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# Policy

## Canadian Politics and Public Policy

### EDITOR

L. Ian MacDonald  
lianmacdonald@policymagazine.ca

### CONTRIBUTING WRITERS

Thomas S. Axworthy

Andrew Balfour

Yaroslav Baran

Brian Bohunicky

Derek H. Burney

Catherine Cano

Margaret Clarke

Celine Cooper

Fen Osler Hampson

Daniel Gagnier

Martin Goldfarb

Patrick Gossage

Brad Lavigne

Kevin Lynch

Jeremy Kinsman

Andrew MacDougall

Velma McColl

David McLaughlin

Geoff Norquay

Robin V. Sears

Gil Troy

Anthony Wilson-Smith

### WEB DESIGN

Nicolas Landry  
policy@nicolaslandry.ca

### SOCIAL MEDIA EDITOR

Grace MacDonald  
grace@policymagazine.ca

### GRAPHIC DESIGN & PRODUCTION

Monica Thomas  
monica@foothillsgraphics.ca

## Policy

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## In This Issue

- 4 **From the Editor:**  
Healthcare and Innovation
- 5 **David Naylor**  
Unleashing Innovation—Synopsis of a Recent Policy Report
- 8 **Andre Albinati**  
“Zombie” Policy Making and the Politics of Healthcare
- 12 **Nik Nanos**  
Will Healthcare Be the Sleeper Issue of the 2015 Campaign?
- 16 **Graham Scott**  
The Next Frontier of Digital Health: Putting the Patient First
- 19 **Belinda Vandersluis**  
Canada’s Leadership in Clinical Trials: An Edge Worth Protecting
- 22 **Chrisoula Nikidis**  
Actions Based on Values: the Innovative Pharmaceutical Sector’s Path to Integrity
- 24 **Janet Yale**  
Perspective is Key to Universal Pharmacare Success
- 26 **Mike Sullivan**  
Can an Innovative Tax Credit System Sustain Drug Plan Coverage in Canada?
- 29 **Gail Attara**  
A Crack in the Canadian Jewel of Healthcare
- 31 **Denise Carpenter**  
Healthcare Solutions Right Around the Corner
- 33 **Helen Scott**  
Big Shots: How Canadians Are Transforming Global Health Through Vaccinations

### CANADA AND THE WORLD

- 36 **Jeremy Kinsman**  
Greece and the EU: Beware of the Single Story
- 40 **Kevin Lynch**  
Where is China Heading?—A Letter from Ditchley Park
- 44 **Perrin Beatty**  
TPP: Beyond the Economics
- 47 **David Lindsay**  
From Laggard to Leader: The Canadian Forestry Sector’s Virtuous Cycle on Climate Change
- 50 **Joseph F. Schulman**  
Letting Market Forces Lead is Best for Canada’s Railways and the Economy
- 53 **Verbatim/Brian Mulroney**  
Reforming the Senate: We Already Have a Road Map

### BOOK REVIEWS

- 56 **Geoff Norquay**  
*What’s Happened to Politics?* Bob Rae
- 57 **James Baxter**  
*Strength of Conviction* Tom Mulcair

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From the Editor / L. Ian MacDonald

# Healthcare and Innovation

Welcome to our special issue on Canadian healthcare and innovation, which we are publishing in partnership with Rx&D, “Canada’s Research-Based Pharmaceutical Companies.” While several articles in the cover package were written by industry stakeholders, the authors worked independently, and *Policy* alone is responsible for the content.

Former University of Toronto President David Naylor, Chair of the Advisory Panel on Healthcare Innovation, shares some insights from the panel’s report *Unleashing Innovation: Excellent Healthcare for Canada*.

Andre Albinati, a prominent Ottawa consultant on healthcare and health policy, writes that the Naylor Report was essentially DOA—dead on arrival. Albinati notes that after appointing the Advisory Panel in 2014, the federal government had nothing to say about its recommendations in the summer of 2015. It released the report without comment late on a Friday afternoon in July, when hardly anyone one pays attention in Ottawa.

Pollster Nik Nanos of Nanos Research looks at the historic importance of healthcare in the rankings of issues and confirms healthcare is always “a top national issue of concern” for Canadians. Looking ahead, fully 39 per cent of Canadians are concerned that healthcare in Canada will be worse for their children, while 27 per cent of respondents think it will be better. Seven Canadians in 10 also think it’s important to put money into healthcare innovation.

Speaking of innovation, Infoway Canada Chair Graham Scott writes that “far from being a cost, digital health represents an investment in the productivity, efficiency and sustainability” of healthcare.

Belinda Vandersluis notes that Canada has the highest number of clinical trials per capita of any G7 country, and argues that it’s a competitive advantage worth protecting.

Chrisoula Nikidis of Rx&D looks at actions based on values and writes that the pharmaceutical industry’s goal is to “put in place the tools that can help us enable strong ethical relationships among all actors in the healthcare system.”

Turning to pharmacare, Arthritis Society President Janet Yale points out that Canada is the only developed country with universal health not to offer universal pharmacare. She weighs in with an endorsement.

Mike Sullivan begs to differ and suggests an innovative system of tax credits as a better way to sustain drug coverage in Canada. Gail Attara, Chair of the Best Medicines Coalition, writes that coverage for medications is a patchwork and that pharmacare programs need to be reconfigured with patients in mind.

Denise Carpenter, head of the Neighbourhood Pharmacies Association, writes that healthcare solutions are literally right around the corner. Treating patients in pharmacies, she writes, “helps keep them out of emergency rooms and hospitals.”

Finally, Helen Scott writes of Canada’s trailblazing work in vaccinations—from polio to experimental work on a vaccine against ebola—in over 1,000 locations around the world.

Leading off our *Canada and the World* section, Jeremy Kinsman looks at the Greek financial crisis and its impact on the European Union. Kinsman, a former Canadian ambassador to the EU, writes that the Greek crisis has divided public opinion “into polarized national caricatures.”

Kevin Lynch, in a letter from a Ditchley Park conference on China, offers insights into the remarkable growth of the Chinese economy, poised to surpass the United States within a decade as the largest in the world. Already the world’s largest energy consumer, “China has

become the mass manufacturing hub of the world.” On geopolitical affairs, he writes, “China intends to become a rule maker, not just a rule taker.”

Canadian Chamber of Commerce President Perrin Beatty looks at the 12-nation trade talks for a Trans-Pacific Partnership and writes that Canada, as a trading nation, absolutely needs to be part of any TPP agreement encompassing 40 per cent of the world’s GDP.

David Lindsay makes the case that Canada’s forestry industry has transformed itself from laggard to leader in reducing GHG emissions in climate change. As he notes, there has been a 65 per cent reduction in the Canadian forestry sector’s GHGs below 1990 levels, far surpassing the Kyoto target of 6 per cent by 2012. The industry is also “on its way” to meeting the Copenhagen target of 17 per cent below 2005 levels by 2020, as well as the Paris target of 30 per cent below 2005 levels by 2030.

Joseph Schulman, an Ottawa consultant on transportation infrastructure, looks at regulatory issues around Canadian railways, which “move more than 70 per cent of all intercity surface goods” and “roughly half of the country’s exports by volume.”

In a *Verbatim*, former Prime Minister Brian Mulroney suggests we already have a roadmap for Senate reform. He proposes the Meech Lake formula under which senators were to be appointed by Ottawa from ranked lists furnished by the provinces. This would meet the standard for appointments in the Supreme Court’s decision in the Senate reference case, while avoiding the need for a “7/50” constitutional amendment.

Finally, we offer reviews of two timely books for this election season. Geoff Norquay provides a positive take on Bob Rae’s *What’s Happened to Politics*, while James Baxter reviews Tom Mulcair’s personal journey in *Strength of Conviction*.

Enjoy. **P**



# Unleashing Innovation— Synopsis of a Recent Policy Report

David Naylor

*The Advisory Panel on Healthcare Innovation reported in July 2015, identifying five broad themes for reform. To enable progress on these themes in partnership with stakeholders, provinces and territories, the panel also recommended creation of an arm's-length national health innovation agency. The new agency would consolidate three existing organizations, and oversee a new federal fund with a target annual outlay of \$1 billion per annum to support the development, evaluation, and scaling of sustainable healthcare innovations.*

Several observations shaped our thinking about innovation themes and policy options.

- a) Canada's provincial and territorial healthcare systems have many strong points. However, the totality of evidence and opinion left us with a strong sense that Medicare is aging badly (see, as an example, Exhibit 1 next page).
- b) Healthcare everywhere is changing in response to aging populations, the revolution in information technology, greater engagement by patients in their own care, and unprecedented advances in medical technology, most notably the emergence of data-intensive 'precision medicine'.
- c) Canada has excellent healthcare providers. However, in the current set of poorly integrated systems, these committed professionals often struggle to deliver the consis-

In June 2014, federal Health Minister Rona Ambrose launched an advisory panel to identify the five most promising areas of healthcare innovation in Canada and internationally, and recommend ways that the federal government could accelerate innovation in these areas across

the nation. After wide consultation and extensive research, the panel's 126-page report was released in July 2015. This synopsis accordingly has a greater than 500 to 1 compression ratio, but does offer readers a snapshot of the panel's framing of the issues and findings.

## Exhibit 1: National Summary Scores on Health Systems Performance

|                                       | AUS     | CAN     | FRA     | GER     | NETH    | NZ      | NOR     | SWE     | SWIZ    | UK      | US      |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>OVERALL RANKING</b>                | 4       | 10      | 9       | 5       | 5       | 7       | 7       | 3       | 2       | 1       | 11      |
| <b>Quality Care</b>                   | 2       | 9       | 8       | 7       | 5       | 4       | 11      | 10      | 3       | 1       | 5       |
| Effective Care                        | 4       | 7       | 9       | 6       | 5       | 2       | 11      | 10      | 8       | 1       | 3       |
| Safe Care                             | 3       | 10      | 2       | 6       | 7       | 9       | 11      | 5       | 4       | 1       | 7       |
| Coordinated Care                      | 4       | 8       | 9       | 10      | 5       | 2       | 7       | 11      | 3       | 1       | 6       |
| Patient-Centered Care                 | 5       | 8       | 10      | 7       | 3       | 6       | 11      | 9       | 2       | 1       | 4       |
| <b>Access</b>                         | 8       | 9       | 11      | 2       | 4       | 7       | 6       | 4       | 2       | 1       | 9       |
| Cost-Related Access Problems          | 9       | 5       | 10      | 4       | 8       | 6       | 3       | 1       | 7       | 1       | 11      |
| Timeliness of Care                    | 6       | 11      | 10      | 4       | 2       | 7       | 8       | 9       | 1       | 3       | 5       |
| <b>Efficiency</b>                     | 4       | 10      | 8       | 9       | 7       | 3       | 4       | 2       | 6       | 1       | 11      |
| <b>Equity</b>                         | 5       | 9       | 7       | 4       | 8       | 10      | 6       | 1       | 2       | 2       | 11      |
| <b>Healthy Lives</b>                  | 4       | 8       | 1       | 7       | 5       | 9       | 6       | 2       | 3       | 10      | 11      |
| Health Expenditures per Capita, 2011* | \$3,800 | \$4,522 | \$4,118 | \$4,495 | \$5,099 | \$3,182 | \$5,669 | \$3,925 | \$5,643 | \$3,405 | \$8,508 |

Adapted from Davis K, Stremikis K, Squires D, et al. *Mirror, Mirror on The Wall: How the Performance of the U.S. Health Care System Compares Internationally*. New York (United States): The Commonwealth Fund; 2014. Available from: [www.commonwealthfund.org/~media/files/publications/fund-report/2014/jun/1755\\_davis\\_mirror\\_mirror\\_2014.pdf](http://www.commonwealthfund.org/~media/files/publications/fund-report/2014/jun/1755_davis_mirror_mirror_2014.pdf)

tently high-quality care that Canadians deserve. Several professions are also constrained from using the full range of their skills by, variously, Medicare's deep but narrow scope of coverage, misaligned incentives, and outmoded regulations.

- d) The Panel was informed repeatedly about impressive innovations in healthcare at the local or regional level that were not scaled up province-wide, let alone across Canada.
- e) As is true across the OECD, provinces and territories have been making real progress in cost containment since the global financial crisis of 2008-09. However, Canada's spending remains well above the OECD average. The panel was struck by an emerging consensus that a shortage of operating funds is not the primary cause of our middling performance.
- f) Notwithstanding a number of promising initiatives by the Council of the Federation, Canada's sub-national jurisdictions lack catalytic funding and in some cases a critical mass of expertise to make substantial changes in the way their healthcare systems work.

The panel's overall diagnosis was therefore sobering: Without concert-

ed action on several fronts, Canada's healthcare systems, including the federal government's programs focusing on First Nations and Inuit health services, were likely to lose more ground in the years ahead.

These considerations also led the panel to delineate five themes for promotion of innovation and policy reform. Detailed recommendations for advancing each theme can be found in the report.

### 1. Patient Engagement and Empowerment

We found many promising initiatives in patient engagement across Canada, but these tended to be local or regional in scope. A clear gap accordingly persists between the rhetoric of patient-centred care and the reality for many patients and families—and must be closed with improvements in mobile health technology, patient portals for record access, and involvement by patients in co-designing healthcare at all levels—clinical, institutional, and system-wide.

### 2. Health Systems Integration

Better integration of care around the needs of patients has had a transformative effect on quality, continuity, and efficiency of care in US health

plans such as Kaiser Permanente or Inter-Mountain Health. Various 'Obamacare' reforms, such as bundled payment models and Accountable Care Organizations, provide models for incremental integration. Adoption of models of integrated care and budgeting is urgently needed in Canada, not least to deal with fragmentation of First Nations care or to cope with the aging of the general population.

### 3. Technological Transformation

Digital health and data-driven care hold great potential, but Canada is still lagging most peer OECD nations in standardization and uptake of information technology for healthcare. Moreover, the reliance on data-driven care is accelerating with the emergence of 'precision medicine' based on detailed biological characterization of individual patients. The panel accordingly made a number of recommendations aimed at addressing these two important and inter-related domains of technological transformation.

### 4. Better Value from Procurement, Reimbursement & Regulation

The panel concluded that, in general, Canada's healthcare systems do not have a strong value-for-money orientation. At the same time, in-

novative companies of all sizes are frustrated by a multi-tiered system for regulatory approval and fragmented purchasing arrangements in healthcare. A comprehensive suite of recommendations accordingly addressed issues ranging from collective purchasing and improved pricing of drugs to lay the foundations for pharmacare, to greater transparency in regulatory processes.

### 5. Effective Partnering with Industry

Many European nations, led by Denmark and the UK, have developed policies and processes to partner with industry for mutual benefit in healthcare delivery. Canada has lagged in this regard, but now has unrealized potential to punch above its weight in the development, commercialization, adoption and export of innovative healthcare products and services. The panel recommended federal leadership through a single organization mandated to drive opportunities for partnership of mutual benefit to industry and Canadians.

The panel heard repeatedly from stakeholders who favoured the creation of an arm's-length national innovation centre and an innovation fund as a means of breaking the current multi-jurisdictional gridlock and enabling innovation.

An innovation fund can be seen as a bookend to the 2011 decision by the federal government to slow the rate of growth in healthcare transfers to provinces and territories. These funds could support initiatives to break down structural barriers to change and accelerate the scale-up of promising innovations. In contrast to past practices and accords, monies would not flow on a formulaic basis to all jurisdictions. Funds would instead support initiatives leading to sustainable and scalable innovations in healthcare delivery, proposed by 'coalitions of the willing'—jurisdictions, institutions, providers, patients, industry and committed innovators of all backgrounds. The target outlay for the fund was benchmarked at \$1 billion per annum, fiscal circumstances permitting. The panel also emphasized the need

“Canada’s healthcare systems do not have a strong value-for-money orientation. At the same time, innovative companies of all sizes are frustrated by a multi-tiered system for regulatory approval and fragmented purchasing arrangements in healthcare.”

for staged growth towards this level of spending, with rigorous selection criteria, performance parameters, and measurement of milestones for any projects. This target reflects the fact that Canada spends about \$220 billion a year on healthcare. Moreover, spending on health-related research and development in Canada is modest, with very little indeed directed to turning R&D into value-generating innovation. Last, in the latest federal budget, after eliminating debt-servicing costs, Ottawa spent \$265 billion on programs and people—against which the proposed maximum outlay of \$1 billion per annum amounts to less than 0.5 per cent.

The new innovation agency would be supported from the fund, and also oversee its external allocations. The agency would draw on staff from the Canadian Foundation for Healthcare Improvement, the Canadian Patient Safety Institute and, after a transition period for completion of existing projects, Canada Health Infoway, consolidating the mandates of these agencies, and creating a centre of expertise to support sustainable improvements in healthcare delivery.

Two other cross-cutting foci for federal action were identified by the panel. The first is consensus building across jurisdictions on ethical and social issues, or, where applicable, passage of relevant federal legislation, e.g. patient protection against potential genetic discrimination. The other is a new refundable health tax credit to mitigate the effect of rising out-of-pocket spending on healthcare. These costs bear differentially on the elderly and those of any age with low incomes and chronic diseases. The tax revenue foregone would be offset by taxing employer-funded health benefits, as already occurs in Quebec.

Canada’s healthcare systems remain a source of national pride, providing important services to millions of Canadians every week. Nonetheless, the scope of public coverage is narrow, our overall performance by international standards is middling, and serious pressures on the system can be anticipated in the next fifteen to twenty years.

The panel was well aware of the recurrent inter-jurisdictional tensions that have arisen around Medicare, and the appeal of disentanglement. On the other hand, the reality is that Canada’s national set of medicare programs was effectively created by Conservative and Liberal governments through three landmark pieces of legislation in the 1950s, the 1960s, and 1980s. Moreover, the proposed model for re-engagement by Ottawa seeks to side-step the pitfalls of conditional fiscal federalism in the mutual interests of all jurisdictions.

The panel understands that this model depends on an ethos of partnership, and a shared commitment by all governments to scale existing innovations and make fundamental changes in incentives, culture, accountabilities, and information systems. While this may seem to be a tall order, the stakes are high. Absent concerted action of this nature by the federal, provincial and territorial governments, there is every probability that Canada’s healthcare systems will continue to lose ground relative to international peers. **P**

*David Naylor is Professor of Medicine and President Emeritus at the University of Toronto. In 2014-15, he chaired the federal Advisory Panel on Healthcare Innovation. A full list of panel members and biographies can be found at [www.hc-sc.gc.ca/hcs-sss/innovation/memb-eng.php](http://www.hc-sc.gc.ca/hcs-sss/innovation/memb-eng.php). [david.naylor@utoronto.ca](mailto:david.naylor@utoronto.ca)*



As the baby-boomer generation retires and lives longer, the demands on Canada's healthcare system will only grow. A system in which the Naylor Task Force found "some extraordinary creativity and innovation," writes Andre Albinati. iStock photo

# "Zombie" Policy Making and the Politics of Healthcare

Andre Albinati

*There are few tasks more thankless than delivering federal spending prescriptions during an election campaign, especially when the incumbent government doesn't necessarily agree with them. But there are ways in which the Naylor report on Canadian healthcare can be salvaged for parts.*

Canadian policy makers have missed yet another opportunity to help shape Canadian health policy at a key moment when leadership is required more than ever.

In June 2014, Health Minister Rona Ambrose handed former University of Toronto President David Naylor the daunting task of chairing a task force on increasing health-system sustainability through promoting and lever-

aging innovation. How to make the system work better for Canadians and for patients?

Dr. Naylor and his Advisory Panel on Healthcare Innovation travelled the country and heard from hundreds of stakeholders prior to turning in their report, *“Unleashing Innovation: Excellent Healthcare for Canada”*, in June 2015. Posted online by the government on a late Friday afternoon of a hot July weekend, the report, like many before it, was met with deafening silence. Late Fridays are reserved primarily for governments releasing appointments or policies that they are not keen on showcasing to the media, and as a result to the electorate at large.

Reporting as they did just prior to a hotly contested three-way election race, the report’s authors made it easier for the government to bury their news by neglecting to align their recommendations to the clear political context.

For his part, during a roundtable following the report release at MaRS in Toronto, Naylor acknowledged that his panel in effect had released a “zombie report” that was dead on arrival in official Ottawa. Their remaining hope was that the report would have some life in the months following an election.

There was much to commend in the report. It had, after all, provided a thorough assessment of the current state of healthcare innovation in Canada.

The Naylor panel found that the scope of public coverage in Canada is narrow; the overall performance is middling by international standards, while spending is high relative to many OECD countries; and Canada appears to be losing ground in performance measures relative to its peers.

In regions and provinces across the country, they found some extraordinary creativity and innovation in Canadian healthcare systems that is worthy of emulation, but too many

**“The Naylor panel found that the scope of public coverage in Canada is narrow; the overall performance is middling by international standards, while spending is high relative to many OECD countries; and Canada appears to be losing ground in performance measures relative to its peers.”**

barriers to local innovative healthcare practices being scaled-up across the nation. Specifically, the system is fragmented and lacks the dedicated funding and mechanisms to drive systemic innovation.

The panel identified a series of barriers to innovation in Canada’s healthcare system:

- A lack of meaningful patient engagement
- Outmoded human resource models
- System fragmentation and inadequate health data and information management capacity
- A lack of effective deployment of digital technology
- Barriers for entrepreneurs
- A risk averse culture and
- Inadequate focus on understanding and optimizing innovation.

Their five identified areas for action also appear to make sense:

1. Patient engagement and empowerment
2. Health systems integration with workforce modernization
3. Technological transformation via digital health and precision medicine
4. Better value from procurement, reimbursement and regulation
5. Identifying the industry as an economic driver and innovation catalyst.

What is less clear though is whether the panel understood why the report failed to launch and why it is unlikely to resonate in any meaningful way with policy makers busy writing plat-

forms and seeking advantage during an election. The panel, as have many before it, overreached and in doing so, doomed its work.

- Rejecting the parameters of the mandate you’ve been given by a government is not the most effective way to ensure that your recommendations are adopted. The government had asked for “revenue neutral” recommendations that suggested neither significant cuts nor major expenditures. The panel explicitly rejected this directive as its starting point.

**“Recommending that an annual incremental expenditure of \$1 billion be provided to a new amalgamated innovation entity fails to recognize that Ottawa does not have a dependable surplus.”**

- Want to kill policy momentum? Focus on process rather than outcome and suggest government machinery changes as a panacea to all that ails. In this case, the amalgamation of a number of organizations, most of which are unknown to anyone except those deeply involved in the system. In the case of Canada Health Infoway, amalgamation might actually destroy its momentum in bringing provinces to the table to enable health solu-

tions like electronic health records to be implemented.

- The era in which a strong and in-your-face federal government tried to lever change in provincial health systems has long since passed. Recommendations that consolidate provincial initiatives into the federal sphere, like the pan-Canadian Pharmaceutical Alliance initiative currently run by the Council of the Federation and based out of Toronto, are not a good idea. Federal government oversight does not a problem solve. While the Harper Conservatives have been overly focused on the jurisdictional divisions of power in the British North America Act of 1867, it is obvious that even the opposition Liberals and NDP, despite their preference for more national focus and co-operation, do not believe that more federal health bureaucracy is the way forward.
- Recommending that an annual incremental expenditure of \$1 billion be provided to a new amalgamated innovation entity fails to recognize that Ottawa does not have a dependable surplus. Dollars are scarce and the political determination to spend on visible consumer benefit remains the government's focus. The department of finance demands hard metrics focused on the return on investment for the dollars it sends out the door and transparency in its grant and program funding—that is to say, visibility to average Canadians. It also prefers to fund time-limited endeavours for specific initiatives that can then be moved to sunset rather than ongoing efforts with no clear end date and amorphous mandates.
- Finally, it is counter-productive to call for private sector innovation while slapping innovative pharmaceutical companies creating novel intellectual property through new precision medicine therapies and technologies. The report's failure to acknowledge the savings to health systems through better patient

health management and medicines over expensive and invasive procedures is unfortunate.

Failing to work backwards from what is doable in a current political context is a recurrent problem that has plagued many academics and former politicians. Failing to accept real-world political implications and barriers to implementation isn't an effective approach to providing sound policy advice. We all want to believe that sound policy trumps banal and sometimes counter-productive political imperatives. Much more often than we would think possible, it does not. Just look at any long-term policy challenge involving significant change that runs up against short-term political calculation that privileges the status quo. It tends to lead to a clear, winning one-way bet on inaction.

**“Healthcare continues to be largely ignored by federal party leaders. Discussions are incremental. The federal government is noncommittal, and yet, opinion research shows that it remains an area of high priority to Canadians—one that frightens people on a personal level.”**

And this isn't the first time that an important health policy report has not led the way to meaningful and effective health policy reform. The release of the Romanow Commission Report in 2002 was another missed opportunity. Instead of striving toward a more innovative culture within the Canadian health system, the report was seen as largely defensive and focused on incremental cash. Prime Minister Chrétien shrugged his shoulders. In 2004, Paul Martin found his hands still tied by jurisdic-

tional barriers and ended up negotiating a 10-year health accord with the provinces that featured at its heart a six per cent-a-year funding escalator but no real commitment to fundamental change.

Chris Ragan, a McGill economics professor and past visiting economist to the federal department of Finance, hit the alarm bell for policy makers more than five years ago, by pointing to four key fiscal challenges faced by Canadian governments, including our aging population and its impact on health system sustainability. The future unsustainability of the system also was an underlying driver identified years before that, as Finance Canada grappled with Canada Pension Plan reform and federal health-care transfers.

Governments are once again beginning to wrap their heads around some of these challenges—but doing so in a worldwide economic downturn.

The domestic impact has been severe. This summer, the Parliamentary Budget Office looked at government fiscal sustainability and noted that “subnational governments cannot meet the challenges of population aging under current policy.”

Healthcare continues to be largely ignored by federal party leaders. Discussions are incremental. The federal government is noncommittal, and yet, opinion research shows that it remains an area of high priority to Canadians—one that frightens people on a personal level.

The Privy Council Office's most recent tracking of issues of importance to Canadians in February 2015 shows that our “healthcare system” is the second most commonly mentioned area people want the federal government to focus on, ranking behind only the economy and roughly tied with employment/job creation. For the governing party, demographic analysis shows that speaking about the economy and jobs rather than healthcare aligns best with those groups most likely to vote Conserva-

tive in October: men, those aged 55+, Ontario residents, new Canadians.

**H**owever, the fact remains that the issue's importance lingers and while Canadians may be able to rationalize ignoring the issue in favour of other crises, the vast majority harbour some significant anxiety toward health sustainability. More specifically, about their ability to access the system when they most need it.

In this environment, there should be a public appetite for solutions and an opportunity for a champion to gather together a broad constituency of support, particularly if the following conditions are incorporated into policy proposals:

1. Is the federal government seen as being able and likely to spend wisely in this area?

2. Does spending in this area hamper the ability to alleviate greater fears (i.e., economy, employment)?

Finding solutions to improving Canada's healthcare system has the potential to resonate strongly with Canadians for our political parties—assuming Canadians recognize the solutions as ones that help alleviate their greatest fears and focus on improving their personal experience within the Canadian health system.

While the challenges are immense and the public will should be ready, there is little policy-making capacity remaining in government departments like Health Canada to implement solutions. For those who are left, and for the experts to whom they reach out for proposed solutions, it is imperative they take the time to understand the political and the policy environments in which they are operating.

Without this integrated approach, we'll have growing gangs of policy zombies offering solutions that are out of the reach of politicians and Canadian patients. Getting this wrong means the continuing degradation of the system until the feared sustainability crisis becomes all too real. **P**

*Andre Albinati is a principal of Earncliffe Strategy Group. His practice focuses on healthcare and related public policy issues. He is also President of the Government Relations Institute of Canada (GRIC). [andre@earncliffe.ca](mailto:andre@earncliffe.ca)*

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The economy may be the top of mind issue in the election, but healthcare is always a leading concern for Canadians. CPC photo, Jason Ransom

# Will Healthcare Be the Sleeper Issue of the 2015 Campaign?

Nik Nanos

*As Canadians live through an 11-week federal election campaign whose marquee stump issues so far have been the economy and security, pollster Nik Nanos reminds us that voters tend to rate their concerns based on an issue's immediate relevance to their daily lives. With Canadians living longer and governments both federal and provincial pressed to reconcile the need for innovation and the imperative to cut costs, a campaign debate on healthcare may be unavoidable.*

**S**leeper issues, if activated during campaigns, can make or break the winnability of a party. Healthcare fits the bill of a sleeper issue. Although the top-of-mind issue frame continues to be dominated by economic issues, scratch the surface, and healthcare is lurking in the minds of Canadians and they are ready for a national dialogue on this critical issue.

Look at the long-term Nanos trend

[Question 1] on the top unprompted national issue of concern and it's easy to see that when economic times are good (or perhaps we should say, not bad) healthcare dominates as the top national issue of concern. When healthcare is in the news, for instance, during the work of former Senator Michael Kirby or Roy Romanow under the Liberals, it clearly dominated the attention of Canadians—who were open to solutions to make public healthcare stronger. Prior to 2008, when the performance of the Canadian economy was steady, there was a healthcare fixation. Even with the economic focus now, the long-term trend is that on any given day healthcare is guaranteed to be either issue number one, two or three among Canadians.

The 2008 financial crisis and the ensuing Great Recession were key pivot

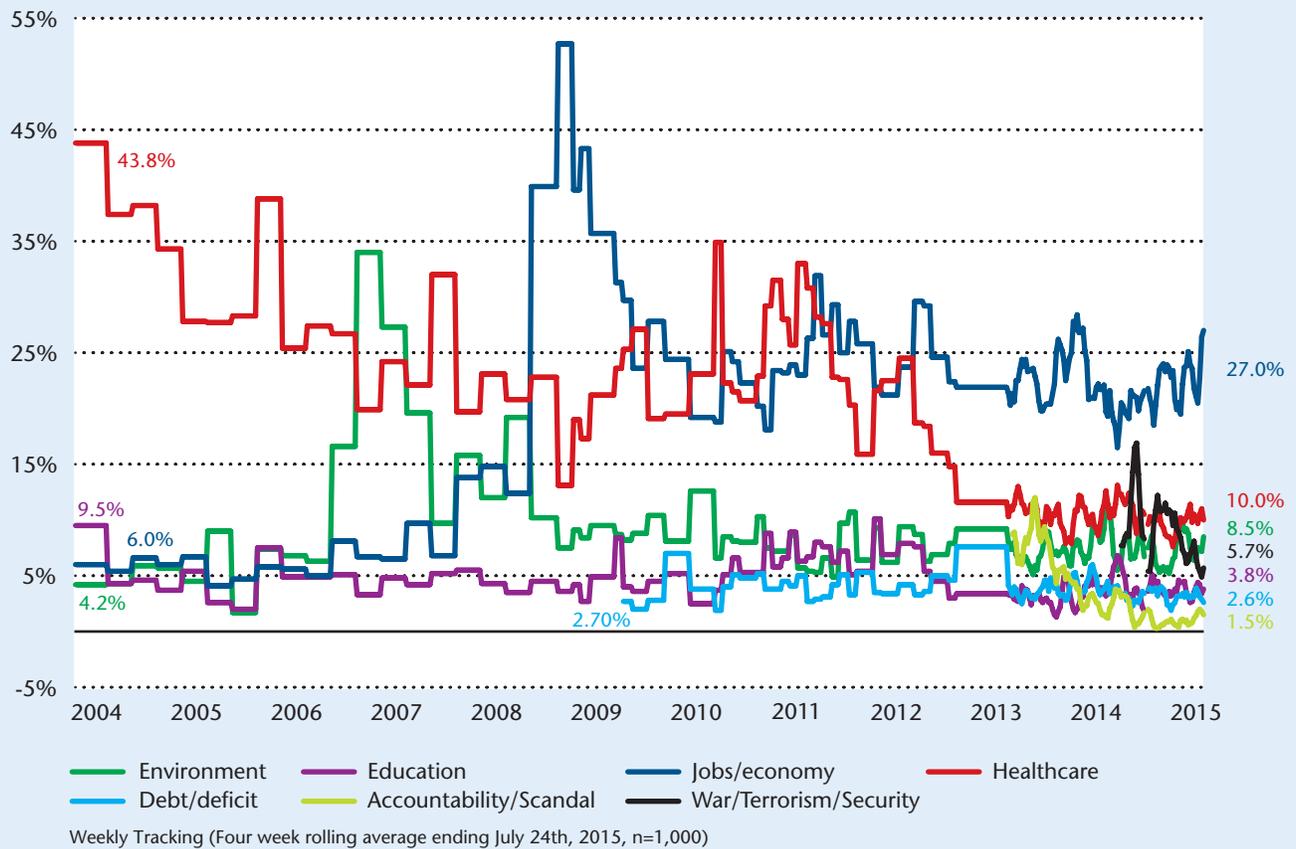
**“ Even with the economic focus now, the long-term trend is that on any given day healthcare is guaranteed to be either issue number one, two or three among Canadians. ”**

points which saw the economy overtake healthcare as the top national issue of concern. Even though Canadians might be concerned about the wait time for their mother's hip replacement or not having access to the latest medicines, not having a job or being worried about whether one's children would get a job once they finished school trumped concern about healthcare.

**W**hen considering what drives vote behaviour and opinion, think in terms of

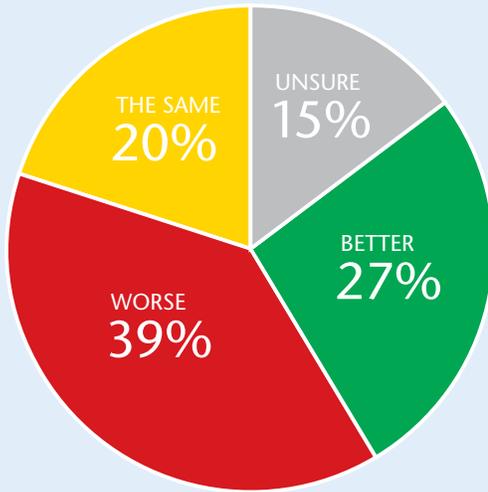
proximity. That is the clear dividing line between what Canadians take an interest in and what actually influences their behaviour. When Canadians are worried about their job security, you have their attention. When the system has trouble approving and delivering the latest vaccines to fight the latest threat to the health of Canadians, you also have their attention. Of course, Canadians care about issues like the environment and are interested in the issue—but the environment does not have the same political punch in terms of proximity—because

**Question 1: What is your most important NATIONAL issue of concern? [UNPROMPTED]**



Source: Dual frame (land + cell) RDD telephone survey of 1,000 Canadians—four week rolling average of 250 interviews per week conducted between June 28th and July 24th, 2015. The margin of error for a survey of 1,000 Canadians is ±3.1 percentage points, plus or minus, 19 times out of 20.

**Question 2: Do you think that the quality of healthcare in Canada will be better, worse, or the same for your children?**

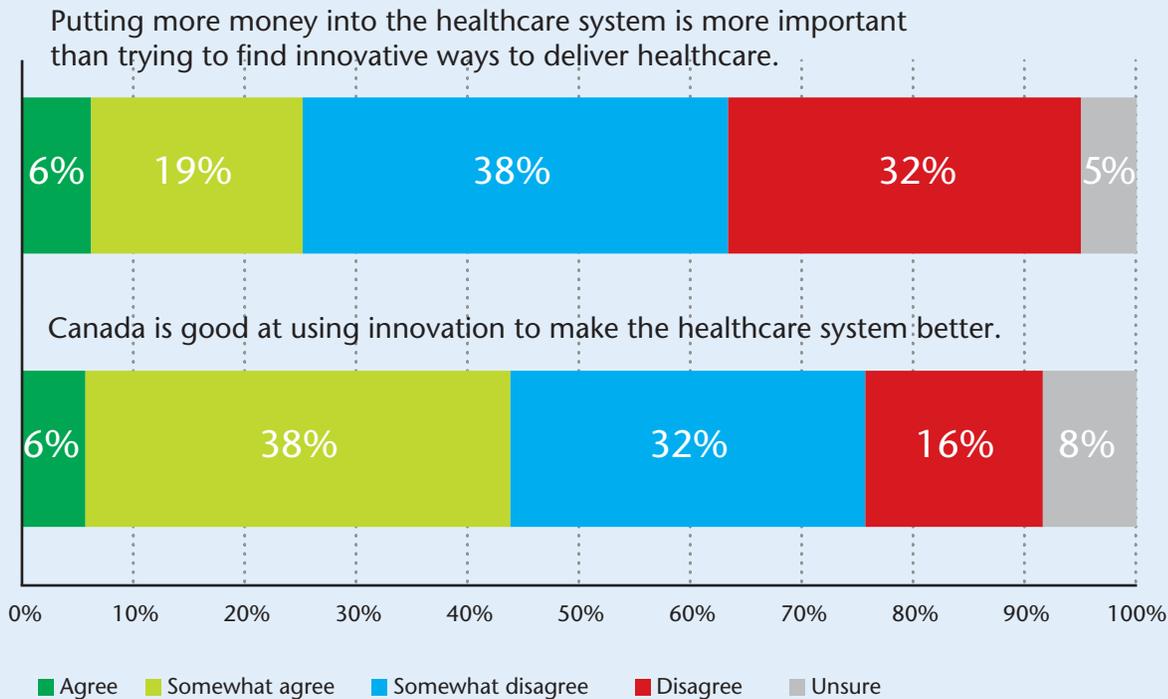


\*Note: Charts may not add up to 100 due to rounding

issues like climate change are high-level and not as directly connected to the immediate concerns of Canadians as the economy and healthcare. However, if girls and boys living in our communities start getting asthma because of poor air quality, expect the environment to rise as an issue as it intersects with healthcare and the ensuing need for our healthcare system to respond to our children’s wellbeing.

Asked about the future, only a minority of Canadians (27 per cent) think the quality of healthcare in the future will be better for their children. Canadians are much more likely to think that it will be worse (39 per cent) or the same (20 percent). [Question 2] The kicker is that Canadians don’t think more money is the answer—the confidence in innovating is mixed [Question 3] with Canadians gener-

**Question 3: Do you agree, somewhat agree, somewhat disagree or disagree with the following statements related to innovation in healthcare.**



\*Note: Charts may not add up to 100 due to rounding

Sources for Questions 2 and 3: RDD dual frame (land-and cell-lines) hybrid telephone and online random survey of 1,000 Canadians between September 13th to 16th, 2014 as part of a Canadian omnibus survey. The sample included both land-and cell-lines across Canada. The margin of error for a random survey of 1,000 Canadians is ±3.1 percentage points, 19 times out of 20. The research was commissioned by McKesson Canada.

#### Question 4: What would you say is the number one challenge facing healthcare in Canada today? [OPEN-ENDED]

| Challenge   | Frequency (n=254) |
|---|-------------------|
| Lack of access / equal access to services and medicine (across geographic regions/for all)  | 20.5%             |
| Sustainability/effective management of existing resources   | 18.9%             |
| Lack of funding/rising costs for healthcare services and drugs  | 16.9%             |
| Aging population  | 9.4%              |
| Lack of timely access/Long wait times   | 9.1%              |
| Lack of focus on prevention and long term care  | 7.1%              |
| Lack of innovation, change and aversion risk taking   | 4.7%              |
| Increasing demand on an inefficient system  | 4.3%              |
| Lack of/slow integration of new technologies/medicines  | 2.8%              |
| Issues related to the cooperation or lack thereof amongst provincial governments and their relationship with the federal government | 2.4%              |
| Lack of leadership/ability to implement reform  | 2.4%              |
| Inadequate integration between private and public systems/Lack of alternatives outside public system                                | 1.6%              |

Source: Compiled views of 282 healthcare stakeholders between March 30 and April 30, 2015. Readers should note that the research is representative of the participants and should not be projected to any population, elite or general. The research was commissioned by Rx&D and independently administered by Nanos Research from research design through to administration and analysis.

ally being divided as to whether they thought we were good at innovation according to a survey conducted for McKesson Canada. If we can't agree on whether we are good at innovating in healthcare that likely means we are weak on innovation. This is where the importance of developing and getting access to the newest medicines and renewing our healthcare system with innovative ways to deliver care are key to the sustainability of the system.

This begs the question, "What do Canada's top thinkers in healthcare believe are the key challenges?" In a recent study of Canada's top healthcare influencers conducted for Canada's Research-Based Pharmaceutical Companies we asked the question [Question 4], what is the number one challenge facing healthcare in Canada today. This elite survey of leading patient advocates, healthcare providers, policy makers and the like said that the number one challenge related to lack of access, whether it be access to services

or medicines (21 per cent). The next most important issue, sustainability/need to manage resources better (19 per cent) followed by lack of funding (17 per cent).

**“ Perhaps the message from average Canadians is—spend within your means on healthcare but ramp up innovation—we want faster access and newer medicines. ”**

Look at the views of the general public and healthcare thought leaders suggests the possibility of an emerging innovation nexus where new ideas to deliver healthcare and to access services and the latest medicines become the potential solution for making our healthcare system sustainable. There is one potential point of division and it relates to funding. Canadians

are not as convinced as healthcare thought leaders that we need more funding. Perhaps the message from average Canadians is—spend within your means on healthcare but ramp up innovation—we want faster access and newer medicines.

The reality is that while both federal and provincial governments face a significant fiscal burden in uncertain economic times, the most prudent short term path forward is likely to focus on “innovation within our means” to manage the short-to-medium-term situation. When the economy is stronger, government would then shift to an “aspirational innovation agenda” whereby governments strategically invest in healthcare in order to improve and enhance a patient agenda which is focused on quality and access. **P**

*Nik Nanos is the Chairman of Nanos Research and the official pollster for CTV News and the Globe and Mail. [nnanos@nanosresearch.com](mailto:nnanos@nanosresearch.com)*



A doctor and her patient look at digital medical information on an iPad. It's part of keeping up to date in the latest medical technology. Infoway Canada photo

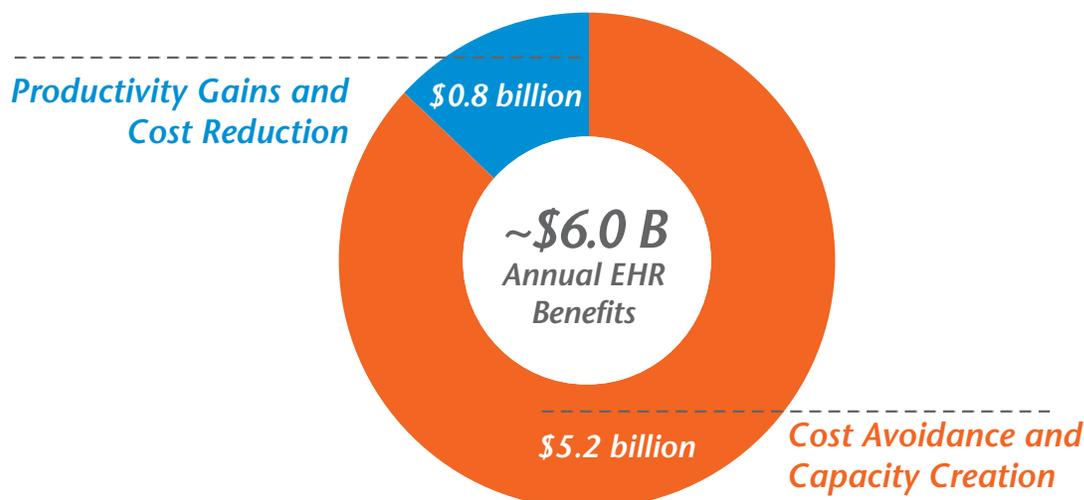
## The Next Frontier of Digital Health: Putting the Patient First

Graham Scott

*The domestic digital health industry contributes \$1.5 billion to the economy and electronic medical records are now used by 77 per cent of family physicians. Despite that progress, few digital health tools are actually in the hands of patients. Canadians should not have to wait for a “black swan” event to take full advantage of technology. By working together, Canadians can build on the foundation of the last decade and realize the full value of digital health.*

**W**hy is healthcare one of the last remaining facets of society to take full advantage of the power of technology, particularly in patient-facing aspects of the business? Why has change been so slow and what will it take to move this \$215 billion sector that serves 35 million Canadians each and every year?

History tells us that wholesale change is often brought about by cataclysmic experiences—so-called “black swan” events that transform the very face of society and culture. The development



## ACCESS QUALITY PRODUCTIVITY

*Cost Avoidance / Capacity Benefits => reduction in medication errors and adverse drug events*

*Productivity Benefits => improvements in radiology productivity and reductions in tests and film / space costs*

of the microprocessor led to the launch of personal computing and the iPod caused massive upheaval for the music industry. Does transformative change in healthcare require a black swan event?

I suggest that we don't need to wait for a black swan event; we are on the cusp of change and building on the foundation of the last decade, a fully digital healthcare system is within our reach.

**“ We've come a long way in a decade: 91,000 clinicians now use an electronic health record; 77 per cent of family doctors now use an electronic medical record; and according to the OECD, Canada is a world leader in telemedicine. ”**

So where are we, really?

With the support of the provinces and territories we've come a long way in a decade: 91,000 clinicians now use an electronic health record; 77 per cent of family doctors now use an electronic medical record; and according to the OECD, Canada is a world leader in telemedicine.

At the often overlooked macroeconomic level, the domestic digital health industry generates approximately \$3.4 billion in revenues annually, and contributes an estimated \$1.5 billion to Canada's GDP. The sector also employs an estimated 47,400 professionals, and more than 32,000 new jobs are expected to be created between now and 2020. Far from being a cost, digital health represents an investment in the productivity, efficiency and sustainability in one of the most vital sectors in our economy.

We've certainly had remarkable success and we've achieved much, but

we're not where we want to be, so what exactly is holding us back?

**“ Far from being a cost, digital health represents an investment in the productivity, efficiency and sustainability in one of the most vital sectors in our economy. ”**

Universal healthcare remains a core value of Canadians, but funding is simply not keeping up with the costs, particularly when each province, territory, region, hospital, clinic and practice operates within their own silo, creating centres of excellence, but also independent islands of 'have' and 'have not' that ultimately impact patient safety. Conflicting privacy protections and policy and

legislation that haven't kept up also haven't helped.

**E**xacerbating these challenges is the chasm between clinicians, patients and vendors, each with their own priorities and expectations. And above all else, it is the patient who simply wants online access to their healthcare providers and health information in the same way they have accessed their banking information and their travel information for many years that is the most compelling impetus for change.

If we are to change, and change we must, we will be required to embrace a new way of thinking about healthcare and what it means to Canadians.

Digital health used to be about getting the technology in place: Standards, architecture, terminology and the like. And while these important aspects have not gone away, their purpose has evolved. Today, patients, their safety and their comfort are at the heart of digital health transformation.

**T**he reasons for this change are those undisputable realities that have placed unprecedented pressure on the healthcare system: Our population is aging and will need healthcare more often and closer to home. Today, the evolution away from a hospital-centric system to a decentralized network that facilitates prevention, monitoring and treatment is a reality. Coordinating and linking the information between patients and multiple points of care is impossible without digital health.

As society has evolved, so too has Canada Health Infoway. In our infancy, we invested federal government funds alongside provinces and territories to build the infostructure to support a pan-Canadian digital health system. Today we are completing that work and embarking on the next phase of the journey: Building on the infostructure to meet patient needs through innovative patient-facing access and convenience solu-

tions, and growing adoption of solutions and sharing of information through collaboration.

But the next phase in the evolution will not be met unless all those partners resolve to finish the job.

**“ Success will be achieved by focusing on patient needs; extracting the full value of data through analytics and by focusing on interoperability so healthcare providers can securely share information to protect patient safety and inform clinical decisions. ”**

Success will be achieved by focusing on patient needs; extracting the full value of data through analytics and by focusing on interoperability so healthcare providers can securely share information to protect patient safety and inform clinical decisions. And it's not just about funding but revenue generation and benefits realization so we can engineer projects to scale and spread across the country, leading to maximized efficiency and productivity.

But right now, it is not certain that this is going to happen. In fact, Infoway's project funding is now fully committed and we have not received funding for this next stage in either of the last two federal budget cycles.

We don't need to wait for the black-swan event to achieve our vision of healthier Canadians through digital health. In addition to funding, there are five commitments that have always guided our work, and that we can all use to achieve the healthcare transformation in Canada we desire:

1. Plan for the patient, with the patient.

2. Repeat, don't recreate.

3. Information should be borderless.

4. Data in, value out.

5. Privacy & safety by design, not by accident.

**B**y working together, we can build on what's already been accomplished to improve patient access and enrich clinical decision making; we will improve equity of access to healthcare across the country; and in the process, generate much needed knowledge-based jobs for Canadians.

Digital health advances made in the past decade have yielded improved patient care and health system benefits but the next stage will require funding and commitment to see this through to the end.

Let's not wait for another black swan event to see this transformation come to life. **P**

*Graham Scott currently serves as Chair of Canada Health Infoway and is Vice Chair Enterprise Canada and partner emeritus at McMillan LLP.*

*He has extensive experience in the public service, public policy, governance and accountability, and works primarily on healthcare policy.*

*gscott@enterprisecanada.com*



Canada has the highest number of active clinical trials per capita of any G7 country, a comparative advantage worth keeping.

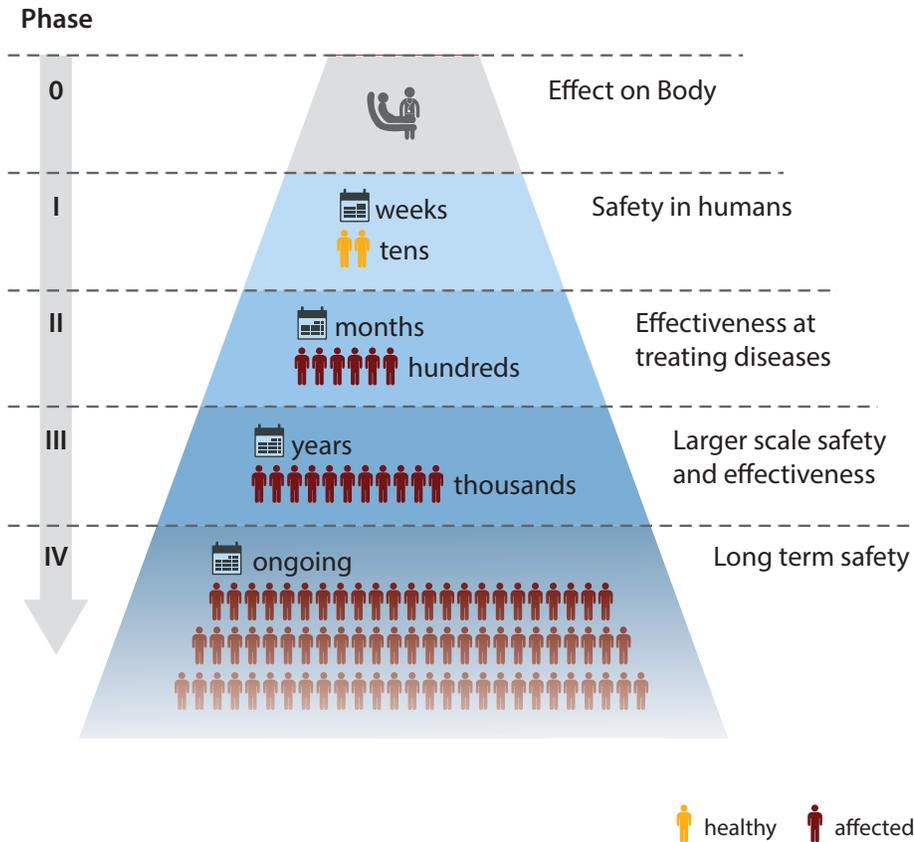
## Canada's Leadership in Clinical Trials: An Edge Worth Protecting

Belinda Vandersluis

*Most of today's curative treatments, vaccines and medicines owe their existence to clinical trials—studies that test new therapies on patients to evaluate their benefits before bringing them to market. Clinical trials not only save lives, but contribute substantially to the Canadian economy, and result in novel and effective tools and treatments for cancer and many other illnesses.*

**C**ould a virus help cure cancer? Canadian researchers have recently launched the world's first clinical trial that combines two engineered viruses to attack cancer cells and produce an anti-cancer immune response to prevent them from returning. If successful, the treatment could have fewer side effects than traditional chemotherapy and radiation treatments, and provide a new tool in the fight against cancer. The study is an excellent example of the powerful way that investment in research trials can advance discovery and change lives.

## Phases in a Clinical Trial



Most of today's curative treatments, vaccines and medicines owe their existence to clinical trials, studies that test new therapies on patients to evaluate their benefits before bringing them to market. Along with being a critical step to bringing new medicines, vaccines and devices to improve our quality of life, clinical trials give Canadians tailored care that meets their needs by using family history and details about individual habits and lifestyle to create personalized therapies and treatments and therapies. They also allow Canadian healthcare professionals and hospitals to introduce innovative new therapies.

Clinical trials are conducted in practically every aspect of medicine, and can be local, national or international in nature. Along with advancing knowledge in healthcare, they are an important economic engine in terms of revenue, job creation and spin-off companies. The Canadian pharmaceutical industry supports 34,000

high-quality, well-paying jobs in Canada. Our industry creates an overall economic impact of more than \$3 billion a year on Canada's economy. Close to 70 per cent goes towards clinical trials.

Canada's Research-Based Pharmaceutical Companies annually invest more than \$1 billion into the discovery and development of new medicines and vaccines.

Clinical trials also attract key clinician-scientists to Canada, who provide leading-edge care to patients while conducting studies that lead to innovative therapies and treatments. Canada's health science research community has over 30,000 investigators across the country, with nearly 3850 ongoing active clinical trials in Canada. We are also home to many world-class research hospital and educational institutions, which bring in high levels of government grants and private research dollars.

It's no surprise that the world's top 10 pharmaceutical companies regularly conduct clinical trials in Canada. Canada is a leader in active clinical trials and has the highest number of active clinical trials per capita among G7 nations. The country's robust clinical trial infrastructure means an abundance of highly skilled and experienced personnel and companies to do the job. Our research covers clinical trials across all major fields of medicine such as cancer, CNS, metabolic and cardiovascular disease; and our researchers are globally renowned for their work. The quality of Canadian clinical research is outstanding, thanks to several unique assets such as our ethnically diverse population and universal healthcare system, which ensures a high standard of care for patients before, during and after the clinical trial period, resulting in superior data accuracy from all trial sites.

**“ The Canadian pharmaceutical industry supports 34,000 high-quality, well-paying jobs in Canada. Our industry creates an overall economic impact of more than \$3 billion a year on Canada's economy. Close to 70 per cent goes towards clinical trials. ”**

Along with driving global innovation for improved healthcare, clinical trials make a real difference to the lives of Canadians who participate in these studies. Therapies and treatments tested within trials have saved lives, reversed illnesses and given healthcare professionals new tools to diagnose, treat and prevent disease. They give Canadians access to talented clinician-scientists and provide mentors to our next generation of highly qualified personnel.

We are, however, facing mounting challenges from both traditional and emerging countries competing for these trials and the scientific and economic benefits that they bring to our country. It's estimated that a decline in Canadian trials represents a loss of \$300-\$500 million per year.

The Canadian Clinical Trials Coordinating Centre (CCTCC) was developed to reclaim Canada's position as a leader in the clinical research enterprise, to strengthen our clinical trials and streamline processes for companies and researchers, and to present a unified national voice for clinical trials to the international community's key opinion leaders.

A collaborative effort of the Canadian Institutes of Health Research (CIHR), Canada's Research-Based Pharmaceutical Companies (Rx&D), and a collaborative of national healthcare organizations (HealthCareCAN), the CCTCC is working to leverage our research talent and facilities, and showcase them to the global community, while increasing access to these valuable studies for Canadians.

The CCTCC's National Advisory Group is a testament to Canada's united approach to advancing clinical research. Comprised of leaders from industry, academia and healthcare institutions, the advisory group provides tactical guidance for implementing strategies to attract more clinical trials to Canada and to strengthen clinical trials to help attract research investment. The Centre is also housed at the Health Charities Coalition of Canada, providing a natural and valuable connection to patients and patient advocates.

Since its inception in 2013, the CCTCC has been working with the Department of Foreign Affairs, Trade and Development (DFATD), to commission an Investment Case to highlight Canada as a top investment location for foreign company clinical trials. The business case provides an overview of the clinical trials landscape in Canada, and highlights the key fac-

**“ We are, however, facing mounting challenges from both traditional and emerging countries competing for these trials and the scientific and economic benefits that they bring to our country. ”**

tors that make Canada a global leader in quality clinical trials. It also signals the highly collaborative partnerships between government, industry and academia that support a stable, high quality clinical trial environment.

The Centre's coordination on a National Patient Recruitment Strategy will reduce patient recruitment times through a database of registries with appropriate consent and privacy considerations that will help to identify patients that may be eligible for feasibility studies and enrolment in clinical trials. The registries benefit researchers, but also Canadians who want to become more involved in these types of studies. According to a recent survey commissioned by Research Canada, 70 per cent of Canadians feel that health research is part of the Canadian culture and 70 per cent of Canadians also feel that they would like to get involved in health research.

**“ According to a recent survey commissioned by Research Canada, 70 per cent of Canadians feel that health research is part of the Canadian culture and 70 per cent of Canadians also feel that they would like to get involved in health research. ”**

Map (CCTAM), a pan-Canadian database designed to showcase Canada's clinical research capacities. This dynamic, online database includes details on clinical trial sites, research networks, research ethics boards, institutions/hospitals and individual clinical research experts, and will help advance Canada's clinical research capabilities. The CCTAM offers tremendous marketing benefits to clinical research organizations and investigators and will allow clinical trial sponsors to place trials effectively and efficiently reducing clinical trial start-up times.

The CCTAM database is the only pan-Canadian, fully inclusive database that is bilingual, free to use, easy to search, comprehensive and regularly updated. The Asset Map already has over 880 database records, and an upcoming update will allow users to search by federal riding boundaries.

Clinical trials save lives, they contribute substantially to our economy, and they result in novel and effective tools and treatments for cancer and many other illnesses. Canada has an important role to play in uniting clinical trials stakeholders to invest in research. **P**

*Belinda Vandersluis is the Director, Implementation, of the Canadian Clinical Trials Coordinating Centre. [bvandersluis@cctcc.ca](mailto:bvandersluis@cctcc.ca)*

**T**he CCTCC also helped facilitate the creation of the Canadian Clinical Trials Asset

# Actions Based on Values

## THE INNOVATIVE PHARMACEUTICAL SECTOR'S PATH TO INTEGRITY

Chrisoula Nikidis

*The pharmaceutical industry has been sending a clear signal: we are committed to ethical practices. Our industry has—in the past—been plagued by negative public perceptions, particularly with regards to our business ethics. Most of us can agree that innovative medicines and vaccines save lives. But that's not where our contribution ends. We have worked closely with our global partners to put in place the tools that can help us enable strong, ethical relationships among all actors in the healthcare system.*

The pharmaceutical industry, in Canada but also internationally, is convinced of the adage that we are stronger when we work together with our partners. Our goals are aligned with the broader healthcare community: we want to ensure patients have the best possible health outcomes while ensuring the long term sustainability of the healthcare system.

These notions are important when we consider the exciting pharmaceutical research we work on with partners across the life sciences spectrum.

Rx&D represents Canada's innovative pharmaceutical industry. Our membership consists of more than 50 companies, from established organizations to fledgling start-ups, all of whom are revolutionizing healthcare through the discovery and development of new medicines and vaccines. Guided by a strict Code of Ethical Practices, we work with governments, insurance companies, healthcare professionals and other stakeholders to advance the field and enhance the wellbeing of Canadians.

We believe in ensuring that Canadians have access to the innovative treatments they need and that our

activities are a fundamental part of safeguarding our healthcare system for future generations. Our work allows our members to focus on what matters: delivering better healthcare solutions to Canadians.

As an association, Rx&D works with other associations worldwide.

The International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) has existed for nearly 50 years and is a global, non-profit, nongovernmental organization. Its members are the leading international companies and associations in the pharmaceutical, biotechnology and vaccine sectors from both developing and developed countries.

IFPMA members have committed to implement its Code of Practice in all markets in which they operate. To achieve this, it brings together compliance, regulatory and legal experts to advocate for ethical promotion, training, and advising and guiding compliance officers and company staff on marketing and promotional activities according to IFPMA Code and/or other member associations' national codes.

Rather than let old reputation dictate our future, we've chosen to be-

come leaders and push the envelope on ethics.

**“ We have developed a joint consensus framework for ethical collaboration between patient organizations, healthcare professionals and the pharmaceutical industry, in support of high quality patient care. ”**

Our industry has been sending a clear signal: we are committed to ethical practices. Evidently, we believe in its importance. Our industry has—in the past—been plagued by negative public perceptions, particularly with regards to our business ethics. Most of us can agree that innovative medicines and vaccines save lives. But that's not where our contribution ends.

Recognizing the importance of trust and transparency, and that structure is foundational, our industry has worked very closely with our global partners to put in place the tools that can help us enable strong, ethical relationships among all actors in the healthcare system.

Together with the International Alliance of Patients' Organizations, the International Council of Nurses, the International Pharmaceutical Federation and the World Medical Association, we have developed a joint consensus framework for ethical collaboration between patient organizations, healthcare professionals and the pharmaceutical industry, in support of high quality patient care.

The joint nine-point Framework for Ethical Collaboration is characterized by four overarching principles.

1. Put patients first
2. Support ethical research and innovation
3. Ensure independence and ethical conduct and
4. Promote transparency and accountability.

The framework outlines some of the key areas that should be considered by all partners to help guide ethical collaborations at the individual and organizational levels based on the common elements of their existing guidelines and codes.

Support for the framework is growing, with the International Hospital Federation and the International Generic Pharmaceutical Alliance recently endorsing it. Available in five languages, the Consensus Framework can and should be referred to by health providers and has the potential to positively impact millions of patients worldwide.

**T**here are clear benefits of strong ethical practices in the biopharmaceutical sector.

For patients and healthcare providers, they can enhance access to safe and innovative medicines that save and improve the quality of lives.

For industry, they help equalize the competitive environment, reduce reputational risks and improve access to markets.

Strong ethical practices are good news for governments, too. Strengthened industry self-regulation and compliance with high standards lowers enforcement burdens, improves patients' trust in the healthcare system, improves health outcomes and product quality and supports trade.

For economies, they help support economic growth, innovation and consumer confidence.

In 2012, the Asia-Pacific Economic Cooperation (APEC) forum launched a comprehensive initiative to strengthen ethical standards in the biopharmaceutical sector across 21 Asia-Pacific member economies, helping

### Trust is Crucial

An efficient healthcare system depends on mutual trust between all parties, including patients, healthcare professionals, governments, and the pharmaceutical industry. Trust can only be built and sustained when the entire healthcare community acts ethically and responsibly.



Source: International Federation of Pharmaceutical Manufacturers & Associations

IFPMA member associations and companies and all other enterprises in the region reduce compliance risk and equalize the competitive environment. The initiative's biopharmaceutical program has demonstrated notable success in the development and implementation of codes of ethics by local industry associations in alignment with APEC's Mexico City Principles, which utilized the IFPMA Code as a key reference document.

The Business Ethics for APEC SMEs Initiative has supported the adoption or achieving formal progress toward 22 new biopharmaceutical sector codes across six economies where they previously did not exist, expanding high standard APEC principles to nearly 8,000 biopharmaceutical enterprises across the region.

**I**n September 2014, at the First APEC Business Ethics Forum, the Nanjing Declaration was launched and subsequently endorsed by APEC SME Ministers and APEC foreign and trade ministers. The Nanjing Declaration serves as a roadmap for the APEC initiative's biopharmaceutical sector program with goals that include universal code adoption by all industry associations in the region by 2020 and supporting the development of codes of ethics through a Guide to

Implement Multi-Stakeholder Ethical Collaborations.

In Canada, our association is working with the Canadian Medical Association, the Canadian Pharmacists Association, the Best Medicines Coalition, which is an organization that represents patient groups, the Canadian Nurses Association and the Health Charities Coalition of Canada to develop the Canadian Consensus Framework for Ethical Collaboration.

We are looking at our existing individual standards, such as Rx&D's Code of Ethical Practices and working from our common ground.

The global Consensus Framework enabled Rx&D to engage a large group of key stakeholders in discussions related to ethics.

Ultimately, we can build trust and promote transparency by starting what we have in common—where everyone is comfortable—and developing standards that allow us all to build relationships that are mutually beneficial. Only through real collaboration can we ensure patients have the best possible health outcomes. **P**

*Chrisoula Nikidis is Executive Director, Ethics and Compliance, (Rx&D) [cnikidis@canadapharma.org](mailto:cnikidis@canadapharma.org)*



Meds: Prescription drugs cost \$30 billion a year in Canada, the only country with universal healthcare that does not also offer universal pharmacare. Fotolia photo

# Perspective is Key to Universal Pharmacare Success

Janet Yale

*Canada remains the world's only developed country to offer universal healthcare but not universal pharmacare, despite the savings such a system would offer. An even more important consideration is that all Canadians enjoy equitable access to necessary medications. The reason why becomes clear when you look at the changing nature of medical therapies and innovative drug treatments. Arthritis Society President Janet Yale weighs in with an endorsement of universal pharmacare.*

Every year, a different report comes out decrying Canada's lack of universal pharmacare and the resulting burden on the public purse. The price paid by patients and, in particular, those living with chronic disease is even more worrisome.

The Canadian Institute for Health Information pegged the cost of prescription drugs at roughly \$29 billion in 2014. Public drug plans pick up about 42 per cent of those costs and private plans another 36 per cent. What's left

over is 22 per cent—\$6 billion worth of prescriptions—shouldered by patients themselves.

Canada remains the world's only developed country to offer universal healthcare but not universal pharmacare. While the cost of drugs used in hospital are fully covered, and provincial programs assist elderly and low-income residents, millions without a private plan are left with little or no help at all.

This is not going unnoticed: a recent poll by the Angus Reid Institute found a staggering 91 per cent of Canadians favour the creation of universal pharmacare. The same poll revealed that about half of respondents worry they won't be able to afford the cost of drugs in the future.

For years, advocates have called on the federal government and the provinces to come to an agreement on universal pharmacare, anchoring their arguments on principles of access, equity and the billions in cost savings that could come with a single payer, bulk

purchasing and a national formulary. Estimated annual savings range between \$4 billion and \$11 billion.

The Arthritis Society would like to add its voice in support. We believe there should be universal access to medically necessary prescription drugs. For the 4.6 million Canadians currently living with arthritis, the lack of universal pharmacare can result in thousands of dollars out-of-pocket for drugs that are needed to control the disease and alleviate pain, stiffness and many other debilitating symptoms. It can also result in unintended consequences such as geographic inequity based on differences in provincial formularies and even nationwide shortages of needed medications.

One recent example directly impacted many families grappling with the realities of childhood arthritis. Toward the end of 2013, Hoffmann-La Roche Ltd. announced it was pulling Naprosyn (naproxen) suspension, the most common non-steroidal anti-inflammatory drug used to treat symptoms of juvenile arthritis. The drug's liquid form makes it easy for a child to take, with dosage easily customized according to his or her weight.

The Arthritis Society and other advocates had to find a way to maintain access to this drug for Canadian children. Eventually, the Quebec firm PEDIAPHARM purchased the Canadian manufacturing rights. It wasn't until March of this year, however, that this medication was once again fully available to Canadian children.

This incident provides a stark illustration of problems that universal pharmacare would help address. It also underscores the importance of access. Indeed, The Arthritis Society believes that equitable access to necessary medications must be a defining consideration—one that is as central to any future pharmacare program as cost-savings.

The reason why becomes clear when you look at the changing nature of medical therapies and innovative drug treatments. Particularly from the perspective of those living with chronic diseases like arthritis.

**T**here are two types of arthritis: inflammatory, when the body's own antibodies attack the lin-

**“Canada remains the world's only developed country to offer universal healthcare but not universal pharmacare. While the cost of drugs used in hospital are fully covered, and provincial programs assist elderly and low-income residents, millions without a private plan are left with little or no help at all.”**

ings of the joints, causing the inflammation and swelling that can lead to debilitating pain; and osteoarthritis, when cartilage around the joints is irreparably damaged or worn away completely. For Canadians living with these conditions, prescription medications are often their best defense against high levels of pain and the loss of mobility. New but often expensive pharmaceutical therapies have been developed and more are emerging.

The best of example of this is a relatively new category of biologics. This breakthrough class of drugs is made from living organisms that block the proteins, cells and pathways that trigger symptoms, alleviating them entirely as well as preventing the joint deformities that can eventually materialize in the hands and feet. For millions of Canadians with arthritis, biologics are life-transforming.

The challenge is that an annual course of a biologic can cost about \$20,000 and patients are left paying this out-of-pocket if they don't have private insurance. Universal pharmacare would remove this barrier, ensuring that patients have access to medically necessary treatments irrespective of their financial situation. What makes the situation more complex is that there are often a number of biologic drugs, meaning there can be multiple treatments for the same condition. It might be tempting to design a pharmacare plan that provides access to only one biologic drug. We would argue that such an approach would harm patients by limiting access. Because biologic drugs are made from living organisms, each one reacts differently with an individual patient so multiple treatment options are medically necessary. Limiting access means limiting care.

The bottom line is that the particular design of any universal pharmacare program must be sufficiently flexible to ensure that innovative, medically-necessary therapies find their way to patients.

**T**he solution is to ensure that the well-being of patients is our primary motivation. Significant savings will still be achieved through bulk purchasing power and the move to a single payer system—but if savings comes into conflict with quality of care, we believe care must triumph.

Designing a program that is focused on serving patients will still lead to what everyone can agree is a key objective: a reduction in cost. But a patient-focused pharmacare plan will also ensure all patients, whether they live in St. John's or St. Albert, will be able to access the drugs they need, when they need them.

The need for change is clear. Canadians shouldn't fear one day finding themselves unable to pay the cost of a drug that could alleviate immense pain and suffering for themselves or a child, or face losing a medication that has allowed them to live a full and happy life despite having been diagnosed with a debilitating illness.

A patient-focused plan is the key not only to change, but to the best possible sort of change. The kind of change that helps people live lives free from pain. **P**

*Janet Yale is President and CEO of The Arthritis Society. She previously served as executive vice president at TELUS, and president and CEO of the Canadian Cable Television Association. She chairs the Arthritis Alliance of Canada. [jjale@arthritis.ca](mailto:jjale@arthritis.ca)*



A crowded crossing on Ste. Catherine Street in Montreal. Non-government payers cover more than \$15 billion in prescription drug costs. But is universal pharmacare the answer? Tax credits might be another one. *Montreal Gazette* photo

# Can an Innovative Tax Credit System Sustain Drug Plan Coverage in Canada?

Mike Sullivan

*The fight for sustainable prescription drug plan benefits for all Canadians has to move far beyond a national pharmacare conversation. Until government and non-government payers find common ground with respect to how to leverage their current spending on prescription drugs and build meaningful partnerships focused on efficient investment and improved health outcomes, meaningful long-term solutions will not be achieved. Well-designed policy is a critical initial step in the process.*

In an election year, and with a flurry of headlines in recent months around the introduction of expensive blockbuster innovations in prescription medications, it is not a surprise to see discussions of a “national pharmacare” strategy gaining momentum. There is no question that the current system for drug coverage in Canada is broken and unsustainable, but the idea that a government-led national pharmacare strategy will solve the challenges the system faces is unrealistic.

**“ There is no question that the current system for drug coverage in Canada is broken and unsustainable, but the idea that a government-led national pharmacare strategy will solve the challenges the system faces is unrealistic. ”**

Non-government payers in Canada spend in excess of \$15 billion per year in prescription drug costs in Canada. Non-government payers hold the key to sustainable solutions in this area, and the first step in that direction is looking at appropriate tax credits and other financial incentives to keep employers and other non-government payers in the business of underwriting prescription drug costs in years and decades ahead.

The challenge in looking at sustainable solutions to funding prescription medications is that the immediate past is misleading. The period between 2010 to 2014 is affectionately known to those in the drug plan management space as the “Golden Era.” Thanks to generic drug prices that are now one-third what they were five years ago and the number of blockbuster drug products that lost their exclusive patent in recent years, both government and non-government payers (often referred to as third-party payers) saw significant savings in recent years that kept overall drug plan spending at bay and hid the growing impact of expensive specialty drugs on plan sustainability.

**T**hese savings seen in recent years were all passive—they were not the result of better member health or better plan design/management in a majority of cases, it was simply a perfect storm of substantially lower costs, a greater selection of lower-cost generic equivalents and a relatively quiet drug pipeline.

The savings seen were essentially the by-product of public policy and legislative changes that transformed generic drug prices at precisely the time more blockbuster generics were entering the market.

The Golden Era has come to a sudden end in 2015, and the years ahead will prove to be a significant challenge for both government and non-government payers. Generic drug utilization rates have begun to plateau under the ineffectiveness of current plan designs, generic prices won't materially decline in the years ahead, and the number of new and emerging blockbuster therapies is remarkable. While innovative and game-changing Hepatitis C medications have stolen most of the headlines in 2015, there is great innovation happening in other key disease areas like diabetes, hypercholesterolemia, cancer, multiple sclerosis, Alzheimer's disease, and the list goes on. That will continue to impact plan spending in the years ahead.

**“ Generic drug utilization rates have begun to plateau under the ineffectiveness of current plan designs, generic prices won't materially decline in the years ahead, and the number of new and emerging blockbuster therapies is remarkable. ”**

The provincial and territorial governments need to find innovative ways to partner with employers, health-care trusts, and other third-party payers to develop a long-term strategy for ensuring access to drug therapies for Canadians. It's remarkable that two parties that collectively spend in the range of \$30 billion annually on medications have not sought each other out sooner to look for ways to

combine their resources and information more effectively.

**O**ne Ontario-based plan sponsor has seen its drug plan expenditure increase by 12.7 per cent in 2015. The plan now spends \$8.5 million annually to support drug plan spending for just under 13,000 plan members. The plan's increase in spending is being driven by expensive specialty drugs for serious conditions. Spending on the one per cent of all claims made in the past year that are categorized as *specialty drugs* cost the plan 36 per cent of its plan spending.

In other words, one per cent of all claims made represented over one-third of the total plan spending. This is what is driving the sustainability question. This is why we need to rethink government and non-government payer collaboration.

This employer saw a \$1 million dollar increase in plan spending year-over-year on specialty drugs alone for conditions that included: hepatitis C, Crohn's disease, rheumatoid arthritis, multiple sclerosis, HIV, cancer and psoriasis. This plan is an Administrative Services Only (ASO) plan. This means that the insurance company processes the claims and administers the plan on behalf of the employer, but the company is self-insured—meaning they take on the vast majority of the financial risk (which is the case with most medium- and large-size employers). The result is that cost increases directly impact the plan sponsor and their members, with whom they share costs.

The latest challenge to ASO plans is that many will insure against high-cost claims (often called catastrophic claims) by buying protection that says above a certain level—such as \$25,000 per member per year (or \$50,000)—the insurance company will pick up the balance of the cost. This results in insurance carriers selling stop-loss insurance to protect plans from high-cost claims. What insurance carriers are finding is that they had no idea how much expo-

sure they faced from the growth of these specialty claims, so the cost of stop-loss is increasing dramatically. This means that plans are having to move their limits from levels such as \$10,000 or \$15,000 or \$25,000 per member per year to levels of \$50,000 or more, and/or are facing substantial premium increases to offset the risk of high-cost drug claims.

One employer plan we recently analyzed is facing a 117 per cent increase in stop-loss premiums. So, not only are plans taking on more risk, they are paying more to ensure the portion of their experience covered by catastrophic insurance. Let's look at our plan sponsor example above: if specialty spending increased by over \$1 million in one year, what are the odds that the premium paid to insure high-cost claims will stay anywhere near the same in 2016?

What happens if either of the employers highlighted above significantly reduces or limits their spending on prescription drugs in response to rising plan costs? What happens to the Canadians impacted and to their health? Who picks up the slack? We need to find ways to protect all payers to ensure the long-term ability of plans in Canada to provide access to needed drug therapy.

The numbers above look bleak. It will be tough for any payer—government or non-government—to handle double-digit drug cost inflation annually (or anywhere near that level) moving forward. These two groups need to find some common ground. The major disconnect that needs to be addressed is around cost offsets. Public plans base drug coverage de-

“ *It's remarkable that two parties that collectively spend in the range of \$30 billion annually on medications have not sought each other out sooner to look for ways to combine their resources and information more effectively.* ”

isions around prices they can negotiate (that non-government plans cannot access to date) and economic modeling that looks at the offset to the healthcare system such as fewer surgeries, hospitalizations, physician visits, and so on, by paying for a given drug for a given member today.

**T**he challenge for third-party payers like employers is that these cost offsets have no relevance to a non-government payer. An employer offers a drug benefit to its employees in order to keep them healthy, productive and on the job, while at the same time offering a form of tax efficient compensation. The only offsets that matter to an employer for an investment in a drug therapy are: does the investment keep an employee healthy and productive, and does the investment reduce disability and short-term absences.

Employers will not necessarily see the benefits of investing \$75,000 in a hepatitis C cure that may offset the need for surgery or transplant or liver disease decades down the road when the member is no longer an employee. It doesn't matter to an employer that a large upfront investment will benefit the healthcare system years later. The same thing goes for wellness programs that aim to ensure the optimal care and treatment of mem-

bers with diseases like diabetes. Most of the long-term complications of poorly controlled diabetes manifest themselves later in life when individuals become the concern of the healthcare system, not the employer.

Governments should be working with non-government payers to look at appropriately designed tax credits or related financial incentives that keep these plans involved in the provision and funding of drug plan benefits and optimizing the health of plan members. It is not enough that these benefits are afforded tax efficient status, it needs to go further. Non-government plans do not have access to the same cost-containment tools that governments have, such as pricing agreements and risk-sharing agreements with pharmaceutical manufacturers. Some of those resources need to be reallocated to other payers by providing appropriate incentives, such as tax credits or wellness innovation funds that keep non-government payers in the game. **P**

*Mike Sullivan is a Co-Founder and President of Cubic Health, a healthcare analytics and drug plan management company based in Toronto. He began his career as a pharmacist in Saskatoon. Cubic is focused on ensuring the sustainability of investments made in health benefits. [msullivan@cubic.ca](mailto:msullivan@cubic.ca)*

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Canada doesn't have one system of funding medications. It's a patchwork, a missing jewel of Canadian healthcare. Shutterstock photo

# A Crack in the Canadian Jewel of Healthcare

Gail Attara

*Coverage for medications in Canada is a patchwork. Sometimes eligibility for coverage is based on postal code, age, and income. These inconsistencies are tough on vulnerable patients. Each stakeholder has a perspective on how to fix this, and it's long past time for pharmacare programs to be reconstructed with the patient—the end user—at the centre.*

In 1976, the parents of a woman in her early 20s who died of Crohn's disease founded the organization where I have worked as CEO for almost 20 years, serving individuals who have gastrointestinal and liver conditions. Today, there are medications that almost certainly would have kept her alive and with a good quality of life. I'm encouraging our government leaders to create bet-

ter coverage of medications for every person in Canada, so we can all live life abundantly.

Today in Canada, about 20 million (out of more than 35 million) people have their prescription medication covered by a private plan, but millions still rely on restricted public plans, and some have no coverage at all. One in 10 individuals living in Canada simply cannot afford to

take medications as prescribed. If you have to decide between food and medication, food wins.

Tommy Douglas, the former Premier of Saskatchewan, who is warmly called the father of Medicare in Canada, once said to his daughter, "My dream is for people around the world to look up and to see Canada like a little jewel sitting at the top of the continent." Douglas's most notable achievement in health was the introduction of universal healthcare legislation in 1961, building on Prime Minister Diefenbaker's decree in 1958 that any province seeking to introduce a hospital plan would receive 50 cents on the dollar from the federal government. Further milestones of interest are the *Medical Care Act* (1966) and the *Canada Health Act* (1984).

Right now, there is a crack in the Canadian jewel. The crux of our chal-

lenge is that we don't actually have one system; it's a fractured, complex, cat's cradle of funding transfers and responsibility.

**W**e have a publicly funded system that covers physician and hospital visits no matter where you live, but we don't have a similar program for many other health-related matters, such as medications. Of course, there are some exceptions, as the *Canada Health Act* covers only those medicines prescribed for use in hospital, and the many provincial, territorial, and federal public plans cover medicines for certain individuals under a complex set of varied criteria. The coverage does not transfer with you if you move out of jurisdiction, so many people fall through the cracks when it comes to getting the medications they need.

Throughout the past century, we have come a long way from the availability of a few simple medications, primarily dispensed in hospital, to having a host of complex, highly effective medications administered in hospital and at home that keep us alive and living well. So many conditions are still untreated, so there is room for more innovation and new medications to help those waiting for treatments and cures. We have also learned an incredible amount about the remarkable genetic variances among us, leading to more treatments that are targeted and increasingly effective.

I've read many articles lately suggesting that we're spending too much on medicines and that the pressures on government budgets to provide pharmaceutical care are increasing. While not entirely attributed to medications, our Canadian life expectancy has risen from 71.4 years in 1961 to 81.2 years in 2012. Clearly, achieving 10 additional years of life means we invested wisely.

In June 2015, at a roundtable on pharmacare that included eight provincial health ministers, all agreed that there are too many of us who have either no or insufficient coverage for prescription drugs. They contend that without substantial

policy reform, the current situation will only get worse. I am encouraged that the health ministers want a good pharmacare plan that focuses on providing coverage to the entire population while improving the quality of prescribing, producing better health results, and offering good experiences for patients—all while saving money.

The heads of the various public drug plans say they have to manage decreasing budgets and that the newer medications, some of which work miraculously and transform lives, are too costly for them to cover. If I were working in a provincial finance department, I would be looking over the shoulders of those managing the public drug plans to make sure they are spending *enough*, since cutbacks there could cause an undesirable consequence in other parts of health and beyond.

**“ While not entirely attributed to medications, our Canadian life expectancy has risen from 71.4 years in 1961 to 81.2 years in 2012. Clearly, achieving 10 additional years of life means we invested wisely. ”**

**I**n simple terms, we buy and use hand soap to ward off sickness; likewise with many pharmaceuticals, they are good investments as they keep us from getting sicker. Medications have a tremendous role to play in our society; we should treat them with respect, and use them appropriately, not treat them as if they (and their cost) are the enemy. Since government is not the primary driver of medication research and development, the private sector has risen to the challenge, offering us many options, but they come with a cost.

There is too much focus on the up-front, silo costs to the various pharmacare budgets and not enough on the effect that a generous pharmacare

program would have on our society. In most cases, when a person receives the right medication at the right time, at the right dose, and for the right duration, that person will become well again and not use further resources in other parts of our social systems. They will return to work sooner and healthier, and will be less likely to use our employment insurance or welfare plans. They will even use the medical system less, as they will need fewer visits to physicians and hospitals.

I'm the current chair of the Best Medicines Coalition, a national alliance of patient organizations with a shared goal of equitable and consistent access for all Canadians to safe and effective medicines that improve patient outcomes. Our hope is that we can create a system for providing pharmaceutical care that is national, broadly inclusive, and allows for the uniqueness of the individuals it would serve by including a wide array of therapeutic options and timely access. It would include both public and private coverage. Most importantly, we must ensure that patients, the end users of this program, be included in its design.

There are many stakeholders involved in this discussion, most with conflicting perspectives. What we really need is acceptance that we all have differing, valuable, and valid views. I would like to see a uniquely Canadian concept evolve quickly from open discussions and hard work including all stakeholders. I hope we can work in harmony to construct a system—with give and take—that meets the needs of us all.

In a perfect world, without sickness, injury, or genetic anomalies, we would not need medical and pharmaceutical help, but patients need medications. Our pharmacare coverage needs to change with the times. I want Canada's pharmaceutical care to be that jewel on the top of the continent, of which Douglas spoke. **P**

*Gail Attara is the president and CEO of the Gastrointestinal Society, the president of the Canadian Society of Intestinal Research, the chair of the Best Medicines Coalition, and co-founder of Advocacy Boot Camp. gail@badgut.org*

# Healthcare Solutions Right Around the Corner

Denise Carpenter

*Too many Canadians are struggling with access to care and the high costs of medications. Current discussions on national pharmacare, however, focus on reducing costs, rather than on patients and health outcomes. By putting patients at the centre of our thinking and doing the “easy stuff” first, the head of Canada’s retail pharmacy business association writes, we can help Canadians lead longer, healthier lives and ensure the sustainability of accessible, affordable quality healthcare.*



Canadians are used to thinking of their healthcare system as “great.” It’s almost an article of citizenship that reflects passion and pride, and a key perceptual differentiator between Canadians and the citizens of other countries.

There are troubling signs, however, that faith in our healthcare system may not be fully warranted. Almost every week we’re confronted with another warning about the unsustainability of Canada’s healthcare system and how it needs urgent, radical change. And the federal election

campaign has re-energized calls for a national pharmacare program, most of which focus on reducing costs.

Part of our challenge is that the population is aging quickly. Only 14 per cent of Canadians are now over age 65, but they account for 45 per cent of health spending. By 2036, seniors are expected to be 25 per cent of the population, and an even larger share of healthcare spending. This cost pressure will be amplified by a decrease in the proportion of working-age Canadians, whose taxes will fund

our healthcare system in the decades ahead. This isn’t sustainable.

Our healthcare system was built to deliver excellent, hospital-focused acute care, but now needs to deliver excellent, cost-efficient in-home chronic care for aging adults, while also improving chronic disease prevention.

Further, an Angus Reid study released in July found nearly one-quarter of Canadians say they, or someone in their home, can’t afford prescription medicines. More than one third say friends or family members have difficulty paying for their prescriptions. As a result, Canadians are splitting pills and skipping doses to try to make their medicines go further. Some don’t even fill their prescriptions.

That’s a prescription for poor health outcomes and spiralling costs. As former US Surgeon General Everett Koop noted, “Drugs don’t work in patients who don’t take them.” Prescription non-compliance already costs Canadians \$4 billion annually (on chronic care medications alone) and the Angus Reid study suggests that Canadians’ struggles with prescription affordability will increase.

When it comes to healthcare access, the disparities extend beyond income to geography. According to the principles of the *Canada Health Act*, it shouldn’t matter where you live, but it does. We have 10 stand-alone provincial health systems and multiple federal drug and access plans. Canadians living in different provinces and territories don’t necessarily have access to the same care, services or medications under public programs, so we sometimes have to move from one province to another and re-establish eligibility to access needed medications.

As public discussion turns toward a national pharmacare program, the narrative too often turns to cost, when the real heart of healthcare is patients and their access to care.

Yes, costs have to be managed, but as shown by the poorer outcomes and increasing costs flowing from prescription non-compliance, system improvements must focus first on better patient care and better patient outcomes. Better healthcare costs are a benefit of providing the right care at the right time in the right place.

Our vision is to ensure that patients are at the centre of all discussions about improving our healthcare system. One way neighbourhood pharmacies could help provide a single high standard of care for all Canadians would be to coordinate patient-focused services provided by pharmacists. So, for example, patients across Canada could expect to receive a single high standard of care for common ailments at neighbourhood pharmacies, regardless of their location.

There are about 9,000 neighbourhood pharmacies across Canada. They're embedded in almost every community and provide a growing range of primary care services, closer to where Canadians live, work and play. Since many neighbourhood pharmacies are open to midnight—and some even 24 hours—they enable patients and their families to access care when and how it's convenient for them, often without an appointment. This flexibility enables patients to deal with minor health concerns and prevent them from becoming more distressing, more complex and more costly to treat. Pilot programs in Scotland and Saskatchewan show that providing pharmacy care for common ailments frees physicians to treat more complex cases, and diverts simple cases from emergency rooms, and that creates substantial savings for the healthcare system.

Research also shows that pharmacy assistance can help reduce the im-

**“When Canadians confront big issues—and healthcare is huge—they often trap themselves in gridlock: The problems appear too complicated and require too many stakeholders to work together, agree on a solution and settle who's going to pay the bill.”**

pacts of chronic conditions, like diabetes and hypertension, which are increasingly common among Canadians. Pharmacy healthcare teams also provide lifestyle management advice on nutrition, obesity, smoking cessation and more, all of which help Canadians live longer, healthier lives.

Treating patients in neighbourhood pharmacies helps keep them out of emergency rooms and hospitals, which are the most costly way to deliver healthcare. The human benefits are obvious; the healthcare system benefit: \$2 billion or more annually, according to our ground-breaking policy paper published in 2013, “9000 Points of Care: Improving Access to Affordable Healthcare,” (See <http://9000pointsofcare.ca/>)

The patient-focused service Canadians may know best is the pharmacy influenza vaccine program, which, from its start in 2010-2011, now delivers more than 1.9 million vaccinations annually. According to a recent study looking at the 2014-2015 flu season, 29 per cent of those getting their protection at a neighbourhood pharmacy have switched from other providers—such as doctors' offices and public health clinics, due to greater convenience—and 20 per cent weren't vaccinated in the 2013-2014 season—which demonstrates neighbourhood pharmacies' ability to deliver important public health benefits to the whole population.

Neighbourhood pharmacies have been investing in innovations to bring down the costs of care. So, could this influenza vaccine example be leveraged for more gains? Why not expand pharmacy vaccinations

to cover childhood diseases (which spiked again this year), HPV, shingles, meningitis and travel vaccines?

Pharmacies also play an important role in ensuring patients get the most from their medications—ensuring people take the most effective medications for their conditions, monitoring compliance with their medication regimes, preventing adverse drug interactions, or counselling a patient taking a new medication.

We can do better than continuing to allow our once-envied healthcare system to decline into costly mediocrity. When Canadians confront big issues—and healthcare is huge—they often trap themselves in gridlock: The problems appear too complicated and require too many stakeholders to work together, agree on a solution and settle who's going to pay the bill. Faced with such complexity, we often do nothing and hope the problem will go away.

There are no easy answers to the ‘big’ issues, but there are some ‘small’ easy-to-implement solutions that can improve Canadians' lives. If we fail to deliver these improvements, too many Canadians will continue to skip their medications or split their pills.

Neighbourhood pharmacies have the expertise and experience to provide critical input into the development of a system that supports better care and better health outcomes for all Canadians. **P**

*Denise Carpenter is President and CEO of the Neighbourhood Pharmacies Association of Canada.*  
[dcarpenter@neighbourhoodpharmacies.ca](mailto:dcarpenter@neighbourhoodpharmacies.ca)



A polio vaccination at the UN-House Protection of Civilians (PoC) 3 site in South Sudan. The Sudanese government conducted the 2014 campaign with the support of the UN Children's Fund (UNICEF) and the World Health Organization (WHO) and working with local non-governmental organization Magna. Some 2.4 million Sudanese children were immunized. UN photo

## Big Shots

# HOW CANADIANS ARE TRANSFORMING GLOBAL HEALTH THROUGH VACCINATIONS

Helen Scott

*Canadians are now recognized globally as leaders in the fight to end the preventable deaths of women, newborns and children. As part of this broad, concerted effort, Canadians are working in the most marginalized communities around the world to ensure access to vaccinations, a proven cost-effective measure for improving health. Individuals and organizations are applying a uniquely whole-of-Canada approach to vaccination programming through investment, innovation, expertise and collaboration.*

As Canadians, we are proud of universal healthcare. Our system is not perfect, but for the most part, health services are delivered to all people across the country. Children receive routine check-ups and have access to emergency care from the day they are born. Families choose life-saving vaccinations for their children so that many preventable diseases are a thing of the past. Ensuring the health of the youngest members of our society is born out of

the recognition that they are our future: taking care of their health is taking care of the health of our country, generation after generation.

The longstanding national belief in the value of good healthcare does not stop at our country's borders. Doing our part to end preventable deaths of women and children is a key focus of our international development work as well.

We are bringing a uniquely Canadian approach to tackling this global health challenge: collaboration. Across the country, we are uniting Canadian expertise, medical knowledge and technologies under the umbrella of the Canadian Network for Maternal, Newborn and Child Health (CAN-MNCH). This powerful and united network of over 80 non-governmental organizations, researchers, nurses and doctors is working in over a thousand regions around the world to improve the health of women, newborns and children.

As a result of this whole-of-Canada approach, Canada is now recognized globally as a leader in improving maternal, newborn and child health. "Continued commitment from Canada is critical to ensure the prioritization of improving health for children around the world," says Anita Zaidi, director of the Enteric and Diarrheal Diseases program at the Bill & Melinda Gates Foundation. "We are especially focused on increasing access to proven interventions that save children's lives—a lot of lives. Affordable and effective interventions like vaccines, in addition to oral rehydration solution, zinc, hand-washing and breastfeeding, have proven track records and yield immediate impacts."

**N**othing proves the effectiveness and necessity of collaborative approaches to maternal, newborn and child health like vaccinations. Vaccines are one of the most cost-effective ways to save lives, improve health and ensure prosperity. They strengthen development through direct savings in medical

**“ The longstanding national belief in the value of good healthcare does not stop at our country's borders. Doing our part to end preventable deaths of women and children is a key focus of our international development work as well. ”**

costs and indirect economic benefits including improved cognitive development, educational success, labour productivity and income generation. Canadian organizations are leaders in this global effort to ensure access for all to vaccinations through expertise, investment and partnership.

**“ A powerful example of the potential of vaccinations to change lives is the fight against polio, a disease that mainly affects children under the age of five. ”**

A powerful example of the potential of vaccinations to change lives is the fight against polio, a disease that mainly affects children under the age of five. This fight to eradicate polio has been a flagship of Canada's international efforts to improve health.

Globally, the polio picture is promising. Twenty-five years ago, a thousand children contracted polio every day. To confront polio head on, a public-private partnership called the Global Polio Eradication Initiative (GPEI) was spearheaded by the World Health Organization (WHO), Rotary International, the US Centers for Disease Control and Prevention (CDC) and the United Nations Children's Fund (UNICEF). In less than 30 years, some two billion children globally have been immunized against polio through an international investment of US\$3 billion and the concerted action of 200 countries and 20 million volunteers. The result of this world-

wide effort has been that polio is now confined to only two countries: Pakistan and Afghanistan.

Canadians can be proud that we are one of the top donors to the GPEI. At the Global Vaccine Summit in 2013, we reaffirmed our commitment to eradicate polio and pledged funds over six years to support the Endgame Strategic Plan, which is slated to eradicate the disease by 2018. Canada's contributions to eradicate polio are part of its broader commitment to promote maternal, newborn and child health, with its funding coming from the 2010-2015 Muskoka Initiative and Canada's forward strategy Saving Every Woman Every Child, consisting of \$3.5 billion in renewed funding from 2015-2020. Vaccinations have been identified as one of three priority areas of this new funding, along with strengthening health systems and improving nutrition.

**“ The result of this worldwide effort has been that polio is now confined to only two countries: Pakistan and Afghanistan. ”**

**T**o ensure that these funds translate into impact for the most vulnerable women and children globally, traditional lines among government, civil society, the medical community and the private sector are blurring. These lines need to blur. As a network, we emphasize the need for close collaboration among all players to achieve signifi-



Checking for polio vaccination marks in Pakistan. Thanks to a global vaccination effort, polio is now confined to only two countries in the world, Pakistan and Afghanistan. Flickr photo

cant advances in global health and development.

Likewise, traditional attitudes around funding are expanding to include innovative financing mechanisms. Both Canadian and global public-private partnerships are laying the foundation for reducing child mortality through immunization. Canada has been a key supporter of Gavi, the Vaccine Alliance, founded in 2000 by the Bill & Melinda Gates Foundation, the World Bank, the World Health Organization, UNICEF and vaccine manufacturers, including Canada's Sanofi Pasteur. This public-private partnership has brought together public and private sectors with a shared goal of creating equal access to new and underused vaccines for children living in the world's poorest countries. Gavi has already averted 7 million deaths and immunized over 500 million children. "Canada led the charge when it announced its pledge to Gavi, the vaccine alliance last year, and galvanized other donors to stand up and follow suit," states Zaidi of the Gates Foundation.

Just a few months ago, a partnership between Gavi, Canada and Senegal brought about the integration of the

rotavirus vaccine into Senegal's national immunization program. This is slated to save hundreds of lives annually. "Canada's continuous strong commitment to Gavi will save millions of lives in developing countries," adds Dr. Seth Berkley, CEO of Gavi. "We share Canada's determination to see a world free from preventable deaths, and we are playing our part by working to ensure that children have access to lifesaving vaccines no matter where they live."

**“ An experimental Ebola vaccine designed by Canadian scientists in Winnipeg has shown promising effectiveness according to interim results of a trial in Guinea reported in late July. ”**

**C**anadian leadership goes far beyond financing. Our organizations are putting boots

on the ground. For example, UNICEF Canada and the Kiwanis Foundation of Canada are pivotal partners in the Eliminate Maternal and Neonatal Tetanus Initiative. This initiative will provide approximately 3.4 million women of reproductive age with three doses of tetanus toxoid vaccine in Chad, Kenya, Pakistan, South Sudan and Sudan. Canadian non-governmental organizations are delivering vaccines to children through their health programming in hundreds of communities around the world. Canadians are also making a global impact through research. An experimental Ebola vaccine designed by Canadian scientists in Winnipeg has shown promising effectiveness according to interim results of a trial in Guinea reported in late July. The real-time, life-saving accomplishments of Canadian individuals and organizations are powerful steps forward in the battle to end preventable deaths of women and children around the globe.

Canadians are partnering across our country and the world to improve the health of women and children. These innovative partnerships have improved the ability to develop, afford and deliver vaccinations to every corner of the globe, with a continuing push to reach further by targeting the most marginalized people. This investment in vaccinations leads to improved health, increased productivity and economic stability. The Canadian Network for Maternal, Newborn and Child Health is convening talented groups of Canadians to change the world, one shot at a time. **P**

*Dr. Helen Scott has a doctorate in epidemiology with a focus on maternal and child health. She is the Executive Director of the Canadian Network for Maternal, Newborn and Child Health, a collaborative network of 80 Canadian organizations working to end the preventable deaths of mothers, newborns and children around the world.*  
[helen.scott@can-mnch.ca](mailto:helen.scott@can-mnch.ca)



Greek Prime Minister Alexis Tsipras called a “flash referendum” in which Greeks rejected a debt deal that was no longer on the table, only to be forced to accept even more stringent terms for financial support from the EU. Flickr photo

## Greece and the EU: Beware of the Single Story

Jeremy Kinsman

*As the exalted post-war vision of a united Europe succumbs to the short-term challenges of economic incompetence and social disruption, an international order in flux demands EU leadership that thinks in decades and centuries, not weeks and months. As long-time diplomat and foreign policy strategist Jeremy Kinsman writes, the noble project of Monnet, Schumann, Spinnelli and Spaak can either implode under the weight of its own tactically exploited divisions, or higher and wider aspirations will prevail.*

After months of media frenzy, the drama surrounding the struggle by Greece to avoid bankruptcy, expulsion from the euro-zone, and the economic descent that would likely follow a return to the drachma subsided with a Greece/EU deal nobody likes but that should give Greece a few years to adjust by kicking the can down the road.

Financial reporting on the Greek crisis was dire, conflated with the sort of moral allusions that inhabit Dickens' descriptions of debtors' prisons. Northern European media excoriated Greeks

for the tax cheating and fudging of national accounts that had been a cultural and political pattern for decades. But the Greeks' partners in fraud were northern EU banks, ever-ready to make irresponsible loans that went belly-up with the financial crisis of 2008.

EU public opinion fractured into polarized national caricatures, rule-of-law good Germans laying into bad scofflaw Greeks deserving their plight, while humiliated and victimized Greeks blew back against rigid domineering German throwbacks.

For Romano Prodi, former president of the European Commission and former prime minister of Italy, the "poor handling" of these emotions ensured that "a small problem became a big one" by depleting the fund of mutual confidence that underpins the European Union's delicate balance.

Commentary has veered into existential questioning about the future of the Euro and indeed of the EU itself. What does the EU stand for today? Will it survive evidence of structural design flaws? Do the increasingly disgruntled citizens of the 28 member states, each of which has its own national political narrative, really believe there is "too much Europe" in their lives?

EU-worriers counter that growing public defection from the European project, encouraged by populist nationalist politicians, could produce "too little Europe" to maintain the solidarity needed to prop up Europe's economic and social model, and cope with trans-national challenges

Populist anti-EU resentment has been fueled by the massive financial bailout for Greece thus far, about \$US 33,000 per Greek citizen. The anti-establishment left, especially in France, Italy, and Spain, objected to Germany's insistence on severe austerity as the condition for further Greek credit. There was popular sympathy with the Greek contention that the principal beneficiaries of the public credits were private banks, while or-

**“ EU public opinion fractured into polarized national caricatures, rule-of-law good Germans laying into bad scofflaw Greeks deserving their plight, while humiliated and victimized Greeks blew back against rigid domineering German throwbacks. ”**

dinary citizens suffered the upending of their lives.

According to German economics professor Hans-Werner Sinn in the *New York Times*, the reality is that only a third of the roughly US\$250 billion went to the banks; another third to the Greek treasury to finance the need of Greece to import almost everything; and a third filled in behind the flight of Greek private capital.

**“ What does the EU stand for today? Will it survive evidence of structural design flaws? Do the increasingly disgruntled citizens of the 28 member states, each of which has its own national political narrative, really believe there is "too much Europe" in their lives? ”**

**A**ngry and desperate Greeks believed their drastically deteriorated economic circumstances represented payment enough for their wayward self-governance. Rejecting the discredited political class, they hoisted into power a left-wing populist protest party, Syriza. The new Prime Minister Alexis Tsipras, and especially his Finance Minister, Yanis Varoufakis, self-proclaimed Marxist and *agent provocateur*, surfed public resentment, blaming global capitalism for their country's bro-

ken condition in an apparent belief they had a mandate to challenge the whole system.

Basking in rock star status conferred by breathless European media, they overplayed their weak hand. Exasperated European partners, who took a flash referendum as blackmail, overwhelmingly lined up behind Germany's tough line. Facing a withdrawal of financial support and even expulsion from the Euro, Tsipras had to accept an austerity package as humiliating as it was hard. He bounced radical ministers and moved toward the pragmatic centre, leaving most Greeks relieved and hopeful the country can now muddle through for a few years even with cuts to pensions and new taxes required by the EU.

But as the IMF has underscored to its partners in the creditor "troika," the European Central Bank, and the eurozone authorities themselves, Greek debt is unsustainable, and austerity makes it worse. After Greece consented to impose spending and other cuts as a condition for the last round of bailout credits in 2009, debt went from 125 per cent of GDP to today's 175 per cent.

Tsipras hopes that Parliament's approval of the reform package signals to paymasters a sufficiently contrite commitment to severe cuts in spending, however unenthusiastic, to enable a new round of negotiations for essential debt relief through debt rescheduling and restructuring (not actual reduction). Greece would thereby remain, for now, part of the battered but intact euro family of 19 nations, despite the misgivings of many in Northern Europe.

Many skeptics in the economic press believe this only delays Greek bankruptcy, since austerity throttles attempts to revitalize the economy. Recovery needs a currency devaluation, impossible within the Euro, where many outsiders believe loosely-governed Greece never belonged.

“*After Greece consented to impose spending and other cuts as a condition for the last round of bailout credits in 2009, debt went from 125 per cent of GDP to today’s 175 per cent.*”



French President François Hollande and German Chancellor Angela Merkel. France and Germany are the pivotal leaders of the European project, which as Jeremy Kinsman writes, “remains a work in progress”. Flickr photo

This underestimates the resilience of belief in the wider historic European project, even among leaders warning about moral hazard if Greece was let off the hook. Few Europeans in decision-making capacities would actually revel over the failure of this deal. Only die-hard anti-EU nativist politicians would want the EU itself to crash.

Indeed, that the crisis has rattled confidence in the sustainability of the European project itself may therefore be what saves it.

Pushback against the notion of political unification is nothing new, though it has gained traction as living memory faded of the violent calamities caused by European nationalisms in two world wars that an “ever-closer union” aimed to make impossible forever.

Euro-skepticism thrives in the “Anglosphere.” North American opinion undervalued the political aspirations behind the European unification movement born in the rubble of the Second World War. British opinion grasped them but recoiled, preferring a European Union that limited itself

to functional economic cooperation and didn’t interfere with issues of national identity and political custom.

The project’s founding idealists—Monnet, Schumann, Spinelli, Spaak—understood the need to soft-pedal political goals of unification by channeling them underneath functional purposes. Starting with co-management of the coal and steel industries at the fault line of German-French rivalries, they aimed to lock in the habit of common endeavour, first within a common market of the six founding members, with a common agricultural policy and external tariff, then as a progressively enlarging and deepening economic community, with common policies covering the gamut of economic and social life, extending massive infrastructure investment to poorer regions.

The reality is that the EU is an emphatically political project, whose voluntary pooling of national sovereignties has no historical precedent. As such, it remains a work in progress, seeking traction from crisis to crisis in a continuing competition between optimists and pessimists, federalists and nationalists.

But the EU would never become the equivalent of a state. From the project’s start, there were critical no-go zones in Charles De Gaulle’s “Europe des patries,” fenced-off areas crucial to national political sovereignty. Most notable is the politically potent power to tax citizens, vested in sovereign national parliaments that elect national leaders who constitute the EU’s Council of Ministers, now 28, each channeling a distinct national political narrative.

The first priority of elected politicians is to be re-elected. The 19 eurozone members steer different economies with different budgets so as to be able to spend or tax according to electoral opportunity. But this rules out a common agreed fiscal policy, without which a common currency would not work.

This economic truth was an inconvenient contradiction to the essentially political rationale behind at least the timing of the euro’s creation. The overall European political project and its public support began to falter in the 1980s. Used to post-war decades of increasing prosperity and social welfare, deepening policy cooperation, and widening EU membership, many Eu-

Europeans took for granted the highest real standard of living in human history—until economic growth slowed to a point where generous social and employment guarantees and benefits became unaffordable, deepened by the costs of publicly funded pensions for increasingly early retirees.

**“Used to post-war decades of increasing prosperity and social welfare, deepening policy cooperation, and widening EU membership, many Europeans took for granted the highest real standard of living in human history.”**

National politicians were increasingly blaming “Brussels” for bad economic news and the necessity of cuts to benefits and expectations. Commission bureaucracies were easily caricatured as over-staffed, over-paid, and intrusively interfering in everyday lives. Efforts to endow the European project with tools of direct democracy created a European Parliament that seemed to radiate waste and inflated entitlement.

The efficiency and effectiveness of those institutions is now being tested not only by threats to the sustainability of the economic model, but by questions of identity, security and human rights spawned by the immigration crisis.

Immigration is a surrogate for a variety of issues. National identities are being pressured by a popular feeling there has been too much change, too fast, including from the last wave of EU enlargement that has added economic migrants from inside the EU to waves of immigrants from outside Europe.

EU countries have generally technically been zero-immigration for

**“Immigrants” are instead refugees in the hundreds of thousands a year, mostly seeking refuge from the wars of Syria, Iraq, and Afghanistan or from dead ends in Africa, with whom there is no prior contract. Ironically, one of the EU countries bearing the brunt or arrivals is Greece, the least able to afford it.”**

years. They don’t seek and recruit settlement-immigrants the way Canada, the US, and Australia do. We extend to candidates for settlement a virtual contract of mutual acceptance. EU “immigrants” are instead refugees in the hundreds of thousands a year, mostly seeking refuge from the wars of Syria, Iraq, and Afghanistan or from dead ends in Africa, with whom there is no prior contract. Ironically, one of the EU countries bearing the brunt or arrivals is Greece, the least able to afford it.

EU solidarity over the best way to manage pluralism is taking a beating. Public opinion in most of the EU is cold to a refugee-sharing plan, believing many refugee/immigrants import practices that undermine hard-won values such as gender equality and the separation of religion from law and civic governance. Jihadist violence against freedom of speech has further hardened attitudes.

The effect is a gathering storm over the European landscape. Nativist parties that are anti-EU and anti-immigrant that have increased their sway in almost every member state have been handed more weapons by the swarms of migrants this summer and by the Euro crisis, including in Britain, soon facing a “Brexit” referendum. The European project based on the belief that disparate national identities could be subsumed for the greater good of all is struggling to reconcile in a convincing way the need for more union at the EU level and more pluralism within member states.

Jack Citrin of the University of California, Berkeley, has written about the way in which the sense of being a “nation” gives legitimacy to the actions of

states. The EU is not a state but sought the attributes of one with the euro in order to acquire identity value normally conferred by “nations.”

National leaders need to articulate Europe-wide objectives in ways that can compete in appeal with nationalist impulses, especially from Berlin, now clearly the EU capital that counts the most after years of reluctance. The Greek crisis confirmed German leadership. But the jury is out on whether it was out of deference to German opinion and narrow national interest, or in support of the common currency as a flagship of the European project.

Just saying the EU must be saved doesn’t make it happen. The founders were right: only doing it will work, over time, crisis by crisis. The substantive crises on the EU’s table are daunting, especially for transactional politicians trying to hold on to office who are consumed with smaller moments of local interest, content with less Europe. But without higher and wider aspirations, sadly, both they and Europe stand to lose. So will North America, as the non-EU partner among the trans-Atlantic liberal democracies whose values have held sway in the world for the past seven decades. **P**

*Jeremy Kinsman was a long-time Canadian ambassador under Liberal and Progressive Conservative Governments and now holds positions at the University of California, Berkeley, and Ryerson University. He participates in a non-partisan group that periodically meets to discuss global issues with Justin Trudeau. [kinsmanj@shaw.ca](mailto:kinsmanj@shaw.ca)*



Skyline watching in Shanghai. In only 35 years, “an impoverished totalitarian Communist state” has grown to the second largest economy in the world, poised to overtake the United States within a decade. Flickr photo

# Where is China Heading? —A Letter from Ditchley Park

Kevin Lynch

*While China’s growth has long been a quarterly fixation of markets and analysts—both political and economic—we rarely focus on its long-term prospects beyond betting on when it will surpass the United States as the world’s largest economy. How will China maintain strong growth and social stability while meeting the evolving demands of an expanding middle class? BMO Financial Group Vice-Chair and former Privy Council Clerk Kevin Lynch shares his thoughts on China’s future, fresh from Ditchley Park.*

Given the importance of China to the global economy today, it is useful to pause and ponder where China will be a decade from now, rather than just focusing on its next-quarter GDP numbers.

To set an historical context, consider the following thought experiment: it is 1980 and a distinguished group of Western economists and policy advisers are asked to rate the chances that China, an impoverished, totalitarian Communist state just emerging from

the cultural revolution, will go on a 35-year growth binge that would make it the second-largest economy in the world, a global economic power eclipsing all but the United States. Their answer would have been unanimous, and utterly incorrect. This is a useful reminder as the world considers the path China might follow over the next decade or so, at a time when it is facing an exceedingly complex array of policy problems and “China skeptics” again abound in Western policy circles.

At a recent high-level Ditchley Conference in the UK where leading economic and political experts attempted to peer into China’s future, there was a fair consensus—but certainly not unanimity—that:

- continuation of strong economic growth without significant policy reforms is unlikely;
- political reforms are probably not a prerequisite for the needed policy reforms, given China’s track record and the policy skills of today’s leadership cadre, but being able to affect the required reforms is an open question; and
- pressures for a more responsive political model—possibly “responsive authoritarianism” but not a Western-style democracy, would likely grow, but major changes are unlikely before the next generation of Communist Party leadership.

Reflecting on this political-versus-policy reform debate recently, Francis Fukuyama has argued: “An effective political system has to balance state capacity against rule of law and democracy. I think in the United States and certain other democratic countries, the emphasis has been so much on the constraint of state power that we end up not being able to make difficult decisions. But I think China is the opposite, and that’s not a good situation either.”

Clearly, China’s rapid economic growth has been one of the key features of the “new global normal.” It

**“China’s rapid economic growth has been one of the key features of the “new global normal.” It will surpass the US within a decade as the world’s largest economy and it is already the world’s largest energy consumer. China has become the mass manufacturing hub of the world.”**

will surpass the US within a decade as the world’s largest economy and it is already the world’s largest energy consumer. China has become the mass manufacturing hub of the world. This incredible pace of economic growth has lifted over half a billion Chinese out of abject poverty and created a new middle class that numbers hundreds of millions and continues to grow rapidly. Private enterprise is expanding robustly, and an entrepreneurial spirit is taking hold among young educated Chinese, as they look to Jack Ma and Alibaba, rather than government, for career inspiration. China has built world class infrastructure in many areas (compare La Guardia to the Beijing airport for example), is developing a globally credible university system with internationally competitive research, and is producing a bilingual crop of future business and government leaders. And it has done this while maintaining a relatively low ratio of federal government debt to GDP, building a relatively high level of foreign reserves, reining in inflation, and integrating hundreds of millions of people from the countryside into the cities in the largest migration in human history.

This success, astonishing for its scale and timeframe, is not without its challenges. Environmental degradation has been enormous, led by air pollution (visit Beijing in winter), water shortages (11 ‘dry provinces’) and widespread water quality problems. Corruption is problematic (witness the extraordinary anti-corruptive drive of President Xi Jinping), and a legal system geared to the rule *by* law, not the rule *of* law does not give the certainty that private sector investors seek. Ex-

cessive reliance on export-led growth imbalances the economy, and immature systems for pensions, healthcare, and unemployment insurance, make excessive personal savings logical but economically inefficient.

**“Private enterprise is expanding robustly, and an entrepreneurial spirit is taking hold among young educated Chinese, as they look to Jack Ma and Alibaba, rather than government, for career inspiration.”**

Labor, land and capital markets have lagged goods markets in China’s policy liberalization, and have led to property asset bubbles, excessive local government debt and decreasing competitiveness. Demographics will soon become a drag rather than a motor of growth, and productivity growth and innovation will have to be dramatically increased if China is to sustain its high rates of economic growth and raise living standards further. Finally, income inequality is both high and rising, and may become a front burner issue if China is to avoid “the middle-income development trap.”

Outside China, the need for political reform within China is widely discussed, with the typical argument being that some kind of political change seems inevitable as a prosperous middle class develops and wants more say over how they are governed and more protec-



Chinese President Xi Jinping meets with Gen. Martin Dempsey, chief of the US Joint Chiefs of Staff, in Beijing. As Kevin Lynch writes: “China intends to be more a rule maker, not just a rule taker, in the shifting geopolitical order.” DOD photo, Flickr

tions—the rule of law not rule by law. Inside China, not surprisingly, the debate is more muted as the Communist Party’s main focus is maintaining its legitimacy, preserving “social harmony”, and guarding its dominant position. Indeed, the current anti-corruption campaign is publicly popular, enhancing the party’s legitimacy, and clearly consolidates the party leadership’s power.

**“Demographics will soon become a drag rather than a motor of growth, and productivity growth and innovation will have to be dramatically increased if China is to sustain its high rates of economic growth and raise living standards further.”**

The Chinese people tend to evaluate their present by reference to their past, not surprising for a nation with 5,000 years of history. With respect to the West, it is the “hundred years of humiliation” narrative; with respect to strong leadership, it is never forgetting past periods of instability and chaos; with respect to rules and authority,

it is the reality that bureaucracy was a Chinese invention to bind together a far-flung empire by more than arbitrary behaviours. But, with respect to representative bodies, there is no Chinese historical reference point, unlike the West with its Roman and Greek antecedents. A key question, given the need for substantial policy change to sustain robust growth, is whether current Chinese governance structures are an impediment to policy change or capable of leading such change? And, the jury is still out on whether reforms will be deep and fast enough given the shifting dynamics in the Chinese economy.

The most immediate challenge is that of growth, which is giving every indication of slowing below the government’s new target of seven per cent, despite Chinese government assurances to the contrary. The pertinent questions are not whether but why there will be a growth shortfall and how much it will be. On the “why”, I believe the slowdown is more structural than cyclical—reflecting aging demographics and low productivity (excess capacity, little innovation, capital market rigidities)—and these structural factors combine with the consumption impacts of the anti-corruption campaign and local property bubbles to magnify the growth weakness. On the “how much”, the IMF

has marked China’s growth down to 6¾ per cent in 2015, and somewhat weaker next year, with risks still to the downside. The recent gyrations in Chinese stock markets, the frenzied measures to prop up equity prices and the decision to devalue the currency only underscore the growth challenges facing Chinese policy makers.

Supporting the structural view of slowing growth is President Xi himself. In recent speeches he refers to “the new normal” for China, calls for rebalancing Chinese growth towards consumption and services and away from exports, advocates an innovation agenda to raise Chinese productivity and improve competitiveness and is moving ahead with financial sector reform, albeit with Chinese characteristics. In this regard, the government has approved a growing number of offshore renminbi clearing centres (15 and counting), including Canada, to support the increasing international role of the Chinese currency. Reform of State Owned Enterprises (SOEs) was a core feature of the 3rd Plenum, although details are scarce and outright privatizations of major SOEs unlikely. However, there is a growing appreciation that a too-dominant SOE position in the economy is an impediment to innovation and productivity. As someone noted, the rise of Alibaba required both the

extraordinary entrepreneurship of Jack Ma and the absence of an SOE in the e-commerce space.

**A** useful caution to Westerners, who too often see China as a homogeneous monolith, is that it is more diverse than we understand and increasingly so. The middle class, which did not exist 35 years ago, is large, growing, traveling and demanding. The “Great Firewall of China”, we are assured, is no match for tech savvy, innovative young professionals who view social media as their new extended family. Graduates from the elite universities are for the first time seeking jobs in the private sector, not government or the SOEs. And even the SOEs are more differentiated in culture and practice than they were, depending on the extent to which they operate in global markets.

Two of the many policy challenges that lie ahead for China particularly stood out at this Ditchley Conference. They were the enormity of China’s environmental problems, particularly expanding droughts, widespread degradation of the water table and unhealthy levels of air pollution in many cities. These rising environmental costs and the slowing of growth should provide the occasion for a massive government infrastructure program geared to cleaning up the skies and water in China’s cities. The other policy problem, which deserves more analysis and discussion, is soaring income inequality and its impact on a society with a sizable middle class and a significant super-wealthy elite for the first time in its history, combined with a shrinking but potentially restive population of rural poor

What about political dynamics, Chinese style? The Communist Party of China has every intention of remaining totally in control, while implementing centrally managed reforms, permitting directed experimentations and encouraging local innovation—a sort of “responsive authoritarianism”. Whatever the West might think, there is no real challenge at present to the Party’s primacy.

On the global stage, China is clearly

“*China intends to be more of a rule-maker, not just a rule-taker, in the shifting geopolitical order.*

*The central question is: what vision of the world will China espouse, how well will its vision mesh with that of the West, and will it see its future working predominantly within or outside the existing global order?”*

frustrated with the existing international order and its place in it. We should not underestimate the impact on Chinese strategic thinking of the global financial crisis and its perception in Asia of “Western model failure.” The failure of the U.S. to approve reform of the IMF, and to cede a major role in the Asia Development Bank to China, were prominent factors in China’s establishment of the Asian Infrastructure Investment Bank. The “One Belt, One Road” international investment initiative is an attempt to align countries in the region through Chinese-financed economic ties, not unlike Western strategies in the postwar period, and to create a new export market for China’s manufacturers. The energy deal with Russia was both strategic and opportunistic—with Russia reeling from sanctions, it agreed to “European gas pricing” rather than “Asian gas pricing.” Interestingly, as China’s global role rises, its association with the developing countries and the BRICS, appears to be diminishing.

But the most important international relationship is that with the United States and this is now being defined by strategic rivalry in most areas. While some degree of geopolitical and economic competition between these two superpowers is inevitable, the inadequacy of “correcting mechanisms” today—regular summits between leaders; dialogue mechanisms among militaries, officials and business leaders; common perceptions of each other’s objectives—is worrisome. Clearly, China intends to be more of a rule-maker, not just a rule-taker, in the shifting geopolitical order. The central question is: what vision of the world will China espouse, how well will its vision mesh with

that of the West, and will it see its future working predominantly within or outside the existing global order?

China has both bold ambitions and big challenges. Leadership, both in China and in the West will matter greatly to how China evolves. Domestically, China needs to reorient its economic growth model towards domestic demand, build its private sector, reform its SOEs, give the “invisible hand of the market” a freer rein to spur innovation and entrepreneurship, and renew the “social contract” with its citizens—a huge task for any society at any stage of development.

Despite the Western commentary about the dominance of President Xi, some China watchers worried that he may not yet have enough power to effect the enormous structural reforms China requires, while others felt he had the power but questioned whether he had the intent to use it for the needed policy reforms.

**W**hat everyone at Ditchley agreed is that the West lacks strategic coherence in its engagement with a fast-evolving China. One possible approach, advocated by former Australian Prime Minister Kevin Rudd in a recent Harvard report, is that a new “constructive realism” is needed in the relationship, with a common strategic narrative for US-China relations to anchor it, and new regional mechanisms to support it. **P**

*Contributing Writer Kevin Lynch, Vice-Chair of BMO Financial Group, is a former Clerk of the Privy Council. He is also a former Chair of the Board of Governors of the University of Waterloo, and Chancellor of University King’s College in Halifax.*



Intermodal cargo at a ship to rail siding at the Port of Prince Rupert, B.C. Canadian shippers are among those who would benefit from increased trade under a TPP deal.

## TPP: Beyond the Economics

Perrin Beatty

*The economic impact of the Trans-Pacific Partnership could be considerable for Canada. But the numbers alone ignore that something much bigger is at play. Is the TPP the first of a new breed of multilateral trade agreements?*

HOPEs were high when Minister of International Trade Ed Fast and his team of negotiators headed to Maui at the end of July for a high-level effort to reach agreement on the Trans-Pacific Partnership. Deliberations hit severe snags on key issues and the negotiators began planning another meeting—sometime, somewhere.

Certainly, the economic impact of this agreement would be substantial for

Canada. Economic studies put the benefits at somewhere between \$5 billion and \$10 billion per year. But the numbers alone ignore that something much bigger is at play. The TPP is a turning point; an opportunity to put the global trading system on track for the future. In Canada, nearly two out of every three jobs directly or indirectly depend on exports, so our prosperity is intimately tied to this project.

The economic case for TPP is clear. Covering 12 countries, including our NAFTA partners the United States and Mexico, it supports Canada's trade ambitions and its objective to attract more foreign investment. The TPP will also give Canadian businesses improved access to 800 million consumers across eleven countries, representing nearly forty percent of global economic activity.

The advantages are even clearer when you look at specifics. A commanding 65 per cent of Canadian agri-food exports are intended for TPP countries. These same partnership countries also account for half of Canada's inward and outward foreign investment. The measures in the agreement will contribute to job growth, protect innovations and give Canadians a greater choice of consumer goods.

Japan is the biggest prize of all. The Canadian exports of meat, grain, oil seed, seafood and wood will grow once producers no longer face the quotas and import tariffs that shield the world's third-largest economy. Beef exports to Japan are projected to double or even triple. There will be similar relief from trade barriers in Vietnam and Malaysia, fast-growing markets representing nearly 120 million people.

The economic benefits will also be felt within the country. Goods and products will need to move across Canada through essential transport infrastructure such as the CP and CN railroads, to be delivered to our ports and border crossings.

Although the economics of the agree-

**“ The TPP is a turning point; an opportunity to put the global trading system on track for the future. In Canada, nearly two out of every three jobs directly or indirectly depend on exports, so our prosperity is intimately tied to this project. ”**

ment are good, they alone do not capture the full importance of the TPP.

The global trade regime is in trouble. Every year since the 2008 financial crisis, G20 countries have pledged to halt what has become a steady growth of trade barriers. However, countries keep finding new ways to shelter their markets, including local content requirements, state aid and regulatory barriers. This trend may even accelerate.

**T**he institutional architecture and rules that support global trade need a major overhaul. The world no longer seems able to craft multilateral agreements. The World Trade Organization has done a good job of settling disputes since its founding in 1994, but it has failed to bring new liberalization in recent years. The Doha Round once again finds itself in political deadlock.

**“ Canada in particular cannot afford to go it alone. We're much more effective when we collaborate with our G7 counterparts and other countries that share our trade ambitions. ”**

So where lies the problem? The global balance of power has shifted dramatically over the past decade. The G7 countries were hit hard by the financial crisis while countries like China, India and Brazil have become trade

powers in their own right. With more people around the table, finding consensus has become much harder.

For a mid-sized trade-dependent economy like Canada's, this shift is concerning on many levels. Going toe-to-toe with giants like China, India and Japan is a terrible alternative to our traditional (and leading) role in multilateral negotiations. We generally fare best when working with others, especially if we can maintain a leadership position in affecting how these new trends play out.

How can we put global trade back on track? The Trans-Pacific Partnership is the first element of the answer.

Countries that have an active trade agenda need to band together and set the rules themselves, instead of pushing for individual and less effective agreements. Canada in particular cannot afford to go it alone. We're much more effective when we collaborate with our G7 counterparts and other countries that share our trade ambitions. These partnerships allow us to create agreements that are adapted to specific situations and objectives where we have a role of influence.

**T**ake the example of CETA, where Canada is putting in place a positive and comprehensive agreement, adapted to its priorities, with all of the European Union in a single, fluid motion. By doing so, Canada is setting itself up as one of the only countries en route to having trade agreements with North America, the East and the West.

Achieving something together is a way to blaze the path for other coun-

tries in the future. Already, the Philippines, Indonesia, Taiwan and South

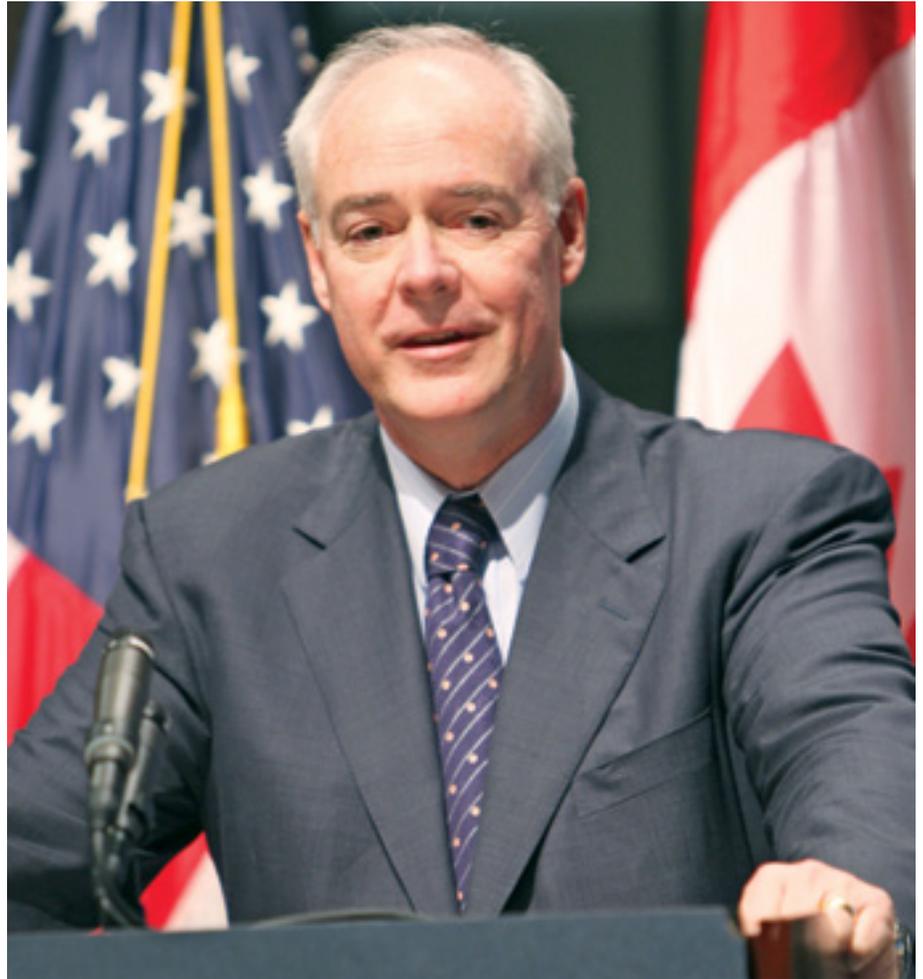
“ *CETA was a good start for Canada, but the Trans-Pacific Partnership is the big show. We need to be fully engaged in the discussion. We cannot let others determine the outcomes for us and hope they remember to include us at the signing.* ”

Korea have been attracted by the benefits of joining the TPP. Even China is considering ways to formalize relations with the new trade bloc.

CETA was a good start for Canada, but the Trans-Pacific Partnership is the big show. We need to be fully engaged in the discussion. We cannot let others determine the outcomes for us and hope they remember to include us at the signing.

The real promise of TPP is in the rules. There's a real opportunity to update the trade agreement template to make it more relevant to the businesses using them. TPP will strengthen and extend standard rules around things like non-tariff barriers, investment and intellectual property. But there are several key innovations to watch for.

Technology has dramatically changed the nature of international trade. The spread of global supply chains has sliced up activities into 'bite-sized' portions. Digital goods and services need to be taken into account. Small businesses are getting involved like never before, but have a hard time dealing with the red tape and understanding local regulatory requirements. TPP is the first major trade agreement to have a chapter focused on their needs.



Canadian Chamber of Commerce President Perrin Beatty writes that a TPP deal would open the door for future agreements. Photo courtesy of Ian Wagreich, U.S. Chamber of Commerce.

Trade in services is increasingly important for Canada. Our exports of banking and insurance, for instance, have tripled over the past decade. TPP will progressively open up service industries to foreign investment and provide a more predictable policy framework to help them compete.

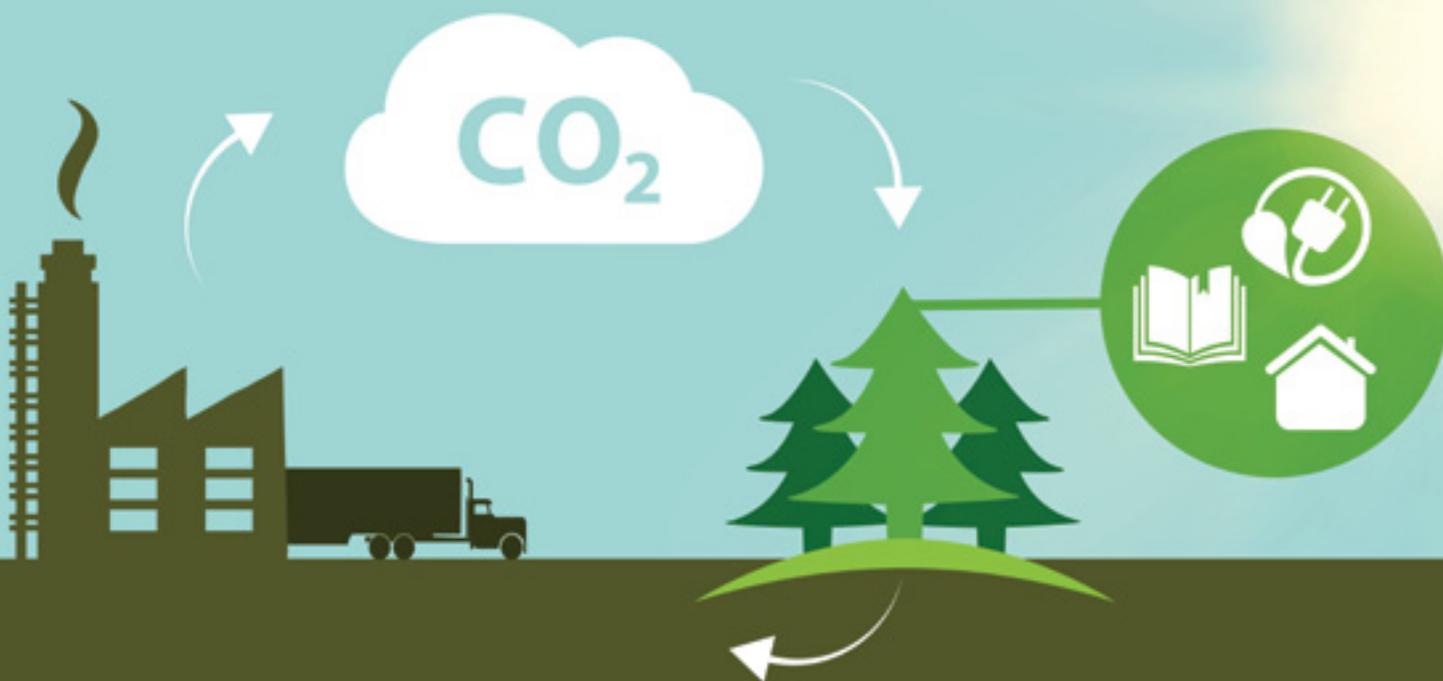
Finally, TPP will make sure everybody is competing on a level playing field. New rules on state-owned enterprises and better enforcement of labour and environmental regulations will deter countries from undercutting each other in a detrimental race to the bottom.

The Trans-Pacific Partnership is the first true modern trade agreement. It is the basis for new global trade architecture that provides universal, yet flexible rules, to foster the growth of trade and investment.

TPP will deliver at face value and give Canada access to new and emerging markets. More importantly, though, it will position us as a key trade stakeholder, one of the few countries actively establishing the rules, not merely playing by them. And therein lies the real strength of this agreement.

There are no free passes to access this table. If we want to play a hand and influence the outcome of the round, we have to put our chips down. Canada cannot win by letting its competitors decide our future without us. **P**

*Perrin Beatty is the President and CEO of the 200,000-member Canadian Chamber of Commerce, Canada's largest and most representative national business association.*



The Canadian forestry sector has reduced GHG emissions by 65 per cent, way beyond the Kyoto target of 6 per cent reduction below 1990 levels by 2012.

## From Laggard to Leader

### THE CANADIAN FORESTRY SECTOR'S VIRTUOUS CYCLE ON CLIMATE CHANGE

David Lindsay

*As the world's attention turns to the United Nations Climate Change Conference in Paris in December, it is worth knowing which industries are doing the most to reduce their carbon footprints. The Canadian forest products industry has made significant GHG emissions reductions and has aimed to be carbon neutral along its supply chain. At the same time, with 10 per cent of the world's forests, Canadian trees absorb tremendous amounts of carbon dioxide to the tremendous benefit of our entire planet.*

**D**roughts from California to British Columbia. Record-breaking temperatures in Central Canada. Fires in Saskatchewan—all blamed on climate change. Yet as angst grows about the impact of climate change, so do fears that curbing greenhouse gases (GHGs) could curtail economic activity. So wouldn't it be wonderful if there were something that pulled greenhouse gasses out of the air while fostering jobs and growth?

Instead of being part of the problem, the forest products industry can be seen as part of the solution to climate change—which scientists agree stems from the increasing emissions of greenhouse gases, especially carbon dioxide

(CO<sub>2</sub>), from burning fossil fuels. Canada's forest sector is helping to mitigate this global challenge by absorbing CO<sub>2</sub> from the atmosphere and storing it in trees and soils, as well as in traditional and innovative new forest products from car parts to new construction materials. This contribution to a low-carbon economy is recognized by the Intergovernmental Panel on Climate Change (IPCC), but is probably less understood by many Canadians.

Forests themselves are not immune from the stress of climate change. With global warming, large and extreme forest fires, such as the ones in Western Canada this summer, are on the upswing. So are infestations. From 1998-2012, the mountain pine beetle killed about 18.3 million hectares of pine forests in British Columbia, mainly because winters were not cold enough to kill off the forest pest. However, at the same time, the forest sector is well positioned to influence and perhaps even lead the way on how we collectively address climate change and transition to a low-carbon economy. It's all part of a virtuous cycle.

A growing forest is a carbon "sink" that sequesters carbon dioxide from the atmosphere and stores it in trees and soil. Accounting for 10 per cent of the world's forests, Canadian trees absorb tremendous amounts of carbon dioxide to the benefit of the entire planet. The Canadian Forest Service estimates that the areas of Canada's managed forest store about 50 billion tonnes of carbon.

And as a renewable resource, our trees will continue to play this role. The deforestation rate in Canada is virtually zero, just 0.02 per cent a year. Any trees that are harvested are regrown, ensuring the maintenance of our forest carbon stocks. A study by Werner Kurz of the Canadian Forest Service confirmed that Canada's managed forests have been a carbon sink from 1990-2008.

Canadians, especially the majority who live in urban areas, may not re-

**“ Accounting for 10 per cent of the world's forests, Canadian trees absorb tremendous amounts of carbon dioxide to the benefit of the entire planet. The Canadian Forest Service estimates that the areas of Canada's managed forest store about 50 billion tonnes of carbon. ”**

alize that Canada is a global leader in sustainable forest management. Our country has 161 million hectares of forests certified by independent third parties to follow progressive social and environmental practices. That's 43 per cent of the total certified forests in the world, or more than four times more than any other country. Part of this leadership is developing active forest management practices to help forests adapt to climate change—for example, salvage harvesting to reduce fire risk, jump-starting growth in forests ravaged by the mountain pine beetle, or planting resilient species. By following best practices, properly managed forests can be a positive contributor to a Canadian carbon management system.

**T**he next step in the cycle is at the mill. The story here is impressive: across the board, companies are aggressively reducing their environmental footprint and running more efficient facilities. Canada's pulp and paper mills rank in the top quartile in the world in GHG intensity emissions compared to their peers. Annual GHG emissions have been cut by about 65 per cent since 1990. At the same time, Environment Canada reported that Canada's total GHG emissions in 2013 were 18 per cent above 1990 levels.

The pulp and paper sector has also eliminated the use of coal and reduced the use of oil by more than 90 per cent. Instead, forest facilities are approaching energy self-sufficiency with about 30 facilities generating green electricity on site using residual materials from their operations—enough to power all the houses in Calgary. Burning wood for energy

does emit carbon but the next generation of trees stores it again—similar to a round-trip ticket—while burning fossil fuels for energy gives carbon a one-way ticket to the atmosphere.

**“ Forest facilities are approaching energy self-sufficiency with about 30 facilities generating green electricity on site using residual materials from their operations—enough to power all the houses in Calgary. ”**

Then there are the various products made from wood that continue to capture and store carbon. This includes traditional wood products such as timber framing, furniture or books as well as new innovative bio-products. Take for example car parts, the console of a Ford Lincoln is made with a wood fibre composite. This helps the low-carbon economy in two ways—by replacing plastics made from non-renewable fossil fuels and by being lighter in weight, reducing the car's fuel consumption. Wood fibre is now found in everything from clothing to cosmetics to green chemicals as well as 3D-printing, pharmaceuticals and electronics.

**T**hese new products do not just have an environmental advantage but they also represent an important business opportunity. The shift in consumer preference for green products can help

open new markets and opportunities for the Canadian forest products industry.

This may be especially true when it comes to the potential of environmentally-friendly wood-frame buildings, which are heading higher because demonstrated improvements in fire safety and new construction techniques and materials have led to building code changes that permit mid-rise (up to six-storey) wood frame buildings. Even taller wood buildings are envisaged using ultra-strong laminated timber beams that are glued together under pressure—for example there are plans for a 16 to 18-storey residence at the University of British Columbia and a 13-storey timber tower in Quebec City. By storing carbon in the wood and requiring less energy to produce, these structures will have a lower carbon footprint than similar construction materials made of energy-consuming concrete and steel.

This isn't just a green dream. A study by the ATHENA Sustainable Materials Institute used a life-cycle analysis to look at the environmental impact of constructing three different houses in Toronto—framed with either wood, sheet metal or concrete. The study concluded that from the perspective of “embodied energy” the wood house did 53 per cent better than sheet metal and 120 per cent better than concrete. From a global warming perspective, wood came out 23 per cent better than sheet metal and 50 per cent better than concrete. A typical 2500 square-foot wood frame home is estimated to have 30 metric tonnes of carbon stored in it, the equivalent of driving your car for seven years.

Finally, as part of the forest industry's virtuous cycle, climate change is being addressed through the recovery and recycling of paper and cardboard. The recycling rate in Canada is around 70 per cent—higher than the US rate and among the highest rates in the world.

And whether it is in the forest, in the

mill, in products or recycling, the forest products industry is continuing its journey of environmental improvement. Under Vision2020, our ten-year sustainability plan, forest companies are pledging to reduce their environmental footprint by another 35 per cent based on a dozen parameters including greenhouse gas emissions, energy use, waste to landfill and recycling. The Canadian forest products industry has also pledged to be carbon neutral by 2015 and will find out whether it has reached this ambitious target when final metrics come in next year.

**“ Canada's pulp and paper sector represents less than one per cent of all Canadian GHG emissions. This is in stark contrast to the transportation sector, which is responsible for 28 per cent of the greenhouse gas emissions in Canada. ”**

Doesn't the forest industry emit a lot of carbon as well? After all, it's a manufacturing sector. Carbon is released when harvesting trees, using power at mills, transporting products or during the decomposition of forest products in landfills. However, a 2007 special report completed for NCASI, an environmental research body, concluded that GHG emissions along the forest product industry value chain are largely offset by the sequestration in forest products. The latest figures show that Canada's pulp and paper sector represents less than one per cent of all Canadian GHG emissions. This is in stark contrast to the transportation sector, which is responsible for 28 per cent of the greenhouse gas emissions in Canada.

Specifically:

- There has been a 65 per cent reduction in the Canadian forestry

industry in GHG emissions below 1990 levels, which has far surpassed the 6 per cent Kyoto target by 2012.

- To date, there has been an 11 per cent reduction in GHG emissions below 2005 levels, and the industry is well on its way to meeting the Copenhagen target of 17 per cent by 2020.
- As for the Paris target of 30 per cent below 2005 levels by 2030, the forestry sector is on its way to meeting that goal, as well. Interestingly, so much progress has been made in emissions reduction by the industry, that there may not be a great deal of room for further improvement.

Climate change is a challenge that needs to be embraced by everyone interested in both the environment and our economic future.

There is also the issue of putting a price on carbon. The forest industry generally agrees with the principle that there should be higher costs on the pollution we want to reduce and lower costs on what we want to increase such as income and investment. Regarding the carbon pricing scheme, the sector also feels that any revenue generated should be allocated to a carbon reduction fund, should be national in scope to avoid duplications, and that early adopters such as the forest products industry should be recognized.

Canadians will be hearing a lot more about climate change as we head toward the United Nations Climate Conference taking place in Paris in late November and December to set new international carbon emission targets beyond 2020. There is increasing global understanding that a low-carbon economy is the way to avoid damaging impacts on ecosystems, societies and economies while securing sustainable economic growth. **P**

*David Lindsay is President and CEO of the Forest Products Association of Canada. [dlindsay@fpac.ca](mailto:dlindsay@fpac.ca)*



# Letting Market Forces Lead is Best for Canada's Railways and the Economy

Joseph F. Schulman

*Regulatory interventions since 2008, including the Fair Rail for Grain Farmers Act of 2014 passed in the wake of a grain transportation crisis, mark a departure from decades of incremental deregulation of Canada's railways, beginning with the National Transportation Act of 1967. History has shown how economic regulation that is too restrictive can produce seriously negative results, not only for railways but for the customers and economy they serve.*

Canada has one of the most efficient freight rail systems anywhere. Its railways move more than 70 per cent of all intercity surface goods—worth \$250 billion—in Canada each year at low rates, and transport roughly half of the country's exports, by volume.

Enabling the success of Canada's railways is a regulatory regime that prioritizes commercial freedom and reliance on market forces over government intervention—a reality that can be traced back to the *National Transportation Act* (NTA) of 1967.

Before that, railway economic regulation in Canada involved increasingly restrictive regulation focused on freight rate control and uniformity, beginning with the first *Railway Act* in 1851. As regulation grew more controlling over the decades, it became disconnected from the evolving business realities faced by the railways, including competition from an emerging trucking industry. As a result, railways became inefficient and had difficulty undertaking much-needed capital investments to maintain and grow their networks.

In 1961, the MacPherson Royal Commission issued a seminal report proposing a complete dismantling of the then-existing regulatory framework. Recognizing that railways no longer operated as virtual monopolies, the report recommended replacing the existing regulatory restraints with competition. The commission saw this as the best way to achieve the most efficient rail system.

It took until 1967 for legislation reflecting the MacPherson recommendations to be enacted. The *National Transportation Act* (NTA) represented

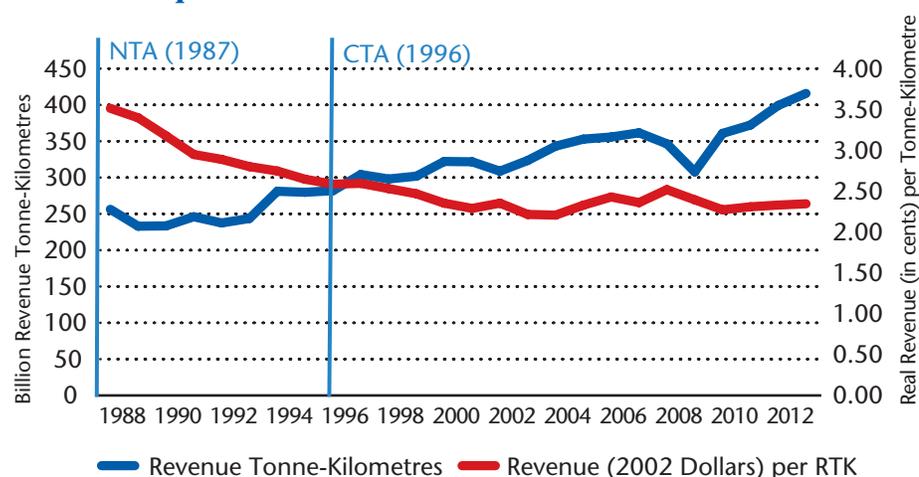
the beginning of a dramatic shift in the regulatory environment for Canada's railways. Rigid constraints on pricing were removed, allowing railways to compete more effectively. A series of subsequent reforms placed an increasing emphasis on market and commercial forces, while maintaining a number of protections to ensure balance between railways and shippers.

Revisions to the NTA in 1987 further promoted competition, reduced regulatory burdens, and introduced new levers for shippers in their relationship with railways. Railways were permitted to enter into confidential contracts, while mediation and final offer arbitration became available to all shippers. Distances for regulated interswitching—the switching of traffic at regulated rates between a local railway's line and a connecting line-haul carrier's line—were extended to 30 km from four miles. "Competitive Line Rates" designed to further enhance competition, were also introduced.

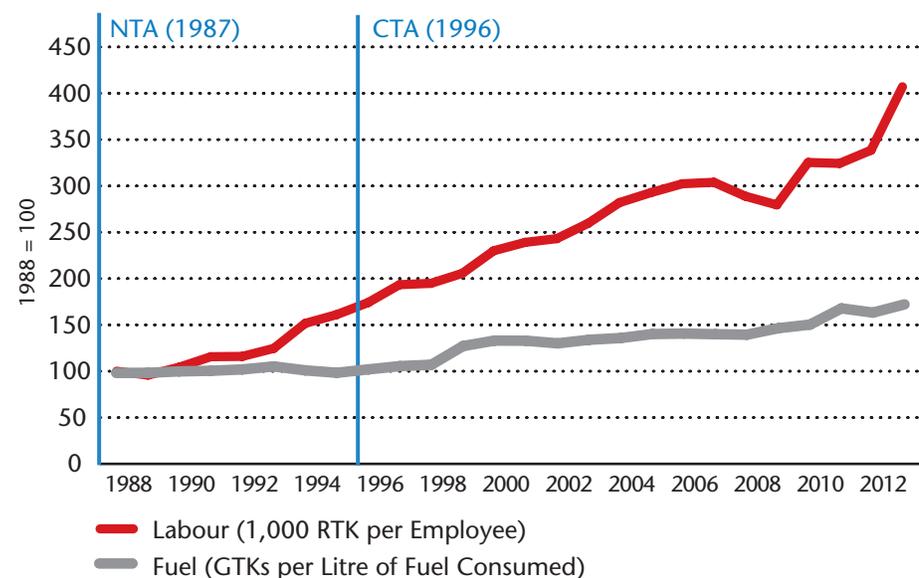
The passage of the *Canada Transportation Act* (CTA) in 1996 introduced additional changes that reduced market exit barriers, allowing railways to discontinue or transfer portions of their networks to other carriers to become more efficient. This gave railways greater freedom to divest of the uneconomic portions of their networks, control costs and generate greater efficiencies. It also fostered sharp growth in Canada's "shortline" rail industry, which delivers traffic to and from mainline railways, and today originates more than 20 per cent of the Class 1 traffic. Around the same time, CN was privatized, creating competition between two privately held, publicly traded national systems (the other being CP).

During this period, railways evolved into highly productive enterprises capable of providing low-cost service while generating the revenues needed to reinvest into their respective networks. Shippers, meanwhile, gained access to a world-class railway system and lower freight rates.

**Figure 1: Canadian Railways—Revenue Tonne-Kilometres vs. Revenue per RTK**



**Figure 2: Canadian Railways—Productivity Indices Canadian Operations**



Source: Railway Association of Canada

Regulatory changes since 2008, introduced in the form of Bill C-8 (2008), Bill C-52 (2013) and Bill C-30 (2014), have amounted to the federal government stepping back from the direction initiated with the NTA in 1967.

Bill C-8 expanded the reach of existing shipper remedies by eliminating the test to determine whether a shipper has suffered substantial commercial harm. In addition, the Canadian Transportation Agency's authorities were expanded to include the power to investigate and order changes to ancillary charges.

New measures under Bill C-52 made it obligatory for a railway to offer a confidential service agreement to any shipper that requests one—to stipulate specific performance standards for receiving, loading, carrying, unloading and delivering traffic.

Under Bill C-30, the *Fair Rail for Grain Farmers Act*, passed in May, 2014, the agency now has the authority to specify operational terms in arbitrated service agreements, and must also advise the federal minister of transport on minimum amounts of grain to be moved by the Class 1 railways in a crop year. The legislation also extended the interswitching distance limit to 160 km from 30 km in the Prairies. (Bill C-30's measures are subject to a sunset clause, which can be postponed by Parliament.)

Overall, the effect of the changes since 2008 has been to modify the balance in the railway-shipper relationship to give shippers more powers. Regulation that restricts commercial freedom and intervenes in railway operations unnecessarily can do more harm than good. Regarding Bill C-30, the mandated quotas for grain volumes to be moved by Canada's Class 1 railways favour grain shippers possibly at the expense of other customers, but with no discernable benefit. Meanwhile, the extended interswitching limits significantly increase the rail traffic base subject to fixed regulated rates. Depending on how extensively these are used, they can mean increased

costs for railways and transit times for shippers, and may siphon business away from Canadian railways and ports to the United States.

**“ Experience in both Canada and the United States shows how damaging intensive regulation can be, and how the commercial freedoms adopted in the latter decades of the 20th century have resulted in a revitalized rail industry. ”**

Experience in both Canada and the United States shows how damaging intensive regulation can be, and how the commercial freedoms adopted in the latter decades of the 20th century have resulted in a revitalized rail industry. For its part, Canadian railway performance—in terms of rates charged, productivity and capital investment—has greatly improved under the regulatory freedoms introduced in 1967, 1987 and 1996.

With pricing freedom, real freight rates have on average declined significantly, dropping by 33 per cent between 1988 and 2013 (Figure 1). Over the same period, labour productivity grew rapidly, reflecting the railways' ability to utilize assets more effectively under a modernized regulatory environment. The industry also improved its fuel efficiency by 2.5 per cent annually between 1996 and 2013 by investing in fleet upgrades and introducing innovative management practices (Figure 2). The Canadian railway industry operating ratio—a key measure of efficiency, where a lower number is better—has been generally under 80 per cent, well below the average prior to 1996 which exceeded 90 per cent.

The railways' improved financial viability since the late 1990s has enabled and encouraged high levels of investment in

Canada's freight rail system. Railways are among the most capital-intensive industries. Companies must have sufficient earnings to re-invest in infrastructure, replenish assets, serve traffic growth and promote innovation. Canada's railways have rapidly increased capital expenditures on their Canadian operations since the early 2000s, investing roughly 15 per cent of revenues annually, including \$2 billion in both 2011 and 2012.

**“ The Canadian railway industry operating ratio—a key measure of efficiency, where a lower number is better—has been generally under 80 per cent, well below the average prior to 1996 which exceeded 90 per cent. ”**

There is a demonstrable link between how economic regulation of railways is carried out and the industry's performance. Regulatory reform in favour of commercial and market-based freedoms has proven to be the most effective approach, serving as the catalyst for a resurgent and successful rail industry.

Several measures in recent years have introduced new regulatory restrictions. While it is too early to judge their effect, history has proven how regulation can produce seriously negative results not only for railways but for the customers and economy they serve. In contrast, when regulation has relied primarily on commercial and market forces to direct the industry, Canada's railways and their ability to serve have thrived. **P**

*Joseph F. Schulman is a Principal Consultant with CPCS in Ottawa. [jschulman@cpcs.ca](mailto:jschulman@cpcs.ca)*

Verbatim/Brian Mulroney

## Reforming the Senate: We Already Have a Road Map



*In a major address to the Canadian Bar Association in Montreal, former Prime Minister Brian Mulroney proposed a way to make Senate appointments that would meet the test of the Supreme Court's 2014 landmark decision on the reference on Senate reform, term limits, elections and even abolition. His suggestion, the Meech Lake formula of the prime minister appointing senators from ranked lists furnished by the provinces, would fall within the framers' intent in the British North America Act while avoiding the need for a constitutional amendment under the 7/50 or unanimous amending requirements of the 1982 Constitution Act.*

**T**he separation of powers between the legislative and judicial branches is, of course, fundamental to our democratic way of life. The independence of the judiciary is as sacrosanct in one branch of government as the accountability of Parliament is in the other.

We were reminded of all those attributes last year in the Supreme Court's ruling in the reference from the government on Senate reform. The executive wing of the legislative branch was asking the judicial branch whether an appointed Senate could be replaced by an elected one, whether there could be consultative elections in the provinces, whether term limits were possible, even whether the Senate could be abolished by the executive and legislature alone.

In its landmark decision, the Court re-

minded us that, while the amending rules are part of the Constitution Act of 1982, Canada's constitutional experience dates from the Constitution Act of 1867: In other words, the British North America Act, the constitutional framework that has served this country so well for nearly 150 years.

Canadians value both the BNA Act and the Constitution Act of 1982, at the heart of which is the Canadian Charter of Rights and Freedoms, along with the amending formula. The two constitutional streams are perfectly complementary. Both define Canadian values of a tolerant and diverse society.

Sir John A. Macdonald and the Fathers of Confederation knew what they were doing at the Quebec and Charlottetown Conferences of 1864, and at the London Conference of 1866-67.

They were building a principled but pragmatic constitutional model, one derived from the Westminster tradition, but adapted to the realities of the emerging Canadian federation.

**“ The Court reminded us that, while the amending rules are part of the Constitution Act of 1982, Canada's constitutional experience dates from the Constitution Act of 1867: In other words, the British North America Act, the constitutional framework that has served this country so well for nearly 150 years. ”**

The division of powers and the pragmatic federalism of the BNA Act are at the very heart of the Canadian compromise invented by Sir John A. and the founding fathers. The founding fathers created a bicameral legislature—an elected House with representation by population, and an appointed Senate in which the regions had equal representation.

“The Senate is one of Canada’s foundational political institutions,” the Court declared. “It lies at the heart of the agreements that gave birth to the Canadian federation.”

And so any change in the appointment of senators touching on the framers’ intent of 1867 amounts to a constitutional amendment under the amending procedures of 1982, requiring either the consent of Ottawa and seven provinces comprising 50 per cent of the population under the 7/50 formula, or the unanimous consent of Ottawa and the provinces.

**T**he Supreme Court justices have confirmed a high constitutional threshold in the Senate reference. Equally important, they have reminded us that our Canadian constitutional experience did not begin in 1982, but in 1867. We all know that the Senate is badly in need of reform. It has become a dysfunctional chamber, and has fallen into disrepute, notwithstanding the good work it often does, especially in its committees.

This is not to say nothing can be done under the present rules. I have two suggestions.

First, whoever is prime minister following the next election could name a commission of two prominent Canadians—perhaps a former auditor-general and a former member of the Supreme Court—and give them six months to produce a code of conduct for the Senate that addresses malfeasances and the absence of regulations governing expenses, residences and the like. There should be clear, strict rules, and they should be enforced. To ensure compliance, the prime

**“ The Supreme Court justices have confirmed a high constitutional threshold in the Senate reference. Equally important, they have reminded us that our Canadian constitutional experience did not begin in 1982, but in 1867. We all know that the Senate is badly in need of reform. It has become a dysfunctional chamber, and has fallen into disrepute, notwithstanding the good work it often does, especially in its committees. ”**

minister would refrain from making new appointments until the new code is in effect.

**“ Among the provisions adopted in the Meech Lake Accord, the prime minister would name senators from ranked lists provided by the provinces. This had a number of purposes—to diminish the centralization of power in the PMO, end the process of packing the Senate by the party in power, as well as affirming the Senate’s role as the House of the provinces. ”**

There is also one way of reforming the executive appointment process without a constitutional amendment, and that is the formula adopted at Meech Lake in 1987. Among the provisions adopted in the Meech Lake Accord, the prime minister would name senators from ranked lists provided by the provinces. This had a number of purposes—to diminish the centralization of power in the PMO, end the process of packing the Senate by the party in power, as well as affirming the Senate’s role as the House of the provinces.

Although Meech was not yet in force, I offered to apply the appoint-

ment provisions in the interests of constitutional innovation and harmony, pending final approval by all provinces.

Looking back at it now, I’m struck by the outstanding quality of senators our government appointed from Quebec, on the recommendation of the government of Premier Robert Bourassa and from other provinces that chose to avail themselves of the opportunity.

There was Claude Castonguay, minister of health and the father of health-care in Quebec; Gérald Beaudoin, a professor of law known around the country; Thérèse Lavoie-Roux, the former president of the Montreal Catholic School Board; Jean-Marie Poitras, the chairman and CEO of l’Alliance Insurance; Roch Bolduc, the head of the Quebec public service; there was Solange Chaput-Rolland, the broadcaster and journalist; and Jean-Claude Rivest, Mr. Bourassa’s closest political adviser, who is still in the Senate sitting as an Independent.

In 1990, I also appointed Stanley Waters from Alberta at the recommendation of Premier Don Getty. Mr. Waters was Alberta’s first “elected” Senator, as the winner of a consultative election. From Newfoundland, on the recommendation of Premier Brian Peckford, I appointed Gerald Ottenheimer, a Rhodes Scholar, who had been president of the Newfoundland House of Assembly.

**A**ll of these appointees proved to be excellent senators, and not one of them was a Pro-

gressive Conservative party loyalist, or organizer—with the exception of Senator Ottenheimer. In other words, I wasn't sending my friends to their political reward, I was sending highly qualified people to do good work.

The provision on the Senate was typical of the pragmatic character of Meech. It would also have constitutionalized Quebec's three seats on the Supreme Court and seen Ottawa choose candidates from lists submitted by the provinces; entrenched the Cullen-Couture agreement on immigration between Ottawa and Quebec; limited the federal spending power in shared-cost programs; extended unanimity in the amending formula to several other areas, including any change in the role of the Queen.

The first of six items provided for the recognition of Quebec as a "dis-

tinct society within Canada," tied to a duality clause that would entrench English-language minorities in Quebec and French-speaking Canadians elsewhere in the country as a "fundamental characteristic of Canada." In other words, affirmation of Quebec's distinctive identity within Canada, without any grant of special status.

It is interesting to note that, some years after the acrimonious debate about the "Distinct Society" provision of Meech, former Chief Justice Brian Dickson of the Supreme Court of Canada said:

"Let me say quite directly that I have no difficulty with the concept. In fact, the courts are already interpreting the Charter of Rights and the Constitution in a manner that takes into account Quebec's distinctive role in protecting and promoting its Francophone character. As a

practical matter, therefore, entrenching formal recognition of Quebec's distinctive character in the Constitution would not involve a significant departure from the existing practice in our court."

You will not find anywhere a more reasoned, persuasive and lethal repudiation of the main argument of the anti-Meech forces at the time. **P**

*Excerpted from a speech to the Canadian Bar Association in Montreal, June 3, 2015.*

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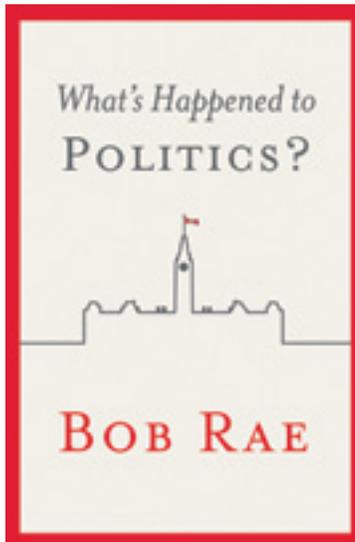
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# Book Reviews



## An Optimistic Realist

Bob Rae

*What's Happened to Politics?*  
Toronto: Simon and Schuster  
Canada, 2015

Review by Geoff Norquay

When I first picked up this book, I had some initial apprehensions. Given its title, I was afraid it would be yet another polemic against modern Canadian politics, filled with laments against the manipulation of big data, the slicing and dicing of electorates, the permanent campaign, the undue influence of lobbyists and megaphone uber-partisanship.

My fears were soon allayed, because while all of that is there, Bob Rae has written a literate and thoughtful *analysis*, not only of the current political scene, but also the last 40 years of governing, policy and politics in this country.

Of course, Rae's credentials are impeccable. His life in politics has scaled heights and plumbed depths, seen significant accomplishments and notable defeats, and spanned two different political parties, but has always been

accompanied by an ability to digest, absorb, learn and grow.

“The chapter on leadership is excellent, starting with his view of its three critical components—vision, persuasion and implementation.”

The structure of the book flows nicely. A wide-ranging analysis of politics and leadership is followed by several prescriptive chapters that address, among other issues, energy sustainability, healthcare, mental health, aboriginal issues, the current state of democracy and foreign policy.

The chapter on leadership is excellent, starting with his view of its three critical components—vision, persuasion and implementation—all of which must be present and in balance for leadership success to be achieved. In the Canadian context, he looks at the leadership accomplishments of Sir John A Macdonald, Pierre Trudeau, Jean Chrétien and Brian Mulroney. Of Mulroney's unsuccessful attempt to bring Quebec into the Constitution, he concludes, “...sometimes, the issues with leadership have nothing to do with the leader themselves....the truth is that any leader can only control her own actions, and not the actions of others, let alone the host of external factors in which she must operate.”

As for the prescriptive chapters of the book, not everyone will agree with every solution Rae advances.

On the positive side, there is a forthright attack on the Harper government's decision to end the long-form census, a cure for which there was no known disease, and which has equally disadvantaged government, the private sector, and the academic community.

On the negative side, Rae's analysis of the energy and environmental sustainability issue is particularly rose-

coloured. He treats us to the usual bromides: “A sustainable national energy policy can also be a source of well-paying jobs across the full breadth of the economy. From infrastructure and construction to advanced manufacturing, the job potential is huge.”

Well, not so much in Ontario, where the Fraser Institute told us in 2013 that provincial subsidies add \$6 billion to household energy costs and \$12 billion to business and industrial costs or, as Gwyn Morgan wrote in the *Globe and Mail* in 2013, “transforming Ontario's previous low cost electricity economic advantage into a crushing millstone.”

And then there's the 2014 study by Tom Adams suggesting that wind and solar projects be halted in Ontario because they together provide less than four per cent of the province's power, but account for 20 per cent of what Ontarians pay for electricity. It's hard to see the advantages of such sustainable energy policies here.

Rae's chapter on aboriginal issues is equally mixed. He provides an impassioned and exhaustive description of the long, sad history of white-aboriginal relations and treaty making, as well as the jurisprudence created by the court system over several decades. But when he looks to possible solutions, there is little acknowledgement of the thousands of First Nations Canadians who have long since given up on the reserve system and moved on with their lives. There is little acknowledgement of the difficult choices facing aboriginal leaders, pulled one way by those communities who seek to bolster dependency through the colonial provisions of the Indian Act and those others who are already well down the road to social and economic self-sufficiency. And one searches in vain for any sense that the splits in national aboriginal leadership have become a huge barrier to progress on First Nations issues.

In his concluding chapter, Rae writes, “This book has not been written as an exercise in partisan propaganda. My intention has been to show the resonance and resilience of a way of looking at politics that is based on as-

assessments of values, idea, programs, character, and leaders, not on spin, money, image, impressions, branding, and appeals to fear or even hate.”

My personal quibbles and policy preferences aside, this is an entertaining and eminently readable book. Despite the many twists and turns in his 40-year political journey, Bob Rae remains both a realist and an optimist.

Geoff Norquay, a principal of Earncliffe Strategy Group, was senior adviser on social policy to Prime Minister Brian Mulroney. [geoff@earncliffe.ca](mailto:geoff@earncliffe.ca) **P**

*Geoff Norquay, a principal of Earncliffe Strategy Group, was senior adviser on social policy to Prime Minister Brian Mulroney. [geoff@earncliffe.ca](mailto:geoff@earncliffe.ca)*



## Personal Touchstones On a Political Journey

Tom Mulcair

*Strength of Conviction.*  
Toronto: Dundurn, 2015

Review by James Baxter

Understanding the potential of an old house under renovation, one needs to look at the strength of its foundation, the quality of the materials and the loving upkeep it has received from its owners. In evaluating Tom Mulcair,

understanding what dwells unseen by most gives us a better indication of the kind of prime minister he could be.

Mulcair struggles with a public persona that is seen as pious and uncompromising, an image he hopes to change—or at least explain—in his pre-election autobiography *Strength of Conviction*. The picture on the cover is a chapter unto itself—the greying beard and wrinkles around the eyes suggest experience and wisdom, while the twinkle in those eyes show vigor and focus.

From the foreword, Mulcair acknowledges that the book—and much of his political life—has been a team effort. It took a phalanx of friends, family and a dogged publisher to extract and organize the many memories and deeply held values that have brought him to the point of aspiring to lead the country.

Unlike many of today’s politicians, who have never imagined any other career path for themselves, Mulcair paints a picture of a happy childhood, though one that was far from luxurious. He came from tough Irish stock, watched his father, a man with 10 children, suffer through a career setback when the company he worked for was bought out by a US-based rival. He lost his job and seniority, but with dignity and humour, built himself back up. It was one of the many lessons Mulcair has carried with him since.

What is made clear through the first third of the 184-page book is how strongly Mulcair values family. In many political biographies, families are mostly used as props, but the depth of characters Mulcair reveals to the readers offers tremendous insights into his most basic beliefs.

Beyond his immediate family—and Rocket Richard, of course—among his greatest childhood influences is Father Alan Cox, a Montreal priest who ran afoul of the Montreal archdiocese for his avant-garde approach and was sent to minister in suburban Chomedey, where Mulcair was a high school student. What made Cox cool was that he sought social justice and taught Mulcair and his classmates to seek more from each other and to strive for a better, fairer world.

He also takes us through his love affair with Catherine Pinhas. The two have been together since 1974, when Mulcair was a 19-year-old law student. It’s clear that theirs is a unique and powerful bond, one that is a key theme throughout the book.

Mulcair describes his passion for the law as a quest for fairness in the world. His time working with the minority English-rights group Alliance Quebec and at the helm of the Office des professions du Québec is well written, but doesn’t provide a lot of insight into Mulcair’s leadership style or his vision for Canada. What is clear is that he revels in results, championing nuance and reaching acceptable compromises.

Not surprisingly, the book moves from character foundation to historical thriller as the disenchanted Mulcair, having served as Quebec environment minister under Jean Charest, prepares to exit Quebec politics in 2006 and is wooed to run by Jack Layton’s NDP in the 2007 Outremont byelection. Mulcair’s admiration for Layton is clear and inspiring, but also complicated. Layton’s world was one of large personalities and reaching across aisles, whereas Mulcair’s was much quieter and transactional. Together, however, it’s clear they made a strong team.

But where Layton could be publicly engaging of his rivals, in the book, Mulcair makes no effort to hide his disdain for the political antics of Stephen Harper and his staff. He also offers a particularly merciless assessment of Michael Ignatieff and the hapless Liberals. His words are short, sharp and leave little doubt that he believes Ignatieff was his own (and his party’s) worst enemy.

With all that background in place, the final chapter, a treatise of sorts titled *A Country of Shared Values*, offers a listing of his beliefs and desires for the country. Among them: “It’s time to remember how strong we are when we work together; I believe that every young family just starting out should have every opportunity to succeed; I believe access to affordable child care is an economic as well as a social priority; I believe every Canadian should be able to retire in dignity with financial security; I believe that a family with two children working full-time at minimum wage should not be living in poverty....”

One need only read these last eight pages to learn what Tom Mulcair might do as prime minister. But by looking back at the road he has travelled, one sees that Mulcair’s convictions are built on a solid foundation of people who showed him how one person can do make all the difference in the lives of many. **P**

*James Baxter is Editor and Executive Chairman of iPolitics. [jamesbaxter@ipolitics.ca](mailto:jamesbaxter@ipolitics.ca)*

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