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**EVIDENCE**

**Thursday, May 4, 2017**

**Chair**

**The Honourable Robert Nault**



# Standing Committee on Foreign Affairs and International Development

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● (0845)

[English]

**The Chair (Hon. Robert Nault (Kenora, Lib.)):** Colleagues, since we're always a little bit pressed for time, I think we'll start close to on time this morning. We're going to continue on with our study of the United States and Canada's foreign policy and, obviously, the importance of that.

Before us as a witness today we have, from Johns Hopkins School of Advanced International Studies, Mr. Charles Doran, professor of international relations, director of Canadian studies. Welcome.

From the Centre for International Governance Innovation, we have Mr. Fen Osler Hampson, distinguished fellow, director of global security and politics program. Thank you very much for coming.

The normal process, as I'm sure the staff have told you, is that we'll start with the presentations and then we'll get right to questions from our colleagues, members of Parliament who are here.

I'm not sure who has decided to go first.

**Dr. Fen Osler Hampson (Distinguished Fellow, Director of Global Security and Politics Program, Centre for International Governance Innovation):** We'll go in alphabetical order, Mr. Chair.

**The Chair:** Okay.

The floor is yours, Mr. Doran. Thank you.

**Prof. Charles Doran (Andrew W. Mellon Professor, International Relations, School of Advanced International Studies, John Hopkins University):** First of all, it's a distinct honour for me to be here to talk with you about something that is always important, Canada-U.S. relations, but that probably at this point is as important as it has been in a very long time.

I wasn't quite sure about my instructions, so I tried briefly to respond to each of the questions. I guess I was given the option to choose questions, but I didn't do that. I'm sure I have not responded adequately to any of the questions, but I'm going to give you my brief response. It's exactly as I printed the thing out.

First, Canada, in my modest judgment, ought to attempt to tread lightly with President Trump, especially in interpersonal relations. Despite his public image of disputatiousness, he doesn't like interpersonal antagonisms, especially in his physical presence. It makes him uneasy. On the other hand, Canada ought, in my

judgment, to state its interests clearly and firmly. He listens. Be prepared for tough bargaining on issues of top priority.

I would think that trade and investment will get top attention. Industrial supply lines, as your parliamentary secretary very adequately, very nicely, and clearly expressed yesterday in Washington, are very sensitive. Mr. Trump needs to be reminded how important an open border is to both our countries. He also needs to know how well policed this border is in actuality, and what a record of co-operation and security it has established. I know he knows these things. He just needs to be reminded of the value of them. Yet—this is the bottom line here—some of the most important policy impacts for Canada will not have anything to do with foreign relations, but because of the integration of the economies some of the most important impacts will be from internal American policy decisions, such as the possibility of a large corporate tax reduction, vast increases potentially in infrastructure spending, and concerns over changes in immigration and refugee policy.

Here is my response to the second question. In response to concerns Canada might have with commercial relations with Trump, I think the Trump administration could usefully be reminded that trade deficits and financial imbalances must be dealt with in a multilateral fashion, not primarily bilateral. That said, when balances are large, persistent, and negative for the United States, this particular government in Washington will complain, especially when the imbalances are not just structural. But trade between the United States and Canada is quite balanced. Anybody looking at this in the last two years can see this. The larger U.S. problems by far are with Mexico and China.

In response to the third question, in the past Canada has sought a greater emphasis on bilateral relations with the United States. Fen Hampson and I have looked at this. He has actually been more involved in it, certainly on this side, but there's a history of discussion about it.

Although NAFTA renegotiation is starting, or at least is slated to start, these relations in many issues now are predominantly bilateral relations. It appears that the United States will seek to strengthen rules of origin provisions—at least it would like to. The United States may seek to alter dispute panel procedures. I may as well admit to you that as a strong proponent of NAFTA, I had something to do with the discussion of these dispute panels a long time ago. The current government in Washington is unhappy with them. The government has said something about giving greater attention to labour issues. I think I know what is involved there, but it really involves Mexico. It doesn't involve Canada and the United States.

● (0850)

With regard to the fourth question—again, truth in advertising—I have been a long-time advocate of enlarging the scope of NORAD NORTHCOM responsibilities in the Arctic and offshore. I do know that its responsibilities are only with surveillance and with monitoring, but that is key. That is absolutely key. No two other countries in the world have coordinated this with the level of trust that Canada and the United States have. Actually, I think almost 100% of Americans don't know anything about how it operates. I trust that you do. But I see little interest in moving in the direction that I am advocating.

On a different topic, the United States is very concerned that Canada spends only 1% of its GDP on defence. The United States puzzles over—and I'm sure I don't understand—how Canada could argue that it is unable to spend part of its proposed military budget, pushing forward these expenditures, as is it understood south of the border, over a 20-year period. From the U.S. side, from the U.S. perspective, these budgetary manoeuvres, I will candidly tell you as an academic, look like budgetary manoeuvres to try to avoid an increase in current defence expenditures, however wrong that interpretation may be.

Five, I believe the United States will continue to favour close coordination of monitoring and surveillance. There's just no doubt about that. I just got through with participating in an Arctic task force with the Council on Foreign Relations and we got into all of this. One of the things we learned is that there seems to be more disagreement bureaucratically inside the United States regarding how to respond to things than there is between Canada and the United States about surveillance. I guess that's good news. I don't know if it's good news or bad news, but I'll tell you this much: when push comes to shove, they always figure out which planes to send up. I don't think there's going to be a real problem there.

As the Arctic melts, more transits are occurring, more mining and oil drilling sites are opening up, and more commercial activity is taking place. Problems are multiplying. The Arctic Council has passed a forward-looking strategic statement on the preservation of Arctic fish stocks, yet the countries with the largest fishing fleets—China, Taiwan, and Japan—are not members of this agreement. I know there are parallel talks going on here about fisheries, but I can tell you, looking at the size of that Chinese fishing fleet and looking at the subsidies—we all subsidize, to some degree, the fishermen, because they're always complaining—the fact is that with the amount of subsidies the Chinese have poured into those fishing fleets, those boats are going to have to go someplace, and I think, unfortunately, they have their eyes on the Arctic.

Closer coordination of security is inevitable involving the United States, Canada, and Greenland. Let's not forget about Greenland and Denmark. Russia is rapidly moving forward with reopening all of its old airfields in the Arctic. It has, as you know, some 20 icebreakers, including heavy icebreakers. The United States has barely three. I say barely because I'm not sure they can all get out there at the same time. That's the way it is. Changes will be required, but so far the Arctic has not received a lot of attention from the Trump administration. That could change. Things change very fast down there.

Six, the Trump administration has, in my opinion, a first-rate set of appointments at the cabinet level and an excellent national security council. Now, all my academic friends say that's ridiculous; there are no academics there. How could that be? What kind of experience do these people have? Let me tell you: Tillerson has done more deals and talked with more people and thought about international politics more effectively than have most people who were nominees for that position. One shouldn't underestimate that kind of talent. They aren't very good at getting the other appointments in place. That's taking a while.

The Trump administration hopes for improved relations with Russia—shock—but so far has been quite disappointed in matters involving Syria. Of course, it all got involved in campaign issues. The press and the opposition—well, opposition comes from a lot of sides—have made this issue something that makes it very difficult to actually look at what is going on here. But I don't think the Trump administration is naive about this. They simply wonder why they have to have these battles with Putin all the time. They realize that part of it is over status, because previously it was said, by somebody, that Russia was only a regional power. Now, if you want to irritate the Russians, that's the way you do it. In my opinion, they're a great power that is on hard times, certainly in economic terms.

● (0855)

Russia is a controversial issue in Washington right now. Russia bungled the sarin gas affair. There's just absolutely no question or doubt about it. I don't know if they had previous information. I'm sure they wouldn't have supported it, not because they were morally concerned but because they thought it would have been bad policy. It happened, and then they ended up defending the Syrians. That made virtually everybody in Washington angry. That was a mistake. Nonetheless, the Trump administration is determined to continue to acknowledge Russia as an important member of the great power system.

NATO is now viewed by the Trump administration as a critical defence alliance, as opposed to what was said during the campaign, but the Trump administration would like the Europeans to do more to help defend themselves. Surprise? Hardly. Evidence exists that these preferences are beginning to be taken seriously.

Seven, the Trump administration is on record as getting even tougher with ISIS, whatever that will mean. The problem is that Russia and Iran are supposed to be partners in this fight. Regime change in Syria is not feasible as long as Russia unconditionally backs Assad. Iranian influence is growing in Iraq, but both Canada and the United States must continue to support the Iraq government even under these very trying circumstances.

Eight, I don't know what the status of the joint comprehensive plan of action is. When government change occurs—this is my speculative judgment—some change, perhaps passive change, in such policy arrangements is to be expected.

Finally, funding cuts are taking place in the U.S. State Department and elsewhere in the U.S. government. It is only to be expected that mainline defence expenditures are likely to increase. Such cuts, the cuts I've talked about, are to be expected in the U.S. funding of some multilateral institutions. The question is about multilateral institutions. All I would say is that perhaps other democracies, especially those not meeting the 2% NATO defence spending threshold, will increase their level of funding of multilateral institutions—for those of us who know that they're important—in offsetting terms.

Thank you, Mr. Chairman.

• (0900)

**The Chair:** Thank you, Mr. Doran.

We'll go to Mr. Hampson, please.

**Dr. Fen Osler Hampson:** Thank you very much, and thank you for the opportunity to appear before your committee.

I'm going to focus on NAFTA and the future of NAFTA. I'm not going to address all the many questions you prepared, which were answered so ably by my good friend Charles Doran.

The first point I'd make is that, in my view, the Trump administration is going to use the North American Free Trade Agreement negotiations as part of a larger strategic initiative to set the tone with U.S. trading partners where there is a real trade imbalance, namely China and Germany.

There's an old Chinese expression, "kill the chicken to scare the monkeys", and I think that's exactly what they're trying to do. We've seen that in Korea's response to what they've seen happening in some of the statements the President has made about NAFTA.

I think it's entirely consistent with NAFTA's origins, which set both the tone and the substance of America's subsequent trade liberalization policies globally, only this time President Trump is throwing America's trade policies into reverse gear.

As we know, the pressures we're seeing now did not begin with Donald Trump. Softwood lumber is a perennial irritant. So is dairy, beef, and pork. Domestic pressures in the U.S. on trade have been building up for a very long period of time. Those of you with long memories will remember Ross Perot's candidacy for the presidency in the previous century.

At first blush, the balance of power in negotiations between Canada and the United States appears to be highly asymmetrical. They're the bigger economy by many orders of magnitude. They're also far less dependent on trade for economic growth than we are. Although trade is a two-way street and the balance, as Professor Doran pointed out, is currently in the U.S. favour, and even more so if you remove energy from the equation, and we're right to remind Americans of the facts, as we've seen, the facts are not necessarily a winner when you talk to the current administration.

As we look to the future of negotiations, the real question is this: what will be our negotiating strategy? There I would make three points. First, we have to recognize that the status quo is unsustainable. Second, we're going to have to make some concessions—the questions are over what, and when—but we also need to define comparable benefits from the U.S. In any negotiation,

you don't give up something without getting something in return. Third, we're playing with a weaker hand, but if we're smart negotiators, we can level the playing field and advance our interests.

A long history of negotiating with the U.S. shows that Americans will negotiate with unannounced shifts in their position. You may remember the Nixon trade shocks of 1971. There will be an unexplained and sudden escalation of demands. That was the story in both the NAFTA and the TPP negotiations. They will violate previous understandings or promises, which was certainly the case with NAFTA dispute provisions. As well, they will use excessive pressure and threats, and will make demands that are well beyond our concession range.

Trump will negotiate no differently from his predecessors, although the big difference is that Ronald Reagan, both Bushes, and Bill Clinton were pro-trade. Trump is a nationalist mercantilist.

Our negotiating strategy should contain five key elements. First, be clear about our own interests and what we want out of the negotiations. Second, be prepared to play a strong offence-defence game. Negotiations are not about being nice. Third, don't rush into talks until U.S. and Mexican objectives are clear. They're not clear right now. Fourth, exploit real cleavages that exist within the administration and between the administration and Congress to our advantage. Fifth, use selective retaliation only as a last resort because of the dangers of escalation.

I would also say that "wait and see" is not a bad negotiating strategy at the outset. The administration is clearly divided between trade hawks such as Steve Bannon and more moderate voices, the so-called Goldman Sachs crowd, which includes Gary Cohn, the President's national economic adviser, whose star is rising.

• (0905)

Cohn has made it clear that he does not want a trade war with America's NAFTA partners. The administration is also not trusted by Congress, and it has yet to lay out its goals for trade talks. To get fast-track authority on trade pacts, including revisions to NAFTA, Trump will have to give Congress 90 days' notice. That includes laying out the administration's goals and undertaking consultations with both the ways and means committee and the Senate finance committee, which have jurisdiction over trade.

President Trump does not have full authority to do anything positive or negative on trade without approval from Congress. His rhetoric and that of Bernie Sanders' and Hillary Clinton's polluted attitudes in America and in Congress about trade, and that is the real problem for trade globally.

I also think that Trump is looking for a quick fix to NAFTA. As his other domestic initiatives stall, he's going to become more desperate to deliver on something. The easiest fix, quite frankly, would be to backfill NAFTA with some of the key provisions that were negotiated in the trans-Pacific partnership agreement, including improved standards for labour, environment, and e-commerce, and policies that eliminate export subsidies for agriculture.

The fact that Trump is in a hurry to make a deal, as has been said quite vocally by his commerce secretary, works to our advantage, because we can run down the clock. Furthermore, if delay or avoidance tactics on our part fail, we can also reduce the content and scope of any compromises we make as we run down the clock. That may mean conceding on some items that, quite frankly, are less important to the trade equation, such as, for example, dairy subsidies.

In the early stages of negotiation, we should avoid making explicit pledges and be sufficiently ambiguous until we have carefully reviewed and assessed both Washington's and Mexico City's proposals.

I would like to touch on something that Professor Doran mentioned. Although we are focused on trade, it's important not to lose sight of the bigger picture and where the U.S. appears to be going with its taxation and industrial policies. Our corporate tax regime has been very competitive vis-à-vis the United States. That may change. We're talking about raising our corporate taxes. Trump wants to lower theirs and has already introduced a proposal to lower taxes for individually owned businesses. The U.S. carbon policy, at least at the federal level, is doing a 180° from the policies of the Obama administration. Deregulation is the mantra of the day. Right-to-work legislation in some states has become a magnet for manufacturing and foreign investment.

The more we are out of sync with U.S. policies at both the national and state levels, the less competitive and attractive a destination Canada will be for investment, and our core competitive advantage will evaporate. Although Canada is working very hard under the current government to diversify its trade and investment ties with other countries like those in the Asia-Pacific, and the recently concluded CETA agreement, those policies of diversification will only work if they're based on a healthy core—namely, our open border and trading relationship with the United States.

Finally, we should also look to non-trade issues that we can use to advantage to underscore our broader strategic importance to the United States, especially at a time when national security is paramount to Americans. That may mean buying the F-35s and ramping up our military spending. We ignore the importance of defence and security in our bilateral relationship at our peril. I would simply like to underscore what Professor Doran has said on that point.

At all times, as we look forward to the negotiations that are soon going to start, we must also be ready to conclude that no deal is better than a bad deal.

Thank you.

● (0910)

**The Chair:** Thank you, Mr. Hampson.

Colleagues, we'll go to questions.

We'll start with Mr. Allison, please.

**Mr. Dean Allison (Niagara West, CPC):** Thank you very much, gentlemen, for being here.

Mr. Hampson, I am glad to have you back at committee again.

There is so little time and there are so many questions about both of your presentations. Mr. Hampson, you talked about how important NAFTA is, and Mr. Doran, you talked about the fact that maybe there are some bigger things at play in terms of China, etc. As we look at some of these things—when we talk about NAFTA and trade, for example—we talk about supply management and about some of these irritants, like softwood lumber, but the reality is that the U.S. subsidizes their agriculture like crazy as well, and that never seems to be the question. We talk about giving up something, whether it's softwood or.... They've taken us to the WTO four times. We've won every time. We solve these issues.

Both of you talked about raising defence spending, as an example. Is that part of the negotiation process? If we look at the overall picture of NAFTA, maybe we can say, listen, we're going to commit to spending more on defence or whatever the case is, versus just.... I think it's a false argument when we say that we're going to give up supply management so we can do better on softwood lumber. My question is this: what about all the other things, and the things that they actually subsidize as well?

**Prof. Charles Doran:** First of all, I agree with you that there are subsidies everywhere. I know a bit about agriculture, having grown up on a farm and still owning one. Agriculture is a complicated mess in terms of government policy on both sides of the border. I don't know what you can do or want to do about that.

Again, I don't believe that Washington thinks the major problems in trade lie with Canada. They know the size of the trade relationship. They know this, but they want to show that they will be quote-unquote even-handed, so they're even tough on their friends.

You asked about other things coming in. In the past, it was kind of a no-no to do this linkage across issues—especially with the United States, because that brings in Congress, and you just can't do cross-linkage with Congress. I'm sure you have similar experiences here.

So that's it; but this administration likes to do deals, or thinks it can do deals. I saw the interaction with the Chinese. It was public knowledge that when Mr. Xi left Washington after the recent visit, some really serious discussion went on, and it was said that if China could see fit to help us with North Korea, the trade negotiations would go a lot more easily. How much more clear can one be?

I don't know if there are going to be explicit linkages. I think that would be a disaster. But implicit ones—the winks and nods about what we are going to do elsewhere—those are all part of this relationship, without any question. The difficulty, of course, is knowing how the other side actually weights things, values things, and that is the art of negotiation.

● (0915)

**Dr. Fen Osler Hampson:** I think a core proposition is that you don't give up anything unless you get something in return. If we are going to come under pressure to make concessions on dairy, which the President singled out when he was visiting Wisconsin, for reasons that still remain perhaps inexplicable, we have to ask for something in return. It could be in the agricultural sector. I mean, the most heavily subsidized agricultural sector in the world is the U.S. agricultural sector. We all know that.

**Prof. Charles Doran:** Have you been to Switzerland recently?

**Dr. Fen Osler Hampson:** Well, there's competition, but they are playing the same game. I think that can be a basis for negotiation.

The problem with softwood lumber is that it's not part of NAFTA, as we know. That's an issue that has to be dealt with on its own, I think, and we have to get our own act together. The difficulty our own government faced in the most recent discussions on softwood lumber is that our own industry is not united. You need to at least have a common position if you're going forward in negotiations; otherwise, the other side will tear you apart.

When it comes to linkage tactics—you know, trade for defence—I wouldn't go there. I think it's fair to say that the history of our relationship with the United States is that we deal with issues on a discrete basis. We don't play linkage tactics, because quite frankly they'll work against us.

Having said that, if they want to get into a discussion about procurement and “buy American”, we shouldn't hesitate to say, look, we have a defence industrial sharing agreement with you that goes back many, many years; we're buying a lot from you when it comes to defence goods; and there are potentially major purchases coming down the pike, so you'd better look at your broader interests.

**Mr. Dean Allison:** I have one more quick question. I know there's no easy answer to this one.

Mr. Doran, you talked about North Korea a bit. It seems as if this administration is prepared to act, more than any other administration. What are your thoughts on what's going to happen, as you look into your crystal ball, with regard to North Korea and Mr. Trump?

**Prof. Charles Doran:** Well, I don't have any great sources of information. I just read the press very, very carefully and listen to a lot of people. My judgment is that it's not just the Trump administration. Everybody who seriously looks at defence recognizes that North Korea is going to be a problem. The question is how you deal with that.

I think the sense in Washington is that the people who really have influence over North Korea are the Chinese, but because the Chinese have that influence, they know they have leverage over us, so they don't do anything. Their interests are not to do anything, because they fear that the north might collapse and they'd have problems with that, or the north and south would be united with a South Korean type of regime and that would be a threat to them. They have all kinds of things they can bring to the table that concern them.

What I think they should be thinking about is this: if they do nothing, the North Koreans are going to have nuclear weapons and missiles. I sometimes say they'll probably aim at San Francisco and end up hitting Los Angeles—

**A voice:** Or maybe Vancouver.

**Prof. Charles Doran:** —or maybe Vancouver—but in any case, they'll get something over here. That is absolutely new and very problematic.

I think what's going to happen is that the North Koreans are going to have to cease and desist. The Chinese, as I said, have been reluctant, but they seem to be much more open to possibilities. What that really means is using sanctions against the north.

I have to tell you that I do not underestimate the firmness of resolve of the Trump administration. If you have any doubts about that, then look at the man he chose for defense secretary. Mattis is a very serious soldier.

● (0920)

**The Chair:** Thank you, Mr. Allison.

I'll go to Mr. Sidhu, please.

**Mr. Jati Sidhu (Mission—Matsqui—Fraser Canyon, Lib.):** Thank you, Mr. Chair.

Thanks to both of you for sharing your experience with us this morning.

I'm from B.C., so I have to touch on the softwood lumber issue.

Dr. Hampson, you touched on that issue. As we're all aware, recently Mr. Trump announced his intention with regard to countervailing duties of 24% on any lumber going from our country to his. Whereas the previous administration raised these kinds of issues discreetly, President Trump's approach is to condemn Canada, criticizing Canada publicly. I mean, negotiations are still going on behind closed curtains. How would it impact the negotiators, since the demand command from the President is very strongly condemning? At the same time, negotiators going into a room prepared...not knowing the climate. It's so uncertain. How would it pan out, in your view?

**Dr. Fen Osler Hampson:** During the election campaign, I was scouring through then presidential candidate Trump's speeches. It may have gone unnoticed in Canada, but he gave a speech within, I think, 13 or 15 kilometres of the Canadian border when he was in the state of Washington. He didn't mention Canada by name, but he talked about the softwood lumber issue. It was clearly in his sights. As I mentioned in my remarks, this has been a long-standing perennial, and he has chosen to play hardball.

I think our biggest challenge, quite frankly, is to mobilize a core constituency in the United States, namely the home builders associations, because taxing imports is going to raise the cost of construction in the United States. In the past they have been important allies for us. I think it's fair to say we haven't heard a whole lot from them on this issue.

The second point I would make is that the economics of the lumber industry, particularly if you look at southern pine in the United States, work against us, because their sources of production are very close to market. Our sources of production are far from market. There are major transportation costs, even once you've got the trees down, to bring them south to market, and that's partly why we have the stumpage fee arrangements that we do.

Having said that, as we negotiate the future of softwood lumber, I think it will be absolutely critical—this is true more generally with NAFTA—that we mobilize key sectors of the industry that are sympathetic to us and do what we've done in the past, which is build a transnational constituency to promote our interests.

**Mr. Jati Sidhu:** Do you have a different take, Professor?

**Prof. Charles Doran:** I think Professor Hampson has outlined the difficulties. I would just mention one thing. The tariff, as I understand it, varies with the province and with the costs. There is quite a range.

I think it's certainly the case that the average citizen is going to suffer from this arrangement. The average house might cost \$2,000 more because of this arrangement. But I would just urge caution on what we've described as mobilization. I remember in an earlier period, when we were talking about acid precipitation, in other words acid rain, there was a sense that public diplomacy would be a good idea. In fact the then Canadian ambassador, who ultimately became one of the great ambassadors but was still in the learning phase, said that what Canada should do is advertise on radio how much damage acid rain was doing. This was in New England in particular.

Of course it was true that it was doing great damage there, but the response he got was exactly the opposite of what was anticipated. The stiff-necked New Englanders said, "What? The Canadians are going to tell us what our problems are? We know what our problems are. Why are they telling us this?" There was an absolute reaction against this. They quickly dropped the so-called public diplomacy approach.

There are probably ways of doing it effectively, but there are certainly a lot of ways of doing it without effectiveness.

● (0925)

**Mr. Jati Sidhu:** Let's talk about the foreign policy. Lately Mr. Trump was engaging in a flurry of foreign policy ventures—attack in Syria, warship in Korea's peninsula, talking to Russia and China, and trying to mediate problems in the Middle East between Israel and Palestine.

What do you make of this? Do you think this hard power will prove to be effective, at the end of the day?

**Prof. Charles Doran:** If you have it, you can't conceal it. If you conceal it, you will in fact underplay your hand. It doesn't mean you have to use it, but people have to know that it exists.

Look at the response to the situation in Syria. Mr. Trump was rightly appalled by the use of sarin gas—the death of babies, the pain that they went through. He was very articulate. He explained that very well. They decided, on very short notice, to launch 59 missiles out of the Mediterranean. I should say that photographic evidence suggests that 57 missiles hit their targets. They warned the Russians

in advance that this was going to happen. They knew that the Russians would inform the Syrians in advance. I know that the Turks had already known about this 20 minutes before it took place. This is general knowledge. Unfortunately, a few civilians weren't informed.

What was the purpose of all of this? Well, the purpose was to say that hard power does exist, and I think it suggests to Mr. Assad that if he tries to use this again, who knows? Maybe the palace will be the next target.

I think the message also got through to North Korea that the capacity exists to knock out those facilities that they have to quite a high degree. China understood this very, very well. This was announced in the middle of a luncheon meeting with the Chinese president.

Now, you people are professionals. You understand the symbolism of that.

**Dr. Fen Osler Hampson:** I thought it was dinner.

**Prof. Charles Doran:** It probably was dinner—lunch, dinner, something like that.

The effect of that is not lost. In the matters you're talking about here, the high politics among the great powers, I think Russia and China take Trump seriously, partly because they don't quite know what he's going to do.

[Translation]

**The Chair:** Ms. Laverdière, please go ahead.

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

I would also like to thank the two witnesses for their most interesting presentations.

Professor Hampson, you talked about Canada's issues in the likely renegotiation of NAFTA. There are also problems between the United States and Mexico. I am wondering how much Canada could work with Mexico so it is not just one-on-one negotiation each time.

What are your thoughts on that?

● (0930)

[English]

**Dr. Fen Osler Hampson:** Thank you very much for your question.

This is a trilateral negotiation that is going to take place, but I think we should be under no illusions that it's going to have its own bilateral elements to it. The Americans, as quite frankly they did with NAFTA, will try to play us off against the Mexicans. What's different is that Canada's relationship with Mexico has changed quite dramatically since the origins of NAFTA. They're now our third most important trading partner. That has to do with the nature of North American value chains. We're a major investor in Mexico. We did a study at CIGI that showed that some 3,000 Canadian companies are doing business in Mexico. It's an important destination for tourists.



The reverse flow of Mexican investment in Canada is small, but it's also beginning to change. Bimbo, which is a bread manufacturing company, has set up operations in Canada, and I suspect that as the Mexican economy matures, there's likely to be more investment. That is to say is that Canada, the United States, and Mexico have a real interest in maintaining open supply chains across our respective borders. That's particularly true in the automobile sector. However, there are some differences. Trump has made no secret of the fact that he wants to have tighter content rules of origin, particularly in the manufacturing sector, and his target there is automobiles.

Mexico has a bigger problem than we do, because the Chinese have been using Mexico as a beachhead and exploiting those supply chains to their own commercial advantage, which is a perfectly rational thing to do. When it comes to Canada, we're pretty much in alignment with the U.S. on that issue, so I think that's going to be a pretty contentious issue.

We will have common interests with the Mexicans on some issues. That would certainly be true when it comes to energy, for example, the free flow of energy and investment in the energy sector. That is also true, I would say, in the area of agriculture. But on an issue like migration, which is very contentious, our interests are quite different from the Mexicans'.

I think it's going to be a mixed approach. We join hands with the Mexicans when it suits us and, quite frankly, when it suits them. The Mexicans, by the way, don't need lessons in negotiations from Canadians. They've shown, as we saw in the trucking incident some years ago, that they can play real hardball. They're very effective at mobilizing supportive constituencies in the southern border states of the United States to their advantage. Are we going to be in lockstep with them? No. But does that mean it's divide and conquer when it comes to dealing with the Americans? No.

**Prof. Charles Doran:** Perhaps I could just add a footnote.

I think that it may happen that on some of these trade issues, Canada is going to have to decide whether it wants to go along with some provisions that are, quite frankly, not first choices, but that would involve looking at North America as a true united, integrated economy, or whether they would like to go for their priorities, their preferences, and risk being locked out of a much more coherent and maybe in some cases protectionist American market.

Now, those are tough choices, but I think that may happen.

● (0935)

[Translation]

**Ms. Hélène Laverdière:** I have another question for you both.

As mentioned, President Trump cannot do much without the approval of Congress. I would like to hear your thoughts on the position of Congress.

The committee is planning a trip to Washington. Do you think that all of us here can play a useful role?

[English]

**Dr. Fen Osler Hampson:** I think everybody wants to know where Congress stands on certain issues. It's not unified, as we all know. Even the Republican Party is not unified.

I think it's fair to say that there are many free traders. Historically the Republican Party has been the defender of free trade, and there are still those voices. We're hearing less about border adjustment taxes coming out of Congress, but I would say that this one is still not dead, and it would be enormously damaging. It's just another way of talking about tariffs.

In terms of stressing obviously mutual advantage and getting our numbers right in terms of who really benefits, particularly in those northern tier states, from an open trading relationship with Canada, I think we're doing a lot of that already. Both the cabinet and the premiers are. This really is Team Canada. It may not be Team Canada when it comes to the home game, but when it comes to the overseas or the cross-border game, it's Team Canada. I think that has to continue.

I think your meeting with your counterparts can be enormously beneficial, but that means going with a well-honed brief, clear message lines, and a recognition that, yes, we can make the status quo better: we don't have to go backward, we need to look forward.

I'd just like to add that one area in which we should be looking forward is the whole area of e-commerce. That is where, with regard to the growth of the middle class, to come back to your point about Mexico, huge opportunities will emerge in Mexico in the whole e-commerce field as Mexicans get credit cards and start shopping online.

**The Chair:** Thank you.

We'll go to Mr. Saini.

**Mr. Raj Saini (Kitchener Centre, Lib.):** Good morning, gentlemen. Thank you very much for coming here today.

I want to pick up on something you said, Professor. You talked about the timing and said that it's in our best interest right now that free trade negotiations happen quickly. I want to get your commentary on one point, because logistically, going through to let's say July 2018, we have right now a situation whereby the President has not informed Congress. That will take 90 days.

We also know that there will be a presidential election next year, by July 2018. We also know that President Peña Nieto is not eligible to run.

Logistically, there is a 90-day provision. Beyond that you're going to get into a lame duck presidency for the Mexican president. The domestic considerations in Mexico right now are not favourable toward the United States. Over the next year, how are we going to get it done when we're going to have one partner? I think the commentary has been that there should be a trilateral agreement, that we should not do one-offs bilaterally.

How would the timing work, under these circumstances, to do it before July 2018? If we're going to get a deal, it should be with the current Mexican president, who is more favourable, as compared with delaying it beyond the election and allowing someone else to come in who may not be that favourable.

● (0940)

**Dr. Fen Osler Hampson:** I think the real issue and the pace of the negotiation will obviously be driven by the Americans. There will be a presidential election in Mexico. That may certainly stall things on the Mexican side. The Americans, as the big trading partner—the elephant in the room—will drive the timetable. But there's a big question mark there. Wilbur Ross, the Secretary of Commerce, has said that he wants a deal next year. He has also said that he wants to revisit every single chapter of NAFTA. He's not going to be able to have it both ways. If he wants to revisit every single chapter of NAFTA, they're looking at a three-year negotiation, if they're lucky. They're going to have to make some tough choices.

As I said in my opening remarks, I think the President is looking for the quick fix. That works to our advantage. It works to the Mexicans' advantage, as they can play the clock too, not just with the Americans, but in the context of their own domestic political situation. The quick fix means going for some hits where we're willing to take a bit of pain and get something in return. That would also be true on the Mexican side so that Trump can say he's delivered.

We'll see the fate of the health care bill today, at least in the lower house, but he's not doing very well, and he has to deliver on something.

**Prof. Charles Doran:** Mr. Chair, may I add a footnote?

I see the plausibility of the argument that Professor Hampson is offering. In the past, I think it would have been absolutely clear and a convincing position to take, but I'm not so sure that the new administration follows the same rules that existed before. I would have to say that I'm not totally convinced that if the outcome was considered to be unfavourable to the United States, they wouldn't say, "Okay: it's over."

That doesn't mean that it couldn't be revisited. It doesn't mean that there wouldn't be all kinds of interesting things that would happen. It doesn't mean that it wouldn't be extremely damaging to existing supply chains and so on. But I think the assumption that the United States is just going to be boxed into a corner because of time might not be something we want to test.

**The Chair:** Mr. Saini, you have time for one more question.

**Mr. Raj Saini:** Thank you.

Professor Doran, you mentioned the revisiting of every chapter. The rules of origin are a bit complex. You also mentioned that the Chinese are integrating themselves into the supply chain through Mexico.

**Prof. Charles Doran:** I think that was my colleague. Give him credit where credit is due.

**Mr. Raj Saini:** Sorry.

You were talking about trade deflection. There's also the other policy of cross-cumulation and making sure that trade is much better. If we are going to enter these negotiations, we have two options. One option could be to create one whole market between the three countries and have the same external tariffs. That would make it easier for companies to do business. Sometimes, with the onerous obligations under NAFTA, it's probably easier to deal with the most-

favoured trade nation status. Do you think that's a much better or much more efficient approach—to prevent trade deflection and to have a better policy of cross-cumulation?

**Prof. Charles Doran:** First of all, I think you're right that there is concern—that I have perceived—about the way in which NAFTA could be exploited by outside trading partners in a way that the biggest market would feel would be at its disadvantage. I think that's the right thing to look at.

Frankly, I don't know how great the problem is. One should look at it and see if it really is serious. If it is that serious, then there will be some remedies. Maybe the remedies you're talking about are the ones that should be looked at. Certainly some of them should be considered. I think the kind of openness you're talking about—the flexibility, the willingness to consider all other alternatives, to see where real problems exist and to try to deal with them—is important.

I would just say this. My perception of this government is that it is very concerned about non-tariff barriers wherever they occur, and particularly occur in Asia, but insofar as we're discussing NAFTA, that would be looked at as well.

What are non-tariff barriers? Well, I don't know. They're all kinds of things. They're everything from regulations to fiscal policy to a host of things. But one should recognize that these people are business people. They're not academics. They're not theorists. They're solid business people. Some of them are in businesses that are having a pretty rough time.

I'm not sure the solutions are out there. I looked at the difference in the labour costs between China and the United States and Canada. Wow: they're enormous. How are you going to deal with all of that? That's the kind of thing they're trying to grapple with, to try to figure out a way to level the field. They want to bring business back into North America, including manufacturing business.

Let me just give you an example of how earnest they are. A study was done recently by Professor Blinder at Princeton. He's a labour economist. He argued in the study that in the near future, at least from his analysis model, 40 million jobs in the service industries, as far as the United States is concerned, will be offshored.

It's not just the Trump people who are concerned about this. A lot of other folks are too. I know that you are. So the openness that you're suggesting, of looking for solutions—that's really what has to happen here, I think.

● (0945)

**The Chair:** Thank you, Mr. Saini.

Mr. Doran and Mr. Hampson, as always, there's not enough time to get into this. We could spend a few more hours sitting here with you. This was a very good start. We do welcome further discussion vis-à-vis reports, ideas, or things you're hearing that the foreign affairs committee would be pleased to know about. This is a long-term discussion we're going to have at this committee. As you might imagine, it's a very important part of Canada's relationship abroad.

Again, thank you very much for your presentations and for the time you spent with us.

Colleagues, we'll take a short break. Then we'll get right back to our next witnesses.

We'll suspend for a few minutes.

• (0945)

(Pause)

• (0950)

**The Chair:** Colleagues, we'll bring this meeting back to order.

First of all, I understand that we have students here from Havergal College. They're here to listen to our committee's deliberations. I welcome them to the committee.

We'll go right to the individuals who will be making presentations today. From the Canadian American Business Council we have Maryscott Greenwood, the chief executive officer.

Welcome, Ms. Greenwood.

**Ms. Maryscott Greenwood (Chief Executive Officer, Canadian American Business Council):** Thank you.

**The Chair:** We're waiting for Conrad Black to get to the video conferencing centre. I understand he's on his way. We'll start with Ms. Greenwood's presentation, and then hopefully we'll hook in with Mr. Black in the next number of minutes.

With no further ado, we'll go straight to Ms. Greenwood, please, and then we'll get into questions.

[Translation]

**Ms. Maryscott Greenwood:** Thank you.

Hello, everyone. I am very pleased to be here today.

[English]

Mr. Chairman and members of the committee, thank you very much for the invitation to appear before you on behalf of the members of the Canadian American Business Council. I am here from Washington. I'm actually from Washington, so I represent the swamp, which apparently is currently being drained. We can talk all about that and about our role in that.

It is certainly an interesting time to be focused on Canada-U.S. policy matters, and more broadly on the common ground and uncommon friendship that we have long shared, a hallmark of the enduring, affectionate, and productive relationship between Canada and the United States.

In the first 100 days since President Donald Trump's inauguration, he has walked back several key campaign promises. You heard a little bit about that from the professors earlier today, and I will just underscore and elaborate.

The President decided not to call out China as a currency manipulator. He opted not to lift sanctions on Russia. He decided against moving the U.S. embassy in Israel from Tel Aviv to Jerusalem. He chose not to abandon decades of U.S. policy on China and Taiwan with the so-called one China policy. He decided not to walk away from the Iran nuclear agreement, not to close the EXIM Bank, and not to upend President Obama's diplomatic outreach to Cuba. The President even did an about-face on his isolationist, non-intervention rhetoric by enforcing President Barack Obama's red line

on Syria with a missile strike in response to atrocities perpetrated by the Assad regime.

Due to all the reversals, supporters of the North American Free Trade Agreement—like us—took note. The President, in a similar fashion, as you well know here, decided against his recent threat to tear up NAFTA. But it is far too soon to breathe a sigh of relief on any of these issues. The 45th President of the United States has demonstrated repeatedly that he is nothing if not unpredictable. For now, the U.S. is not pulling out of NAFTA. However, it is planning, as you know—it's why we're all here, I suppose—a significant renegotiation.

NAFTA is, after all, a 23-year-old trade agreement, negotiated during an entirely different era. It was enacted when a lot of people had yet to log on to the Internet. The iPhone was more than a decade away. Some of the biggest and most robust sectors of the North American economy did not exist when NAFTA was negotiated. It is in legitimate need of an update.

Now that the conditions seem right for a new NAFTA, the Canadian American Business Council, the organization I represent, has come up with a list of top 10 suggestions on how to grow the Canada-U.S. economy by giving NAFTA a shot in the arm. We refer here strictly to the bilateral Canada-U.S. relationship. Although we do see merit in a trilateral negotiation, and as desirable as that would be, I'm not sure the politics are there to have a full-on trilateral negotiation. If there are two or three bilaterals—U.S.-Canada, U.S.-Mexico, and Canada-Mexico—so be it.

Our first recommendation is simple. Create a chapter in NAFTA on regulatory co-operation that codifies and strengthens the Canada-U.S. regulatory co-operation council as a permanent entity. The fruits of that bilateral labour are frustratingly slow at the moment, yet they are integral to the health of both economies, since they will eliminate costly red tape by harmonizing regulations on both sides of the border. Later today, in front of another committee, I will be talking about specific recommendations on regulatory cohesion. I know you will want to tune in for that. It will be spellbinding, for sure. Formally recognizing RCC in a new NAFTA would ensure that the governments work in tandem on new regulations that align existing regulations.

There's also, I would add, an argument to be made in favour of a, quote, "negative list" approach to new regulations. Such an approach would deem that all new regulations are harmonized—everything would just be deemed harmonized, Canada-U.S.—unless you set it aside on a negative list. It's a pretty big idea, but we advocate for it.

Our second recommendation is to mutually recognize voluntary product standards testing and certification, and to implement zero tariffs on all products, so that we truly have a free trade agreement. A question was asked on that earlier, here in this committee. It's probably too much to hope that dairy and lumber would be included in a zero-tariff regime, so for these sectors we encourage new arrangements that are mutually acceptable. The swift resolution of the dairy and lumber disputes indeed constitutes our third recommendation.

Fourth, we advocate revamping the Buy American provisions into one Buy American/Canadian requirement, or, stated another way, considering Canada as domestic for the purpose of U.S. procurement. There is a model for this. The 1956 Canada-U.S. defence production sharing agreement requires that Canadian suppliers are treated the same as U.S. suppliers for the purposes of procurement. We think that the reciprocity would need to be genuine, with a level playing ground for both Canadian and American companies on each side of the border.

• (0955)

Our fifth recommendation is to support further integration of our North American energy markets by building robust and interconnected infrastructure systems to connect supply and demand. That will require a push for predictable, efficient, and expedited regulatory regimes to ensure cross-border infrastructure that's up and running in a timely fashion. This one seems self-evident, yet it's surprising how little coordination exists in otherwise integrated electricity, energy, and transmission cross-border systems.

Our sixth recommendation is to enhance the protection of intellectual property, including but not limited to exploring policy options in Canada to counteract judicial interpretations of IP rules, which serve to invalidate long-standing patents, particularly in the life sciences sector. It is time for Canada's Parliament to fully explore legal options that in recent years have been left solely to the Canadian courts, to the serious detriment of innovation and foreign investment in Canada. We actually explore this issue, if you're interested, in a deep-dive discussion on innovation policy in a paper on the Canadian American Business Council's website. I'm happy to talk to you more at length about it, if you want. The observation here is that it's a policy area that for a couple of decades has been interpreted by the courts, but the Parliament hasn't opined; it hasn't set policy. We think it's time for that.

Recommendation seven involves the establishment of rules to promote and govern digital trade, including provisions prohibiting data localization and digital customs duties, enabling cross-border data, and securing basic non-discrimination principles for digital products.

Eighth on our list is updating the rules governing the movement of people across our common border, to reflect the modern categories of employment, including those who work in the digital economy. All of you have travelled back and forth across the Canada-U.S. border into the United States. Some of you have experienced some of the challenges with respect to crossing. It's time to update those lists and that collaboration.

The ninth recommendation calls for enhancement and modernization of joint security arrangements to foster freer cross-border

movement of goods and services and more reliable and predictable border processing. Here I refer a lot to pre-clearance legislation that the U.S. Congress passed and signed into law. I know that the House of Commons here is considering it. I'll be back in a few weeks to another committee to talk about the importance of pre-clearance, but I'd also be delighted to talk to you about our perspective on how important that is, if you like.

Finally, since the new NAFTA will potentially serve as a model for future agreements the way its predecessor was, we suggest taking a stand against currency manipulation. It's not an issue obviously here in North America but can pose a problem with other economies. Even if President Trump isn't willing to take China on at the moment, we think it's important.

These 10 recommendations aren't easy, but they are possible. If achieved, they could provide a meaningful boost to the flow of commerce, the pace of trade, and the health of the economies of both Canada and the United States—and Mexico, if it's part of it. They'd lead to minimal disruption, and in fact would ease regulatory burdens on countless businesses, citizens, and industries on both sides of our common border. They'd cut costs and red tape. They'd open up lucrative new markets for those sectors that have existed under protectionist regimes for too long.

We are headed into a dynamic new age of technological advances that are demanding that the United States and Canada come together as partners like never before. These new advances are almost as unpredictable as the next 100 days of the Trump administration. In both instances, though, it is worth focusing on what needs updating in NAFTA and to create a blueprint for how our countries can do business together for generations to come.

I'd like to conclude by thanking you for having me.

Thank you for having me on this particular day, May 4. I must end by saying, "May the fourth be with you."

**Voices:** Oh, oh!

Thank you.

• (1000)

**The Chair:** Thank you very much, Ms. Greenwood.

We've now been able to hook up Mr. Conrad Black, who I understand was delayed by an accident on his way to the conference centre.

The normal practice in the committee is that witnesses are given an opportunity to make opening comments. Ms. Greenwood went first. I understand you know each other.

We'd like to give you an opportunity to make any opening comments, and then we'll go to questions from there.

The floor is yours.

**Ms. Maryscott Greenwood:** We haven't met in person, actually; only on TV.

**Mr. Conrad Black (As an Individual):** I have to say that I wasn't aware that I was expected to make an opening comment. I can certainly improvise one, but it would be rather platitudinous, and I don't want to inflict that on the committee. Would it be a dereliction if we just did without an opening comment? Perhaps I could say something at the end.

It's something of a mystery to me exactly what I'm supposed to do, Mr. Chairman, but I'll do whatever you want.

**Ms. Maryscott Greenwood:** You can endorse my comments, Mr. Black.

**Voices:** Oh, oh!

• (1005)

**Mr. Conrad Black:** I only heard the latter part of them, Scotty. I certainly agreed with what I heard. You and I usually agreed when we debated on CTV, other than who we wanted and expected to win the election.

**Ms. Maryscott Greenwood:** Right: other than that.

**The Chair:** We're always at the disposal of the witnesses when it comes to how they want to present themselves.

Knowing Mr. Black as well as I do, having followed him for many years, I will take his lead and go straight to questions.

We'll start with Mr. Kmiec, please.

**Mr. Tom Kmiec (Calgary Shepard, CPC):** Thank you, Mr. Chair.

Thank you both for being here today.

We had two witnesses come in before who talked a great deal about NAFTA and some of the intricacies of renegotiating the agreement, but there was very little about the tax changes being proposed by the White House, by Congress. It's unclear who's proposing what. I know people talk about Trump being unpredictable. I like to think of him as unconventional in his approach to the presidency and in how he and his cabinet behave.

In terms of the tax proposal, I'm always wondering which is the greater risk to Canadian business. Is it the renegotiations of NAFTA?

On the 10 points you mentioned, Ms. Greenwood, I went through a list of things that could be included, that may want to be included, as options. Or there's the tax reform. I'm just looking through it here. It has things such as simplifying the tax brackets on the personal side, repealing of the inheritance tax, doubling the standard deduction, repealing the alternative minimum tax. It also has reducing the corporate tax rate to 15% from 35%, which is a \$3.7-trillion initiative that they have. It has repealing the tax on investment income. They're also talking about expanding child care benefits, and then repealing most deductions, except for mortgages and charitable giving. The other one that concerns me is the one-time tax on overseas profits. It is not very clear what they want to do.

To both of you, where should Canada actually be focused? Is it on this NAFTA renegotiation? Should we be pushing the Americans to play their hand? Or should we wait and focus on these tax changes they're proposing, which may actually go through much sooner and have a much greater impact on Canadian business?

**Mr. Conrad Black:** Do you wish me to speak?

**Mr. Tom Kmiec:** Yes, sir.

**Mr. Conrad Black:** I do not consider myself completely qualified to offer advice on the tactics of which to do. I assume that we can prepare for both at the same time. I did say in my remarks with Scotty coming up to the election, and between the election and the inauguration, that Trump should be taken at his word. He intends to do what he said. While some find him unpredictable, I don't. I think he is quite predictable, and he is going to enact his program. It appears that he will get a modified health care bill at least through the House today. Obviously it will have to be reconciled with the Senate, and that doesn't get it done, but that ties into the tax bill.

On the matters you mentioned, my guess, for what it's worth, is that he is going to have to produce some revenue enhancement to accompany these tax reductions. The one that the President himself has mentioned is in effect to take the anticipated decline in the gasoline price, and instead of giving that decline to the consumers putting what amounts to an additional tax on gasoline but not one that raises the price from where it is now. It is assumed in the administration that over time the price of gasoline in the United States will come down because [*Technical difficulty—Editor*] offshore drilling, increased fracking, and the reduction of imports.

The other that's been floating around, and it's one that I occasionally inflict upon my American readers in the *National Review*, is the tax on elective spending. It's not unavoidable spending, such as groceries or children's clothing, but luxury spending, or a fair swath of financial transactions. To the extent this impinges upon Wall Street, this president doesn't owe Wall Street anything anyway [*Technical difficulty—Editor*] done nothing but criticize him, but he can make it up to them by rolling back excessive regulation [*Technical difficulty—Editor*] Sarbanes-Oxley. I suspect that something like that will be worked out.

Now, it's not going to happen overnight, obviously, because it is so complicated and the atmosphere is so poisonous. As you know, Mr. Trump ran for President running against all factions of both parties. He ran against the Bushes as much as the Clintons and the Obamas. He ran against Wall Street, Hollywood, almost all the media, most of academia, the entire bureaucracy, and virtually every adult in Washington, D.C., 94% of whose voters voted against him. He did win, but the war continues. It is going to have to de-escalate at some point. If he gets some sort of health care measure through, it may be a signal that finally 20 years of gridlock in that system is breaking down.

My own view is that the Democrats cannot go on trying to stigmatize him as a madman, a lunatic, an illegitimate person who provokes, in the words of one of the *New York Times* columnists, Mr. Kristof, a whiff of "treason". They just can't go on with this. And Colbert's outrageous comments on Monday night.... There will be a settling down. We will get back to a relatively normal government, though given the identity of the personalities, in particular the President, a rather flamboyant government.

On your question, I think that over time the tax question will be a bigger one. I leave it to you legislators and wouldn't presume to advise you on this point, but there are the implications to Canada of declining energy prices and a sharply lower corporate tax. I doubt if it will get down to 15%, as the President suggested last week. I imagine you have to compromise a little above that. The implications of that to Canada are clearly serious in terms of where international investors' money is apt to get into this North American market.

I'm not a trade wonk, and I don't want to get out of my depth, but I take the President at his word that his desires in respect of adjustments to trade arrangements with Canada are relatively minor. He has never expressed to me the slightest grievance against Canada, other than on the matter of its failure to live up to the 2% target for defence spending as a percentage of GDP amongst NATO countries. For what it's worth, my information is that they consider the latest budgetary estimates from our government on that subject to be rather disappointing, but I'm sure those matters are dealt with in official channels.

• (1010)

**Ms. Maryscott Greenwood:** Thank you, Mr. Chairman.

Thank you, sir, for the question, which was about whether tax reform is more important to the Canada-U.S. relationship and Canadian competitiveness, I believe, than NAFTA. I think it's a very important question and a very smart question to ask.

To set a little bit of context, the President campaigned on repealing NAFTA and taking the United States out of TPP, the trans-Pacific partnership. The response of the congressional Republicans to that was that while they didn't like NAFTA, they thought a better way to deal with these issues would be through tax reform. As you quite rightly outlined in the question, you see a whole series of proposed measures coming from the House Republican leadership on tax reform that they intended to incentivize exports and disincentivize imports to try to get more companies to create things to manufacture here in the United States and then sell them abroad.

That was the policy reaction, because Congress really doesn't want a tough vote on NAFTA. They would rather deal with a multitude of things through tax reform, including trade policy. That's sort of the context—the border adjustment tax maybe being a way, instead of renegotiating NAFTA—that was the thinking of Chairman Brady, of Paul Ryan, the Speaker of the House, and of the House Republican leadership.

We haven't had comprehensive tax reform in the United States since 1985. Think about where you might have been in 1985. That's a long time ago. It looks like the President is intent on some kind of tax policy reform, but what form it takes and what it looks like will be the subject of massive internal discussion in the United States. On border adjustability, for example—you didn't point to it, but it's related—you have whole coalitions in the United States of companies and interest groups that are for a big border adjustment tax, because they're mostly exporters. Then you have people, companies and stakeholders, who are really connected to the global supply chain and the North American supply chain who think border adjustability would be a disaster.

The politics, then, are quite divided in the United States. I think you rightly point out that if the U.S. succeeds in lowering the

corporate tax rate to a level that's closer to what Canada has, which is relatively lower.... Canada enjoys a very good economic competitive position for lots of reasons, and the tax rate is one of them. If the U. S. gets closer to that, it presents a challenge to Canada, for sure. I know that the Business Council of Canada and other groups here are looking at Canadian competitiveness in light of potential tax reform.

You talked about the one-time repatriation of foreign proceeds. That is definitely something that sticks in the craw, if you will, of many U.S. policy-makers. You've seen the phenomenon of inversions, whereby a company will leave the United States, move its corporate headquarters elsewhere—which is a legal thing to do, but not a patriotic thing to do—to benefit from the relative discrepancy in tax policy.

There is definitely an appetite to deal with all of those things. If the United States is successful in lowering the corporate tax rate, in incentivizing exports over imports, in putting in preferences on procurement for “buy and hire American”, that success presents a very, very important challenge to Canada, to Canadian businesses, and to those of us who are really interested in the integrated nature of the Canada-U.S. economy.

• (1015)

**The Chair:** Thank you, Ms. Greenwood.

We go now to Mr. McKay, please.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** Thank you, Chair.

Thanks to both of you for appearing today.

I probably shouldn't admit this in public, but from time to time I do read Mr. Black's articles. Occasionally I've even supplemented his bank account with the purchase of a book.

**Ms. Maryscott Greenwood:** I do too. It's useful when I have to debate him on TV.

**Hon. John McKay:** I have been known to also take the newspaper and fling it against the wall with some concern. Whatever else, what I do notice in your writings, Mr. Black, is that you are internally consistent, that there is a framework within which you write and within which you think. However, I have not been able to determine any internal consistency with President Trump. He blows hot and cold on NATO. He blows hot and cold on Russia. He blows hot and cold on Putin. He blows hot and cold, and the only consistency seems to be his inconsistency.

The problem with this is that when you are trying to negotiate with someone who is inconsistent and for whom there does not appear to be a set of values other than “I win and you lose”, it makes it difficult to approach negotiations. Your latest writings seem to hold out the contrary view to this. I would be interested in your expanding upon why you think that President Trump is actually far more consistent than maybe the rest of us can perceive.

**Mr. Conrad Black:** Mr. McKay, I agree that it is difficult to perceive that, but I do believe it to be true on the basis of my experiences with him. We had him as a business partner in Chicago, where we owned the *Sun-Times* newspaper. I don't know if the committee knows that city well, but we had a low-rise building right downtown, right behind the Wrigley Building, near the Tribune Tower, so it was prime development land right on the Chicago River. We put it out for bids and his bid won. My American directors, a very eminent group, Dr. Kissinger and others, said, "Hang on to your wallet, he's a scoundrel", and so forth.

We were very careful, but he did engage, even then, in the sort of tactical manoeuvring that you've referred to. He would take outrageous positions opposite certain contractors and the building trades unions, and negotiating zoning changes with the municipal government. The Democratic Party has been in power in that city since 1929, so they're pretty well entrenched.

The ethical standards both politically and in the building trades unions in Chicago are not the highest I've ever seen, and his techniques are extremely aggressive, subject to apparent change, but always towards an unchanging purpose, which you summarized well: that he'll get a good deal for himself. In this case, we were on the same side, and he was negotiating for both of us. He did a very, very good job. He came in exactly on budget, exactly on time. Though it's a rough city, Chicago is proud of its architectural heritage—the city of Frank Lloyd Wright and so on—and he produced a design that was very widely admired. He had it filled with absolutely top-grade tenants well before it opened. It was just completely successful.

That obviously is no guide to how he's going to negotiate with North Korea or Canada, but maybe it is partly a guide. My impression of him is that he doesn't change his views as much as one thinks, but he does alter the mood and the ambience according to the level of his pleasure or displeasure with the other side. Some of it is preparatory, just flustering people and muddying the waters before substantive negotiations begin, and some of it is just agitating for the purpose of keeping the people he's negotiating with off balance. He doesn't move around in terms of what he wants that much, and I don't think he has particularly with Putin or the Chinese. I think he's made it quite clear that relations with China have been altered somewhat because the aggressive nuclear development of the North Koreans has moved that issue up well above any other that could be contentious between the United States and China. He quite properly responds to events, and that takes precedence over whatever reservations the United States might have about, for example, monetary policy in China.

In the case of the Russians, it was always nonsense that he was particularly involved in any collusion with the Russians. The allegation that there was any Russian collusion with the Trump campaign is absolute bunk, and will come down, as I wrote in the *National Review* earlier this week, around the heads of the Democrats like a toilet seat. The fact is that he recognizes Russia as an eminent nationality, but he does not recognize it as anything like the force it was when it was the Soviet Union, with more than twice its population, military parity roughly with the United States, and the vast communist espionage and agitprop apparatus all around

the world. He believes it has to be treated not as a pariah but as one of the world's important countries.

My guess, for what's it worth, is that the best indicator we've had of what can be done between those countries was in the meeting that took place in early March between the chairman of the joint chiefs of Russia, Turkey, and the United States. The plan clearly was to make Turkey the incumbent power in the Middle East, recognized by the Americans and the Russians, and to replace and reduce Iranian influence.

● (1020)

The American goal would be to act on the fact that it can offer a great deal more to Russia than its alliance with Iran does, that there's not any great natural disagreement now between Russia and the United States and what's needed in Syria is some kind of confederation where Assad runs the Alawite part of it, and some others, and the western-sponsored proteges there have autonomy, and the four million displaced Syrians can be relocated durably.

In Ukraine it appears that what might happen is that the Americans would be prepared to acquiesce in the resumption of Crimea by Russia, which had it up until 1955, but the Russians would have to stop meddling in irredentist affairs in Ukraine and the Baltic states. In exchange for that, the U.S. would relax the sanctions. Now, that appears to be.... It's my intuition, but not a completely uninformed intuition, that that's where they're headed. There's no inconsistency in that. The interruption with the air raid on Syria, the firing of the 59 cruise missiles, was a specific point indicating that the U.S. simply would not tolerate the continued use of sarin gas on civilians in Syria after the Russians purported, with the Syrians, to have removed all such gas from Syria.

I'm sorry to be so loquacious, but my answer is that I wouldn't be overly preoccupied by the atmospherics. He has his techniques, but he is not all over the map. He knows what he wants, and he's quite good at getting what he wants. His theatrics are often entertaining, and they can be appreciated for that, but they're just tactics. I mean, what he wants is what he says he wants.

● (1025)

**Hon. John McKay:** You covered quite a waterfront there. Let me just zero in on one element, and that is the apparent new relationship between Turkey and Russia and also Mr. Trump's conversations with Erdogan. Is it your view, therefore, that between them, Russia and the United States have nominated Turkey as the new big player in the Middle East? In the Middle East, there is no action that doesn't go unreciprocated in some way or another: so where does that leave Iran?

**The Chair:** Mr. Trump, I'll just—

**A voice:** Mr. Trump?

**Voices:** Oh, oh!

**The Chair:** That's not very good, is it, Mr. Black? I was thinking of Mr. Trump.

I'll leave it at that, because Mr. McKay's time is up, and I want to make sure that other members and also Ms. Greenwood get into this discussion.





Maybe I'll start with you, Mr. Black. I had the opportunity as chair of the subcommittee on international human rights to travel with the members of our subcommittee to Washington just about three weeks ago. We engaged in a number of discussions. We met with about 14 different members of Congress, and a number of senators too, during that time. We had interesting discussions on mutual areas of agreement on human rights issues. We discussed South Sudan, Venezuela, Russia, the Rohingya in Myanmar?, Iran, and a number of other common ground areas. What became fairly clear during those discussions was that there's still a bit of a vacuum created at the administration level in terms of future directions on some of those files. Now, some of the big ones we've spoken about here already today—Iran and Russia—but on many of the others, partially probably due to the lack of appointments in some of those areas, or vacancies still to be filled, there just seems to be a bit of a disconnect in terms of where they stand in the administration. We've heard broadly about the slashing of international aid budgets, which is something that could happen within the next couple of years, if not immediately.

How do you see this playing out? How do you see even within the Republican Party the push-back that may come on a number of files, specifically dealing with international human rights? How is he going to be able to manage Congress and the Senate moving forward on some of these international global affairs?

**Mr. Conrad Black:** As you know, there is always in the American administration some tension between those elements in the U.S. government and the Congress and the administration who put particular heavy emphasis on the observation of human rights in other countries and those who adopt a somewhat [*Technical difficulty*—*Editor*]. As long as things don't reach the level of colossal atrocities, they feel that those are essentially internal matters of other countries and not a place for the United States to [*Technical difficulty*—*Editor*].

I think maybe the Carter administration was the most activist in terms of using rights and the observation and respect of rights in different countries as a criterion for the forthcoming goodwill of the United States in response to those countries. The Nixon administration perhaps was on the other end of the scale. While it took notice of these things, it essentially dealt with whoever was there unless they were so morally opprobrious that it was beneath the dignity of the United States to do it.

I would say that this administration would be somewhat closer to the Nixon model, and well away from the Carter model. I think President Trump feels that in general, American interventionism recently, indeed since the Korean War, when its military intervention has, with some exceptions, not been overly successful and has not been easily justified as a geopolitical investment.... In the Middle East, virtually the entire conventional ground forces military capability of the United States was tied up in that area for over a decade. Approximately \$2 trillion were spent, an immense humanitarian crisis was generated, and scores of thousands of casualties occurred in the case of the United States, and much larger numbers in other populations. Geopolitically, the U.S. doesn't have much to show for it. That was quite prominent in the comments that the candidate took prior to the election, and it certainly resonated well with his voters.

I'm sure that when you were in Washington you would have encountered indications that this is an administration that takes note of the degree to which rights are observed, but it is not going to become overly demonstrative or insistent about that subject unless it really becomes an atrocious situation on a vast scale. I think that this administration, and any American administration from now on, from either party, would be much more responsive than the Clinton administration was to what went on in Rwanda, for example, or the Carter administration to what went on in Cambodia.

I am hopeful, as I'm sure you are, that the world in general has gotten to a point where it will take radical measures to prevent another Darfur, or any of these horrible disasters where huge numbers of people perish or are dislocated.

But in terms of determining their policy, I think this administration will cut a fair bit of slack to almost any plausible government, other than a failed state, that whatever it is doing it has a right to do within its own borders. Now, it will become much more demonstrative about the exportation of aggression, and particularly of terrorism. I think what you'll get, in general, is an administration that tries to give a much clearer definition of U.S. national interests, rather in the way that President Truman and Secretary Acheson did just prior to the Korean War, and make it clear what the United States regards as its national interests. It will be a much less ambitious definition than the George W. Bush administration had, and at much less pacifistic and passive one than the Obama administration had, but at least it will be clear.

In the human rights area, I think this is an administration that would only really assert itself and use American political strength in the case of violations of human rights on such a scale that they would be repulsive to the American public.

• (1035)

**Mr. Michael Levitt:** I think we probably saw that with the lashing out at Syria after the chemical weapons attack. That would probably fit the characterization.

**Mr. Conrad Black:** That was magnified by that appalling episode with the red line, followed by triumphalist noises in Washington that without any violence at all they had succeeded in having all the sarin gas removed, which of course was not the case. The country was lied to by the Syrians and the Russians, so you had an element of betrayal involved as well.

**Mr. Michael Levitt:** Thank you.

Do I have a little more time?

**The Chair:** No.

**Mr. Michael Levitt:** Okay.

**The Chair:** Go ahead, Mr. Fragiskatos.

**Mr. Peter Fragiskatos (London North Centre, Lib.):** Thank you, Mr. Chair.

Thank you, both of you, for being here today.

Ms. Greenwood, you made an interesting comment earlier that Canada's corporate tax rate puts us, as a country, in a very competitive position. I wasn't planning on asking about corporate tax rates, but I was intrigued by the comment and I wonder if you could follow that up.

**Ms. Maryscott Greenwood:** Absolutely. Thank you for the question.

Today Canada enjoys a lower relative corporate tax rate than the United States. If the U.S. lowers its rate in a significant way, which I believe will occur—I don't know what level it will go to, that will be the subject of a negotiation—I think that has the potential to have a big effect on Canadian competitiveness.

It's not just about tax rates, although that's really important. If in two years in the United States we have a lower corporate tax rate, some version of a border adjustment tariff, and some incentive to repatriate funds that come from overseas, and you combine those with a preference for American inputs and manufacturing and “buy and hire American”, that's a fundamental challenge to Canadian corporate competitiveness.

That's why we strongly advocate for Canada and the United States to go at this together and have a complementary economic system, because that's what we've had not just since the NAFTA, not just since the Canada-U.S. Free Trade Agreement, and not even just since the 1965 Canada-U.S. Autopact—which is what kind of started all of this—but since back in the forties, when we started free trade in agricultural equipment, like tractors, combines, and things like that. That's the approach we need to take, in my opinion, so that we are an economic unit, and that's the way business deals with it. If policy-makers could get closer to that so that we can take on competitive challenges around the world, that would be better. However, if we diverge, and the United States under the Trump administration, the Republican leadership, and the 115th Congress goes at what it says it's going to do, that creates some important questions for Canadian policy-makers, to be sure.

• (1040)

**Mr. Peter Fragiskatos:** Thank you very much.

In January of 2017, you said the following in a CTV interview—

**Ms. Maryscott Greenwood:** Here we go.

**Mr. Peter Fragiskatos:** No, no, don't worry. Your words are fine, but I do want to quote them back to you.

**Ms. Maryscott Greenwood:** Sure.

**Mr. Peter Fragiskatos:** Speaking from an American's perspective, you said:

Well, who's our biggest export partner? It's Canada. So literally millions of American jobs are dependent on our relationship with Canada.... I think the president-elect and his team are beginning to understand that.

Do you believe that is still the sense in Washington and, quite frankly, across the United States?

**Ms. Maryscott Greenwood:** I do believe the education level is rising. Let me just take a moment to compliment. There's something called the Canada-U.S. “war room” inside the Prime Minister's Office. It's led by a gentleman named Brian Clow. He has a terrific team. They're really smart and really good, and they are helping guide...along with Ambassador MacNaughton, who is enormously

talented, and members of all parties and a former prime minister, so this is not a partisan or a government-only comment.

I do think there has been a lot of progress made in raising awareness, but you have to keep it up. You have to keep coming to Washington, and not just Washington but all over the United States. I think there have been more than 125 touchpoints in the first 100 days of the administration from Canadian policy-makers to U.S. policy-makers. That feels like a lot from up here, but you have to keep it up, because every single interest group in the United States camps out on Capitol Hill. If you have 125 touchpoints, the American meat producers have 10,000, and they are constituents.

Facts are important, the reality is important, and millions of American jobs and the American prosperity do rely on our interconnected economy with Canada. That needs to continue.

The President said he decided not to tear up NAFTA after phone calls from Prime Minister Trudeau and the President of Mexico. I think that's partially true, but I think another big factor was that Sonny Perdue, the former governor of Georgia who is now the U.S. Secretary of Agriculture, came with an infographic to say that in the agriculture sector, if we were to tear up NAFTA, that would be a giant detriment to American farmers. I think that resonated as much with the President of the United States as any argument that a foreign leader made, as important as those were.

**Mr. Peter Fragiskatos:** Thank you very much.

I have one last question, and it's for Mr. Black.

Mr. Black, I wonder what you would make of arguments that suggest that Canada ought to really diversify its economy. We've heard this argument for decades, and we've pivoted in this direction, obviously, with respect to Europe and the recent CETA. Talk for a moment, if you would, on the issue of China and perhaps even India and free trade agreements along those lines.

**Mr. Conrad Black:** Mr. Fragiskatos, I believe at the height of the intimacy in trade terms between the United States and Canada, approximately 85% of Canada's foreign trade was with the United States, and roughly half that figure was the percentage of [*Technical difficulty—Editor*] tied up in that, which I would have thought was as great a level of integration with the U.S. economy as the State of California possessed at that time.

I believe that number now, the 85%, is down to 73% or something [*Technical difficulty—Editor*]. It is gradually happening, and I think it is a good thing. It's not that we want to get away from trade with the United States, but it is generally a good thing to be more broadly based in international transactions, and it is a natural trend anyway.

I would make two points, if I could, related to your previous question to Ms. Greenwood. The one area where I think we should be prepared for a real divergence, but I'm not exactly sure and haven't enough competence to say how determined our government is in this matter, is on all this business about carbon taxes and activities based on presumptions about global warming. We are not going to be operating on a parallel line with the present American administration on that point. I think that is clear from directives that have already been implemented in respect of the Environmental Protection Agency.

I also want to make the point that in tearing up NAFTA and so forth, Donald Trump has never expressed any problem at all with Canada-U.S. free trade. I mean, a slight tweaking I believe was his expression when the Prime Minister and others visited him. His problem is that he's not a protectionist. He is actually in favour of trade. What he does not like is trade that consists of a net sizable exportation of unemployment to the United States. He's well aware that there are 12 million jobs in the U.S. dependent on exports, but he's also aware that there are between 30 million and 40 million jobs elsewhere in the world dependent on exports to the United States. He just wants to reduce that imbalance. He doesn't want to lift the drawbridge and pull down the blinds and take "America first" as a policy in the sense meant by Colonel Lindbergh in 1940. He just wants fair trade.

We're not dealing with a monster here. We're dealing with a reasonable person who just wants to do a good job for his country. Well, so do all national leaders. In that sense he's not unusual.

● (1045)

**The Chair:** Colleagues, I want to wrap up this very interesting discussion this morning by thanking Ms. Greenwood and Mr. Black for coming before the committee. It's always too short. I wish we could do this all afternoon. It beats being in the House of Commons, I think, but this is part of the House of Commons. This is an extremely important debate and one that we will continue.

On behalf of the committee, thank you for making the time and putting the effort into being here today.

**Mr. Conrad Black:** Thank you for having me, Mr. Nault.

I'm sorry I was a bit late. It wasn't an accident, it was the John Tory traffic miracle in Toronto.

**Voices:** Oh, oh!

**The Chair:** I appreciate that clarification, and we'll make sure Mr. Tory fixes that. The Scarborough subway is on its way.

**Hon. John McKay:** The Scarborough subway will solve it—

**The Chair:** Colleagues, we'll go in camera for a couple of minutes, if you don't mind. I have a couple of motions that I have to get completed, one in particular; otherwise, we can't send invitations.

*[Proceedings continue in camera]*

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