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## **25<sup>th</sup> International TAC Summary**

### **August 9 – 14, 2009**

### **Ottawa, Ontario, Canada**

#### **SUNDAY, AUGUST 9<sup>TH</sup>**

##### US Embassy Briefing on US-Canada Relations

To kick off the 2009 TransAmerica Conference (TAC) in Ottawa, Canada, top officials from the US Embassy provided an in-depth review of top priorities with US-Canada policy; a summary of high profile issues for the US within the Americas; and offered general guidance to conferees for the week's events.

Though the briefing was led by Mr. Terry Breese, the Chargé d'Affaires at the embassy, Mark Benjaminson, Minister Counselor for Economic Affairs, and Kurt van der Walde, Deputy Political Counselor, several other embassy officials were on hand to answer questions and to contribute to the briefing. The US Ambassador to Canada, David Jacobson, has been nominated by President Obama but not yet confirmed by the Senate.

Mr. Breese wasted no time in describing the long and positive relationship between the two countries: "We are allies, we are partners, and we are friends," he said, noting that over one million Americans currently live in Canada and many maintain dual citizenship.

To underscore the strength of the relationship, President Obama made his first foreign visit of his new Presidency to Canada on February 19, 2009. He has met with Canadian Prime Minister Steven Harper six times to date, and is scheduled to welcome the Prime Minister to the White House on September 16<sup>th</sup>.

One timely development that helped set the tone for the conference was the "Three Amigos Summit," the annual meeting of the leaders of the United States, Canada and Mexico. This highly-watched summit occurred in Guadalajara, Mexico on the first days of the TAC, where the two leaders discussed nearly every issue the conference panel discussions would explore over the course of the week: security, intellectual property, trade, the border, and other important issues.

Mr. Breese went into greater detail about these issues beginning with the unparalleled security partnership between the two countries. In the historic Hyde Park declaration, issued in 1941, President Roosevelt and Prime Minister McKenzie agreed that the two countries would defend North America as a whole. This has led to the strongest bilateral defense partnership in the world.

At the North American Aerospace Defense Command, the two countries share command responsibilities. It was a Canadian military officer who gave the command to ground civilian air traffic in North America after the terrorist attacks of September 11<sup>th</sup>, 2001. And it was noted that a joint US-Canadian military plane flyover marking the US Embassy's July 4<sup>th</sup> celebration in Ottawa could not be replicated anywhere in the world, since no other two countries share operations responsibilities.

Other historic treaties bind the two countries. Secretary of State Hillary Clinton and Foreign Minister Lawrence Cannon celebrated the 100<sup>th</sup> Anniversary of the Boundary Waters Treaty at Niagara Falls in June. Secretary Clinton said the treaty, which helps govern and preserve the Great Lakes, marked "a

recognition of a ground-breaking agreement, one of the first in the world to recognize the environmental consequences of managing our natural resources.”

Despite this friendship, however, the two countries are still different in many ways, maintaining their sovereignty and national identity. These differences are separated by a common border. Knowing that the conference would explore many of these areas of disagreement in more detail, Mr. Breese quickly summarized a few of the more high profile ones:

- The “buy America” provisions in the American economic stimulus legislation, he said, were of concern to Canadians since Canada depends so heavily on trade with the US. He also predicted that issues like international property, country of origin labeling, softwood lumber, and an issue called “black liquor” related to wood pulp production, would come up in the panel discussion on trade.
- The hard-fought health care debate in the US has also attracted attention in Canada, but since most Canadians are satisfied with their national system, the reaction has been mostly one of amusement.
- On energy and climate change, Mr. Breese cited President Obama’s general remarks that since both American coal and Canadian oil sands are plentiful, they must be part of the solution.
- The mission of Afghanistan was also high on the priority list for Canada and the US, and conferees were told to expect a healthy debate about the Canadian commitment to the country in light of a 2008 parliamentary vote to withdraw military forces by 2011.

End of Embassy briefing.

**MONDAY, AUGUST 10, 2009*****PANEL I*****Canada's Agenda for the Future**

Members of the Canadian government and Parliament from different political parties were featured at Monday's first panel discussion on Canada's Agenda for the Future. Unlike every other panel, which included Members of the US Congress, this session was reserved for officials from the host country, providing a clearer picture of the areas of agreement and disagreement.

**Speakers:**

- Mr. Hugh Winsor, a longtime political commentator and journalist for the Canadian Globe and Mail newspaper. Mr. Winsor also moderated the panel.
- The Honourable Gordon O'Connor, PC, Member of Parliament of the Conservative Party, Chief Government Whip and Minister of State.
- The Honourable Hedy Fry, PC, Member of Parliament of the Liberal Party, Chair of the British Columbia federal Liberal Caucus and Chair of the Standing Committee on the Status of Women.
- Mr. Gord Brown, Member of Parliament of the Conservative Party and Co-Chair of the Canada-United States Inter-Parliamentary Group.
- Mr. Paul Dewar, Member of Parliament of the New Democratic Party and Chief Foreign Affairs Critic.



To spark the discussion, Mr. Winsor provided a landscape of Canadian politics over the past several years and recounted many of the themes heard throughout the week. Canada and the US share a lot; families, a border, language, and a similar history. But we also have our differences, especially when it comes to the system of Government. Canada's parliamentary system is completely different from that of the US, and the last three elections have produced minority governments. Minority governments do not lend themselves to enacting sweeping policy agendas and have essentially been "muddling through," according to Mr. Winsor. For the country to break that trend, the country was almost "waiting for a Canadian Obama."

Not surprisingly, Members of the Conservative Party, the Party of Prime Minister Stephen Harper, took a different view. Gordon O'Connor, Minister of State, defended actions taken by the government to deal with the global economic recession that was triggered by a host of factors in 2007 and 2008. He praised a \$1.1 trillion (Canadian dollar) economic recovery plan that cut taxes and helped Canadians upgrade their homes. He also said the government was making good progress in easing

the “buy America” provisions in the US economic stimulus plan, cutting greenhouse gas emissions by 20%, and protecting Canadian sovereignty in the Arctic, notably in the Northwest Passage.



As a former Minister of Defence and General in the Canadian forces, he also spoke personally about the decision to withdraw Canadian forces from Afghanistan by 2011, after some concerns were raised about the troop pullout. Mr. O'Connor was complimentary of an increased US role in the conflict and the move toward more civilian and humanitarian aid, but said simply that the Canadian army is burned up and needs a rest.

Gord Brown shared those views, citing the lost lives of troops from his own constituency, but then focused his remarks on the strong ties between the two countries and the role of the US-Canada Inter-Parliamentary Group (IPG) in resolving key differences. The group is quite active and maintains a full schedule of meetings with their US counterparts, including annual meetings, national and regional conferences, and more specific issue-oriented discussions.

This year, the IPG has spent most of its time on the border and trade. On the border, Mr. Brown underscored that the US-Canada border is a shared border, and expressed some concern about the negative effects of what he viewed as unilateral decisions by the US about border issues, especially the deployment of US gunboats and Predator drone aircraft. He also reminded the conferees that the northern border is quite different than the US-Mexico border, and that perimeter security was far preferable to line security.

His comments then shifted to trade, where “buy America” provisions again topped the list of Canadian grievances. While the provisions in the economic stimulus plan were causing damage and ought to be repealed, Mr. Brown was equally concerned that similar provisions were “creeping in” to other legislation being crafted in the US Congress. “Protectionism is not the way to go,” he said, while warning of the consequences of making a bad decision worse.

As a Member of the primary opposition Liberal Party in Canada, Dr. Hedy Fry shared some of the sentiment expressed by her colleagues on border issues and trade, but differed on whether the governing party had a true vision for Canada’s future. She also raised doubts about the strength of the US-Canada relationship. She recounted a famous quote from former Canadian Prime Minister Chretien of the Liberal Party, who said that the US and Canada are “friends and neighbors, but we are not lovers,” meaning that clear differences would always remain between the neighbors. Despite this, Dr. Fry sensed an even further “drifting apart” of the two countries which was of deep concern to her. Pointing to a more unified European Union and other economic pressures from the developing world, she urged Members of Congress and conferees to think more from a continental perspective and to develop a strong trading bloc in order to stay competitive in the global marketplace.

Mr. Paul Dewar of the New Democrat Party echoed the notion that the US and Canada can be good friends while maintaining differences, and urged US lawmakers to consider Canada’s unique strengths to deal with pressing international issues. In Afghanistan, for instance, Canada is positioned to play roles that the US cannot play in selected sensitive areas of reconstruction and redevelopment. Likewise, Canada can help if the US decides to relax its trade embargo with Cuba, since Canada never left the island country. Other areas that Mr. Dewar saw as opportunities were in the Middle East, arms control, post conflict resolution, and the Arctic.

**PANEL II****The First 200 Days -- Achievements, Challenges and Outlook for President Obama, his Administration, and the 111th Congress after Nine Months in Power**

In contrast to the panel on Canada's future, which featured Members of the Canadian government and Parliament, the panel discussion on the American political scene was reserved solely for US Members of Congress from both parties. Just prior to the start of the 2009 TransAmerica Conference, both the House of Representatives and the Senate had adjourned for their traditional August break, finishing a range of legislative business but leaving a considerable amount of work to be done, especially on President Obama's top domestic priorities of health care and climate change.

**Speakers:**

- The Honorable William J. Hughes, former US Ambassador of Panama from 1995-1998, a Member of the US Congress (D-NJ) from 1975-1995 and currently serves as Vice Chairman of the Franklin Center for Global Policy Exchange. Ambassador Hughes acted as moderator for the panel.
- US Congressman and Dr. Michael Burgess (R/TX)
- US Congressman Douglas L. Lamborn (R/CO)
- US Congressman Frank D. Lucas (R/OK)
- US Congressman James P. Moran (D/VA)
- US Congressman Richard E. Neal (D/MA)
- US Congresswoman Jean Schmidt (R/OH)



Mr. Hughes kicked off the panel with some basic statistics, including a recent Gallup survey showing that President Obama's approval rating had edged back to 56% for the latest three-day period, July 31<sup>st</sup> through August 2<sup>nd</sup>, after hitting his administration low point of 52% in the middle of the prior week. He noted that the President had secured a major victory with passage of his economic stimulus plan, but also pointed to the unfinished business that awaited Congress on its return.

Rep. Michael Burgess (R-TX), was first to be recognized, and began by recalling the strong bipartisan tone and gesture of outreach that President Obama made in his inauguration speech. Mr. Burgess and other Republicans welcomed the President to a meeting very early in the Congressional session, and made a request that if the President was truly serious about building bipartisan consensus for tough challenges, the bipartisanship should take place at the beginning of the process instead of at the

end. Republicans, he said, realized they were in the minority but were still interested in having a seat at the table.

On health care, however, and from the perspective of House Republicans, the talk of bipartisanship ended there. The President has not been back to a similar meeting, and the only true bipartisan activity on health care is taking place among a small group of Democrats and Republicans on the Senate Finance Committee. Looking ahead, Dr. Burgess said that the growing public interest in the health care debate as evidenced by the high turnout of voters at town hall meetings was a positive development. He felt that President Obama, with his fairly steady approval ratings and ability to communicate, still had what he called “the upper hand,” but that there was growing opposition among the public and even among some Democrats to the President’s original plan.

Congressman James Moran (D-VA), a senior Democrat and strong supporter of the President, spoke next, arguing that President Obama had taken on and achieved as much as any President in such a short period of time, with the exception of Franklin Delano Roosevelt. Like Roosevelt, he said, President Obama was handed an extraordinary set of challenges, including the recession, a foreign policy “in tatters,” a collapsed banking system, and other problems that happen only once in a generation. He cited a long list of policy achievements that the President had already signed into law, including the economic stimulus legislation, expansion of children’s health insurance, credit card reform, tobacco regulation, the Lilly Ledbetter fair pay act, the Kennedy service Act, and other achievements.

Mr. Moran said it wasn’t surprising that Republicans are united, since their share of public support has withered in recent years, leading them to a general approach of “just say no.” Those losses have translated into gains for Democrats, which naturally leads to more levels of disagreement within the party because the party is larger and represents a more diverse set of views. Judging the Obama Administration as of August 10<sup>th</sup>, 2009, however, would be a mistake, as the real progress will be determined by what happens when Congress returns this fall. If health care, global climate change, and serious financial services regulation can be implemented, it will be a remarkable year of progress by any standard.

The next speaker, Congressman Frank Lucas (R-OK), picked up on Mr. Moran’s comments about the intraparty disagreements and challenges of being the majority party in the House of Representatives, seeing similarities to when Republicans were in the majority. “We had four years with Newt, and now you’ve had two years with Nancy”, referring to former Republican House Speaker Newt Gingrich (R-GA) and current Democratic House Speaker Nancy Pelosi (D-CA). This provoked laughter from the audience, as both Speakers are well-known on Capitol Hill for their unique leadership styles.

Setting aside the intraparty squabbles, however, Mr. Lucas reminded the conference that President Obama has a mandate and enjoys a 40-seat majority in the House of Representatives and a 20-seat majority in the Senate. The President does not need Republicans to pass his agenda, especially when it comes to hot button issues like climate change and health care. But while the President is still enjoying the “bloom” of his office, that bloom may be fading. Individual Members of Congress will be starting to look at their own political fortunes (if they haven’t already), in the fall and their interests may not be tied to President Obama’s. Any legislation of significance must be passed by May of 2010, or it won’t happen at all, he predicted.

Congressman Richard Neal (D-MA) agreed with those sentiments then returned to the issue of bipartisanship. He attributed the breakdown to two factors in particular. First, he noted that in the past 20 years, anyone elected to Congress, either Republican or Democrat, likely campaigned *against* the institution of Congress, leading to more partisanship as Members were reluctant to cooperate with

an institution they criticized. Second, and echoing Mr. Moran's observations, Mr. Neal noted that when President Clinton modernized the Democratic party by shifting to the center, the Republican party had no choice but to move to the right.

Turning to the progress of the Obama Administration, Rep. Neal praised the acumen and the expertise of the President's team, saying "they are extremely gifted and they will get it right." He predicted that President Obama would agree to perhaps more modest legislation on health care and climate change, but that even these improvements would be very significant and move the country in the right direction. He was confident the American electorate would reward Democrats for these achievements. And previewing the discussion later in the week on global taxation, Mr. Neal said it was time to reform the tax code to keep the US competitive in the world marketplace.

For her part, Congresswoman Schmidt (R-OH) said President Obama had truly captured the mood of the country and its appetite for change during the election, and that the American people like him and continue to want to like him. But what's new, she said, was that on the economy, spending, cap and trade, and health care, the American people were starting to grow suspicious about the President's true agenda. "They're not buying it," she stated candidly, relaying anecdotes from her congressional district about people who once supported the President but who were now having second thoughts.

She said she is constantly asked by her constituents about how the government can spend as much as \$2 trillion in taxpayer dollars in such a short time. She also said that voters in Ohio, who have been particularly hard hit by the recession, were told that the economic stimulus program would keep unemployment lower. That hasn't happened, at least not yet. She cited similar concerns on health care, and thought that the mood of the public was a reflection of the growing opposition to the President's plan. She urged the President and Democrats to "scrap it and start over" and involve the public at the beginning of the debate. On a local note, Rep. Schmidt lamented how President Obama has not followed through on a written campaign pledge to support a federal loan guarantee to a federal uranium processing facility in her district.



Shifting from domestic affairs to military and foreign policy, Congressman Douglas Lamborn (R-CO) of the Armed Services Committee raised a number of concerns. First, he said, was the overall budget cuts to defense and security at a time when all other government budgets were rising. Cuts to the F-22 warplane and strategic missile defense, in his view, were shortsighted at best and dangerous at worst during a time when North Korea was launching missiles.

He posed four questions that would serve as his key benchmarks to grade the Obama Administration:

- 1) Are we retreating on missile defense, specifically on the third site in Poland, which is critical to defending against a potential threat from a nuclear Iran?
- 2) Will diplomacy make a real difference in North Korea and Iran?
- 3) Is our relationship with Israel changing?
- 4) Are we going in a more transnational direction?

On all these questions, Mr. Lamborn saw signs for concern, but he was hopeful that over time they would lead to positive outcomes.

**PANEL III****Economic Stimulus at Low or No Cost: Regulatory Harmony between US and Canada**

Government officials, academics and private sector experts discussed the arcane but highly costly and complex issue of regulatory harmonization between the US and Canada. Michael Hart, a prominent Canadian expert who has studied the issue closely, concluded in a recent report that “regulatory divergence is tantamount to a concealed ‘inefficiency tax’ that citizens pay on virtually everything they purchase. This tax is the sum of the costs of duplicate regulations, border administration delays, and other regulatory impediments. For businesses, higher costs of compliance hinder their international competitiveness and complicate the most efficient deployment of scarce resources. For governments, regulatory divergence increases risk, reduces efficiency, and leads to less than optimum outcomes in achieving regulatory goals. Polling in all three NAFTA countries has suggested strong public support for regulatory convergence and more cohesive North American policies to improve living standards.”<sup>1</sup>

**Speakers:**

- The Honorable Constance A. Morella, former US Ambassador to the Organization for Economic Cooperation and Development (OECD) from 2003-2007, Member of US Congress from 1987-2003, and current Vice Chairman of the Franklin Center for Global Policy Exchange. Ambassador Morella chaired the panel discussion.
- US Congressman Richard E. Neal (D/MA)
- US Congresswoman Jean Schmidt (R/OH)
- Mr. Léo Duguay, Chairman of the Canadian Association of Former Parliamentarians and Partner at The Rothwell Group
- Dr. Laura Macdonald, Professor and Chair of the Department of Political Science at Carleton University
- Ms. Kathleen Macmillan, the President of International Trade Policy Consultants Inc.
- Mr. Jayson Myers, President of the Canadian Manufacturers and Exporters Association



Every panelist agreed that the topic of regulatory harmony was not as exciting as other cross-border issues, but that it was critical for increased economic growth and reduction of bureaucratic waste and inefficiency. Mr. Myers summed it up well, saying, “regulation is not a sexy issue, but it is still very important for our two countries,” given that at least 95 individual American laws and over 135 Canadian laws are enforced at the border each day.

<sup>1</sup> “Trading up: the prospect of greater regulatory convergence in North America,” Michael Hart, April 2007.



Ms. MacMillan agreed strongly with that characterization. She noted that the auto industry has three broad and sometimes overlapping sets of regulations which add to the ultimate cost to consumers and delay production lines. First, the product (in this case, the actual automobile) is regulated. Second, the driver of the truck carrying the product is regulated. And third, the truck carrying the driver and the automobile is regulated. All of these regulations are enforced by different government agencies and carry a tremendous burden. Canada and the US operate what she called “parallel regulatory regimes,” and that sometimes it is the “tyranny of the very small differences” which leads to significant loss of productivity.

Often times, the panelists said, it is a matter of attitude first, then details second. Léo Duguay posed three questions for the conference to focus on:

1. What are we trying to control at the border – bad people or bad things?
2. Why are there different levels of regulation at different border crossings?
3. How did the European Union, with its common market, address these challenges?

He argued that both sides needed to identify and cut out “silly rules and duplications” so that we can remain competitive with our trading competitors.

Mr. Myers used those statements to describe one seemingly silly area of regulatory overlap. Deodorant, for instance, which is manufactured in North Carolina, is inspected in North Carolina by Canadian and American officials. It is then shipped to Canada, where it is inspected once again, and is subject to different packaging, labeling and other requirements. This raises costs, increases delays, and ultimately results in the kind of “inefficiency tax” that Michael Hart identified in his study. “Surely, Canadian and American undergarments do not need that level of protection,” he said as the audience chuckled.

Since Canada is Ohio’s top export market, Congresswoman Schmidt knew very well that reducing cross-border costs of production, shipping and delivery was key to growing the economy and creating jobs. She praised efforts to tighten security following the attacks of September 11<sup>th</sup>, but she also suggested that in some areas, and particularly in shipping, costs had “ballooned” and that border requirements could be better managed.

One barrier to harmonization has been that discussions haven’t taken place in a transparent fashion. Dr. MacDonald pointed to the Security and Prosperity Partnership or SPP, which was forged between the two countries in recent years. Because the negotiations took place in secret, many public interest groups in both countries believed something sinister was occurring, and protested the agreement.

In addition to transparency, some critics of harmonization suggest that it could lead to a reduction of high standards in areas of health, food safety, and environmental protection. Robert Chernomas, an economics professor at the University of Manitoba and a member of the Council of Canadians’ Board of Directors, issued a recent analysis titled simply: “The SPP Makes You Sick.”



Congressman Neal cited the difficult balance between these two competing goals, saying that the goal of regulation is always good, but that the implementation of the regulations is where problems occur. He said that Congress has to increase its oversight and review regulations as they are implemented to identify areas for streamlining, while maintaining the societal goal of the regulation.

End of panel III.

**TUESDAY, AUGUST 11, 2009*****PANEL I*****Climate Change, Cap and Trade and Carbon Taxes: What Works Best?**

The second day's panel discussions began with an issue that has dominated multilateral discussions and debate for a generation: global climate change. The United Nations is set to host global climate talks in Copenhagen, Denmark this December, which has accelerated legislative activity and debate in several countries, especially the US. The US House of Representatives passed legislation by a narrow margin in the summer of 2009 and the US Senate was expected to try to follow suit later this year, although efforts there appear to have bogged down somewhat.

With this as a backdrop, panelists reviewed US, Canadian and international efforts to curb global greenhouse gas emissions and ways in which the US and Canada might work more closely on western hemisphere environmental challenges, like carbon sequestration.

**Speakers:**

- Ms. Shelley Rubino, Advisor to Congressman John Larson (D-CT), Office of the Democratic Caucus. Ms. Rubino moderated the panel.
- US Congressman Richard E. Neal (D/MA)
- US Congressman F. James Sensenbrenner, Jr. (R/WI)
- The Honourable Scott Brison, MP, the Liberal Party Critic for International Trade and Chairman of the Leader's Advisory Committee on Economic Strategy
- His Excellency Justin Brown, the Australian High Commissioner to Canada and former top official for climate change
- Mr. Karl Johannson, Senior Vice-President of Power Commercial for TransCanada
- Mr. David McLaughlin, the President and CEO of the National Roundtable on the Environment and the Economy



Much of the discussion focused on the US effort, particularly the proposal to cap emissions and trade allowances (the “cap and trade”) approach that served as the foundation for the legislation passed by the House. Most officials felt that this was ultimately the system which would be adopted internationally, but that it was a difficult transition.

Mr. Brown of Australia, which has put in place an aggressive cap and trade system, recalled that it was very difficult to implement from a political perspective until a devastating national drought hit the country. The people demanded action, a new government was elected, and the effort got underway. “It has been difficult,” Mr. Brown conceded, citing the aluminum industry as one which had experienced particular challenges with meeting new targets. He also said that emissions trading schemes will “fundamentally transform any economy” due to their pervasive nature. Despite these challenges, however, the business community in Australia was supportive of the system because they would have certainty in knowing what the new rules would be.

Others, including Canadian Member of Parliament Scott Brison and US Congressman Richard Neal, agreed that cap and trade was the best way to go. Mr. Brison, for his part, said that he had previously supported and campaigned on a carbon tax proposal, but that the concept was not well-received by voters. But putting a price on carbon, he said, was the only way to get some regulation of greenhouse gases. Mr. Neal also expressed some interest in the concept of a carbon tax but agreed that it would be impractical from a political perspective.

Congressman Sensenbrenner took a different view, and argued that a global cap and trade system would not cut emissions, but only redistribute them from the developed world to the developing world. That shift would come at great cost to the economies which lived under caps and show no global benefit as emissions would at the very least stay the same. The better approach, he said, is through technology, and for green innovation to really take off, there was a need for very strong intellectual property laws.

Mr. Brison agreed that technology was important, but said it must be driven by the pricing system for carbon. He said the costs of reducing emissions were great, but that the cost of global climate change must be factored into the equation as well, citing statistics that show that it could be up to 30% of global GDP.

From a utility perspective, Mr. Johannson of TransCanada discussed the real impacts of operating under a cap and trade system. He said utilities needed offsets and that the 2020 targets for reductions are very quick but could be met. He also cautioned policymakers about the fact that costs will not be distributed equally – that some regions would suffer more than others.



Mr. McLaughlin noted Canada’s own differences between ambition and achievement. Unlike the US, Canada signed the Kyoto Treaty but had continued to emit greenhouse gases at rates well beyond what was hoped for. He noted that Canada is the 2<sup>nd</sup> highest emitting nation in the world and that it has a long way to go. But delay is costly, he argued, because the longer a country waited to get a handle on reversing climate change, the higher the costs will be. Those costs are most likely to fall hardest on the low income people, he concluded.

Some Members of the US Congress asked why nuclear power wasn’t being pursued in a greater fashion. They observed that nuclear energy has zero carbon emissions and can be a significant source of electricity. Likewise, Mr. Brison said that transmission and a smart grid could make enormous improvements in efficiency. Since upwards of 20% of electricity is lost before a switch gets flipped, he said “if you want to use less energy, lose less energy.”

Prospects for action in the US Senate and at the Copenhagen talks were murky at best, according to most of the panelists.

**PANEL II****Energy Supply and Energy Security in an Interconnected World – Oil, Gas, Coal, Oil Sands, Alternatives, Transmission and Conservation Efforts**

Since climate change and energy consumption are so interconnected, the conference followed its discussion of global climate change action with a deeper focus on energy supply. Most of the discussion focused on how to maintain economic growth in the developed world without continuing to rely solely on high carbon fossil fuels. In addition, panelists discussed helping developing countries with better technology so they wouldn't repeat the carbon-intensive phase of economic development. Officials also discussed efforts in the US Congress to use government incentives to develop new or alternative energy sources and its potential effects on economic recovery.

**Speakers :**

- Mr. Barry Bennett, Chief of Staff to US Congresswoman Jean Schmidt (R/OH). Mr. Bennett moderated the panel.
- US Congressman Rush Holt (D/NJ)
- US Congressman Douglas L. Lamborn (R/CO)
- Mr. Pierre Arcand, Minister of International Relations for the Government of Quebec
- Mr. Pierre Guimond, President and CEO of the Canadian Electricity Association
- Mr. Thomas Huffaker, Vice President for Policy and Environment for the Canadian Association of Petroleum Producers (CAPP)
- Mr. Jacob Irving, the President of the Canadian Hydropower Association



Congressman Holt, a physicist by training, provided some helpful opening thoughts as he believed it was important to shift the discussion from one of energy supply to a broader view stressing the sustainability of energy sources. If we look at the issue in that light, he said, it will help change the view of the public toward energy use and the sources of energy choices used. Our current energy supply, which relies mainly on fossil fuels, is clearly unsustainable over the long term, and it is critical to start moving toward more unconventional fuels which are renewable, particularly offshore winds.

Congressman Lamborn agreed that we should pursue unconventional fuel sources but said we should have an “all of the above” approach to energy supply. Anything that’s available – hydropower, coal, oil sands, nuclear, natural gas, etc. – should be used. He was disappointed that the legislation passed by the House of Representatives essentially ignored the vast potential of hydropower and nuclear power for the US electricity supply. He noted that the US had vast reserves of oil and natural gas off of both coasts and that there were 2 quadrillion cubic feet of methane hydrates.

Mr. Lamborn agreed that renewables were important, but said that they still only represent 3% of US energy supply and that they are heavily subsidized by the federal government. “We have no choice but to use conventional fossil fuels for the foreseeable future,” he concluded.



Mr. Arcand of Quebec picked up on the hydropower theme, as hydropower is the number one source of power in Quebec, which enjoys over 4,000 rivers and 3% of the entire world’s fresh water resources. Because of this, Quebec has one of the best environmental records in North America, with some of the lowest per capita greenhouse gas emissions found anywhere. During later discussion, Congressman Lamborn pointed to Quebec’s progress as a way to show the potential for hydropower in the US, but said that it would be difficult to replicate this

because of environmentalist objection to hydro development. Mr. Irving argued that hydropower should be welcomed by the environmental community because it is clean and renewable – exactly the right combination for our current energy challenges.

Both Mr. Arcand and Mr. Guimond stated that one of the reasons Canada has a diverse range of energy sources is because the federal government has so far stayed out of energy supply decisions, leaving them more to the authority of the provinces. Mr. Guimond added that although Canada’s electricity system was functioning well, a recent report by the [Organization for Economic Co-operation and Development \(OECD\)](#) said Canada’s electric system would require \$230 billion (Canadian dollars) in investment in the near future to maintain reliable service.

Mr. Guimond cited six critical objectives for the Canada system:

1. Infrastructure renewal and new building of hydropower and nuclear electricity production capability
2. Shifting technology for a better transmission grid – the so-called “smart grid”
3. Lowering emissions and looking for reductions from mobile sources
4. Continued access to the US market for cross-border energy sharing and transactions
5. Human resources and keeping employees well-trained
6. Capital market funding resources for power facilities

In summary, Mr. Guimond stated flatly that electricity supply is a growth industry, since it had the ability to provide a greater share of the power needs in the future.

Mr. Huffaker shifted the conversation back to fossil fuels for a moment and specifically the significant supply of oil sands in Canada. He said they provided immense economic benefit – up to \$1.7 trillion (Canadian dollars). Huffaker pointed to Alberta’s current carbon pricing policy, where carbon is priced at \$15/ton and proceeds go into a technology development fund to help improve efficiency and methodology for more sustainable exploration and recovery. Canada’s oil sands currently produce 1.3 million barrels per day, and soon it will rise to 4 million barrels per day. That is a significant source of global oil use, which is currently 85 million barrels per day. Mr. Huffaker concluded his remarks by strongly refuting some myths about the environmental record of oil sand recovery.

While there were some differences of opinion on the proper mix of fuels, nearly all the panelists agreed that electricity and better transmission efficiencies would be key to both maintaining a reliable energy supply and moving towards reduced emissions from energy production.

**PANEL III****The Global Supply Chain and Challenges to the Food and Product Safety System**

One constant theme heard throughout the conference was that the US and Canada do more than trade with each other, they actually “make stuff together,” meaning that manufacturing and production are interconnected like never before. This is a snapshot of the global supply chain, where manufacturers now make a single product from parts assembled at several different locations around the world, offering efficiencies of production and distribution but also new challenges in terms of product integrity and safety. For this panel discussion, experts focused on the costs and benefits of this new global supply chain through the lens of food safety.

**Speakers :**

- The Honorable William J. Hughes, former US Ambassador to Panama from 1995-1998, Member of US Congress from 1975-1995 and Vice Chairman, Franklin Center for Global Policy Exchange, who moderated the panel.
- US Congressman Rush Holt (D/NJ)
- US Congressman Frank D. Lucas (R/OK)
- The Honourable Carolyn Bennett, PC, MD, Member of the Canadian Parliament and Official Opposition Critic for Health
- Mr. Pierre Lemieux, Member of the Canadian Parliament from the Conservative Party and Parliamentary Secretary to Minister of Agriculture and Agri-Food
- Dr. Peter Andrée, Assistant Professor for the Department of Political Science at Carleton University
- Dr. Randy Huffman, the Chief Food Safety Officer of Maple Leaf Foods



Ambassador Hughes summarized a few high-profile cases in the US and Canada which led to broad scale reviews of the food safety system in both countries. In the US, it was scares over contaminated spinach and salmonella in peanut butter. In Canada, there was a case involving tainted deli meat which tragically led to 22 deaths. Governments in both countries have responded with aggressive new policies to ensure the integrity of the food supply.

Congressman Holt said new regulation was required because agriculture practices in particular had evolved so rapidly that the “old ways” of monitoring were being overtaken. With 13% of America’s gross domestic product coming from agriculture, it was critical for government to close gaps in supervising production and ensuring sanitary conditions. He noted that cooking an average family meal in the 1950s used to require two hours preparation time. This time was shortened to an hour in

the 1970s, and is only 30 minutes today. This movement towards ready-to-prepare meals provided big benefits to consumers, but presented challenges to regulators, as supply chains have become more vertical. Despite this move toward global supply chains, Rep. Holt also recognized a smaller niche movement towards local— what he called “buy local, eat local,” where shoppers and grocers feature food grown locally.

Congressman Lucas, the ranking Republican member on the House Agriculture Committee and himself a family rancher, said that food safety concerns were real but reminded the conference that the US food supply is the safest in the world and had been for generations. He was careful not to discount the situations which had arisen in the previous months, but urged participants to focus on the sizable regulatory infrastructure already in place, including 9,000 people and a \$1 billion annual budget at the US Department of Agriculture and 2,000 people and a \$500 million annual budget for the US Food and Drug Administration. “We’ve got a force in place,” he said, while noting that early blame for the salmonella crisis was misdirected and later proved incorrect, costing innocent producers dearly. He urged caution in further regulation and objected strongly when the House Agriculture Committee was not given an ability to consider and debate the legislation which eventually passed the House.

The Canadian crisis, where listeriosis was found in deli meats, has spurred a similar government reaction, according to Mr. Lemieux. “Many things went wrong,” he conceded, and said that the government was taking its share of the responsibility for the outbreak which led to the deaths of 22 Canadian citizens. The Harper government moved quickly to find out what happened, appointing a special commission and producing several special reports about the regulatory breakdown. The government also took immediate action to approve the use of sodium biosphate to block listeria, and approved more rapid testing procedures to determine if listeria was present in products. He also said the Canadian Food Inspection Agency had added 200 new inspectors and was focusing on high risk food safety challenges in the federal laboratories.

Dr. Huffman of Maple Leaf Foods, the company whose product was tainted with listeriosis, said the company had taken additional steps to ensure product safety. He focused on industry’s role in the crisis, saying that it has had, not surprisingly, “a profound impact” on the company’s daily operations. He said the company moved quickly in the aftermath of the outbreak to take public blame, work with industry peers, enact an aggressive action plan, and recognize that listeriosis wasn’t the only risk. These steps have led to different regimen that focuses on enhanced sanitation, daily testing and daily calls including Maple Leaf’s Chief Executive Officer to review the prior day’s data and respond where necessary. He also said quarantine procedures were updated and that a recent product recall was the result of this increased monitoring. Finally, he said, is the importance of increased training for employees and quality control personnel.

Mrs. Carolyn Bennett broadened the discussion to how the Canadian government dealt with severe acute respiratory syndrome (SARS) in the 1990s. “SARS was (Canada’s) 9-11,” she said, and served as “a real kick in the head in terms of security.” As Canada’s top public health official at the time, she earned the title “Minister of Hand Washing” for her constant calls for proper sanitation which was critical to prevent the spread of the disease. She noted that germs don’t respect borders and that it was critical to work with the developing world to create an atmosphere of trust so nations are not reluctant to share information that can help public health officials manage future outbreaks.



Dr. Andrée raised the case of genetically modified foods as a point of discussion, saying that different national standards make global regulation more difficult. Individual countries can move regulatory bars up or down. On BSE, commonly known as mad cow disease, the US had stronger rules than the European Union, while on beef growth hormones, it was the EU with seemingly stronger rules. He felt that this showed the continuing need for strong regional approaches to food and product safety regulation.

During general discussion, Mr. David Lustig of Unilever said that companies themselves were leading in self-regulation, since it is their brands and reputation on the shelf each and every day. He said that the food products industry was strongly supportive of the House food safety legislation and welcomed new steps to regulate the safety of individual ingredients, especially from the developing world.

End of Panel III.



**WEDNESDAY, AUGUST 12, 2009****PANEL I****Innovation in Health Care Cost Containment Strategies – Why Canadians Come to the US for Surgery and Americans Go to Canada to Purchase Pharmaceuticals**

As Presidential and Congressional town hall meetings on health care reform dominated the American media and the political scene in Washington, the Franklin Center TAC drew together US and Canadian policymakers and experts to discuss President Obama's top domestic priority in a more tempered fashion. Still, the sharp differences amongst panelists on the best way to deliver quality health care at affordable prices underscored how difficult the President's challenge to enact fundamental health reform will be this fall. The panel discussion couldn't have been more timely, as the Canadian health care system has become a household phrase in the US political debate. Though this was the third day of the five day conference, the topic of health care reform had already been raised in several of the previous panel and discussion sessions.

**Speakers:**

- The Honorable Constance A. Morella, former US Ambassador to the Organization for Economic Cooperation and Development (OECD), 2003-2007, former Member of US Congress, 1987-2003, and current Vice Chairman, Franklin Center for Global Policy Exchange. Ambassador Morella served as panel moderator.
- US Congressman and physician Michael C. Burgess (R/TX)
- US Congressman James P. Moran (D/VA)
- The Honourable Carolyn Bennett, PC, MD, Member of the Canadian Parliament and Official Opposition Critic for Health
- Dr. Jo Kennelly, President and CEO of Global Health Systems Inc. and the Former Director of Policy, Federal Minister of Health
- Mr. Dan Leonard, President of the National Pharmaceutical Council
- Dr. Robert Ouellet, President of the Canadian Medical Association
- The Honourable Roy J. Romanow, Former Premier of Saskatchewan and Former Royal Commissioner on the Future of Health Care in Canada
- Mr. Daniel Tassé, President and Chief Executive Officer, Ikaria Holdings, Inc.



“Well folks, this is the one we’ve all been waiting for,” said Ambassador Morella as she kicked off the discussion. Noting the high stakes and controversy surrounding the reform plans, she encouraged panelists to move beyond the general back and forth and to dig deeper into comparing the US and Canadian models.

Dr. Michael Burgess, the founder and Chairman of the Congressional Health Care Caucus and a physician who practiced medicine in Texas for over thirty years, was complimentary of the Canadian system for a very personal reason: his father was raised in Canada. But he said he generally opposed a single-payer style system because it led to inefficiencies, waiting lists, and reduced quality of care and innovation. He also discussed the landmark Canadian Supreme Court decision of 2005, which found that access to a waiting list is not access to care, and that Canadians have a right to seek immediate private care if the public system was unable to deliver it.

This has led to a hybrid system, where the bulk of health care services are covered by the government, but where a significant private insurance market continues to play a role in the Canadian health care system. Another primary difference between the two countries, said Rep. Burgess, is that Canada puts a strong emphasis on primary care, where the US focuses more directly on specialists, which has its drawbacks. Dr. Burgess said referrals sometimes lead to unnecessary services: “If you refer someone to a barber, they are more than likely to get a haircut,” he said.

Congressman Moran, a staunch ally of the White House, was more positive on the Canadian system and said the US must also go through a “profound transformation” in the way it delivers what he called “the most important public service.” The striking difference between the US and Canada is that Canadians focus more on keeping people healthy instead of the US model of caring for patients only after they get sick. The US should move more towards this fundamentally different approach.

He noted that the US spends twice as much per capita than Canada and that health care costs 16% of America’s GDP compared to 11% in Canada, but that Canadians live longer. He credited Canada’s holistic approach for this advantage. He looked forward to a town hall meeting in his congressional district to discuss these issues with his constituents.

Mrs. Carolyn Bennett, a Canadian Member of Parliament and one of the principal architects of its national health care system, agreed with Mr. Moran that putting an emphasis on wellness and prevention were critical to improving health and maintaining costs. She recalled how France had a very popular national health care system but that it failed to prevent the deaths of 14,000 people in a heat wave, revealing a major gap in wellness programs. “We want more health and less health care,” she said pointedly, and likened the policy goal to the popular Maytag repairman advertisements, where a mechanic sits idly by since the washing machine requires so little maintenance.

Roy Romanow, the former Premier of Saskatchewan and another early pioneer in Canada’s health care transformation, agreed with Mrs. Bennett and shared some lessons from the early days of Canada’s program with his American counterparts:

- Health care reform must be based on values, since public support is essential to success. In Canada, those values were fairness, compassion, equity, and the common good.
- Leadership really does matter. In his province, for instance, doctors went on strike for three weeks in protest to the new plan, and many of the arguments he was hearing in the current American debate were the same ones he heard in Canada’s first phase of health care implementation. Still, officials pressed on and now the Canadian system enjoys solid support from the public.
- Costs are important, but don’t mix the public costs with the private costs.
- Don’t believe the myths about Canada’s system. It is popular, people like it, and while it does have flaws, it is effective.
- Administration of care and the quality of care is critical for continued support.

In summary, Mr. Romanow said that “no health care system is perfect,” but that the public benefit of an improved system which focuses on overall health leads to unquestionable societal benefits, including a higher quality of life for the citizenry and a healthier workforce for a stronger economy.

Dr. Jo Kennelly, who was a top official in the Canadian health ministry but also heavily involved in New Zealand’s health care system, delved deeper into some of the flaws and misperceptions of the Canadian system. First, she said that there was some evidence that innovation has suffered somewhat under Canada’s system, a chief complaint from opponents of government-run health care in the US. Second, she reminded Americans that Canada is not really a “single-payer” system, as 65% of Canadians have supplemental health insurance to cover costs of medications (which are not covered by public funds) and other health care needs. She also said that doctors are permitted to opt out of the program, which gives patients true doctor choice. The lessons from New Zealand’s health system improvements sounded similar to some of Mr. Romanow’s comments about Canada’s experience – that a clear goal was necessary, that the public must be supportive, and that leadership was essential.

Dr. Ouellet of the Canadian Medical Association echoed these comments but said that Canada did have true universal coverage and that access to care was not based on ability to pay. He too was amused at some of the characterizations of the Canadian system heard in the American political debate. “People are not dying in the streets,” he joked. Still, he conceded that the system had its problems, principally the long wait times, which he called “unacceptable.” He believed that further incentives and accountability would be important to reduce wait times and further strengthen the public system.

On behalf of the US National Pharmaceutical Council, Dan Leonard focused his remarks on comparative effectiveness research (C/E research), an important and relatively new health care metric which seeks to align treatments based on previous data. While C/E has been positioned as being able to both improve care and reduce costs, Mr. Leonard cautioned policymakers that it may not be that simple. For instance, one of President Obama’s favorite arguments in the health care debate is where he compares two pills, one blue and one red. If they both do the same thing but the red pill is cheaper, why not use the red one, the President asks. While this may sound favorable, Mr. Leonard pointed out that different people have very different reactions to different medicines, so the blue pill may be more cost effective in the long run by helping the patient. He said the \$1.1 billion (US dollars) for investment in this research would help to refine C/E so that it can help both policymakers and health care professionals.



Daniel Tassé picked up on Mr. Leonard’s remarks about the power of data and evidenced-based medicine (a close cousin to C/E research) in improving health care. Personalized medicine, or the understanding of individual biology and reaction to certain treatments, has great potential to help speed recovery and avert medical errors. However, he said that while evidence-based medicine may be good for most, it is not good for all, and that health information technology was important to ensure the highest quality individual care. “We can rationalize care without rationing,” he concluded.

General discussion covered a range of subjects, including a greater understanding of how Canada’s health care system is funded and a discussion about medical liability. Congressman Lamborn was curious about the price of medical liability insurance in Canada, and was told it was far less than in the US. He pointed to tort reform in the US as one of the biggest differences between Republicans and Democrats on the issue of health care reform.

**PANEL II****Trade in the Western Hemisphere: NAFTA, Cuba, and Buy America**

One of the topics discussed at the North American Leaders Summit or “Three Amigos Summit” was open trade. Canadian Prime Minister Harper made fresh attempts to persuade US President Obama that growing protectionism – especially the “Buy America” provisions in the US economic stimulus package – would eventually backfire on the two countries, as retaliatory measures would lead to a race to the bottom. In addition to immediate concerns, the strengthening of the European Union trading bloc and competition from Brazil, Russia, India and China (the so-called “BRIC” countries), has increased pressure on North American countries to work more closely together to stay competitive. With these developments, the 15th anniversary of NAFTA, and suggestions by the Obama Administration to revisit the US trade embargo on Cuba, panelists had a host of issues to discuss in terms of the trade environment.

**Speakers:**

- Ms. Shelley Rubino, Advisor to Congressman John Larson (D-CT), Office of the Democratic Caucus. Ms. Rubino moderated the panel.
- US Congressman Douglas L. Lamborn (R/CO)
- Mr. Eric D. Benjaminson, Minister – Counselor for Economic Affairs at the US Embassy in Ottawa
- Mr. Sam Boutziouvis, Vice President for Economics and International Trade at the Canadian Council of Chief Executives
- Mr. Peter Morton, Senior Vice President of Grey, Clark, Shih and Associates, Limited
- Dr. Patrick Grady, Economic Consultant at Global Economics Ltd.



Panelists wasted no time talking about Buy America, but the criticism was not limited to Canadian voices. In fact, it was US Republican Congressman Doug Lamborn of Colorado who led off the discussion with deep concerns about Buy America and protectionists tendencies in the US Congress and the White House. He said the short-term benefit would not be worth the long-term pain, and recalled the steel industry tariffs that were put in place some years ago. While they may have provided an initial break for the US steel industry, he argued, they raised the costs to manufacturers and eventually to consumers, as prices stayed artificially high.

Furthermore, he said that protectionism only invited retaliatory measures by trading partners, which could lead to the dangerous actions of increased trade barriers and a contraction of trade. These factors were at play when the infamous Smoot-Hawley tariff act, which greatly limited US imports and exports, was passed in Congress prior to the Great Depression. Mr. Lamborn said the anti-trade fervor, especially in the House of Representatives, spelled great trouble for the prospects of passing free trade agreements between the US and Columbia, Peru and South Korea. He attributed this mostly to the strong political influence of labor unions within the US Democratic Party.

Mr. Benjaminson reiterated that the US and Canada are more than trading partners, but that “we build things together.” For instance, Canada-based Bombardier sells jets that have over 65% US content, and an automobile seatbelt crosses the border several times before the car itself is actually sold to a consumer. This sophisticated integration means that if a US policy affected Canada, it would most certainly have an effect in the US.

One of the strengths of the US-Canada relationship is strong regional coordination. He called this the “north-south” structure, where American states and Canadian provinces work closely together to expand markets and streamline trading issues to maximize productivity and economic growth. These strong relationships don’t erase the occasional differences the two countries will inevitably have, but they do help to make daily operations better. For those times when trade views differ, Mr. Benjaminson said that policy views, domestic politics and sovereignty issues were the key contributing factors.

On behalf of Canadian business executives, Sam Boutziouvis said that businesses there were “increasingly worried” about the protectionist trend not only in the US but in Canada and around the world. He referred to provincial reactions and a pending resolution in Canada which would essentially replicate the Buy America provisions from a Canadian perspective. Although the resolution would not have the force of law, it showed the strong domestic opposition to such policies. He said the Canadian business community was working hard to “put the protectionist genie back in the bottle,” before it led to irreversible Buy America, Buy Canada and Buy Mexico policies.

There are other protectionist measures in place that ought to be analyzed, said Mr. Morton, the former Washington DC Bureau Chief for Canada’s Financial Post newspaper. Country of Origin Labeling (or COOL), the “black liquor” issue (involving the wood pulp industry) and softwood lumber issues were all examples of how both Canada and the US seek to protect domestic industries through arcane regulations. He agreed with Mr. Benjaminson’s views on the important “north-south” regional trading relationships between the two countries, saying they often worked better than “east-west,” where decisions made in Ottawa and Washington sound good in principle but are often not optimal in practice.

Mr. Grady took a step back and reviewed the tremendous progress for Canada under the North American Free Trade Agreement or NAFTA. He said Canadians were very worried when then-candidate Obama was promising a review and a potential restructuring of NAFTA, but were later relieved when President Obama backtracked on that language and supported the agreement. Under NAFTA, Canada’s exports to the US have tripled, underscoring the dependence Canada has on access to American markets. On Buy America, he offered a slightly contrarian view, saying that since it was only tied to the stimulus package, it didn’t really represent a worsening of the situation, because it is temporary and therefore could not damage existing contracts. However, he warned that Buy America provisions in other legislation would have a negative effect. Going forward, he said Canadians decided to “get into the canoe” with the US 15 years ago, and now have two general options, stay in the canoe or get out and swim. His concern, however, was that Canada may have forgotten how to swim on its own.

Franklin Center Chairman Michael G. Oxley asked panelists what public officials could do to convince skeptical publics in both countries and around the world on what he said were the irrefutable benefits of open trade. Panelists agreed that trade was a very difficult public relations challenge, but that lower prices, stronger domestic job creation, and assistance for isolated regions hit hard by trade were all positive messages that could be used in the public debate.

Ambassador Morella asked about the US trade embargo on Cuba, and Canadians responded with a dose of reality, saying that if American companies believed they could swoop in and dominate the Cuba market once an embargo is lifted, they would be wrong. They said Cuba has its own way of doing things, and that Canadians and other countries which have done business there would have the upper hand in the future.

**PANEL III****The Border: The Trade and Security Partnership, including Immigration, Transportation, and Cross Border Movement Since 9-11**

No issue dominated the TransAmerica Conference 2009 like the US-Canada border. Nearly every speaker on every panel – with the exception of the discussion about Afghanistan – said that border regulation, security and sovereignty issues impacted the US-Canada relationship like no other. A US-Canadian Chamber of Commerce report released on the eve of the TAC put forward a host of proposals for governments to act on within the next 18 months to improve economies of both nations including:

- creating steps to streamline border wait times;
- implementing trusted shipper programs to enhance supply chain security without imposing a one-size-fits-all regulatory burden on businesses;
- enacting the NEXUS program to expedite clearance for 1 million low-risk travelers;
- offering preclearance of goods and people beyond the currently defined “border” area; and
- providing funding for a single electronic filing system.

According to the report, the border facilitates the largest bilateral trading relationship in the world, with \$1.6 billion in two-way trade and 300,000 travelers crossing the border on a daily basis. Thirty-seven of the fifty U.S. states rely on Canada as their largest export market. More than 10 million jobs rely on this relationship including 7.1 million jobs in the United States and 3 million jobs in Canada.

**Speakers:**

- The Honorable Michael G. Oxley, Member of US Congress from 1981-2006 and Chairman of the Franklin Center for Global Policy Exchange. Chairman Oxley moderated the panel.
- US Congresswoman Jean Schmidt (R/OH)
- US Congressman F. James Sensenbrenner, Jr. (R/WI)
- The Honourable Peter Van Loan, Canadian Member of Parliament and Minister of Public Safety
- The Honourable Jerry S. Grafstein, QC, The Senate of Canada
- Mr. Terry Breese, Chargé d’Affaires a.i. at the US Embassy in Ottawa
- Mrs. Shirley-Ann George, Senior Vice President for Policy at the Canadian Chamber of Commerce
- Mr. Jean-Pierre Fortin, First National Vice President of the Canadian Customs and Immigration Union



While economic concerns are important, Congressman James Sensenbrenner reminded the conference what had driven all the changes in the first place. “9-11 changed the world,” he said as he began his remarks. Moreover, as it became clear that terrorists not only wanted to kill human beings but also to destroy western economies, the governmental reaction had to be broader. He was the principal architect of many of the US legislative responses to the terrorist attacks, including the Patriot Act, Real ID, and improvements to VISA and border security. While he conceded that the implementation of these new laws may be going more slowly than preferable, he stressed that the new laws had succeeded in preventing attacks, were constitutional, and critical to continued US security.

He said going forward, policymakers should focus in three major areas to reduce the economic burden of cross border issues while preserving and enhancing security for both nations.

- Documents used for identification must be accurate.
- Infrastructure, specifically at choke points, must be upgraded and investment should be expanded. He believed the new US Surface Transportation Reauthorization would help in that regard.
- Ancillary legal issues should be addressed, so worthwhile programs like the popular “trusted traveler” and “trusted shipper” could be replicated elsewhere.

Congresswoman Schmidt also recalled 9-11 and especially the shutdown of the US-Canada border. “Nothing could get across in a timely fashion,” she said, which led to costly delays and a severe negative economic impact on both countries. However, she said, the US and Canada have common goals: to ensure safety while also building an efficient border. Since she serves on the House Transportation and Infrastructure Committee, she agreed that more funding was needed for border crossings, pointing to what she called the “mess” at the Ambassador Bridge.

Mr. Van Loan of the Canadian Ministry of Public Safety followed these sentiments, and said that trade and security is not a zero-sum game, a thought shared later by Ms. George of the Canadian Chamber of Commerce. On a lighter note, Mr. Van Loan explained to the conference that his title was somewhat misleading, saying his Ministry did not police “walking downstairs with scissors.” Quite the contrary, he noted that the Ministry’s jurisdiction was equivalent to the US Department of Homeland Security, the Central Intelligence Agency, and half of the Department of Justice combined, which got the attention of the largely American audience.

Despite the problems, which he readily admitted, Mr. Van Loan was optimistic about the prospects for continued improvement at the border. He said US-Canada federal government channels of communication are very good, and that three ministerial level meetings each year create an impetus for action. In May, for instance, the US and Canada agreed to develop joint threat and risk standards and worked on the shipright program. He felt that incremental steps represented good progress in that problems are identified, prioritized, and addressed.

Senator Grafstein of Canada said incremental steps were fine but that a broader vision was necessary. Three meetings a year, in his opinion, were not enough. He said Canadians in many ways were being treated like third class citizens by the US and the law of unintended consequences usually meant that American laws hit Canadians disproportionately. “When you pass laws, we Canadians are usually the first to get whacked,” he said. 9-11 had indeed changed everything, but that it had “carpet-bombed” any hopes of efficiency at the border. He also said labeling issues (country-of-origin or COOL), Animal and Plant Health Inspection Service (APHIS) and other regulations enforced at the border were probably costing thousands and thousands of jobs in terms of lost productivity.



He took issue with some American sentiment that Canada represented a large threat to the US. “Canada is not a nest of terrorists,” he said, noting that while there are 30,000 immigrants in Canada, there are also 500,000 or more immigrants in the US. He believed the best way to improve border cooperation was a bilateral commission that met every day to resolve problems.

Terry Breese of the US Embassy didn’t discount the challenges of the border and was confident that improvements could be made, but reminded the conference that the border did mark “the boundary between two great democracies.” While the US and Canada are indeed good friends and enjoy the longest undefended border in the world, the border is not going to disappear no matter how hard both countries try to integrate policies and approaches. “There are differences,” he said. He also made four suggestions, including:

- Stop thinking about the border in isolation
- Invest significantly in infrastructure at heavily used border crossings.
- Improve the process of collecting taxes from people at the border.
- Be optimistic and confident about success.

Ms. George returned to economic concerns and reiterated the economic benefits of healthy US-Canada trade. But instead of feeding what she called this “golden-goose,” she said that burdensome regulations and the border woes were instead plucking from the goose and hurting job creation. She said Mr. Van Loan’s support for incremental progress and Senator Grafstein’s call for a greater vision were both right.

On behalf of Canada’s border inspectors, Mr. Fortin agreed that it could be done better, and that more training for inspectors was one place to start. He was complimentary of the Harper government, saying it had done more in four years than the previous government had done in eight in terms of border security issues. Many of the problems that contribute to delays and inefficiency are the result of unilateral actions on border issues.

End of Panel III.

**THURSDAY, AUGUST 13, 2009****PANEL I****International Taxation and Corporate Headquartering – How Countries Use Their Tax Code to Attract Investment**

The US federal budget deficit is projected to grow to approximately \$9 trillion over the next 10 years due to the recession and significant federal spending on the bank bailout and other economic recovery programs. A recent proposal for a European-style value-added-tax, or VAT, received serious consideration in the US Congress as a way to pay for health care reform. Furthermore, a 2007 report by the US Treasury Department stated that differences in nations' tax systems have become a greater factor in the success of global companies. For these and other reasons, many experts believe the US tax code will require major reform in the foreseeable future.

**Speakers:**

- Ms. Shelley Rubino, Advisor to Congressman John Larson (D-CT), Office of the Democratic Caucus. Ms. Rubino moderated the panel.
- US Congressman Michael C. Burgess (R/TX)
- US Congressman James P. Moran (D/VA)
- The Honourable John McCallum, PC, Member of the Canadian Parliament and Liberal Finance Critic
- Mr. David Stewart-Patterson, Executive Vice President of the Canadian Council of Chief Executives
- Dr. Ian Lee, Director of MBA Program for the Sprott School of Business at Carleton University



Congressman Moran began with a sobering assessment of what he called a “bleak” budget picture, saying the last time the government’s books were in such poor shape was in 1932. The recession has hit the Treasury very hard, resulting in lower revenues from both personal and corporate income taxes. He also said Social Security taxes were down for only the second time since 1940.

The challenge will be to design a tax code that raises the revenues the government needs to provide services and security while also helping American companies stay competitive. Stating that roughly two-thirds of corporate profits and revenues are coming from overseas business, Mr. Moran believed that the international marketplace would be critical for economic growth and in turn for improving

the federal budget picture. He felt it was possible that Paul Volcker, the former Chairman of the US Federal Reserve and currently a top economic adviser to the Obama White House, could help to lead a major tax reform effort in 2011 to bring transformational change to the tax code.

Congressman Burgess agreed that the tax code was in need of reform, citing figures from the National Taxpayers Union that tax compliance cost the US economy \$177B (US dollars) per year and that 40% of corporate income went solely to compliance with the tax code. He believed that the Obama Administration was looking closely at ending some of the Bush tax cuts and increasing taxes on capital gains from 15% to 20%. In terms of using tax incentives to lure companies, he said Texas has been very successful with a low corporate tax rate and an enterprise fund to encourage investment in the state.



On behalf of the Canadian government, Mr. McCallum said the decision to cut Canada's corporate taxes was a fairly simple one, especially when viewed in light of the powerful US marketplace. "The natural magnetic force is to go where 90% of the market is," he said in reference to the American economy, the largest in the world.

"When you're a small economy like ours, you have to create some kind of advantage to offset this magnetic pull," he said. The corporate tax was cut to 25% some years ago, and has been seen as a success. An additional force which used to help attract foreign investment in Canada was the currency exchange rate, but that factor has diminished in recent years as the Canadian dollar has reached near parity with its US counterpart.

David Stewart-Patterson said the Canadian Council of Chief Executives conducted some internal surveys of its member companies and found some interesting factors which drove corporate headquarter decision-making. While the corporate income tax rate of the host country was the top factor, he said that personal income tax rates of the country were a close second, and that basic quality of life issues like ease of international travel and good communities also scored highly as considerations. Another major factor was access to capital, he said and reminded the conference that while Canada does enjoy a significant corporate tax advantage relative to the US, North America is still not a low tax area compared to areas in Asia and the Caribbean.

Dr. Lee picked up on the access to the capital theme and said the overarching objective of any tax system should not be corporate headquartering but the overall strength of an individual economy. Governments should focus on productivity first, which breaks down into helping competition, attracting capital, and tax policy. He said that Canada is doing better since it cut the corporate income tax rate, but that it is still the 11<sup>th</sup> highest in the world. He echoed David Stewart-Patterson's comments by saying that recent OECD research had concluded that the corporate income tax rate is one of the most destructive forms of taxation, since it deterred investment, job creation, and economic growth.

Mr. Moran joked that while it may seem like the US was the worst place in the world to do business, it was important to compare it to other places. Russia, China, Japan and other countries all have bigger problems, for instance. The US still has a strong legal system, is a good place to raise capital, and is the largest economy in the world, he said. Mr. Stewart-Patterson agreed, saying that the US could essentially "charge more," because of its sheer advantage in size and other economic advantages like a highly-skilled work force.

Getting back to tax policy, the true question of tax reform wasn't whether it would happen, but when, and most conferees believed that the earliest it could begin was 2011 after the mid-term Congressional elections next November.

**PANEL II****The New Global Banking System and Regulatory Response to the Worldwide Recession, including a Look at Electronic Payment Systems in an Increasingly Online Economy**

The global financial regulatory system, which many believed to be one of the most sophisticated and advanced in the history of financial services, broke down horribly starting in 2007 and was one of the main reasons for deep global economic recession. The well-publicized fraud cases of Bernie Madoff and Allen Stanford became synonymous with what had gone wrong with Wall Street and financial service regulation. Top American banks merged, reorganized, or shuttered, as in the case of Bear Stearns. But despite these troubles, Canadian banks weathered the storm fairly well.

So how did they do it? And where should the US go from here? Should the US Federal Reserve and central banks be given more power? Should complex financial products and services like hedge funds, derivatives and speculation be banned? Should the government mandate say on pay for executives? How can electronic commerce help? These were the questions posed by Ambassador Bill Hughes.

**Speakers:**

- The Honorable William J. Hughes, who was US Ambassador of Panama from 1995-1998, a Member of the US Congress (D-NJ) from 1975-1995 and currently serves as Vice Chairman of the Franklin Center for Global Policy Exchange. Ambassador Hughes moderated the panel.
- US Congressman Frank D. Lucas (R/OK)
- US Congressman James P. Moran (D/VA)
- The Honorable Michael G. Oxley, Member of US Congress from 1981-2006 and Chairman of the Franklin Center for Global Policy Exchange. Mr. Oxley was also former chairman of the US House of Representatives Financial Services Committee and is currently senior advisor to the Board of Directors of The Nasdaq OMX Stock Market, Inc.
- Mr. Randall Germain, Professor of Political Science at Carleton University
- Mr. Colin Robertson, Distinguished Senior Fellow, Norman Patterson School of International Affairs, Carleton University and Former Minister and First Head of Washington Secretariat at the Canadian Embassy in Washington, DC.
- Mr. Tim Wilson, Head of Visa Canada Corporation



Most of the focus of the panel discussion was spent describing what went wrong and trying to identify the appropriate balance of federal regulation of the financial services industry in response. According to Congressman Lucas, the House Financial Services Committee under the leadership of Chairman Barney Frank (D-MA), was dramatically enhancing the size and scope of the federal government in the marketplace, which he believed was of some concern. He cited a list of legislative packages approved by the committee – mortgage “cramdown,” new credit card reforms, more rules on executive pay – to illustrate his point. The current push for a new Consumer Financial Regulatory Protection Agency is the latest example of what Mr. Lucas felt could be an overreaction to the banking crisis. While he certainly did not dismiss the bad actors, he did contend that the financial services industry is critical to ensure that capital is applied effectively: “they are arbitragers, and most of them are fairly effective,” he said.

He also reminded the conference that the natural boom and bust cycle of any industry is difficult, if not impossible, to eliminate through regulation. The economy in his home state of Oklahoma suffered a severe recession after bubbles in the agriculture and oil industries burst some years ago.



Mr. Moran agreed that over-regulation was not the answer but said that serious reforms were needed. He recalled a news article, which featured a California strawberry picker earning \$15,000 per year who couldn't read, but was still able to acquire a \$750,000 home. This showed clearly that there

was not enough relationship between lender and borrower, he said, which is one important principle as we move forward.

He praised Canada's banking system for its tighter leveraging rules (Canada requires a 20:1 leveraging ratio for financial institutions, compared to 35 or 40:1 in the US), Canada's scrutiny of borrowers, and the fact that Canadians cannot deduct mortgage interest from their federal taxes like Americans can. These distinct differences helped maintain the relative strength of Canadian banks through a severe financial crisis and should be very instructive to policymakers in the US in the debate over reform.

Mr. Oxley said that one of the principal reasons for what he called “an incredible series of events” was that everyone was making decisions based on the premise that housing prices would continue to rise. He outlined two categories of errors – errors of commission and omission – that were made by policymakers and financial leaders prior to the meltdown.

Errors of commission included:

- Very low interest rates for far too long, which led to “easy money” and the liquidity crisis brought on by over-borrowing.
- Executive compensation structure which rewarded short-term profits over long term growth and stability.
- Not enough banks were permitted to fail.

- Finally (and as Mr. Moran indicated), the risk ratios for banks set by the Securities and Exchange Commission were far too low and received little scrutiny.

Errors of omission included:

- Failure to regulate and identify derivatives.
- Failure to close a widely-exploited mortgage loophole.
- Areas of no regulation – what Mr. Oxley called “black pools,” where financial transactions occurred under no government or industry oversight at all. He also said that legislation providing for greater oversight of Fannie Mae and Freddie Mac which passed the House of Representatives but never went further would have helped avert some of the crisis.

Randy Germain of Carleton shifted the focus back to an international level, since it was widely agreed that the global banking meltdown was not a uniquely American problem. Because this was a global problem, said Mr. Germain, it would require a global solution. If different countries developed widely-different responses to the global crisis, it could cause even greater problems down the road. He thought that the G20, the Basel process, and other multilateral institutions could play a very helpful role in determining universal standards and metrics so that accurate valuations could be made. In a later response to these views, Mr. Oxley conceded that while the US had lost some credibility, he still believed that due to its sheer size and influence, the US would continue to play a lead role in designing international regulatory approaches and accounting standards.

Talk then returned to the health of Canada’s banking system. Colin Robertson recalled a less than flattering opinion-editorial in a major American newspaper some years ago that asked whether there was such a thing as a “worthwhile Canadian initiative,” and criticized Canadian approaches to public policy challenges. With a great degree of satisfaction and a lighthearted tone, Mr. Robertson declared Canada’s banking success “the revenge of the northern cousins,” and a model for other countries to follow. He echoed other comments applauding Canada’s lower leverage requirements and that the borrower-lender relationship is much closer. He also said that Canada’s “risk-averse culture” was partly responsible for keeping its banks strong through the global recession.

Mr. Wilson, a former bank official and current head of VISA Canada, agreed that Canadians were far more risk averse, noting that nearly 70% of Canadians pay credit card bills in full and on time compared to 40-50% in the US. He also credited Canadian institutions like the Office of Superintendent of Financial Institutions and the Canadian Bank Act for ensuring proper oversight. After noting that VISA was not a bank, he shifted his comments to the global electronic commerce system, saying it offered great advantages for productivity and efficiency. Iceland, Denmark and Canada are leading the world in terms of the use of e-commerce.

**PANEL III****Afghanistan and the US-Canadian Security Partnership**

In the face of falling public support in the US and Canada for a continued military presence in Afghanistan, growing hostilities and casualties in the region and a national election in dispute, Afghanistan has become a top global challenge. President Obama agreed to increase US troops in Afghanistan in the spring of 2009, and National Security Advisor General James Jones is working on a comprehensive review of the policy. Expectations are that American military commanders will seek additional troops for the mission. With this as a backdrop, panelists met to discuss these and other issues associated with solving this highly strategic global situation.

**Speakers:**

- The Honorable Constance A. Morella, the former Ambassador to the Organization for Economic Cooperation and Development (OECD), 2003-2007, former Member of US Congress, 1987-2003, and current Vice Chairman, Franklin Center for Global Policy Exchange. Ambassador Morella served as panel moderator.
- US Congressman James P. Moran (D/VA)
- US Congressman F. James Sensenbrenner, Jr. (R/WI)
- Lieutenant-General J. C. M. Gauthier, CMM, MSC, CD, Former Commander of the Canadian Expeditionary Force Command
- The Honourable Bob Rae, Member of the Canadian Parliament and Liberal Foreign Affairs Critic
- Ms. Elissa Golberg, Director General of the Canadian Stabilization and Reconstruction Task Force, Department of Foreign Affairs and International Trade



Congressman Moran summarized the sentiments of all the panelists by saying quite simply at the outset, “It is going to be a long slog.” He was very praiseworthy of the Canadian commitment and especially the “heroic” work of Canadian forces in Kandahar, but he said the irony of the challenge was that this was not primarily a military mission. Yes, security is critical, but the long-term challenges of building infrastructure, a justice system, and governance are just as great.

He was concerned about a recent vote in the Canadian Parliament to withdraw all military forces by 2011, believing that the significant Canadian effort and investment would all be for naught under such a short timeframe. The challenges in Afghanistan – including a “corrupt” government, an unfair

judicial system, and little to no economic opportunity outside the opium trade -- cannot possibly be brought to a satisfactory condition by then, he said.

Congressman Sensenbrenner also thanked the Canadian hosts for their commitment of money, troops, and diplomatic personnel, and he agreed with Mr. Moran that building a civil society was the real goal in Afghanistan. He also said the stakes of failure were immense, since it would likely return to a training ground for terrorists if the US, Canada and NATO were to withdraw too soon.

Still, he cautioned that the negative public perception of the mission was one of its chief problems, not just in Canada but also in the US: "People just don't see what we're getting for our investment and commitment of blood, time and money," he said. This would lead to a distinct problem for President Obama, should he choose to continue to seek congressional support for a sustained or additional US military presence in the conflict.

After having spent the previous seven years of his career in Afghanistan, General Gauthier was equally realistic about the challenges: chief among them the mission's complexity itself. The only thing he understood after all his time in country, he conceded, was that it is terribly difficult to understand. Success happens when the coalition efforts respond quickly to the moving pieces. It has to be "100% kinetic," said the General.

The latest shift in the mission was to focus much more on helping the Afghanistan people, and described the concept of a "key village," where security bubbles are built so people can go about their daily lives. Often times, he said, the talk focused too much on stopping the Taliban and not enough on helping individual Afghans. While he said he was under no illusions about the task ahead, he was optimistic that it could be done, especially with the increased US military commitment. But he said it could be "decades" before the transformation could take hold.



On behalf of the Canadian parliament, Mr. Rae said that the support for Canada's obligation was not seen as partisan and that despite the recent vote to withdraw forces by 2011, Canada is not leaving Afghanistan. Still, he said that the loss of Canadian troops in the conflict had struck an emotional chord in Canadian society, and recounted homegrown tributes like a local "highway for heroes" to commemorate fallen soldiers, and fire engine salutes for troops in local parades. He said Canada would continue to be a leader in civil and diplomatic assistance and that it was critical to move in this direction. Like other panelists, he stressed that the mission would not be achieved solely by military means.

This was a natural opening for Ms. Golberg, one of Canada's top civilian officials in the Afghanistan development project. Like the military approach, Ms. Golberg stressed that Canada's successes on the civilian front were due to an evolutionary attitude, where official efforts had to adapt quickly in response to new challenges on the ground. One particularly helpful tactic was the simple collocation of civilian, military and intelligence personnel, so they could compare notes and ensure synchronicity. Another step forward occurred when officials realized they could not be all things to all people, and that they had to pursue strategic priorities within the overall objective. In the early days, Ms. Golberg felt that USAID and its Canadian counterparts were trying to do too much, which diluted available resources and elevated expectations among the Afghani people to an artificially high level. When these expectations were naturally not met, it hurt the credibility and trust between the people and the international community. Much of the ensuing discussion centered on the attitudes of the Afghani



people. Recent Canadian-sponsored surveys have shown falling Afghani support for the NATO-led International Security Assistance Force (ISAF) and growing fears of the Taliban; two foreboding developments.

Ms. Golberg agreed that there was much work to be done, but she also took pains to remind the audience that there had been significant progress made. In the early stages of the conflict, for instance, improving education was one of the top priorities in the minds of Afghans and the international community alike. Due to sustained efforts to improve education, the economy and jobs have now replaced education as a priority, which marks clear progress in a critical area like education. This has to be viewed positively.

Mr. Moran also sought to conclude the session on a more positive note by telling a joke about a female American journalist and Afghani women's rights. In the joke, which is not true, American journalist Barbara Walters visits Afghanistan shortly after the Taliban are removed from power and notices Afghani women walking five steps behind their husbands. A few years later, Ms. Walters returns to Kabul and sees that women are walking even further behind. From Ms. Walter's vantage point, despite the overthrow of the oppressive Taliban regime, the women now seem to walk even further back behind their husbands and are happy to maintain the old custom. The reporter approaches one of the Afghani women and asks, "Why do you now seem happy with the old custom that you once tried so desperately to change?" The woman looks Ms. Walters straight in the eyes and without hesitation says, "Land mines."

No one, especially Mr. Moran, was under any illusions about the significant challenges ahead in Afghanistan, but all panelists were hopeful that there had been progress and that with continued commitment and support, a true civil society could eventually take hold.

End of Panel III.