

THE
AMBASSADOR
PARTNERSHIP

16 February 2017

SLEEPING NEXT TO A TWITCHY ELEPHANT: WHAT PRESIDENT TRUMP MEANS FOR CANADA



Boyd McCleary CMG CVO was Economic Counsellor at the British High Commission in Ottawa (1993-97), Director-General for Trade and Investment in Germany (2000-2006), British High Commissioner to Malaysia (2006-10) and Governor of the British Virgin Islands (2010-14). He also served as Director of Estates and Director in charge of implementing a major new package of financial and procurement solutions for the FCO.

Boyd is a member of the Advisory Board of the Official Monetary and Financial Institutions Forum and a lay member of the Special Immigration Appeals Commission. He sits on the Board of Trustees of the South East Asia Rainforest Research Partnership and on the Council of the UK Overseas Territories Conservation Forum. He is a qualified Civil and Commercial Mediator.

Governments around the world are grappling with the implications of Donald Trump's presidency of the United States. But few have as big an interest in the issue as Canada. The US and Canada share the longest international border in the world. Their bilateral relationship is one of the closest and most extensive of any two countries. Bilateral trade amounts to \$2 billion a day. Millions of jobs on both sides of the border depend on the partnership. US defence arrangements with Canada are more extensive than with any other country.

But the relationship has never been an easy one. Pierre Trudeau, father of Canada's current Prime Minister, described it as like sleeping with an elephant. "No matter how friendly and even-tempered the beast is, one is affected by every twitch and grunt". And lately, the elephant's been twitching and grunting a lot.

Trudeau spoke to Trump shortly after his electoral success to congratulate him. He vowed to work "very closely" with Trump and said Canada had no closer ally and partner than the United States. But these fine words brush over a deep-seated unrest in Ottawa over what Trump's presidency will bring. Trudeau's openness to trade, refugees and the environment stand in stark contrast to the President's protectionism, "Muslim ban" and climate scepticism. So when Justin Trudeau went to Washington on 13th February, a lot was at stake.

THE
AMBASSADOR
PARTNERSHIP

His main objective was to get off on the right foot with “the Donald”, something his Australian counterpart had signally failed to do. And the key issue on the table was Trump’s plan to renegotiate the North American Free Trade Area (NAFTA). During the presidential election campaign he called it “the worst trade deal in history.” On both, Trudeau appears to have done pretty well. He managed – rather better than his British counterpart Theresa May - to establish some sort of rapport with Trump without looking too chummy. And Trump eased his position on NAFTA, saying merely that he would be “tweaking” the deal and adding that he was less worried about Canada than Mexico.

NAFTA didn’t was even mentioned in the Joint Statement. Nor was there any hint of the punitive cross-border tax that the US administration has been floating. And there was something of a PR success, with the launching of a task force on women in business, featuring the president’s daughter Ivanka. As the Toronto “Globe and Mail” put it, this “gave Mr. Trudeau a chance to burnish his feminist credentials, while giving Mr. Trump a chance to mend his reputation as an unredeemed sexist pig”. When asked about Trump’s immigration ban against the seven majority Muslim countries, Trudeau declined to comment.

Trudeau’s visit to Washington didn’t get a huge amount of coverage in the US or many other parts of the world because it coincided with the shenanigans surrounding the resignation of Trump’s National Security Adviser, Michael Flynn. But the Canadian press were generally impressed: “Mission Accomplished” (La Presse), “A Triumph” (Globe and Mail) and “Not a Bromance, but Not Bad” (Ottawa Citizen). Only the National Post struck a more sceptical note, quoting Conservative Party leadership candidates as arguing that Trudeau missed an opportunity to ‘put something on the table’.

So where does the visit leave Canada-US relations at this critical time? What does the Trump presidency mean for Canada? First and foremost it remains a threat to Canadian economic interests. The US accounts for 76% of Canadian exports. Canada is the single largest foreign supplier of energy to the United States. Uranium mined in Canada helps fuel U.S. nuclear power plants. And the US is the key market for Canada’s softwood lumber, as Foreign Minister Chrystia Freeland has stressed to her US counterpart Rex Tillerson.

NAFTA is incredibly important to Canada. Were the US to withdraw from the agreement - as Trump has previously said he was prepared to do, if Canada and Mexico refuse a renegotiation that gives American workers a fair deal - the impact north of the border would be severe. On the campaign trail Trump raised the prospect of tariffs on all imported goods. In his recent interview with Germany’s “Bild” newspaper, Trump threatened BMW with a border tax of 35% on cars imported into the US from Mexico. His spokesman has made clear that such a measure could also apply to Canada.

THE
AMBASSADOR
PARTNERSHIP

The Montreal-based National Bank Financial estimated that a 10% tariff would knock 9 percent off the value of Canada's exports. The highly respected C.D. Howe Institute has predicted that Trump's proposed tax package would be "highly distortionary and negative" and could cause Canada's GDP to drop by almost a full percentage point.

John Manley, President of the Business Council of Canada, said after learning the outcome of the Trudeau-Trump meeting that he expected Canadian firms to be "somewhat placated" with regard to their concerns about the unknowns of Canada-U.S. trade, but many key economic questions remained unanswered: "There still has to be meat put on the bones — we don't know what tweaking NAFTA really means". Firms were still looking for clarity on the future of the proposed border-adjustment tax and there was also a possibility that Trump's promised infrastructure program could be fraught with "Buy America" provisions, which could force Canada to respond with similar measures. Canada also needs more from the US on softwood lumber.

Many commentators think it unlikely that Trump will actually put tariffs on imports from Canada, with whom the US has a modest trade surplus, whereas with Mexico it has a whopping deficit. But, even if there is no swingeing border tax, Trump might want changes that effectively boost the share of auto manufacturing in the US, by introducing specific provisions for more American content. Trump could also seek changes to the investor dispute settlement system to limit the ability of Canadian companies from suing the US government. Tweaks to NAFTA could include curbs on the ability of Canadian companies to bid on US Government contracts. And, whatever happens at the negotiating table, US car manufacturers, all of whom have major plants north of the border, will feel heavy pressure to make investment decisions favouring US rather than Canadian jobs.

On immigration, the divisions – papered over in Washington - could not be more marked. Trudeau's immediate response to Trump's Muslim ban was a tweet: "To those fleeing persecution, terror & war, Canadians will welcome you, regardless of your faith. Diversity is our strength [#WelcomeToCanada](#)."

Refugee advocates are pressing Canada to do more to keep its borders open while Mr. Trump's immigration ban is in effect. More than 200 leaders of Canada's technology sector signed an open letter urging the federal government to offer working visas to tech workers in the US affected by the Trump administration's action, to encourage them to live and work in Canada. Jennifer Moss, who speaks for an organization called Tech Without Borders, said such visas could help workers who are blocked from returning to US jobs: "If you're not interested in keeping people that are extremely talented, intelligent, brilliant minds from all around the world, and turning them away at the borders, we're happy to take those people in our country".

THE
AMBASSADOR
PARTNERSHIP

During Trudeau's visit to Washington, there was some talk of defence and security, with the Joint Statement stressing that the two countries were "indispensable allies" and mentioning a commitment to work to modernise and broaden the bi-national North American Aerospace Defense Command (NORAD) partnership. But here too there is potential for tension. Mr Trump has argued forcefully that America's allies should increase their military spending, warning that NATO countries he sees as "free riders" will have to share more of the financial burden on the security front. While Trump is assumed to be directing his comments primarily at European allies, Canada spends less than one per cent of its GDP on defence, half the NATO target, which leaves Canada near the back of the pack among the alliance's 28 members.

Defence analyst David Perry of the Canadian Global Affairs Institute predicts Canada will face "huge pressure" from a Trump administration, backed by a Republican-controlled Congress, to increase defence spending. "We've benefited since the Second World War from a whole number of co-operative arrangements with the United States on defence where the U.S. carries a disproportionate share financially." He noted that Canada has to replace the North Warning System chain of radar sites that provide surveillance against aerial incursions. This will cost billions of dollars and the United States picked up the majority of the tab for past installation construction: "I think he's going to be expecting Canada to do a lot more of its own heavy lifting in its own backyard".

Perhaps the only area in which Trump's arrival in the White House has been of direct benefit to Canada has been his early decision to sign an executive order reviving the Keystone XL pipeline project, which will bring 800,000 barrels per day of heavy oil to US refineries. For Trump this marks a major step towards his "America First" policy. He claims it would create 28,000 jobs in the US. For Canada, it offers an exit route for oil from Alberta's land-locked oilsands and would earn the oil industry, which contributes one sixth to the nation's GDP, an estimated \$2 per barrel. Small wonder therefore that the Conservative Opposition Party joined the governing Liberals in welcoming Trump's order.

Britain's Theresa May has had problems in striking the right note with the new US President. Her early trip to Washington and her invitation to Trump to pay a state visit to the UK have attracted a great deal of criticism, both domestically and across Europe. Her justification is that the UK needs America, particularly in this brave new post-Brexit world. So does Canada. Trudeau too is a realist. But getting too close to Trump could be toxic. As the "Globe and Mail" put it, "Mr. Trudeau would rather drink strychnine than play golf with Mr. Trump". On the other hand, if he is overly critical of the President, he could provoke the elephant into not only twitching, but rolling over. That could be painful.

For further information please contact:

Tracey Stewart

Business Development Manager

tracey.stewart@ambassadorllp.com