Chair.

I thank the two witnesses for their presentations.

You both mentioned several sectors where a lot of work remains to be done, for instance regarding NAFTA, the Beyond the Border Action Plan, discussions about security, and so on. At the same time, we see that the Trump administration is taking some time to appoint officials and those who will be heading up the talks.

How do you see this issue moving forward in the weeks and months to come? The question is for both of you.

● (0935)

[*English*]

Dr. Christopher Sands: Thank you, ma'am.

I'm going to start by saying that I think you have tapped into one of the most important issues the United States is going to have to face, and that is personnel. There need to be some 4,000 people appointed politically to run the administration. The President has made a very slow start in getting those people named. Of those 4,000, some 500 require Senate confirmation, and that includes an ambassador to Ottawa. That is going to take time.

Let me add something further. The majority of the American civil service is of the baby boom generation nearing retirement. Many of them carried on through the Obama administration and are now beginning to think, well, there's a hiring freeze that might keep me in Washington a bit longer, but I'd like to retire. As they go, I think we're going to face a real loss of institutional memory.

Canada has invested heavily in good relationships with American officials that have lasted for 20 years and more. As those people retire, who will replace them? Many of the millennial generation of students, the kids of the baby boomers whom I have in class now, don't see a career in public service, or they see it as a brief career—stopping, for example, for four or five years to work for the State Department or USTR before they go to the private sector. This is going to change the way the U.S. deals with Canada, and it's going to make it very challenging for us to get going on negotiations.

The President has been very keen to focus on the symbolic gestures that the presidency can make by way of signalling to people his intentions. I think it's been a sort of hallmark of his leadership style, for better or for worse. In this case, his signals—draining the swamp, freezing the hiring of administration officials, cutting budgets dramatically—have sent all the wrong signals to our civil service, and it's going to make it very hard for us to get going on co-operation in all of the areas you mentioned. This is something that I think the United States will eventually realize, but we have a bad habit of ignoring a problem until it becomes too big, and then we overreact. Renewal of the civil service is one area we've ignored for a long time. We're now overreacting, and it's going to be a bit of a mess.

Ms. Laura Dawson: I think that provides Canada with a great opportunity, in fact, to be planning and figuring out longer-term agendas. None of our trade agreement negotiations have gone quickly. I did my Ph.D. thesis—actually, Chris did too—on the Canada-U.S. auto pact. It took a really long time and involved many false starts, but that piece of forward-looking trade and industrial policy still continues to shape the way we do business in the auto sector 51 years later. I think we have been given a bit of an opportunity to think and plan and find a leadership role.

At the same time, Canada has its own things to look after. I was delighted that last week the interprovincial trade agreement was released. It has some very good things in it, but it could be better—exclusion of wine and spirits, for example; there's a lot of room for work there. On softwood lumber, it's very difficult to come to a resolution when the four provincial entities that are most involved in the negotiation have different policies and different perspectives. It's very easy for the U.S. to pick Canada off.

Similarly, even though Chris and I are violently in agreement on almost everything, I'm going to depart a little bit on China. Canada can no longer continue to focus on just one market and just one economy, and the economic benefits for Canada with China, particularly in the agrifood sector with canola, are so significant that it is worth the risk of embarking on those negotiations independently.

I affirm that there's a risk. China does not play by recognizable international trade rules; the asymmetry is huge. At the same time, China is easier to work with when you're within a rules-based framework than outside a rules-based framework. I commend Canada for having a conversation with China about increasing the rigour and the scope of the rules that govern our bilateral trade. I would hope, as Chris warns, that this process is a way to feed and support North American trade, much as Canada's early negotiations with the European Union helped to condition the negotiations the U.S. is I think continuing to have on its free trade agreement with the EU.

● (0940)

[*Translation*]

Ms. Hélène Laverdière: Concerning the rule-based framework, I was in Washington a few weeks ago; some of the people there were skeptical, and critical of the Border Adjustment Tax—known as the BAT—which is somewhat concerning. There was no agreement as to whether or not it will be brought in.

I would like your opinion on that. I would also like to know what the consequences of that measure would be at the World Trade Organization.

Thank you.

[*English*]

Ms. Laura Dawson: I can't really imagine how the enforceability of the border adjustment tax is going to take place, again, because of the extraordinary amount of paperwork that is required and because it is done at the business level.

I don't see that it could be compatible with the WTO commitments. The WTO has long evaluated various types of the value-added tax system. Canada's GST is considered to be WTO compliant because it doesn't violate the national treatment rules because it does not function as an export subsidy, but the border adjustment tax would seem to be in violation of both of those things.

If that is the case, the U.S. has said, well, maybe we'll just ignore those rules, maybe we're just going to barge ahead anyway. Other global trading partners have come forward and said in response that they will retaliate with their own countervailing duties, and the estimate from the Peterson Institute for International Economics—and you can go on their website and find this document—is something in excess of $100 billion in retaliatory tariffs that the U.S. could be vulnerable to, including some $40 billion from Canada.

Again, by almost all measures, including the President himself saying he doesn't love the tax, it does not seem to be a winning policy, but at the same time, it is a fundraiser for a government that desperately needs funds, so they're loath to get rid of it.

The Chair: I want to go to Mr. Levitt with the little time we have left.

Mr. Michael Levitt (York Centre, Lib.): I'll gladly take my little bit of time and thank you both for your very interesting testimony this morning.

Ms. Dawson, you mentioned at the start of your testimony the number of committees and individuals from both Parliament and business heading to Washington. I was lucky enough to take a group down. I chair the subcommittee of international human rights, and we went down with a multi-partisan group about three or four weeks ago now and had the opportunity to meet with members of Congress, members of the Senate, and members of the Tom Lantos commission, to look at the synergy that exists on issues of international human rights and where there's an alignment on issues our committees can work together on.

It was really interesting, and there was clearly a lot of common ground. We met with more or less an equal number of Republicans and Democrats on these. There was lots of alignment, issues like the Rohingya in Myanmar, Venezuela, Burundi, the Yazidis, and South Sudan, a number of areas our subcommittee has studied and continues to study.

I think there were also question marks from both Republicans and Democrats on the administration's direction moving forward. Again, there was very much alignment among the individuals we met with from parties, but in terms of where the administration might go on these issues, it didn't really seem to have been on the radar so much yet, and there was a bit of uncertainty in terms of future direction.

Of the 553 key appointments that require Senate approval, I think there have been just over 20 that have already received confirmation. Given that's in the mix, and given we're doing this kind of outreach, speak to us a little about that uncertainty and the disconnect between the parliamentarians down there and the administration and how we should approach this. Are we doing the right thing getting in early and engaging with sort of the grassroots in Congress and the Senate? How should we be playing this?

● (0945)

Ms. Laura Dawson: Fairly well.

There is uncertainty. There is a lack of coordination. There is no grand agenda or plan that we can look to and say, “Oh, you shouldn't be doing this.”

Going from those nice Canadians, those pleasant Canadians, I think we need to be those ubiquitous Canadians, because as the Chinese say, we're “crossing the river by feeling the stones”. Nobody is quite sure where this is going.

If Canada is engaged in human rights committees.... I've heard great compliments about what Canada has been doing in the OAS with Venezuela, Canada-Mexico—

Mr. Michael Levitt: Yes.

Ms. Laura Dawson: Kudos to that.

There are the women entrepreneurship groups with Justin Trudeau and Ivanka Trump. That was great as well.

The *Come From Away* play in New York was excellent, because you are there with your ear to the ground trying to figure out what's next.

The one piece of tradecraft I would give you is, don't just be the nice Canadians who are finding the alignments. Make sure you're asking for something, and make sure you're telling them how important you already are to them.

I attend a lot of meetings with U.S. officials, and the Canadians come in and out, and they go, “They were so nice. What did they want?”

Mr. Michael Levitt: Thank you.

Mr. Sands.

Dr. Christopher Sands: I think that Canada's record on human rights is outstanding. It's been consistent across different governments—Conservative, Liberal. It's really one of Canada's strong points.

The Trump administration's commitment on human rights seems strong. You saw the President's personal reaction to the gassing of Syrian children. This was something very visceral for him.

The challenge in the U.S., though, is that if the U.S. is making big cuts to foreign aid—we're already talking about a 37% cut to the State Department—I worry that those cuts, even if they're not realized fully, will be very damaging to the U.S. ability to engage on these issues. That's not just at the rhetorical level. The President can continue to speak out, but it really needs to be followed up by monitoring and action.

Mr. Michael Levitt: Yes.

Dr. Christopher Sands: It's hard for me to ask Canada to help pick up the slack, but maybe as you see us slipping, that's one thing we could rely on Canadians for.

Although, ultimately we should fund this stuff ourselves, we should be there ourselves, if you see an area that is maybe not getting the attention that the United States used to give to it because of these cuts, because of the distraction of personnel changes, to the extent that we are aligned, Canada's voice will be more important than ever.

Mr. Michael Levitt: Thank you very much.

The Chair: Thank you, Mr. Levitt.

To Dr. Dawson and Professor Sands, thank you very much, and especially to Mr. Sands for hanging in there. We very much enjoyed your presentation and your answers to questions this morning, once we got you into it.

This is a very important discussion for Canada. Obviously, Canada-U.S. relations is a very complex area. But again, we have a long history.

I have to admit, I couldn't agree with you more: Canadians tend to be very nice, to the point where sometimes we leave a meeting wondering what exactly we were there for; we were so nice while we were there. It doesn't hurt to be a little more strident. I agree with you that Canada has to send the proper messaging as we go.

You'll see a lot of us down in Washington. Our committee is going to be down there as well, but we're waiting a little longer, until the gap that you were speaking of—all these people who have not been appointed and are causing some of the problems for the Trump administration—starts to deal with itself. I think the fall would be a good time for us to be there.

Again, on behalf of the committee, thank you very much.

Colleagues, we're going to take a two-minute break, and then we'll go to our next witnesses.

● (0945)

(Pause)

● (0950)

The Chair: I would like to bring this meeting back to order. As per our study of Canada-U.S. relations and its foreign affairs obligations, in our second half we're going to hear from Professor Momani from the University of Waterloo; and from the Centre for International Governance Innovation, Paul Heinbecker, who's a distinguished fellow. We've seen Mr. Heinbecker and Professor Momani a few times before—not me, but other members of this committee.

This morning we'll start with Professor Momani, and then we'll go to Mr. Heinbecker. Each will do a short presentation, and then we'll get into some questions.

Dr. Bessma Momani (Professor, University of Waterloo, As an Individual): Thanks for the opportunity.

I received a list of nine questions, which could take hours to answer, but I'll try to do it in eight minutes. Hopefully we'll get somewhere on this.

The essence of a few things that I see here is that—as many of you who watch the news as much as I do know—there is a lot of unpredictability going on. We don't know what's happening out of the White House, so it's really difficult to determine exactly what U. S. foreign policy is from one week to the next. It's just so in flux that way.

The challenges I see here are that, as we all know, there is a bit of a personalization of foreign policy. I think the U.S. President has often acted on a knee-jerk reaction, and is very much swayed by unpredictable factors. We're in new territory.

I've been working in Washington quite a bit recently, both with the IMF and Brookings, with which I'm affiliated. Much of my conversation with bureaucrats inside the U.S. administration, whether it's treasury, state, or parts of defence, suggests that there isn't a lot of bureaucratic buy-in. There's a lot of frustration within Washington proper.

Added to that is the fact that they're really short-staffed. There is a great deal of unease in D.C. generally about the lack of capability and the lack of expertise. It doesn't help that the White House itself seems to be lacking on that front. There is a great deal of uncertainty as to whether or not people like Jared Kushner and Ivanka Trump have a lot of weigh-in and sway with U.S. foreign policy, which again is highly unpredictable. Frankly, there is no expertise in either of their repertoires, so it becomes far more difficult.

That sort of personalization of foreign policy means that there need to be contingencies. There needs to be a number of best-case and worst-case scenarios on all foreign policy issues related to the U. S., because things are very much in flux. One can't help but see that this week alone, five major foreign policy positions were completely reversed by Trump himself, from China's currency manipulation, to questions about Russia, to questions about NATO: suddenly it's no longer obsolete. There is so much flip-flopping here that it makes many of us dizzy trying to analyze this.

In terms of issues that need to be watched for, I think the deregulation of the financial industry is something that Canada needs to be careful about. There are a lot of potential spillovers for Canada, maybe positive and negative, depending on how things go. There is going to be a lot of money pouring in as some of the Dodd-Frank regulations become deregulated and we start to see smaller banks in the U.S. become empowered. This is something the Trump administration is very keen on. One thing he does have is a high number of Goldman Sachs advisers, who are also very much in favour of dismantling this once-hated regulation in the financial industry. I think that's something to be watched.

On the trade front, I noticed the committee had quite a few questions on trade. This is something to be watched, of course. The expected or potential trade war that many had been talking about between China and the U.S. may now be averted. It seems as though the Trump administration is backing down on its idea that China is a manipulator of currency. The truth of the matter on that question is that China is a manipulator of currency, but that's not the point. China's currency has actually risen in recent years as a way to thwart money leaving China, but that was for its own domestic political reasons, not for a trade advantage. In terms of the time to ask China to overvalue its currency, he's probably about three or four years too late.

Federal interest rates are something to be watched. There are planned interest rate increases. Janet Yellen has already noted that. We're at least expecting another two increases between now and the end of the year. Keep in mind that Trump wants them to be lowered; he does not want to see rates increased, so there may be a clash forthcoming. Again, this is a president who doesn't realize there is such a thing as central bank independence, so that's something to be watched. Of course, for Canada, any sort of interest rate movement on the U.S. side is something of interest to us.

● (0955)

Your fourth question asked what this would mean for border issues. I think we have to keep in mind that many of those who surround Trump continue to propagate the myth that a 9/11 bomber came through the Canadian border. That's something that unfortunately still resonates in the fake news and Breitbart type of folks who really surround Trump, so it needs to be heightened, I think, in terms of our awareness on that issue. I don't think we're necessarily expecting to see real changes in terms of border security, but I think the messaging and the leeway that many U.S. border guards have been given, thanks to some of these executive orders, does in fact mean that if this myth propagates itself and is indeed internalized by these agents, it may mean more difficulty for Canadians crossing. I think that's a real issue.

Of course, these executive orders need to be continued to be watched, because they disproportionately affect Canadians from different backgrounds. I can speak from personal experience that if you have several Middle East stamps on your passport, you may be interrogated far differently than if you don't. There is an issue that Canadians need to be concerned about. The government needs to think about how it will deal with discrimination, potentially, at the border on these issues.

There's another thing that I think is important to point out on the Russia front, and it's really quite an exciting one. To go back to an earlier point, there has been a lot of change in the past week alone on a number of issues. While we expected a sort of increased détente between Trump and Putin, it seems as though that may be more rocky. As to how this will affect the NATO alliance, I think it's comforting to hear people like Trump and Tillerson now re-engage in NATO and the alliance. Of course, if it rears its ugly head again in terms of calling NATO obsolete or again putting down the alliance, that's problematic.

In terms of allies in eastern Europe, there is still obviously a rush, a clamouring, to try to get into NATO as fast as possible. Russian troops are approaching Belarus, for example. One can't ignore, of course, the continued occupation of Crimea, eastern Ukraine, and Georgia. I think, from my attendance at a number of security conferences in eastern Europe, eastern European leaders are very, very afraid. They are constantly bombarded by a great deal of fake news in their own language. They don't have the same state news or, I should say, even private news supports or a plethora of views that often can counter some of this fake news. You do have a preponderance of Russian or Russian-backed media in many parts of eastern Europe that are really putting a lot of fear in allies. It's quite powerful messaging, so I think we can't discount that.

Of course, as we head into very important elections in Germany and France, Russia's penetration there is well documented. Whether it's support for Le Pen and other ultra-nationalists in Germany or just the preponderance of fake news, it's something to be watched. As far as the Trump administration is concerned, last week I would have said it was completely trying to sideline this argument, and now, just this week, we've heard Tillerson talk about Russian fake news in eastern Europe. It's really hard to break that down.

I'll spend the few minutes I have remaining to talk about U.S. policy toward the Middle East and the JCPOA. As far as U.S. foreign policy toward the Middle East is concerned, of course everything we've seen this past week has shaken a lot of our long-standing assumptions. However, I do think that the engagement or the strike against Syria by the U.S. administration is a limited, one-time thing. I don't expect to see more escalation of that. I don't think the Americans are interested in putting more boots on the ground. They already have about 5,000, maybe a bit more, between Iraq and Syria in the fight against ISIS. I don't see much appetite there.

One has to read the very sensible analysis of people like Mattis and others in the U.S. Pentagon who I think are also very cautious about getting involved or further entangled in the Middle East. The strike itself, 59 Tomahawk missiles on the Syrian air base, probably didn't do a lot of damage in terms of really thwarting Syria's capability, but it did produce a positive signal, at least to the Assad regime, that one type of arsenal is not acceptable—i.e., chemical weapons.

● (1000)

That, of course, does not stop the Syrian regime from continuing the very cruel assault with conventional weapons on its people. That will continue.

If I may, I will just very quickly talk about the Syrian situation and where I think that's going. I think we're seeing that the Syrian government and the Russian government have a plan to basically continue to depopulate and strike at places like Ghouta, Daraya and other parts of Madaya, basically trying to reclaim the very few pockets left in the southern part of the country and around the capital. They are trying to get continued swaths of population such that the rebels in those areas put down their arms and basically agree to be resettled in Deir ez-Zor in the north.

As long as the Syrian regime can regain the Aleppo-Damascus highway to the coast, I think they're quite happy. That's what many internal Syrian regime operatives keep calling the useful part of Syria. I think there is an effort to do that. I think there's a three- to four-year time horizon in that effort.

As far as the fight against ISIS goes, just more generally, it's gone very well in parts of Iraq obviously. Although I think what may not have reached the radar of many is that parts of Iraq like Ramadi have seen a re-entrance of ISIS because of no governance or no central government capacity to actually go in and stabilize the situation. There is a risk, just as in Palmyra, that governments, both Syrian and Iraqi, are not well equipped to actually hold the cities that they liberate. That's a real concern.

As far as Mosul is going, of course eastern Mosul has been liberated. Western Mosul is slow, which is a good thing because it's very, very dense. There will be a rush to try to finish this before the heat comes on, because Mosul's heat or Iraq's heat generally is quite intolerable. This is a street-by-street battle. Of course, the Americans have changed their rules of engagement. I think anybody who denies that is foolish. There's been a change in the rules of engagement, which means that sort of command to the Americans to step up aerial assault on western Mosul has gone up. That has led to the increase in civilian deaths. I would caution against that.

Do we still have time to speak about the JCPOA or do I need to wrap it up?

● (1005)

The Chair: I think we'll wrap up, otherwise we won't get to any questions.

Dr. Bessma Momani: My apologies.

The Chair: No problem. Thank you very much.

We'll go to Mr. Heinbecker, please.

Mr. Paul Heinbecker (Distinguished Fellow, Centre for International Governance Innovation): *Merci, mesdames et messieurs.*

I looked at that list also, and I came to the conclusion that I would try to answer one or two of the questions. I very much agree with what Bessma has been saying. She and I have worked together on many things for a long time. Maybe we've come to see the world too much the same, but anyway, we do.

I'll speak a little bit about Trump's foreign policy. As Bessma was saying, the "u" words—unpredictable, uncertain—seem to be operative. The best description of Trump's foreign policy I've seen was a cartoon in the *Washington Post* yesterday. It shows Trump with a civil war kind of cannon, and he's blowing a big hole in the Oval Office wall. He says to his assistant, Reince Priebus, "Okay now draw a target around that." Then the second line is, "And ask Spicey to distribute it to the newspapers."

This is a government that doesn't have a foreign policy. It has erratic impulses, and that's making people nervous literally around the world.

I want to talk I guess more specifically about the U.S. proposed budget, the cuts, and what that might entail. There is to be a cut of about $10 billion from the State Department—about 28% of its budget—that will fall particularly heavily on the United Nations and other organizations. There is always a lot of loose talk about what the size of the U.S. budget is and how much is being spent. The budget of the UN is about $13 billion to $14 billion, give or take, and the U. S. share of that is about a quarter. If you take out a quarter of the spending of the U.S., you're looking at about a $4-billion hole that others will have to find some way either of filling or of cutting programs that are not going to be necessary. The Canadian share of the UN budget is about 3%.

There's always a lot of misunderstanding in people's minds about the size of the aid program. There was a poll recently I saw that suggested that Americans thought about a third of their budget was going to foreign aid, when it's about 1%. Indeed, the Canadian share is heading in that direction also. There's going to need to be some catching up.

I looked through this in the late 1990s when the Americans also decided to stop paying their full dues. They ran up a rather significant bill, but at the end of the day, they decided they would pay the bill, and the UN was financially mostly restored.

There was talk at the time of reducing the U.S. share of the UN budget to about 15%. That wasn't talk that was originating in Washington. That was talk that was originating around the table in the UN because people wanted to reduce the influence of the Americans in the UN. It's one of the great ironies that no one benefits more from the UN than the United States does, and no one seems to disregard it more.

I'll say a word or two about why the UN matters and why we should not be giving up on it. First of all, the UN Charter provides the international rules of the road, and most countries accept most of it most of the time. It's in their interest. It's the only rule book there is for the international strategic political situation.

Secondly, there is a kind of non-stop diplomacy that takes place here 24-7. This is something that's not well understood. There hasn't been a war between the major powers since Korea, and even that could be considered an exception because China was not in the UN or not on the Security Council.

● (1010)

There hasn't been a war between powers on the Security Council since 1945. Part of the reason is that they are there day in and day out at the UN Security Council. The five permanent members run the place—no one should have any doubt about that—and they're meeting constantly, day in, day out, often weekends. I'm the last Canadian to have sat on the UN Security Council, and the stories you hear about nobody being home on the weekend and nobody being there after 5:00 are urban legend. I can remember meeting all night plenty of times and getting phone calls in the middle of the night to come for a meeting plenty of times.

There is a non-stop diplomacy, and that means that the Russians and the Americans and the Chinese know each others' red lines, know what the limits are, and are not going to go to war by miscalculation or misunderstanding.

A third value of the UN Security Council is that it has basically stigmatized aggression. Why was it that the Russians were pretending they were little green men in Crimea? They didn't want to admit that they were actually breaking international law. It's one of the great, delicious ironies in the Syrian situation that the Russians have run to the Security Council to complain that the Americans are breaking international law, and isn't that a terrible thing to be doing?

Well, it is in some ways a very regrettable thing to be doing, but it's also a very understandable one. If the law prevents you from saving people who are being gassed and bombarded by their own government, then the law is an ass and something has to be done about it, and that's what we've been seeing. That was the hope, at least, with Trump.

Always with Trump, however, there's more to it than that—or less to it than that—and in this particular case it is possible that if the Americans don't follow up, they will actually have made the situation worse in Syria rather than better, because people now have expectations. For ordinary Syrians who thought perhaps relief was coming, it probably isn't.

There are things that could be done. Bessma and I have talked about them at various times. At every stage of this crisis it has been easier to do something about it the day before than it is the day afterwards. That goes also for no-fly zones and for safe havens. The Turkish government, for example, has been advocating from the very beginning for a place inside Syria—and it has more than one motivation for this—where Syrians could go and be safe and not have to test their luck in the Mediterranean.

That's my time, Mr. Chairman.

● (1015)

The Chair: Thank you, Mr. Heinbecker.

He comes from the same generation I do—right on time.

Okay, we'll start with Mr. Anderson, please.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Thank you, Mr. Chair.

It's a pleasure to be here at committee today. There are a number of directions I'd like to go in during my short amount of time, but Professor, I'd like to ask you what you see as the role of state legislatures in protecting our trade relationship. We have, I think, more than three dozen states whose main trading partner is Canada.

Could you comment on that?

Dr. Bessma Momani: Yes. It's a good point, and there's a lot of power and discretion at the state level. If I may, I'll just quickly link this to the JCPOA. Even with the multilateral breakdown of the... removing some of the sanctions against Iran, for example, with the JCPOA, the states still have a lot of discretion. It became a legal nightmare for investors from the U.S. to actually do anything in Iran because of that. There's a lot of power at the state legislature level.

There's an important point for economic diplomacy here, because many of those state legislatures can in some ways be our greatest partners, but they can also, I think, succumb to their own populist discourses in such a way that we're seen not as a partner but as actually taking away important jobs and other services. I think it really depends on state-by-state public diplomacy.

Mr. David Anderson: I think we've seen the best and the worst of that. Some governors have come out saying they don't need these border adjustment taxes, but COOL came out of some of the border states, and beef moves back and forth all the time. They should have had more sense, but there were some special interests that really played that issue well.

The U.S. has basically decided that they want to become energy-dominant. They've made a big change, I think, in their commitment to climate change and some of those things. What do you think their relationship with Saudi Arabia and some of the other oil-producing countries will be over the next while? Will there be at any point an addressing of the funding of extremism that has taken place out of a couple of the countries, and particularly Saudi Arabia, over the years? Will that play into the energy conversation, do you think?

Dr. Bessma Momani: On the energy conversation, the U.S. industry right now, just like the Canadian one, is trying to get the value of the dollar per barrel as high as possible, frankly, because much of the fracking industry, where most of the U.S. economic gains are at the moment, requires oil to be at $60 to $70 a barrel and as long as it's in the $50 range it's just not profitable. This is a key issue that we see also in the oil sands.

What that means for U.S.-Saudi relations, frankly, is this is a time when oil is a little out of the mix. The U.S.-Saudi relationship, at least from this White House, is far more focused on Iran. That is where much of these two allies are concentrated, and here there's a meeting of minds. The U.S. and Saudis have a very strong convergence of views on Iran: that it is a nemesis of the region; that it needs to be counteracted; that it's expansionary, both in Yemen and in Syria; so I think it's interesting there is an oil dimension; I agree with that. In this case, the Saudis similarly want to see oil prices go up now. They flooded the market earlier with oil to keep the prices down, to put pressure on the Iranians, but that is over now and so there is an impulse for the Saudis to want to see the price go up.

On the same point, if I may, the reason oil prices are so low is not because of Saudi or OPEC policies. The reality is the global economy is just not growing enough and the number one buyers of oil globally, countries like China and to a lesser extent, India and others, are just not growing at the same rate that would warrant that $150 beautiful magic spot the oil industry wants. It's just not going to get there when you have 46% GDP growth rates in China, for example.

● (1020)

Mr. David Anderson: How do you see Turkey playing into this relationship? Obviously there is the whole Kurdish issue played out through the Daesh activity. We've spent quite a bit of time at the subcommittee on human rights talking about the Yazidi situation and the problems faced in the Nineveh plains, but how do you see Turkish relations with the United States playing into this relationship you are talking about as well?

Dr. Bessma Momani: Again, a few weeks ago I would have been more confident in an analysis because the U.S.-Turkish relationship really had General Flynn at the centre of it, and Flynn, as we all know, has now been discredited. Flynn had worked for the Turks as a contractor, but it seems he had also promised Erdogan and others in Turkey that they would snatch and grab Gülen, who is this hated, self-proclaimed preacher viewed by the Turkish establishment as a terrorist behind the July coup of last year, so it seemed as though the Turks were befriending Flynn, and therefore we saw some mild support of Trump for that.

Of course with Flynn out of the mix, it's really hard to tell. Trump and Erdogan are supposed to meet very soon. It is going to be really interesting to watch that because, of course, Turkey is a vital ally in the fight against ISIS. The U.S. needs Turkey to ensure that the border stays secure, that supplies don't go to ISIS as before. The border was not the priority of Turkey until we saw a lot of weapons slip through. Of course, for Turkey, it's all about refugees and trying to find allies who support its bid to have these refugees financed by the global community and support its efforts to continue the fight against the Kurds in the south, so it's mixed.

Lastly, Trump has been very supportive of the Kurds, at least in rhetoric. He doesn't really recognize that there are Kurds everywhere, so his love of Kurds in Iraq, for example, in the peshmerga, doesn't necessarily mean there is love for Turkish Kurds or Syrian Kurds but there is often that misinterpretation by the Turkish government and the Kurds themselves.

Mr. David Anderson: Thank you.

The Chair: Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Ambassador Heinbecker, I was going to ask you a question on previous testimony by Professor Sands concerning the Ogdensburg agreement, and particularly the Joint Board on Defence. He suggested that, given that it's the 60th anniversary of NORAD, and that defence and security are a preoccupation of the Americans, this would be an ideal time to look at and review, overall, the functioning of the Joint Board on Defence. I have a personal interest in this question, because I am Canada's co-chair in this meeting coming up in June.

I would be interested in your thoughts with respect to not only the larger issue of whether the whole Ogdensburg agreement should be reviewed, but also whether there are specific agenda items that you think Canada should be putting on that board meeting in June.

Mr. Paul Heinbecker: The Permanent Joint Board on Defence has been around since the Ogdensburg agreement. In its earliest days, it was, I think, a more vital organization than it is now. At the same time, it's useful. Military and political diplomacy is particularly helpful right now, because, among many other things we don't know, we don't know what Trump's attitudes on this are, either. He came to office with a kind of international expertise that he had gained at New York City cocktail parties, and his basic interest in international relations was the kind of thing where whatever he heard from somebody interesting the night before was what he believed—and what he still believes, apparently.

It's in Canada's interest that the PJBD continue and that it meet on a regular basis. I don't know that it needs to do much more than to be. It's easier to keep something running than it is to create it when it's gone. I think that that's largely the case with the PJBD. It brings senior military people and senior political people together, and it creates a degree of common understanding that you wouldn't get otherwise. It's insurance against the day when it might be needed.

As for putting things on the agenda, one of the things that we may yet find on the Canada-U.S. agenda is the issue of defence spending. A couple of years ago, we had an exercise in our Arctic at about the same time as the Russians had an exercise in their Arctic. Our exercise was 200 Canadian Rangers. Their exercise was 30,000 Russian troops, 14 warships, and all kinds of military equipment. If I were the Americans, what I would want on the PJBD agenda, and perhaps even in a NORAD context, would be to know what the Canadian Army was planning to do about that. We are at the lowest level of defence spending since the Second World War, at least according to Granatstein a couple of years ago. We are at one of the lowest levels we've been at in foreign aid. Making the case that we are effective internationally is undermined by the resources that flow into those two areas of our foreign policy.

From a Canadian point of view, I guess I would like to see greater interest in the Arctic. I'd like to see more co-operation with the Americans, but I would like to see a stronger Canadian hand in that co-operation.

● (1025)

Hon. John McKay: Thank you.

Professor Momani, on the softwood lumber agreement, the bane of every trade negotiator's existence, we seem to be going around in dizzy circles. The major reason for going around in dizzy circles on this agreement is that it's a managed trade and the American lumber industry has a veto. We don't seem to be able to break this. We can continue to do what we do, which is to negotiate, to possibly go to the WTO, where we have a massive settlement in our favour, which apparently, one way or another, we give back, or we can do something different.

One of the differences could be that when we open up NAFTA—Mr. Trump seems to be enthusiastic about opening up NAFTA—we insist that softwood lumber goes into NAFTA. There may be other ideas. I'd be interested in your thoughts as to how to manage this extremely vexatious problem.

● (1030)

Dr. Bessma Momani: I can't say that I'm an expert on that at all, to be honest with you.

I'd only say that the WTO dispute settlement mechanism...versus what I think one of the positions we should have is that of really trying the strengthen the NAFTA one.... I think that works to our favour. One of the possibilities, or the good news, of opening up NAFTA is that we could strengthen the dispute settlement mechanism in that. The WTO one, I think, has worked well generally.

Of course, in this particular situation with the Trump administration, the whole unpredictability, and frankly, what is a protectionist tendency, mean that anything we can do to ensure that the DSM is used in either form is I think really valuable to our positioning, because it's unjustifiable what we're seeing coming out of the American government.

Hon. John McKay: Let me then pick up on your Dodd-Frank comments and ask you to expand on your worry there. I know that they're dumping the Cardin-Lugar amendment so that corruption can be well and truly hidden again. What are your other worries with respect to how the effective practical repeal of Dodd-Frank is going to impact on Canadian financial institutions?

Dr. Bessma Momani: That's a good question. To be honest with you, I can't tell you what the effect would be on the Canadian financial institutions. There is a global economic worry, I think, that money generally will flow to the U.S. in a hunger for increased returns.

Capital, as we all know, is very excited about the idea of finding new ways of repackaging some of what were called the “toxic assets”. The whole fiasco of repackaging those toxic assets was in essence what motivated the Dodd-Frank to come in: to prevent that kind of creative packaging. My worry is on a global scale: that in fact we will start to see capital move from some of these real estate assets into these kinds of potentially lucrative financial returns. We can see this in the worries about the housing crisis today, and we can see this in other places where there is fear of bubbles percolating in different housing markets.

The worry should be more on a global scale. I'm not saying that the repealing of Dodd-Frank is going to usher in other international financial crises, because there are some new safeguards that have been put in at the international level, at the Bank for International Settlements level and in the Basel III accord. There's a lot of good stuff going on internationally to prevent some of the same things happening, but there is what we in international public economics call a “casino capitalism” kind of view of the world right now, whereby there is a hunger.

You couldn't find any more excited people than those who are on Wall Street today, who see that in fact they may just see a return of exactly the same conditions of 2006 and 2007, which, again, looked very similar to what we have now, that is, really high real estate prices, an extension in the mortgage market and a lot of people who shouldn't have mortgages having mortgages, and all of the same sort of global hunger for high returns—that frankly aren't coming from other markets—rushing into the United States.

There are these sorts of global factors that worry me. It's the global aspect that I think could have a negative potential for the Canadian banking industry specifically.

The Chair: Thank you.

We'll go to Madam Laverdière, *s'il vous plaît*.

[*Translation*]

Ms. Hélène Laverdière: Thank you very much, Mr. Chair.

I sincerely thank the two witnesses for their substantive and interesting presentations.

I must mention two of President Trump's tweets this morning. I will read the first one, verbatim:

[*English*]

"Things will work out fine between the USA and Russia. At the right time everyone will come to their senses & there will be lasting peace!"

[*Translation*]

In the other tweet, he says he has

[*English*]

"confidence that China will properly deal with North Korea. If they are unable to do so, the U.S., with its allies, will!"

● (1035)

[*Translation*]

We always get the impression that he runs hot and cold, and we never know which way the wind will blow. Of course there are repercussions on bilateral relations, but there are also repercussions on a global scale, and Canada will be affected. We hear talk of a potential economic crisis and about the whole issue of global security. Canada's geographic position, starting with the North Pole, is not necessarily a very comfortable one.

I have a strange question for you, but I can't help asking it. What can Canada do, in co-operation with its European allies, Mexico, Japan and other countries to bring a bit more predictability and stability to the current situation? I know it is a strange question, but I had to ask it.

[*English*]

Mr. Paul Heinbecker: What can Canada do about the uncertainty that Trump creates, and what impact does that have on Canadian foreign policy with the emphasis it puts on multilateralism —the World Bank, the IMF, the UN, and NATO? NATO is now not obsolete, but it could be obsolete again soon if the Russians have their...and the Americans get along, as President Trump is predicting.

I think there are two or three things.

One, it's not in every case, but it seems to be the case that whoever got to Trump earliest got him to change his mind. Prime Minister Trudeau got there very early, I think, with a very sound strategy, with some things that were interesting to him and to his family. I think it has set relations on a course that is much less fraught than it might have been otherwise. I don't think that's all the story. There are people.... I'm thinking particularly of future secretary Ross and negotiations of NAFTA, where the list seems to be getting well beyond a tweak and a tweet.

I used to be at the embassy in Washington, and before that, I was director of U.S. relations in the foreign affairs department. I think the government has handled it about as well as it could be handled. I'm not saying that for partisan reasons.

The Prime Minister was there early. It was constructive. Ministers were spending a lot of time in Washington cultivating people, going up on the Hill, seeing all the people they could see. Provincial premiers have been enlisted. Everybody is on the job in order to make sure the American relationship doesn't go off the rails. Job one for any Canadian government, job one in foreign policy, is relations with the United States. I think that's going pretty well. I think it's important that people go to see him.

I don't think you can say that in every case it has gone well. I don't think it went especially well with Mrs. Merkel, for example. Frankly, I do not believe that you can put the Chinese President at your dinner table, have the cameras turned on, and let him know that rockets or missiles are flying at Syria. It would make him look complicit. I think there's going to be trouble from.... That's not going to be readily forgotten. I don't think that was considered to be hospitable.

Generally speaking, the President's sophistication is that which you would find among New York business people, but his learning curve is pretty much straight up. The people around him in the State Department and the people around him in the White House are being sorted out. I think he's finding out, as many governments have found out, that the people who get you elected are not the people who keep you in office or get you re-elected. We're seeing a shakeout there that's very important.

As one of your preceding witnesses—Mr. Sands, I think—said, very few people have been appointed. Everything depends on the sophistication, the stamina, and the capacity of the people who are directly in the White House to just keep on working. Fortunately, there are obviously some warhorses—maybe that's the right word—who are working there.

What we can do is continue with that kind of policy, make sure there's nobody significant on the Hill who doesn't understand what we're talking about.

By the way, as a comment on the importance of the States, we have a good story to tell about 35 states whose major international economic relationship is with Canada, and about how many jobs depend on that. But bear in mind, that's a tiny percentage of their GDP. If that were to disappear, it would be very regrettable, but it wouldn't be crippling. We're in a position where, as always, we're much more concerned about our relationship with them than they're going to be about their relationship with us, no matter what we do.

● (1040)

I guess a last point, and one could talk all morning about this, is that I think we need to be careful not to throw the Mexicans under the bus. I don't think it's in our interests to do that. Trump may be here until the end of the world, but most likely he has eight years, or four. He'll be gone, and the Mexican and the Latin component of American politics is going to be even bigger at that time.

We need to take a look at the long game here as well. It's in our interests to make sure that whatever we do, the relationship with Mexico is not sacrificed for an interest that may disappear four years from now.

Thank you.

The Chair: Thank you.

I'm going to go to Mr. Saini, please.

Mr. Raj Saini (Kitchener Centre, Lib.): Good morning to both of you—two people from my hometown—and thank you very much for coming today. I'm very happy to have you both here today.

I believe I only have time for one question, so I'll ask this question to Professor Momani.

I want to talk about Bretton Woods, and the IMF specifically. As you know, Bretton Woods was established to increase the liberal economic international order. We also know of the formation of the World Bank and the IMF.

One of the key principles that emerged from that agreement was that we would reduce the concept of beggar-thy-neighbour, and that became a very important concept in making sure there was an increase in free trade. We had comments made yesterday by Christine Lagarde, who has said that restricting trade would be a self-inflicted wound.

With the the American administration now, especially with President Trump's sort of movement towards recusing himself from certain world institutions, and also having people on his Treasury team who are not huge supporters of the IMF, how are we going to maintain this liberal international order if the U.S. is not necessarily in favour of the IMF? How is that relationship going to produce a global relationship?

Could you give us your commentary on that?

Dr. Bessma Momani: I couldn't agree more.

Indeed, the Americans have just appointed the under secretary of the Treasury, who will be in charge of the IMF file, and the history of this individual is quite troubling in terms of how critical he's been of the IMF.

The truth of the matter is that with the IMF, just like the UN, the Americans benefit far more than anybody else. Frankly, in the case of the IMF, they put in 17% of the resources—that's how much of the IMF's quota they supply—but it's an enormous gain to American companies and to the American trading position. So it's a peculiar position that the Americans have in terms of their anti-IMF views. It stems from the belief that somehow they are disproportionately providing 99% of the funding.

There's a very strong, right-wing Tea Party view about the IMF, that somehow it's a global bailout or welfare to countries. What it doesn't realize is that it's quite the contrary. It is not a bailout. Countries borrow money from the IMF. In fact, making sure that those countries don't bankrupt ensures that they're able to continue to buy goods and survive as countries and as functioning members of the global economy.

Mr. Raj Saini: As you know, the terms of reference are that the IMF president must be European and the World Bank president must be American. Do you think there could be tension there, because it's led by a European, that they may not be as supportive as they are toward ....

I haven't heard any comments that they've made about the World Bank; most of the comments have been directed towards the IMF.

● (1045)

Dr. Bessma Momani: Yet, it's ironic, because the World Bank, frankly, is where there is far more waste. If you want to talk social welfare and sort of be a right-wing analyst on this view, there is far more valid criticism about how the World Bank doesn't right a tight ship as much as the IMF does. It's really quite peculiar.

I don't think so. I've watched executive board deliberations, and I don't think there's that view. Of course, it plays well in Congress that the Americans are the ones who get to appoint the World Bank president.

On that front, President Kim has been reappointed. The Obama administration made sure it was done early. It was a five-year term, so that the American administration that came in, potentially Trump, wouldn't try to put in someone else who was disastrous like they had in the previous years, people like Wolfowitz and others. I mean, they don't....

I don't think that's a big issue to be honest with you, but it definitely plays into the right-wing element of Congress, for sure.

The Chair: Thank you very much, Professor Momani and Ambassador Heinbecker. We very much appreciate this opportunity to have you as witnesses.

This is the beginning of a very long discussion in this foreign affairs standing committee on what we consider to be a very important topic, but at the same time, we realize the unpredictability and the changing landscape day by day even more so than week by week. We want to follow this very closely on behalf of Canadians, and your information today was important, so thank you very much.

Colleagues, that's the end of our second hour, and I want to thank you. Good luck over the next two weeks as you go back to the ridings. I very much appreciated your time. See you in two weeks on the Tuesday.

This meeting is adjourned.