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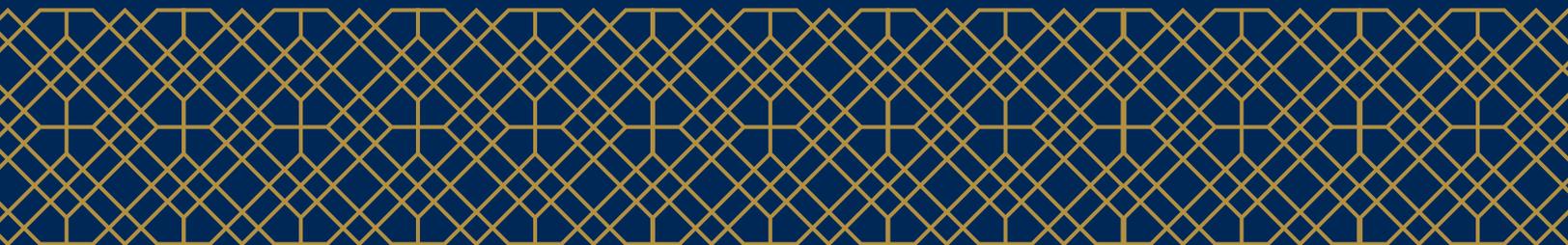


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# Canada and the US

## Sub-National Governments and Canadian Interests

Winter 2018



# About this Document

The Institute of Fiscal Studies and Democracy (IFSD) is a Canadian think-tank sitting at the nexus of public finance and state institutions. Fiscal ecosystems include governments, legislatures, the public administration and other key actors and institutions in our political and economic life. This ecosystem, rooted in hundreds of years of political history and economic development, is composed of an intertwined set of incentives, public and private information and a complex and sometimes opaque set of rules and processes based on constitutional law, legislative law, conventions and struggles for power. The actors within this system depend on one another as well as the robustness and transparency of information and processes, all underpinned by a society's standards of accountability. It is at this dynamic intersection of money and politics that the Institute of Fiscal Studies and Democracy @uOttawa aims to research, advise, engage and teach. The IFSD has been funded by the Province of Ontario to undertake applied research and student engagement in public finance and its intersection with public administration, politics and public policy. The IFSD undertakes its work in Canada at all levels of government as well as abroad, leveraging partnerships and key relationships with organizations such as the World Bank, OECD, IMF and US National Governors Association.

Leveraging its relationship with the United States National Governors Association (NGA), the IFSD hosted three roundtables (on NAFTA, Infrastructure, and Energy and the Environment), with NGA CEO and Executive Director Scott Pattison. The meeting's proceedings are included in this report (without attribution, in accordance with Chatham House Rules). This report was prepared by Konner Fung Kee Fung, Research Assistant, under the direction of Helaina Gaspard, Director, Democratic Institutions. This report was edited and designed by Jessica Rached. The final report and any errors or omissions rest solely with the IFSD.

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The Institute of Fiscal Studies and Democracy (IFSD) at the University of Ottawa, is funded to research the connections between public finance, politics, and state institutions. Leveraging its relationship with the United States National Governors Association (NGA), the IFSD hosted three roundtables (on NAFTA, Infrastructure, and Energy and the Environment) with NGA CEO and Executive Director Scott Pattison. These and other engagement efforts bring together leaders, decision-makers, and influencers from politics, the public service, academia, and business, who typically operate in silos.

The summaries of these proceedings were drafted not only as a record of the events, but also a reminder of the importance of informed discussion and debate for improved public policy outcomes. The IFSD looks forward to continuing to advance these and other policy matters in collaboration with the NGA and its other partners.

## **NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)**

### **I. Engaging Sub-National Jurisdictions**

Before discussants presented their perspectives, the room commonly acknowledged the importance of the challenge at hand. The Canada-United States commercial relationship is one of the largest in the world. Canada is the single largest trading market for 35 American States—the total annual value of goods and service exports into Canada is \$321 billion. Moreover, roughly 9 million American jobs depend directly on Canadian investment and trade.

The depth of the two nations' commercial ties extends to the subnational level as well. For instance, more than \$800 million in goods are traded between the United States and the Province of Ontario alone every day. Likewise an estimated 259,000 jobs in the State of Michigan rely on trade with Canada to sustain them. Many are unaware, however, of the statistics supporting this conversation. Tools such as [the Canadian Business Council's online interactive map](#) were noted as useful sources of data to address this information gap.

Given the volatility of federal politics in the United States, the importance of sub-national relationships was also stressed not just for its economic value, but also as an essential part of Canada's overall negotiation strategy. The Prime Minister's presence at the NGA meeting earlier this summer was noted as a step in the right direction, although much more work remains to be done.

### **II. The Need for Contingency Planning**

By the end of the discussion, participants came to appreciate the true unpredictability of the situation. It was emphasized repeatedly that all scenarios are possible and must be planned for. If NAFTA can be challenged, so too could the Canada-US free trade agreement, the most-favoured-nation principle, or even the WTO itself. It was highlighted that the manufacturing, agri-food, and transportation industries stand as the most vulnerable to disruption should NAFTA talks fail.

American trade negotiation leadership appears to be comprised principally of "ideologues." Participants agreed that Canada must be persistent and must prepare to remain at the negotiating table no matter the circumstances. Meanwhile, engagement with all levels of American government should continue.

### III. There is No Easy Solution for Anger

It was noted early on that the average person's understanding and attitudes toward NAFTA are strikingly different in the United States than they are in Canada. South of the border, NAFTA is a much smaller part of the popular discussion. When it is, it should be noted that approximately 60 million people voted for the President when he campaigned on "tearing up" the agreement.

Canadians' perspective toward trade may be more positive because of social safety nets and taxation policies on gains, which may help to manage the vulnerability of workers. By contrast, many Americans in the Midwest and Appalachian regions, particularly those residing in rural, manufacturing-dependent areas, are angry; they resent the disappearance of "good-paying jobs" and prosperity from which they are or perceive to be excluded. As summarily put by one participant, "there is no easy solution for anger."

### IV. Considerations Going Forward

To address the emotionally-charged debate on trade, the communication strategy needs to be revised. It was acknowledged that many in remote areas of the United States are bombarded with competing, and at times inaccurate, information on the subject. The efforts of the Canadian government and of Canadian industry should be framed in terms of jobs and in terms of direct impact on people's lives. It was also lamented during the discussion that businesses on both sides of the border are not doing enough in their engagement efforts and, when they are, the right strategy is not being used.

Those attempting to influence the debate in favour of an agreement should be reminded that the battle is being fought locally—this is in part a campaign for hearts and minds. Messaging should reflect that fact. For instance, businesses can more effectively make their case for trade to Governors, Senators, and Members of Congress by bringing in plant managers as local on-the-ground voices. As Canada continues to engage on NAFTA, political officials, public servants, and members of the business community should consider how emotion charges this locally-focussed matter. Efforts should focus not only on preserving an agreement but also on contingency planning for a variety of scenarios given the negotiations' volatility and the exceptional economic integration and interdependence between Canadian provinces and the American States.

## INFRASTRUCTURE

### I. Infrastructure in the North American Context

In Canada, infrastructure investment has become a hot-button issue since the 2015 election. The current federal government campaigned on the promise of increased investment, which will in effect amount to over \$180 billion in spending over the next twelve years.

There is similar focus in the United States, where there are concerns of depreciating national infrastructure. Discussants heard about some of the most dramatic consequences of this underinvestment, such as Flint Michigan's clean water crisis. This gap is widely recognized and supported by robust data sets. In fact, in many cases, states and municipalities have created detailed lists of specific project needs.

The American infrastructure deficit persists, however, for three main reasons. First, because federal lawmakers cannot determine priority projects to fund directly. Second, many have political aversions to ambitious public spending. And third, private investors have little incentive to fund projects

outside of major urban areas. The political challenge of “buy American” also complicates the procurement of materials and shows no sign of going away.

Discussants were interested in the prospect of continuing ‘smart’ infrastructure initiatives such as Alphabet’s Waterfront Toronto project. The room agreed that making long-term investments in infrastructure will continue to be challenging, precisely because technological disruption is so likely.

## **II. Modern ‘Tools’ in Infrastructure Development**

Having identified the need for infrastructure investment and its related challenges in both countries, the discussion shifted to tools. When considering mechanisms, the different experiences and cultures of the United States and Canada were raised through the lens of user-fees. Canada historically has had a cultural aversion to explicit usage fees like toll roads, which are common south of the border. By contrast, the United States has a history of and propensity for fee-for-use infrastructure with private sector investment. The Canadian aversion raised in the discussion was challenged, as some participants noted that Canadians currently pay user fees on asset classes other than transport-related infrastructure, like utilities.

The Canadian Infrastructure Bank (CIB) (currently under development) was raised during the discussion as a potential ‘arbiter’ between the public and private sectors. Not only could the CIB play a role in financing projects, it would also create a centre of private-sector calibre financial analysts that would protect the public interest. More than an investment bank, the CIB’s staff would recalibrate the often inequitable skill and access of the public versus the private sector on major infrastructure investment deals.

This perspective, however, was challenged as some reminded participants of their concerns surrounding the CIB model and the evidence supporting it. From this perspective, there were insufficient efforts taken to measure the country’s current infrastructure to truly understand the most effective suite of mechanisms through which infrastructure could be addressed.

Questions were also raised on the issue of due-diligence and value for money on projects funded by the CIB. What if project costs overrun? Would the public be required to foot the bill? There were no clear answers to these questions. New Zealand’s model of quantifying the economic value of individual assets was highlighted as a counterexample, as efforts are underway to catalogue and identify the infrastructure gap. Whether the CIB succeeds or fails in its genesis, the project will be closely watched in the United States, where policymakers are looking “to add another tool to the tool-box” of mechanisms for infrastructure investment.

## **ENERGY AND THE ENVIRONMENT**

### **I. Today’s Energy Landscape**

All participants acknowledged that the discussion around North American energy is markedly different today than in decades past. Environmental considerations and a transition toward clean and efficient generation are vital in the Canadian perspective. Advancements in technology and energy infrastructure also call for modernization. Widely diverging political understandings on these issues, however, stand to complicate any discussion of a new North American Energy Strategy. Failure to

achieve energy reform in Mexico and the White House's promotion of coal in Bonn are strong examples of these divisions.

## II. Communicating Canada's Importance as an Energy Supplier

Energy supply chains on this continent occupy a "natural sweet spot" that are tightly integrated from generation to storage to transmission. Discussants heard telling statistics on the nature of cross-border energy flows. This past year, Canada exported **\$93 billion** worth of oil, **98%** of which was to the American market. It was estimated that Canadian energy supplies **1 out of every 17 US households**, including approximately **30% of its uranium** and **10% of its natural gas**. Any disruption, then, such as a (much discredited) border-adjustment tax, would be hurtful to American and Canadian consumers alike.

The mutual benefits are not universally appreciated, however. When the President of the United States listed energy as one of the United States' grievances on trade, Canadian representatives made it an immediate priority to communicate these facts to their American counterparts. It was reinforced throughout the morning that Secretary of Energy, Rick Perry has been a specific target of the outreach efforts. In fact, this engagement has taken place on a person-by-person basis with stakeholders at all levels of American energy policy.

## III. Leveraging Relationships

This personalized approach has produced some reason for optimism. "Agreeing to disagree" on some issues, while concurrently working on others, has underpinned a mostly constructive dialogue. Discussants also heard that a stronger desire to cooperate exists when the conversation is framed in terms of 'energy security' and 'energy independence'. The opinion was also expressed that public and private positions may differ for many American officials.

The importance of relationships with States and Governors was stressed as an essential part of Canada's engagement strategy with both the United States and Mexico. Cooperative initiatives like California, Ontario, and Quebec's cap and trade market were discussed. Although most importantly, there will be **39 Gubernatorial elections** in the United States next year. **Thirty-six states and 3 territories** will have an opportunity to change leadership; and while much of the electoral map can be expected to remain the same, the door is open for drastic change.

