

Canadian Politics and Public Policy

Policy

A close-up portrait of Justin Trudeau, the Prime Minister of Canada, smiling and looking slightly to the right. He is wearing a brown corduroy jacket over a light blue button-down shirt. The background is a blurred crowd of people.

Justin Trudeau

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Policy

*Canadian Politics and
Public Policy*

EDITOR

L. Ian MacDonald
lianmacdonald@gmail.com

COPY EDITOR

Lisa Van Dusen
livdd@aol.com

CONTRIBUTING WRITERS

Thomas S. Axworthy
Andrew Balfour
Brian Bohunicky
Derek H. Burney
Catherine Cano
Margaret Clarke
Celine Cooper
Fen Hampson
Dan Gagnier
Tasha Kheiriddin
Brad Lavigne
Kevin Lynch
Jeremy Kinsman
Velma McColl
Geoff Norquay
Zach Paikin
Robin V. Sears
Gil Troy

GRAPHIC DESIGN AND PRODUCTION
Monica Thomas
monica@foothillsgraphics.ca

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Cover photo: Adam Scotti



From the Editor

Trudeau: Now for the Hard Part

Welcome to the first issue of *Policy* magazine. Our aim is to be a must-read for Canada's policy makers and business leaders.

Our premier issue features a timely cover package on Justin Trudeau, as he assumes the leadership of the Liberal Party of Canada. While the leadership campaign turned out to be more of a coronation than a competitive race, there is no shortage of political and policy challenges awaiting Trudeau. In other words, now for the hard part.

With the Liberals reduced to third party status in the House of Commons for the first time ever, Trudeau faces a huge rebuilding job in the country. His time will probably be better spent on the hustings than in the House. One thing the leadership campaign proved – Trudeau can draw a crowd, and he clearly knows how to work one. There's no doubt Trudeau is the main reason the Liberals have been trending up in the polls.

However, there's the inherent value of the Liberal brand, as well as the name recognition of the family brand. Pierre Trudeau once famously called the Liberals "the party of the extreme centre", and the question is where Justin Trudeau sees the Liberals on the political and policy spectrum.

Or as Martin Goldfarb asks in our lead article: "What is Justin Trudeau's brand promise?"

A leading authority on public opinion and market research, Goldfarb served as the Liberal Party's pollster under Pierre Trudeau, and suggests the Just Society as a policy template for Justin Trudeau. The Just Society, he writes, was a big idea that defined not only a Liberal agenda, but enduring Canadian values such as official bilingualism, multiculturalism,

and ultimately the *Charter of Rights and Freedoms*.

Patrick Gossage, who served as press secretary to the father and now an adviser to the son, sees "substantial differences in the political strategies of the two men," not to mention very different styles. "Pierre Trudeau was a classic top-down leader...he was no grassroots politician," Gossage observes. "By contrast, his son is a natural bottom-up politician, with the skills of a community organizer."

Zach Paikin, a graduate student and voice from the next generation, joins the conversation with some suggestions on how the Liberals can strategically position themselves and Canada in a rapidly changing world.

John Duffy, author of the acclaimed *Fights of Our Lives*, has written about many campaigns, and lived through a few of his own as a senior policy adviser to former Liberal leader Paul Martin. He offers some thoughts on the challenges facing Trudeau in re-building the Liberal Party, and putting it on a path to power. Andrew Balfour adds some thoughts on the immediate challenges facing Trudeau in taking over the Liberal Party, fund raising and organizing for the 2015 election in a 338-seat house, 30 more than the present House of Commons, with 27 of those new seats west of the Ottawa River.

Looking at Budget 2013, BMO Vice Chair Kevin Lynch and his colleague Karen Miske lead off our analysis with an overview of the conflicting pressures on Finance Minister Jim Flaherty, to balance the books by 2015 on the one hand, and to stimulate the economy on the other. A decidedly delicate task. As a former deputy min-

ister of Finance and later Clerk of the Privy Council, Lynch has been there.

Then, Dan Gagnier considers some the federal-provincial issues around the Canada Job initiative, and writes that unilateralism on Ottawa's part raises flash points in the federation, especially between the feds and a sovereigntist government in Quebec.

From the University of Calgary, David Nicholas, Margaret Clarke and Herb Emery look at the jobs initiative from another perspective – that of persons with disabilities, and conclude it is an important step in integrating them into Canada's labour force.

Finally, Derek Burney and Fen Hampson, veteran foreign policy hands, examine the folding of the Canadian International Development Agency, as well as International Trade, into one government department, Foreign Affairs.

In a *Dossier*, we examine the implications of the Nexen deal, in which Stephen Harper approved the takeover of the Canadian oilsands player by China National Offshore Oil Corporation (CNOOC), but pointedly added: "When we say that Canada is open for business, we do not mean that Canada is for sale."

Michael Coates advised CNOOC on the Nexen deal, and as a Conservative activist also brings informed insights into the thinking of the Harper government on foreign investment and the role of State Owned Enterprises, particularly Chinese SOEs.

For his part, Brian Bohunicky sees Canada's policy toward China as one that has evolved from virtual hostility, to let's do business, to "Yes, but" on the Nexen deal. He writes: "While it is the most nuanced so far, the latest posture is primarily transactional and political rather than far-sighted or strategic."

Finally, in a *Policy Special*, Robin Sears examines the possibility of a First Nations Spring, the dialogue between Grand Nations Chief Shawn Atleo and Prime Minister Stephen Harper. Each is invested in the success of this conversation. Others, notably career bureaucrats in the Department of Aboriginal Affairs, are not.

L. Ian MacDonald
EDITOR, *POLICY*



Justin Trudeau speaks to a packed hall at Queen's University on February 13. Martin Goldfarb writes that he needs "to define the direction in which he wants to take us, just as his father did when he proposed the Just Society." Photo: Adam Scotti.

From the Just Society to Justin's Canada

Martin Goldfarb

What are the challenges facing Justin Trudeau after winning the Liberal leadership on April 14 in Ottawa? "What," asks Martin Goldfarb, "is his idea that defines Canadians and shapes our country?" His father, Pierre Trudeau, famously proposed "the Just Society," which resulted in official languages, multiculturalism and the Charter of Rights. The inherent value of the Liberal brand, Goldfarb argues, was ignored or misunderstood by the Liberal Party's last two leaders. But brand equity is an affinity between voters and the party, from one leader to the next. Big, bold ideas, he concludes, win elections.

Politics is both process and vision. Image is what you are, not what you hope others think you are. Vision becomes the guide for public policy.

What we need to know from Justin Trudeau is: what is his vision? What are his guiding standards for behaviour or values? What big ideas is he prepared to engage the public with that will be a force for change in the public interest? What is his idea that defines Canadians and shapes our identity? We need to know if he has conviction – not just musing, but genuine conviction.

Justin Trudeau needs to define the direction in which he wants to take us, just as his father did when he proposed the Just Society. That simple concept was a brilliant story. It gave Canadians a sense of identity – justice, transparency and pride in themselves. It was about making Canada a fairer place to live, a place that respects all of its citizens. The Just Society succeeded because it enabled multiculturalism, respect for minorities, as well as the will to tolerate difference and to trust strangers, which was the essence of our immigration policy.

Even before articulating the Just Society, Trudeau was moving that way as justice

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minister with the decriminalization of homosexuality, as well as abortion and divorce changes. As he famously said: "The state has no business in the bedrooms of the nation," It was the first time he said to Canadians, "This is who I am". He was also saying, "This is who we are," and Canadians agreed with him, which created the affinity.

The narrative of the Just Society clarified the very essence of the country. As I wrote in *Affinity: Beyond Branding*: "The Just Society was a source for change in the manner and conduct of Canadian politics. The concept challenged our innate feelings of prejudice and redefined how we thought of ourselves, of Quebecers, of minorities, of others. The Just Society made the *Charter of Rights and Freedoms* possible and this bold act of Parliament, preceded by bilingualism and multiculturalism, redefined the notion of Canadian citizenship." It was and still is our brand promise.

Values are the standards we have to make judgments and choices in public life. The Liberal Party of Canada has values Canadians identify with. What are the Liberal values? Trust, tolerance, transparency, peace, justice, prosperity, opportunity, fiscal responsibility and some sense of economic nationalism. These are the building blocks of the Liberal Party.

The Liberal Party needs to create affinity for its brand. Affinity is the way of attaching a citizen to a way of thinking; that is to a story teller. Justin Trudeau needs affinity so that people can feel attached to his thinking, to the story he tells. The story must become a covenant in words and deeds that defines a relationship based on expectations and performance. Every society craves a great storyteller. The high moments of public life of a society are reflected in the stories that great political leaders tell.

The Liberal leader does not need to invent a new brand. The weakness of Stéphane Dion and Michael Ignatieff was

that they tried to create one. They never understood the historical roots of the Liberal brand and how to add to it rather than change it. The power of branding and politics is like inheritance. The inheritance of the Liberal brand by a new leader cannot be avoided or overlooked. In working with the brand, one must find the policies to extend the brand promise but still be true to its essence. The Liberal brand just needs resuscitation, it needs to be adjusted, and updated.

Great companies like Ford, Toyota and Nike evolve their brands generation after generation. At one point, Coke wanted to change its brand and almost destroyed itself with New Coke, but was fortunate to revert quickly to its original brand. Political parties are no different. Branding is about creating affinity, a reason to support, identify with and believe in. The Liberal Party has values that Canadians identify with. They are derived from many years of successive and successful governments beginning, for me, with Lester Pearson, followed by Trudeau's Just Society, and Jean Chrétien and Paul Martin's commitment to balancing the budget.

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What is Justin Trudeau's brand promise? We don't know yet. And, as a result, we fundamentally don't know him. We need to know him personally if we are to trust

him. He needs to define his promise, his values, his attributes. What will he do to make us a better country? What is the big idea that he wants to challenge the country with? By understanding this, we will have a good sense of the likely drivers of his decision making.

Trudeau needs to understand political parties are storehouses of memories, experiences and associations. The Liberal Party through Justin Trudeau should build on the legacy of his father, and add to the lustre of the Just Society. You can win with big, bold initiatives.

The genius of the Liberal Party was to capture the policy initiatives that were relevant and important to Canadians. These policy ideas became the essence of the Liberal Party and the essence of the Canadian way of life; that is, our way of thinking. In the Chrétien / Martin decade we agreed that deficits handicapped our country. We took this challenge to eliminate the deficit and created surpluses to pay down our debt, as Paul Martin said at the time: "Come hell or high water." At the same time, we grew the economy and created wealth for Canadians and Canada itself. We were also committed to keeping the country together through the *Clarity Act*, requiring a clear majority in favour of a clear question on any Quebec referendum proposing sovereignty. Under Lester B. Pearson we did Medicare and the Canada-Quebec Pension Plan, both in cooperation with the provinces; under Trudeau we did the *Charter of Rights and Freedoms*. These policy initiatives built the Canada that is the envy of much of the world.

We must never forget that elections are about interests and Liberal Party interests have long targeted policy initiatives at core constituencies. In the elections that I fought, we won because we understood the need to appeal to young people (first and second time voters), to those over 50 and to the middle class.

One bold initiative that I believe Justin Trudeau should look at would be to invest in students who accumulate debt. Trudeau should promise that a Liberal government would share in the debt that students accumulate up to, say, a maximum of \$50,000 and that the government will pay dollar for dollar as the former student repays the debt. This would encourage more people to pursue higher



Trudeau at a leadership candidates forum in Toronto. In an initial field of nine candidates he was the clear front runner, to the point where a leading opponent, Marc Garneau, dropped out in mid-March and endorsed him. Photo: Adam Scotti.

education. It would be an investment in students and in wealth creation for our country. The principle would be to invest in the future of young people. It would complement the Registered Education Savings Plan (RESP) and help all students, regardless of economic background. In Canada today, we spend heavily on older people through pensions and health care and not enough on young people who end up carrying the cost burden of older generations. And there would be no constitutional issues around provincial jurisdiction in higher education as former students would have graduated by the time they began to pay down their debt.

Another such bold initiative I would propose would be to eliminate income tax for all those earning less than \$50,000. This personal income tax policy would be beneficial to young people, many older people on fixed incomes and pensions and many in the middle class. It is these people who are the backbone of the Liberal Party's historic strength and future success.

Citizens understand that governments need tax revenues. To afford this personal income tax policy I would, at the same time, raise the GST from 5 percent to 8 percent or 9 percent. In some ways the GST is like a voluntary tax – you can purchase a less expensive item or a more expensive item – you decide to tax yourself based upon the value of the items you have purchased. But, for all those

households earning less than \$50,000, Trudeau could propose an annual subsidy to compensate for the extra GST they would have to pay.

Combined, these tax measures would be a way to reduce taxation for core constituencies and create offsetting revenue for the government at the same time. This should be argued during an election. While there would always be a risk of the Conservatives defining Trudeau in attack ads as a “tax-and-spend Liberal,” he would have the tactical advantage of putting forward big ideas.

What is Justin Trudeau's brand promise? We don't know yet. And, as a result, we fundamentally don't know him. We need to know him personally if we are to trust him. He needs to define his promise, his values, his attributes.

Big ideas, for me, are more important to capturing the affinity of voters than micromanaging demographics, as happened in the last American election. Micromanagement can only work when neither side has a big idea. Big ideas supersede micromanagement. They are a force for change

in the voter's self-interest. This type of policy is not incremental: it is as challenging as the Free Trade Agreement or GST that Brian Mulroney introduced, or the *Charter of Rights and Freedoms* or National Energy Program that Pierre Trudeau championed.

Today, the Conservatives are coasting on incrementalism. The Liberals need to change the game with a big idea. Changing the game is key to dealing with Conservative political aggression, which includes positioning Liberal leaders and the Liberal Party in a pejorative way. The Conservatives successfully defined the negatives of Dion (“Not a leader”) and Ignatieff (“Just visiting”). Neither one ever got to define himself to Canadians.

The Just Society positioned Canada as a truly democratic country, with a transparent government and public policy process. The Harper Tories, on the other hand, have moved to dismantle the very essence of what many Canadians admire in their country, including transparency and Parliamentary debate. In prison sentencing, prison construction, eliminating the gun registry, raising the age eligibility for Old Age Security, limiting Parliamentary debate on two budget omnibus bills, obfuscating the F-35 fighter jet costing, and lack of transparency in renegotiating the Kyoto Accord, the Tories are changing our value system. Where the Liberals balanced the books and paid down debt every year from 1997 to when they left office in 2006, the Conservatives will run seven deficits in a row from 2009 until 2015.

To my mind, Trudeau must take the initiative before Harper's Conservatives position him in a pejorative way, as they did so successfully with Dion and Ignatieff. Trudeau must also demonstrate why Harper's Tories are not the party Canadians should support. Make the Tories defend themselves; hold them accountable, in the House and on the hustings.

Trudeau and the Liberals also need to keep an eye on the NDP on the left. The NDP is the official opposition and, in many people's minds, that fact has not really registered. Jack Layton convinced Quebecers to vote NDP and reject the Bloc Québécois. He had a compelling personal story – the man with the cane. He also reminded Quebecers, with his colloquial French, that while he had

What drives choice? Choice is always based on self-interest. People vote for themselves. The Liberals need to expand their brand, make it relevant for today and position the Tories as a pejorative choice.

spent his adult life in Toronto, he had grown up in Quebec. In essence, that he was a Quebecer, one of them. Quebecers flocked to *le bon Jack*, the good guy, and rewarded the NDP with 59 seats. By voting for the NDP, Quebecers rejected the Bloc's politics of grievance and decided to join in the Canadian political conversation.

The issue for Tom Mulcair is whether he can keep support in Quebec. So far, he has performed quite well. The basic test of any NDP leader is whether he can control the loony left wing of the party. With mainstream voters, this is a fundamental measure of the NDP's readiness to be a government-in-waiting. By silencing the far left, focusing his Quebec members on local riding issues, and building confidence that as a party they are not to be feared, Mulcair is creating a party that is no longer seen as extremist. His challenge is to do what Liberals did in the past: continue to dominate Quebec and build support in Ontario as well as in the West and the Atlantic.

Mulcair's comments about Quebec being entitled to declare sovereignty with 50 percent plus one support in a referendum have raised concerns in the rest of Canada. "The side that wins, wins," he declared. That's not what it says in the Clarity Act. An important piece of the Liberal legacy, it requires a clear answer to a clear question. On the other side of that same conversation, Mulcair has since lost one of his Quebec MPs, Claude Patry, who bolted to the Bloc because under Mulcair's interpretation of the Clarity Act, Ottawa would still have a role in signing off on a referendum question.

How Mulcair handles this issue will be critical. He could lose support in Quebec if he moves away from his 50 percent plus one position. But if he doesn't move away from it he will lose votes in Ontario, as well as in English-speaking Quebec ridings in Montreal. Indeed, the NDP have dropped in the polls in English-speak-

ing Canada since Mulcair put this position on the table. Provincial NDP leaders have also been notably silent in their enthusiasm for Mulcair's 50-plus-one gambit. It was Trudeau who called him out on this in late January. "You cannot be half pregnant on the question of Canadian unity," Trudeau declared on the leadership campaign trail. "It's a very careful political calculation by him to appeal to his strong nationalist base in Quebec."

The next election will see Trudeau and the Liberals fight for a united Canada, positioning the Conservatives as neglecting Quebec's interests and leaving Quebec out. At the same time they will position the NDP as leaning in the direction of the separatists.

The Just Society made the Charter of Rights and Freedoms possible and this bold act of Parliament, preceded by bilingualism and multiculturalism, redefined the notion of Canadian citizenship. It was and still is our brand promise.

The collective consensus is the genius of democracy. People have to make choices in an election. What drives choice? Choice is always based on self-interest. People vote for themselves. The Liberals need to expand their brand, make it relevant for today and position the Tories as a pejorative choice. Transparency is not mysterious; it is obvious. The Harper Conservatives are not transparent, and that is a challenge to our way of thinking and to our way of living.

Society creates artifacts and totems that define and guide collective behaviour and thinking. Pearson's health care and



As the leadership campaign unfolded, Trudeau clearly connected and drew large crowds everywhere he went. His challenge is how to "define his brand promise." Photo Adam Scotti.

the Canadian flag, Trudeau's Just Society, Chrétien / Martin's balanced budgets – these are Liberal totems. These allowed voters to act in their own self-interest and the collective consensus understood that these measures were in the national interest. Mulroney did the same thing with free trade and the GST.

Branding is the effect of forging a lasting link between voters and political parties. It is a creative act. There is a way of thinking about Canada that defines its past character and present circumstances. It is this thinking that Justin Trudeau needs to embrace.

Martin Goldfarb is Chairman of Goldfarb Intelligence Marketing, a Toronto-based public opinion research and marketing firm. During the Trudeau years, he was the principal pollster for the Liberal Party of Canada. He is the co-author, with Howard Aster, of Affinity: Beyond Branding.

mgoldfarb@goldfarbmarketing.com



Justin Trudeau with his son Xavier James at the launch of his leadership campaign in Montreal last October 3. Where his father Pierre Trudeau had been a top-down politician, Justin's grassroots style is very much bottom-up. Photo: Montreal Gazette.

The Two Trudeaus: Passing the Torch

Patrick Gossage

From the moment Justin Trudeau first articulated his political ambitions, the comparisons were inevitable: Did he have the intellectual heft of his formidable father? Would he see the country and his relationship with its voters through the same – often ambivalent – lens? Some of the differences are generational and some personal, observes Gossage. But don't measure the son against the father we said goodbye to, he cautions; compare him with the Pierre Trudeau Canada first got to know in 1968.

Having worked with former prime minister Pierre Trudeau as his press secretary in the late 1970s and early 1980s and being now somewhat involved in his son Justin's political ascent, I feel I can legitimately compare the two.

There are substantial differences in the political strategies of the two men, although they share a dedication to the classic Liberal values of equality of opportunity for all citizens, and a belief in pragmatic, non-ideological, evidence-based solutions to Canada's social and economic challenges.

They contrast most markedly in leadership styles. Pierre Trudeau was a classic top-down leader with a commanding presence, a big intellect, and usually a clear and forthright portfolio of policies. He was no grassroots politician. Nor did he seek consensus on areas in which he knew he was right – notably Quebec and the Constitution. By contrast, his son is a natural bottom-up politician, open to new ideas, with the skills of a community organizer.

They entered public life with very different experiences. Pierre was formed as a public intellectual when he ran for the Liberal leadership in 1968. He had launched his "Just Society", and was seized with bringing Quebec and the French fact into the Canadian mainstream, a mission he only partly fulfilled.

In every sense Justin is a new, thoroughly modern Trudeau. Not bored by pressing the flesh as his father was, but galvanized by meeting ordinary Canadians, the more the better.

Justin may lack a personal national mission. But his political strategy is anything but telling Canadians what they should be concerned about. Instead, he embraces a more contemporary strategy – throwing out a few big ideas (on the economy and education, for instance) then launching a dialogue and actually incorporating the ideas of Canadians. This is one mark of the generational change he has launched in Canadian politics.

The elder Trudeau would not have been comfortable with such an approach, and it is certainly the polar opposite of the way the current government leads. Actually launching a democratic conversation with the party and the wider electorate seems foreign to the Ottawa chattering classes, too. What could this conversation about policy be about? Well, 25,000 people a day punch into Justin's "Soapbox" website policy platform to endorse the approach.

Pierre Trudeau communicated through traditional media in his leadership campaign because journalists and cameras couldn't resist his charismatic appeal. Justin gets front page coverage wherever he goes in the country, but the media don't know how to interpret his natural charisma. He underpins this appeal through social media and his website. He "Tweets", often several times daily, to keep in touch with his almost 160,000 followers. As Thomas Walkom noted in the *Toronto Star*: "He has mastered the Internet's youthful style, employing the air of spontaneous intimacy that convention demands..."

Justin's formation was more down-to-earth and modest than his father's. In any case, it would be impossible today to match the intellectual ferment of Quebec society in full self-liberation that his dad experienced. Justin attended McGill, taught at a private school in British Columbia and did graduate work in environmental geography. His admirable grassroots skills seemed to emerge full blown when, in 2008, he accomplished a political feat his father could not have and did not. He was not handed a seat in Parliament, but got there through hard campaigning. First, he won a competitive Liberal nomination, and later defeated a popu-

lar Bloc incumbent in the working class East End Montreal riding of Papineau, where his name was, if anything, a detriment. Then, in 2011, when the Liberals were reduced to a rump of seven seats in Quebec, he survived the party's flameout.

Some observers have gone so far as to credit his remarkable political acumen to his mother's side of the family. As one organizer told the *Globe and Mail*: "Justin's B.C., Scottish-Canadian, James Sinclair (his grandfather) roots are clearly demonstrated in his activities as an MP in Papineau, his hard work on the ground, his ability to organize, pull together a team and, frankly, to win and then hold a riding in the most difficult election that the Liberal Party has ever faced."

In every sense Justin is a new, thoroughly modern Trudeau. Not bored by pressing the flesh as his father was, but galvanized by meeting ordinary Canadians, the more the better. Not dragged to local political events like his dad, but the master of them, and the master of the rousing stump speech – without notes, and without a phalanx of speechwriters.

I asked my old friend Craig Oliver, the dean of the Parliamentary Press Gallery, to share some thoughts on the two Trudeaus from the point of view of a veteran journalist who knew the father well and is a keen observer of the son. He wrote:

It should surprise no one that father and son are different people. At least in part because of the famous name, Justin has the same magnetism as his father. He turns on a crowd and is the centerpiece of every room he enters. But there is an open question about whether he shares the same gravitas. He is less remote and more approachable with a casual charm which did not come easily to Pierre. Does he inherit the ability to focus intently on an issue and frame it in an intellectual concept that is persuasive with voters? Nor is it clear whether he has the judgment, as his father did, to surround himself with the brightest people around and know the difference between bad and good advice. If he is only Pierre Light it will be a long fall for the son.

Oliver reflects accurately a constant refrain from the media about Justin's leadership ambitions: "What does he



Working the crowd, Trudeau clearly enjoys retail politics in a way his father never did. Photo: Adam Scotti.

stand for"? Do we really believe there can be a kind of "action plan" approach to leadership today? Justin's positive politics and moderate, pragmatic approach to policy could serve him well when the time comes.

Also, it is surely fairer to compare Justin with his father when he entered his own leadership, not with the Trudeau of the 1980s. Look more clearly at where his father was in 1968. After all, a long and hard fought 14 years separates the Just Society of his Leadership Campaign from the *Charter of Rights and Freedoms* of 1982. During Pierre Trudeau's own leadership campaign, he was criticized for standing for very little.

Justin has set out some major themes. He has said that a Liberal Party led by him would make its top priority to have Canada be the best educated country on Earth. He has said this is his goal because education is the key to progress for the middle class. To put a fine point on his argument, he has proposed a national goal whereby 70 percent of Canadians would achieve post-secondary education. Interestingly, a more activist federal role in post-secondary education was an unfulfilled dream of his father's.

What is and was seen as a triumph of charisma in both their cases will, with Justin as with his father, morph into a more rounded appreciation of a leadership of sustained values and dedication to nation building policies.

Patrick Gossage was press secretary to Prime Minister Pierre Trudeau from 1979 to 1983, and later head of the Public Affairs Division of the Canadian Embassy in Washington. He is the founder and now Chair of Media Profile, the Toronto-based communications consulting and public affairs company.

patrick.gossage@mediaprofile.com



Starting from third place, Justin Trudeau will have the luxury of two elections. He could bolt past both the Conservatives and NDP to form a government in 2015, but the Liberals would settle for a return to Official Opposition and Stornoway. Photo: Adam Scotti.

Liberals Need to Think Strategically

Zach Paikin

As the third party in the House of Commons, the Liberals are in the best position to both confound electoral expectations and play the long game. With Canada eyeing a rapidly shifting geostrategic landscape, now is the time to build on the legacy of Pierre Trudeau's Liberals, learn from the narratives of NAFTA and NATO, and transform this country into a geopolitical force for the future. It won't be easy, but there are creative ways for Justin Trudeau to achieve it.

By all accounts, Canada will be facing challenges over the years ahead – both internationally and domestically – that will be both significant and largely unprecedented. Ottawa will be dealing with both a revenue shortage and rising program costs as these feats present themselves before our country.

As the third party in the House of Commons, the federal Grits can speak to these challenges more freely than either the Tories or the NDP. Although a Liberal victory in the 2015 general election would be desirable, one should note that a defeat at the polls for the Conservatives or for the New Democrats would be far more devastating for each of those two parties. The Liberals can afford to have their cake and eat it, too – that is, they can shoot to win in 2015 while playing the long game at the same time.

Justin Trudeau understands this. Many political commentators and federal Grits – myself included – at first equat-

Yet the Canada-US Free Trade Agreement of 1989 also allowed Canada's economy to grow to the point where it could be a bigger player on the world stage, thus giving it the confidence to expand its diplomatic and economic horizons.

ed those who flocked to his leadership campaign with a “go big or go home”-type strategy for the party. But in fact, Trudeau’s ability to stay on message and maintain endurance throughout a long race demonstrates his resilience and his ability to lead the party through several elections.

With the Liberal leadership race coming to a close, the difficult work for the party now begins. This race – as Trudeau correctly surmised – has been about engaging the Canadian people through the new “supporter” class, and hence about generating renewed interest and excitement in the federal Liberal Party. The key now, in order to rebuild the party in a sustainable fashion, is to ensure that it becomes a place for ideas.

What this means is that the Liberal Party of Canada (LPC) has to attempt to provide something in Ottawa that is currently missing – this must be both the party’s *modus operandi* and its *raison d’être*. Much has been written already about the fact that the LPC must be the party of both principle and pragmatism. If, in this case, “principle” connotes social progress and fiscal responsibility, then “pragmatism” must imply strategic thought.

Grand strategy has not been one of Canada’s historical strong points, as our borders naturally breed complacency. Our country boasts the motto *A Mari Usque Ad Mare* – we know full well that we are protected on three sides by large bodies of water. To our south, we share

a border with the world’s superpower, a country with which we have been formally at peace since the Treaty of Washington of 1871.

Even the United States has had difficulty thinking strategically since the end of the Cold War. Washington, along with its Western allies, has often sought to achieve short-term commercial gain at all costs, possibly for electoral purposes and often at the expense of securing long-term strategic assets. If the global superpower finds difficulty in developing a grand strategy, then one can only guess as to how tough it will be for Canada to reverse its thought funk.

Yet two examples illustrate the way in which, although the decisions we have made as a country demonstrate the simplicity of our national thinking to date, they have also prepared us well for the future.

In signing a free trade deal with the United States, Canada tied its economy overwhelmingly to that of its neighbour to the south, trading much autonomy for prosperity in the process.

The gravity model of economics stipu-



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lates that trade, equity flows and foreign direct investment emanating from one country are destined largely for economies that are either large in absolute terms, geographically proximate to the first country, or both. The US is the world's largest economy, and it is the closest geographically to Canada's.

Yet the Canada-US Free Trade Agreement of 1989 also allowed Canada's economy to grow to the point where it could be a bigger player on the world stage, thus giving it the confidence to expand its diplomatic and economic horizons.

NATO is another entity to which Canada tied itself largely due to the influence of the United States. Although this organization achieved its primary purpose – winning the Cold War – without firing a single bullet, it has since engaged in a few operations in which Canada has had the chance to shine, most notably the missions in Afghanistan and Libya.

The United States accounts for roughly three quarters of NATO defence spending today, and without a clarified, modernized mission it is possible that the organization does not have much of a future. Yet Canada's increased diplomatic clout, achieved through solid contributions in North Africa and South-Central Asia, gives it the ability to maintain influence across Europe in the decades ahead. This influence only stands to increase as Canada will be forced to engage in a diplomatic rapprochement with Russia in order to end the standoff over the Northwest Passage in the Arctic.

Therefore, although winning over the Canadian population to strategic thought – a discipline that blends domestic and foreign policy into a single grand strategy – may prove difficult, Canada is well positioned to reorient itself when the time comes. The process of bringing strategic thought to Ottawa, however, must begin now. The Liberal Party can and must be the vessel for this process.

It is an old adage that foreign policy doesn't win elections – voters naturally care about the issues that are closest to them, be they economic or social. Fortunately, in the list of challenges Canada must face up to, the domestic issues are the most urgent. Winning Canadians over to strategic thought on the domestic front would be a good way to set the stage for the advent of strategic

thinking in foreign policy, and thus for the articulation of a grand strategy for Canada.

Although there are many ethical and pragmatic questions on the domestic scene that require the attention of the federal government, most important will be those that threaten to upset most Canada's budget balance. Controlling program spending will be key, particularly when it comes to programs such as healthcare and pensions. As the *National Post's* Andrew Coyne has written, it doesn't help that – after inflation and adjusted for population growth – the past seven years have been the highest-spending for Canada's federal government on programs.

Canada could harness its present diversity – a diversity built thanks to the policy of multiculturalism implemented by Pierre Trudeau's Liberals – to turn itself into a global geopolitical force in the future. The return on investment for such a strategy over the long term would be immense.

According to the C.D. Howe Institute, Canada's aging population is set to produce a budgetary shortfall comparable in size to the revenue generated currently by our entire federal income tax system. The Baby Boomer generation is beginning to retire, putting more and more pressure on health care and Old Age Security with each passing year.

Finding creative ways to reduce expenditures is most certainly a must, but it is revenue increases – achieved through various means, including tax shifts, productivity gains and trade deals – that will ultimately provide the federal government with the muscle and flexibility it needs to deal with its many global challenges.

What Canada requires is a near-total re-orientation of itself within the global system. Although Ottawa will certainly continue to enjoy close relations with Washington when it comes to security and diplomatic strategy, a state's geopolitical weight is ultimately tied to its economic power. As the world becomes increasingly multipolar, thanks to the rise of second-tier states, Canada will have to orient its economy toward Latin America and Asia as much as possible – in other words, to defy the gravity model.

This won't be easy, but there are creative ways to achieve it. For instance, Ottawa could work with the provinces to push for a national language strategy, turning Canada's next generation into a polyglot political, diplomatic and business army. Canada could harness its present diversity – a diversity built thanks to the policy of multiculturalism implemented by Pierre Trudeau's Liberals – to turn itself into a global geopolitical force in the future. The return on investment for such a strategy over the long term would be immense.

China's aging population threatens to slow China's economic growth until a more sizeable generation of Chinese youth reaches working age, while America's fiscal coffers may be less empty than originally thought – the International Energy Agency estimates that the US can become energy independent as early as 2020. These two facts will help preserve the geopolitical status quo – in which the US is the sole global superpower – for a few short decades. Environmental change may well be no less important than geopolitical change, as a thawing Arctic may well create for Canada a border with a hostile nation (Russia) for the first time since 1871.

As a country, we cannot afford not to think strategically. Justin Trudeau's Liberal Party has time on its side, as it possesses a young and charismatic leader as well as third-place status in the House of Commons. A political party that did so much to build the country we have today should relish the opportunity to become Canada's party of ideas.

Zach Paikin is a graduate student at the Munk School of Global Affairs at the University of Toronto. He was a candidate for National Policy Chair of the Liberal Party of Canada at the party's 2012 biennial convention.



The field: Justin Trudeau, Joyce Murray, Karen McCrimmon, Martha Hall Findlay, Deborah Coyne and Martin Cauchon, at the last leadership debate in Montreal on March 23. By then, the only question remaining was who would finish second to Trudeau. Photo: Adam Scotti.

Three Liberal Challenges, then Seize the Day

John Duffy

The Liberal Party can count on the record of seven years of Conservative government to help differentiate it as a governing alternative. But it also has to formulate remedies, sell them to an electorate hungry for change over the heads of a balky policy elite and outperform the other choices. It has the advantages of a policy history that squares with current trends in public sentiment and a leader who has the appeal of the late Jack Layton. An exciting, Layton-like figure atop the durable Liberal brand should be a formidable combination.

The formation of Liberal Party policy heading towards the next election will be shaped by three challenges, which are essentially strategic in nature. This is not to suggest that normal policy development will be hijacked by a stand-alone strategic exercise. As always, a sense of what is best for the country, married with the party's values, will obtain. There may be an accent placed upon new and more democratic means of canvassing party opinion. Within that, however, meeting the strategic imperatives outlined below will be the critical challenge in shaping the Liberal offering.

As with any opposition party, the first and most compelling need is to build a clear, coherent and resonant critique of the government's policy and to create an alternative that proposes to remedy the ills pointed out in that critique.

A second, key challenge will be reconciling the wide gap between the elite consensus and broader electoral opinion.

Third, Liberals will require clear differentiation with the New Democrats.

Perhaps the most interesting part of these challenges is that the better the Liberals do at meeting the first, the harder it will prove to meet the subsequent two.

Mounting an intellectually coherent and electorally resonant alternative vision to the Harper Conservatives comes first. Framing a resonant critique of the government was a difficult challenge, for the Liberals in particular, over the past several years. (The author's thoughts on the subject were detailed in *Policy Options*, February, 2012.). But, after almost a decade of Conservative rule, this has become a relatively manageable task. It is worth revisiting the history of the Harper Conservatives' political offering to see where the government now stands, and what an alternative might look like.

Prime Minister Harper's show-don't-tell style has several advantages. One of them is blurring the government's complexion. This has enabled the government to define itself by whatever offering it may select to suit the political moment. In the campaigns of 2004, 2006, 2008 and 2011, the Harper

Prime Minister Harper's show-don't-tell style has several advantages. One of them is blurring the government's complexion. This has enabled the government to define itself by whatever offering it may select to suit the political moment.

Conservatives adjusted their image toward ever-greater moderation, deflecting debate over their basic approach to governing with fuzzy blue pullovers, transit-user tax breaks and fitness tax credits. Pandas and Mrs. Harper may well figure in 2015. Beyond the cosmetics, substantive election-time offerings have tended to be innocuous.

The longer one governs, however, the harder this manoeuvre becomes. Inviting the electorate to pay no attention to the rather conservative man behind the curtain

is decreasingly sustainable as the years in power accumulate. The governing record has inevitably come to define Mr. Harper's party as no campaign narrative can.

The outlines of the Harper government are now clear enough. It favours a very limited role for government in the life of the country, and a shrunken role for Ottawa in the federation. After seven years of tax cuts, disengagement from health care, retreat from environmental obligations, reduction of old-age security liability, *de minimus* involvement in broadcast policy, and fending off a countrywide dialogue on energy strategies, the debate as to the nature of this government is pretty much over. Movement conservatives – many of them in the press – may continue to gnash their teeth over how “centrist” this government has become. This debate obscures the government's identity amongst the elite audience. Canadians, however, are telling one surveyor after another that regardless of the labels applied by pundits, they understand well enough where the Harper administration is coming from.



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Health care is also marching up the electorate's priority list. The phenomenon of an aging society is no longer just on the radar; it is now winging in onto the flight deck.

This classical federalist role (as government supporters term it; a certain venerable Liberal adviser prefers “deconstructionist”) commands the support of the standard 30 percent CPC voting base, centered in the prairies and rural English Canada. It can also, depending on the alternatives, carry with it a degree of assent in some parts of Quebec. At the same time, however, the Harper Conservative record of deconstructionist government carries with it a limitation: vulnerability to the charge of neglect when demand builds for government policy responses. Now, considerable evidence is accumulating that Canadians are finding the Harper government's response inadequate on two vital fronts: economic policy and health care.

Pollsters report growing numbers of Canadians dissatisfied with the country's economic record and prospects under the Harper Conservatives. The argument that Canada is doing better than our G7 competitors has grown thin. Hence the 2013-14 Budget's tax expenditures on stimulating manufacturing – the closest Harper's Ottawa has and perhaps can come, since the 2008 crisis, to an activist economic policy – and the barrage of Economic Plan paid advertising this winter. We'll see how much these measures do to reverse the tide of public opinion that is souring on the government's economic agenda.

Health care is also marching up the electorate's priority list. The phenomenon of an aging society is no longer just on the radar; it is now winging in onto the flight deck. The developed world's extension of lifespans is bringing with it an entirely new form of social pressure – four-generation families in which senior citizens seek support for the care of super-senior parents while their children look after little ones. Canadians have come to expect a helping hand from their governments in dealing with the pressures of old age. The principal social policy achievements of the late 1960s and early 1970s set into place these supports. Now, a new social policy revolution is at hand: how will governments help Canadian families manage the challenges of four-generation

living? Attempts to avoid the debate behind a veil of classical federalist disengagement or other diversions invite a competing response. And it is reasonable to expect that the first steps towards dealing with this new reality will come from opposition parties. The Liberals, with their estimable track record in previous social-policy build-outs, could do well by pivoting off Conservative standoffishness towards health care and other social policies, and making a positive offering.

The openings in economic and health policy present two critical opportunities. Equally important are openings in environmental and aboriginal affairs. The Conservative government has taken on a colour that contemporary (especially Latin American) political scientists refer to as “extractivist”. The term, coined in the 1990s and derived from botanical processes, refers to governments that are focused primarily on resource-based economic development, generally at the expense of environmental and aboriginal policy claims.

One of the many touch-points in redefining the relationship of aboriginal Canada to the country as a whole will be resource revenues and their co-management by First Nations and outside interests.

The extractivist rubric is useful in capturing certain aspects of the Conservative government. Naomi Klein links the language of extractivism with contemporary Canadian reality: “Let's talk about extraction because it strikes me that if there is one word that encapsulates the dominant economic vision, that is it. The Harper government sees its role as facilitating the extraction of natural wealth from the ground and into the market. They are not interested

in added value. They've decimated the manufacturing sector because of the high dollar. They don't care, because they look north and they see lots more pristine territory that they can rip up. And, of course, that's why they're so frantic about both the environmental movement and First Nations' rights, because those are the barriers to their economic vision.” (*Dancing the World into Being: A Conversation with Idle No More's Leanne Simpson*. *YES Magazine*, Mar. 2013.)

This is not just fringe, left-wing discourse. Those with long memories will recall this kind of debate occupying the mainstream through the 1960s and 1970s, and into the 1980s, until the advent of the Mulroney government. In that time, the economic nationalist critique of the Canadian economy as resource-dominated and lacking in higher-value-added processing and manufacturing, was a powerful political engine. This critique dominated the thinking of the New Democratic Party and could claim the support of a good chunk of the Liberal Party, centered about Walter Gordon. Major federal policies of the Trudeau government arose from this strain of thinking, including the Foreign Investment Review Act, the formation of Petro-Canada, and, arguably, the National Energy Program itself.

There is evidence that the kind of politics surrounding the extraction economy in the 1960s and 1970s can stage a contemporary comeback. The foreign ownership issues of 2011-12 in the oil patch and elsewhere have re-awakened the debate. The care and caution with which the Harper government has conducted itself around the issue is a testament to its latent power. On the other side of the House of Commons, Thomas Mulcair has pursued the economic counterpoint to the extractivist approach – his “Dutch disease” analysis, which is essentially the old argument about a resource-based economy brought up to date.

In contemporary politics, two major policy currents have widened the appeal of the anti-extractivist argument beyond the purely economic. Environmental awareness and organization were in their infancy when the last anti-extractivist political wave rolled through in the 1960s and 1970s. Today, the green movement has its own party with a parliamentarian as leader and

routinely commands approximately five percent of the popular vote in elections. Environmental considerations now have a major place at most governments' tables. Appealing to the environmentally aware voter is a critical political consideration for most parties. In this context, the addition of today's green movement to more traditional economic development arguments adds a second, powerful engine to the anti-extractivist political vehicle.

The growth of aboriginal political strength in recent years is another important aspect of the new alternative to extractivism. One of the many touchpoints in redefining the relationship of aboriginal Canada to the country as a whole will be resource revenues and their co-management by First Nations and outside interests. The world has evolved considerably since the days of the Berger Commission and the Mackenzie Valley Pipeline debate. Aboriginal demographic and political strength have grown significantly but translating that power into electoral results has not yet fully occurred. Therefore, party policymakers may or may not rely upon First Nations to join their electoral coalitions. But it is reasonable to surmise that the aboriginal story will play a key role in the critique of the Harper government.

Liberals can offer a federal government more activist in the economy and in social policy (including health care), and one that looks less like the bad guys in Avatar when it comes to environmental and aboriginal policy.

Taken together, these outlines of a critique of the Harper government have some clarity. The Conservatives' deconstructionist government is not up to the economic challenges facing Canadian families or to their evolving social needs. And its extractivist approach to economic development is at odds with Canadians' preferred approach to a diversified economy, environmental sensitivity and reconciliation with First Nations. Liberals can offer a federal government more activist in the economy

and in social policy (including health care), and one that looks less like the bad guys in Avatar when it comes to environmental and aboriginal policy.

This leads Liberals to the second challenge: selling the critique and the remedies to the electorate over the heads of the policy elites. The imperatives of greater economic, social and environmental policy engagement enjoy broad electoral support. Voter enthusiasm for aboriginal reconciliation is less significant, but evolving. So far, so good. The hard part is that this agenda is not at all that of the country's policy-making elite. In these quarters, the agenda is tightly wrapped around fiscal policy and concern over public and household debt levels, tax competitiveness, and paving the way for significant further increases in resource extraction and, by extension, the country's reliance on it.

This means that selling an alternative agenda of the kind set out here will have to be done amid elite skepticism, even outright opposition. In order to pursue this agenda for Canada, Liberals must brace themselves for elite-opinion resistance bordering on hostility and even contempt. The reception given Liberals in elite salons could feel a lot more like that of the 1988 free trade election – angry accusations and ominous warnings about a Liberal Party gone left-wing rogue – than the more encouraging reception in such quarters during the Chretien-Martin era.

Even if Liberals are prepared to steel themselves for this kind of reaction, they will face formidable barriers to pushing their message in the face of an earned-media atmosphere that could easily be dominated by the opposing viewpoint. If the Grits are counting on earned media to deliver their genuinely alternative vision, they may find themselves sorely disappointed. If the Liberals are going to pursue a thoroughgoing critique of the Harper government, they will need to build a campaign apparatus that can direct-deliver their messages to voters, rather than simply relying on press releases and a smattering of advertising.

The final challenge will be to draw a border between the Trudeau Liberal offering and that of Thomas Mulcair's New Democrats. The anti-Conservative majority

Strategic voting could well play a critical role in the 2015 campaign, and it is not clear who the beneficiary will be. The implication of these dynamics is that the electorate will confer upon either the Liberals or the NDP the mantle of alternative government, and leave the other behind.

One of the many touch-points in redefining the relationship of aboriginal Canada to the country as a whole will be resource revenues and their co-management by First Nations and outside interests.

in the electorate appears impatient with the rivalry between the two parties, and eager to defeat the Harper government. Strategic voting could well play a critical role in the 2015 campaign, and it is not clear who the beneficiary will be. The implication of these dynamics is that the electorate will confer upon either the Liberals or the NDP the mantle of alternative government, and leave the other behind.

The Grits have some advantages in this scenario. Leadership is the first. As I have argued elsewhere, Justin Trudeau is a potentially compelling political figure, reminiscent in many respects of the late Jack Layton. An exciting, Layton-like figure atop the durable Liberal brand should be a formidable combination.

The Liberals also have at their disposal an issue with which to define Mulcair negatively: his stand on Quebec and the Constitution. The NDP's Sherbrooke

Declaration – which would allow Quebec separation on a single-vote margin based on a sovereigntist-drafted question – is a non-starter among most Canadians outside Quebec and among anglophones and allophones within Quebec who consider the country's unity to be important. In Quebec, it can serve as a rallying point to depress the NDP vote to its sovereigntist core.

During the Layton era, New Democrats were able to blur the policy distinction with the Liberals to their advantage, creating the impression that their party was simply a more sincere, honest and appealing version of the Grits. This worked well enough against Stéphane Dion and Michael Ignatieff, but will be a much tougher sell with Justin Trudeau matched up against Thomas Mulcair. The bulk of the differentiation with the NDP may well be accomplished for the Grits by leadership.

On the whole, the opportunity for the Liberals is clear enough. Critique the government in economic development, social policy, environmental and aboriginal affairs. Offer compelling, sensible alternatives in these areas. Develop the will and the means to push the offering past an unwilling policy elite towards a more receptive electorate. Contrast the likeable, charismatic Justin Trudeau with the saturnine and volatile Thomas Mulcair.

Each one of these imperatives carries serious challenges. Framing a better economic agenda is an easy order to make but a tougher one to fulfill. Tackling social policy in an era of limited fiscal resources is not for the faint of heart. Re-connecting with the environment will not be easy for a party recently traumatized by the electoral failure of the Green Shift.

To make matters more difficult, the challenge seems to grow with each step one takes. The clearer and more compelling the critique of the government, the harder it is to come up with policy alternatives. The sharper the alternatives, the firmer the resistance from the existing elite consensus is likely to be. And finally, the further one goes in this direction, the closer one gets to territory already staked out by the NDP.

For the Liberals, it is critical to understand that the space between the Conservatives and the New Democrats is terribly limited – certainly too narrow on which to mount a national alternative. In this case, a Goldilocks strategy (not too hot, not too cold) could easily result in getting eaten. The Liberals will need to pick a course and stick to it with rigour and discipline. In the party's long and distinguished history, it has found the courage to do so many times. The Liberals were far from shoo-ins in 1926, 1945, 1993 or even in early 1968, until Trudeaumania broke out. If the Grits are prepared to mount a tough, courageous, progressive campaign, they can open a new and exciting chapter in their history and the country's. The day is theirs to seize.

*John Duffy, author of the acclaimed *Fights of Our Lives*, was a senior policy adviser to the Rt. Hon. Paul Martin. He is a principal of Strategy Corp., a government relations, communications and management consulting firm in Toronto and Ottawa.*

duffy@strategycorp.com



John Duffy writes that "Justin Trudeau is a potentially compelling political figure," which on top of "the durable Liberal brand should be a formidable combination." Photo: Adam Scotti.



Justin Trudeau faces many challenges in taking over the Liberal Party, including fund raising, finding candidates, and turning all those virtual supporters from the leadership campaign into real, live ones who can knock on doors for him. Photo: Adam Scotti.

Rebuilding for a New Century, from the Bottom Up

Andrew Balfour

As Justin Trudeau prepares to take the Liberal Party into the next election, questions of strategy and messaging loom large. But the party also has to prepare for the practical considerations of a serious challenge to Stephen Harper's Conservatives. These range from forming a new team in the leader's office to building on fundraising successes to engaging the supporter class at whole new levels. These are just some of the new challenges for the first Liberal leader from the 21st century.

After almost two years, the Liberal Party of Canada has a permanent leader. Justin Trudeau and his team ran a strong leadership campaign and need to carry that momentum into the Liberal leader's office with them. Trudeau arrives to take over a party that is in better shape than most would have predicted after its disastrous showing on May 2, 2011. Bob Rae, along with a small but experienced caucus and the party office have successfully kept the Liberals in the news, relevant in the Commons and competitive in the crucial world of fundraising. In all but one of the last eight fiscal quarters, the Liberal Party raised more money than the Official Opposition NDP. On top of that, Trudeau's leadership campaign easily raised \$1.3 million – more than the \$950,000 limit, more than all the other camps combined. Trudeau can, quite legally, donate any surplus back to the party.

So, what's next? Trudeau's team has approximately 2 1/2 years before the next

fixed election in October 2015, and should be thankful for that time. I'd prefer to focus on the operational details, which I believe to be very important, and leave the policy, messaging and strategizing to the new Liberal leader and his team. Some things to think about are the transition in the leader's office, building the new team and then the many intricacies that will need to be dealt with on the road to 2015.

Trudeau's team has surely had many conversations about what the new office will look like and who'll be joining them. A transition team will need to be put in place as well as a plan that will carry them through until the House rises in the summer, at which time it would be assumed that major changes would be made. Most obviously, there has been and will be much thought given to the big picture for the future of the party.

Building a new team in any leader's office is not an easy task and involves much consideration as it relates to skills, rewarding people that helped get him there and the key component of institutional knowledge. One would assume that the senior roles like an interim or permanent chief of staff, directors of communications, policy and so on, will be put in place in short order with the other roles being rounded out as time moves on.

A small Ottawa-related tidbit that helps in this regard is that not a single person Trudeau hires will be affected by the Federal Accountability Act, which prevents former staff from working in government relations for five years after they stop working for the Prime Minister, a minister or the Leader of the Opposition.

There's no doubt Trudeau will be able to attract many talented Liberals. A small Ottawa-related tidbit that helps in this regard is that not a single person Trudeau hires will be affected by the Federal Accountability Act, which prevents former staff from working in government relations for five years after they stop working for the Prime Minister, a minister or the Leader of the Opposition. There will also be decisions

made in conjunction with the party's directors on the direction of the party office and the provincial wings of the party. During the leadership campaign, Trudeau talked about change being needed from the top down in the party machinery to promote more grass-roots involvement.

Once these operational matters have been dealt with, Trudeau will undoubtedly address big picture concerns. First, the party must determine the best way to keep the people who signed up as supporters engaged, develop a strategy that can compel them to become members and donors and, most importantly, to have them become engaged as volunteers at the riding association level. This will be where the move towards the supporter class will truly be judged to have been a success or a failure.

This September, Canada will have a new electoral map, with 30 ridings added to the present 308-seat House. The majority of existing ridings will also have new boundaries. This will be one of the great challenges for the Liberal Party on the road to the 2015 campaign. For the Grits as for the other federalist parties, it will require the creation of 30 new riding associations.

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This will also involve Trudeau asking incumbent MPs whether they want to run again. The party will also need to set up nomination meetings that will allow for both the recruitment of strong candidates and for the winners to have time to work their ridings prior to the 2015 campaign. In the new ridings, candidates who will be starting out with no money and no riding ex-

ecutives will need time to raise money for fully funded campaigns. Moreover, 27 of the 30 new ridings will be west of the Ottawa River, 15 in suburban Ontario and six each in Alberta and British Columbia, not exactly slam-dunk territory for Liberals.

Trudeau's team also needs to do an audit of the party infrastructure and how it must change. That includes upgrading the IT infrastructure, reallocating human resources, and reforming communications with members and donors. Obviously the most important will be fundraising, especially with the elimination of federal financing at \$2 per vote per year. The Conservatives are much better at autonomous financing than the Liberals or NPD.

The Conservative Party regularly raises more money than all of the other parties combined and when the inevitable attacks against Trudeau are launched, the Liberals will need to have a war chest at the ready, knowing they can refill it.

Beyond traditional party infrastructure it might be time for the Liberal Party to consider the success the conservative movement has enjoyed with extra-political organizations and so called think tanks like the Manning Centre, the Canadian Taxpayers Federation and many others. These organizations assist in getting the conservative message out and operate outside the oversight of Elections Canada. The goal of conservative think tanks is to influence policy, not by directly lobbying politicians and civil servants. Instead, they focus on the world of public opinion with the hope of generating support among the public and having policy-makers exploit that support. The upstart Broadbent Institute shows that the NDP have recognized this and they're clearly building infrastructure outside the traditional party structure. When will the Liberal Party follow suit? Why wouldn't the Liberal Party follow suit?

The road ahead for Justin Trudeau and the Liberal Party will be fraught with questions and challenges. Though he is the fourth Liberal leader in the last seven years, he is the first from the 21st century.

Andrew Balfour is an Ottawa based consultant and long time Liberal.
balfourandrew@gmail.com

Twitter: @andrewbalfour



Finance Minister Jim Flaherty in a lighter moment as delivers Budget 2013. He pledged that Canada's books would be balanced in 2015. Photo: Jason Ransom, PMO.

Budget 2013: Steady as She Goes but Where To?

Kevin Lynch and Karen Miske

The greatest test for any budget these days is whether it meets the twin tests of advancing both fiscal austerity and economic renewal. The Harper government's 2013 budget balances the books by 2015 but does it meet the challenge of boosting Canada's growth potential? While the Canadian economy is still doing well in relative terms compared to other G7 countries, we need to focus as assiduously on spurring GDP as we do on the bottom line.

The 2013 budget arrived later than usual and somewhat unheralded. Commentators immediately dubbed it a “boring budget”, a concept with few roots in traditional public finance, while news articles expended more words on the removal of the tariff on hockey equipment than on Canada having the lowest net debt ratio in the G7 and being on track as the only G7 country to balance its books by 2015, despite an unsettled global economy.

Budgets matter, greatly, and the true measure of a budget is not the kinetic energy of its actions, but whether it meets the test of the times. And today, with most OECD countries still experiencing atypically weak recoveries from the great global financial crisis and deeply impaired fiscal books, that test is advancing both fiscal austerity and economic renewal, not just one or the other, as they have become mutually reinforcing. We are now more than 50 months since the onset of the global

20 recession, and yet Europe is back in recession, the US recovery is the weakest since the 1930s, and both Europe and the US appear to be in a bizarre competition to see who can hit the fiscal wall the hardest before fiscal reality sets in.

We are now more than 50 months since the onset of the global recession, and yet Europe is back in recession, the US recovery is the weakest since the 1930s, and both Europe and the US appear to be in a bizarre competition to see who can hit the fiscal wall the hardest before fiscal reality sets in.

In this global context, how should we interpret the 2013 budget? The headline news is relatively favourable: the federal government will be back in fiscal balance by 2015, Canadian government net debt as a proportion of the economy is less than half that of the United States, and Canadian and US growth will outpace the rest of the G7 over the next several years. All good and commendable achievements, but we also need to pay attention to: Trends in the size of the federal government and what they might mean; the increase in the public debt since the onset of the recession and how we are going to pay for it; and the revenue shortfalls in the fiscal plan, whether they are structural or cyclical and why the distinction matters.

Let's start with the international comparisons to provide one benchmark for the 2013 budget. Chart 1 provides a projection of total government net debt in 2017 for each of the G7 countries. It clearly shows a significant Canadian fiscal advantage, with US and U.K. net debt more than double that of Canada, provided the federal government balances its books as planned and the provinces, particularly Ontario and Alberta, rein in their structural deficits. In an uncertain world, this advantage constitutes a form of national "fiscal insurance", sustaining our AAA credit rating, and providing reassurance that Canada can afford its tax and other policies that attract and retain foreign investment.

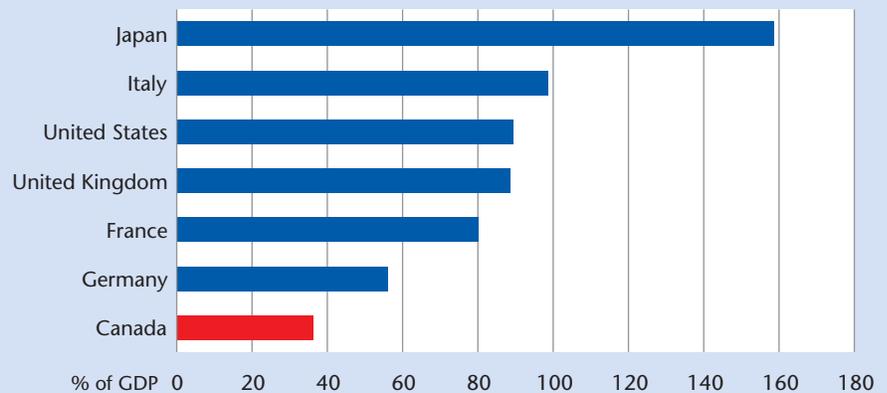
What about global growth prospects? Canada is rightly proud that its economy has performed better than the other G7 countries during the global recession and in the recovery. Today, Canadian GDP is 4 percent higher over the period than its pre-recession peak, which was reached over four years ago in the third quarter of 2008. While this performance is the best of the G7 countries by far, is it good? To put it in a somewhat different context, consider a "what if" calculation in the hypothetical event there had been no recession and average growth had continued. This would suggest Canadian real GDP today of more than 12 percent above Q3 of 2008, a telling comparator, three times actual growth rates. And, as Chart 2 shows, a number of major industrial countries have yet to even return to their pre-recession levels of real output. In other words, while Canadian results are relatively good, they, in absolute terms, underscore how severe the recession was and how tepid the recovery remains.

What is likely at play here is more than a slow cyclical recovery; there are many reasons to believe that our growth potential has declined due to slowing productivity growth and slowing labour force growth – structural factors likely exacerbated by the recession here and among our main trading partners.

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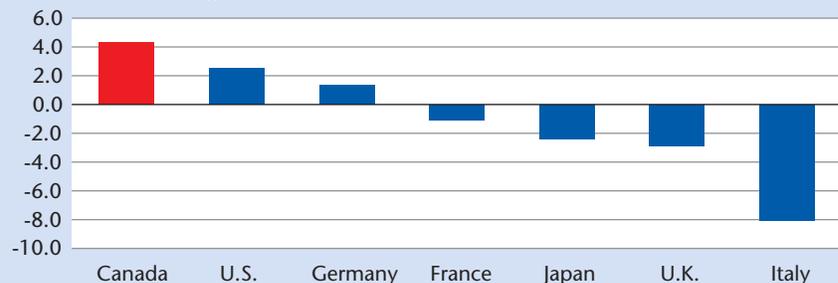
The issue of our trend growth potential is crucial to understanding the risks to the fiscal plan and the need for economic renewal in the Canadian economy. Over the last 25 years prior

Chart 1: Projected Total Government Net Debt, 2017



Source: International Monetary Fund, World Economic Outlook Database, October 2012

Chart 2: Change in Real GDP Since Pre-Recession Peak



Notes: The pre-recession peak was 2007Q3 for Italy; 2007Q4 for the United States; 2008Q1 for the United Kingdom, France, Germany and Japan; and 2008Q3 for Canada. The last data point is 2012Q4 for all countries.

Source: Haver Analytics



Finance Minister Jim Flaherty is congratulated by Prime Minister Stephen Harper after the Budget speech on March 21, 2013. Photo: Jason Ransom, PMO.

to the global recession, the Canadian economy grew on average by 2.9 percent. The March 2013 survey of private sector forecasters that underpins the budget economic and fiscal plan projects only 2.3 percent average real

growth for the next five years.

Meanwhile, what does the budget have to say about the size of government? While there is much talk these days, in both the United States and Canada, about whether government is too big

or too small, there is less factual consideration of what the trends in the scale of the federal government relative to the economy actually are, and how Budget 2013 will influence both the size and operations of government.

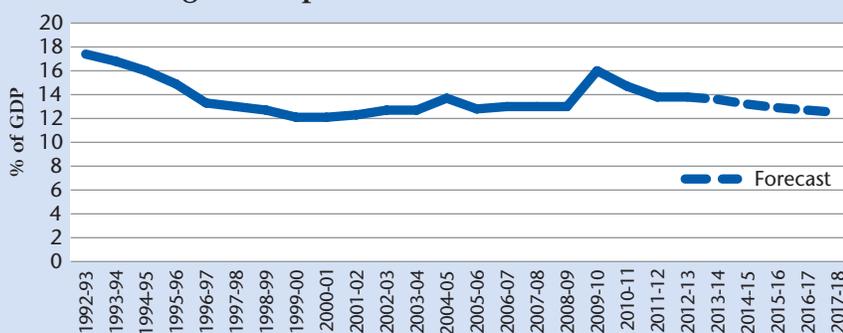
Chart 3, drawing on current and previous budget data, indicates clearly that the size of the federal government (total program spending, which equals total expenditures minus debt service payments) has been declining since the early 1990s, with the only significant upward spike coming in recent years as a result of the recession and new spending initiatives in the Economic Action Plan. In other words, the trend has been towards smaller government – as measured by spending on programs and services – not larger, over most of the last two decades.

The 2013 budget projects a decline in the size of the federal government as a share of the economy to below pre-recession levels by 2016-2017. How, precisely, this will be achieved is not terribly clear. What the scope is for improving the productivity of government service delivery, where information technology-generated innovations for providing government services are possible and how to incentivize them, as well as what the impact might be of benchmarking public service remuneration more to private sector norms are all worthy of more analysis and public discussion.

What about the revenue take of the federal government? As Chart 4 shows, this trend, too, has been on a sharp downward trajectory since 2000, reflecting large reductions in corporate tax rates, cuts to personal tax rates – particularly for lower income earners – and a two percent reduction in the GST. In Budget 2013, revenues were unexpectedly lower by an average \$3 billion over the 2013-to-2015 planning horizon, and the question naturally arises; what part of this weakness is cyclical and what is structural?

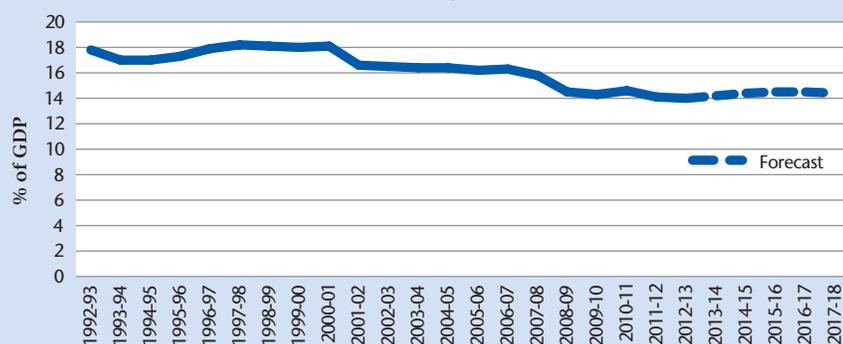
In this regard, a significant portion of this tax revenue shortfall appears to emanate from lower-than-expected oil prices and the culprit is not a decline in global oil prices. It is a large and rising discount for Canadian crude oil in the US, the sole export market for Canadian oil and gas. What we see is a

Chart 3: Program Expenses-to GDP ratio 1992-2018



Sources: 2013 Economic Action Plan, Fiscal Reference Tables, Table 2

Chart 4: Revenue to GDP Ratio, 1992-2018



Sources: 2013 Economic Action Plan, Fiscal Reference Tables, Table 2

convergence between our longer-term imperative to diversify our energy export markets to Asia and our shorter-term imperative to balance our fiscal books. The Report of the Canada-Asia Energy Futures Task Force, established by the Asia Pacific Foundation and the Canada West Foundation, articulated the urgency of diversifying Canada's energy export markets to Asia and the risks to the Canadian economy of the status quo.

Over the period between when we first achieved fiscal balance after 27 years of deficits in 1997-98, and when we went back into deficit in 2007-08, the federal government retired \$93 billion of debt. Between 2007-08 and 2015-16, when Budget 2013 projects a return to fiscal balance, government debt will rise by \$170 billion, more than reversing the gains of the previous decade.

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Luckily for the fiscal plan, despite this large increase in the stock of debt, debt interest payments have stayed effectively flat thanks to record-low levels of interest rates. For example, longer term interest rates are 1.9 percent today versus an average of 5.1 percent in the decade before the financial crisis and recession. However, in the future, as interest rates return towards more "normal" levels, debt interest payments will rise, requiring either increases in revenues or cuts in spending to maintain fiscal balance.

The intersection between fiscal austerity and economic renewal is clear but implicit in the budget. Lower-than-expected nominal income, and its impact on tax revenues, pushed the fiscal

plan somewhat off-course, requiring new cuts to operating expenses, tightening tax compliance and closing tax loopholes. But lower-than-average real growth in the recovery and beyond will constrain our fiscal flexibility for decades unless we are able to renew the potential growth rate of the Canadian economy. And this is the economic renewal test of any budget today.

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Potential growth has slowed for a number of reasons. Primarily, a slowing rate of productivity growth with poor innovation performance and a slowing rate of labour force growth with an aging population. We also have a growing gap between people without jobs and jobs without people, which will require moving towards a "public education 2.0" approach to K-to-Work education and training to meet the needs of a changing economy. Our main trading partners are also experiencing declines in their potential growth, and while we cannot affect their potential growth, we can move more quickly to diversify our trade towards much more rapidly growing emerging economies in Asia and the Americas. The need for greater security of energy demand through multiple export markets is a real and present example.

The top line measures in the 2013 budget to improve the growth potential of the economy include: A reworking of skills training into a new Canada Jobs Grant; an extension of the accelerated M&E capital cost allowance for another two years; an extension of infrastructure spending for another decade; and annual increments to research and development support. While each measure is timely and leans in the right direction, the bigger question is whether

we are tackling the decline in our growth potential with sufficient focus, vigour and common cause given its import to Canadians.

This was the theme of the recent Jobs and Prosperity Council Report in Ontario, namely that our competitiveness and future living standards require a more concerted approach to economic renewal in Canada, involving not just governments but also business and the education sector. As the Report stated, the status quo is not a viable option, either for Ontario or Canada, and we need to go global, improve productivity, build an innovation and entrepreneur culture, go from "good to great" in talent, and have an efficient and effective government sector.

In conclusion, Budget 2013 has Ottawa on track to get back to budgetary balance by 2015, a noteworthy achievement in a world where balanced budgets are a rare and valuable commodity. It also continues and extends a number of structural measures whose intent is to improve the long-term performance of the Canadian economy. In today's world, where those longer-term issues are becoming more immediate and more apparent, there is a case to be made that we need to make as much progress on economic renewal as we are making on fiscal austerity.

Kevin Lynch, Vice Chair of BMO Financial Group, is a former Clerk of the Privy Council and former deputy minister of Finance.

Karen Miske is Director and Senior Advisor, Office of the Vice Chair, BMO Financial Group.



Quebec Premier Pauline Marois immediately opted out of the job training program in the federal budget. Quebec was also unhappy about the end to tax credits for investing in trade union and credit union investment funds. Ottawa-Quebec relations, writes Dan Gagnier, are "on a negative trajectory." Montreal Gazette photo.

Unilateralism a Drag on Federal-Provincial Relations

Dan Gagnier

The Harper government provoked a range of reactions from provincial capitals with the labour training changes in its 2013 budget, none more negative than Quebec's. Dan Gagnier proposes that the move not only did a disservice to Quebec's record, it imperiled federal-provincial relations generally by further entrenching an impose-first, negotiate later approach to thorny jurisdictional issues. If we continue to proceed as though major decisions can be imposed in an un-collaborative process, he writes, we'll be burdened with a whole new set of problems of our own making.

Asymmetrical federalism is a well-accepted principle in today's Canada. But unilateral federalism corrodes relationships and prevents collaboration: in fact, it is divisive. It may help Ottawa in its political strategy going forward and it's certainly an aid to managing cash flow and the deficit. But in Budget 2013, the labour training component in particular will severely test the ability of the federal government to effectively execute its strategy.

The federal government's proposition is to negotiate with the provinces over

the coming year to put in place a formula that better aligns the needs of the economy and the job generators (i.e. the private sector) to develop employable workers. How can anyone object to such a laudable goal? What are some of the provinces objecting to? Are they not all being treated equally?

It is facile to conclude that because there are thousands of jobs going unfilled that the existing programs managed by provincial governments are lacking in performance. Ontario and Quebec, for example, have well established approaches to job training and employment requirements; their strategies address the particulars of their markets and of their economies.

Quebec reacted viscerally to the federal budget provisions and immediately adopted an all-party opposition to this unilateral intervention. Declaring it unacceptable and insulting, the Parti Québécois government announced that it would not participate. Ergo: "Ottawa, you can take your money but we will not play or negotiate on this incursion into a field of provincial / constitutional jurisdiction." The final resolution is querulous but falls short of rupture, and leaves the door open to talk without pre-conditions.

The salt in this wound was the simultaneous and unilateral withdrawal of the federal tax credit for the workers' unions and Caisse Desjardins' investment funds, largely directed at Quebec businesses. Add a dash of vinegar over the perception of reduced infrastructure funding, compared to Ontario, and you have a potent mélange.

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ture funding, compared to Ontario, and you have a potent mélange.

Ontario is holding its opinion and will react in good time. It may choose to negotiate while Saskatchewan and Alberta support the labour/training approach proposed by Ottawa.

It is evident that there has been little or perhaps no consultation with the provinces on this proposal, which is to take the place of the Labour Market Agreements expiring in March 2014. There will have to be provincial agreements to implement Ottawa's proposal of a three-way, \$15,000 investment split among employers, the province(s) and Ottawa for workers qualifying for training. After first serving notice that it would not participate, Quebec unanimously passed an all-party resolution in the National Assembly. Drafted by the Liberals with support of the CAQ, it gained the acquiescence of the PQ. This resolution leaves the door open to negotiations while stressing that labour training is in provincial jurisdiction and calls for no preconditions to renewal of the Labour Market Agreement.

Ontario has referred to the proposal from Ottawa as a shell game. BC is concerned about the cost and Nova Scotia and Newfoundland want more information. At the level of buy-in to the approach, only Alberta and Saskatchewan have indicated support.

Making changes to the Labour Market Agreements will not be easy. It could result in a patchwork quilt across the country while not or solving the problem of matching of skills to jobs, thereby defeating Ottawa's decision to revisit these agreements.

On substance, of the \$500 million distributed annually to the provinces under the Labour Market Agreements, Ottawa forecasts being able to redistribute about 60 percent directly to workers in the form of employment subsidies. This would mean that the provinces and employees will have to match, creating an unforeseen financial outlay.

Under the existing agreements, Quebec receives \$116 million, while \$194 million is disbursed to Ontario. These amounts were provided without conditions in order to allow both provinces to fulfill their labour employment training strategies while offering ser-

vices to workers without unemployment insurance or who qualified under their programs.

The Quebec case of the Federal Tax Credit removal for the FTQ/CSN and Desjardins funds hurt on two fronts. The first at the level of the middle class and workers who benefit from a form of savings and returns in a province where almost 50 percent have no pension fund at work. The second at the level of foregone benefits to employment creation and support for Quebec enterprises.

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The record of the current structure in Quebec, if one judges on performance-based results, is not one we should sneeze at. If we use the FTQ Fonds de Solidarité as an example, we are looking at \$8.8 billion in assets with no debt. The Fund has generated and sustained 500,000 jobs since its inception. The benefits, apart from return on investment for subscribers, include injection of \$6.3 billion in Quebec companies over ten years in all regions of Quebec. Some 67 percent of this is in venture capital or risk-capital investments.

The Fund is also small-business friendly, with some 2,239 firms having less than 100 employees. On the investor side, there are 600 thousand subscribers who have, on reaching retirement age, received some \$4 billion over the last ten years. Over the past three years, which we all know have been difficult, the Fund has returned 6.9 percent on an annual basis.

The dynamic in federal-provincial relations is on a negative trajectory, leading Quebecers in various walks of life to tag revitalization or restructuring of federal-provincial processes as a priority. Failure to consult or discuss can only complicate negotiations following unilateral decisions.

It is small wonder, then, that the union-based funds see the federal move as an attack against an investment class vehicle that has been, not uniquely, but more effectively, in Quebec. For the Caisse Desjardins, with five million members, the move was characterized as a “hard knock” and a double whammy following the provincial government’s abolition of tax credits for new entrants in 2013 as well as a 2.2 percent compensatory payroll tax in the co-operative sector estimated to be worth \$70 million annually.

Of course, there is another side to this picture. In his editorial after the budget, Andre Pratte of Montreal’s *La Presse* labelled the reaction of Quebec’s finance minister to the Labour Market Agreements “hysterical” and Ottawa’s choice on the funds as injudicious but certainly not one to kill off the various funds affected. The question Pratte poses in terms of public policy is a valid one: should the state eternally subsidize the growth of labour-driven investment funds at either level of government, federal or provincial?

Others have questioned whether these funds have gained a competitive advantage, allowing them to benefit in 2012 from \$145 million in federal tax credits alone. Controlling close to 40 percent of the risk capital in Canada, do they not have a preferential advantage over more traditional players?

We do not have to answer this question immediately, as Ottawa has granted a two-year phase out during which we can expect to see a mobilization of union members, shareholders and investors to try to get Ottawa to reverse or amend its decision. We will also see more political rhetoric and positioning as the PQ budget comes down in early 2014, possibly as a precursor to an election.

Ontario’s path is different. With a larger economy, Ontario abolished tax

credits to a phase-out in 2010, later extending the timeline to 2011 while increasing the maximum allowable for tax credits from \$5,000 to \$7,000. Simultaneously, in 2008 and 2009, two funds were created. The Ontario Venture Capital Fund, with \$205 million to invest in private funds, and the Emerging Technologies Fund, with \$250 million to invest in new technologies in partnership with angel investors and existing private funds.

From a numbers perspective, it is evident that the result of these two different approaches has seen risk investment as a percentage of total dollars under management steadily decline in Ontario as a result of the elimination of the Ontario tax credit in 2005. Correspondingly, Quebec has seen growth to the point where, despite Ontario’s larger economy, it is equal in numbers of dollars under risk management. An OECD study on Entrepreneurship at a Glance in 2011 ranked Quebec third behind Israel and the US, thanks to labour-driven funds outstripping both Canada and Ontario.

The Quebec legislature then passed another unanimous resolution requesting that Ottawa renounce its decision to abolish the tax credit on workers’ investment funds. Together with the previous resolution on the Labour Mobility Agreements, Ottawa is generating stress lines that will exacerbate Quebec-Ottawa relations. Business reporters such as Jean-Philippe Decarie opined that Ottawa has unnecessarily taunted Quebec in the name of polishing its image on reaching its balanced budget objective. Decarie cites a Secor study that demonstrates Ottawa recovers its disbursements thanks to increased economic activity and fewer payments on unemployment insurance.

The dynamic in federal-provincial relations is on a negative trajectory, lead-

ing Quebecers in various walks of life to tag revitalization or restructuring of federal-provincial processes as a priority. Failure to consult or discuss can only complicate negotiations following unilateral decisions.

Workers and middle class families cannot be mobilized to contribute more to their province or to Canada when lack of collaboration convinces them that Ottawa limits their access to unemployment insurance, uses their contributions to create surpluses and limits their possibility to recoup losses through workers’ investment funds.

Looking forward without overly relying on how well we have come through the last decade, our future challenges are daunting well beyond the laudable goal of balancing our operational budget deficit. Without discussion between Premiers and the Prime Minister on the economy, we reduce our capacity to face shared challenges. The past model of interminable first ministers’ conferences belongs to a by-gone era but franchising discussions to Ministerial Councils or bilateral conversations is not sustainable.

Canada is one of the most decentralized federations in the world. This is both a strength and a weakness. If we cannot avoid engendering more stress lines we will feed the fires of discontent. If we continue to take for granted that decisions and leadership can be sustained without discussion and collaboration, we will dissipate our energies on problems of our own making. This drag within our country needs to be reduced and the time is now for political leadership.

Dan Gagnier is a former chief of staff to Premier Jean Charest in Quebec, former principal secretary to Premier David Peterson in Ontario, and former deputy clerk of the Privy Council.

daniel.gagnier@yahoo.com



Budget 2013 includes support for integrating persons with disabilities into the labour force, and they will increasingly have the satisfaction and pride of contributing to the economy. Shutterstock photo.

Enabling the Workplace: Enhancing Integration for Persons with Disabilities

David Nicholas, Margaret Clarke and Herb Emery

The Harper government's 2013 budget includes an unprecedented level of support for the integration of persons with disabilities into Canadian workplaces. While the level of commitment at the federal level is new, existing research, particularly on the employability of individuals with autism spectrum disorder, indicates the budget measures are an investment in the right direction for persons with disabilities, job creators and the country as a whole.

There are five sections of the 2013 federal budget that aim to enhance employability and workplace integration for persons with disabilities, including skills training, enhanced opportunities and workplace accessibility. But the changes will require concerted follow-up across both jurisdictional boundaries and a range of outcomes for employees, employers and government support networks.

The 2013 *Rethinking Disability in the Private Sector Report* from the Panel on La-

Identified Prevalence of Autism Spectrum Disorders

Autism and Developmental Disabilities Monitoring (ADDM)
Network 2000-2008
Combining Data from All Sites

Surveillance Year	Birth Year	Number Of ADDM Sites Reporting	Prevalence Per 1,000 Children (Range)	This is About 1 In X Children...
2000	1992	6	6.7 (4.5-9.9)	1 in 150
2002	1994	14	6.6 (3.3-10.6)	1 in 150
2004	1996	8	8.0 (4.6-9.8)	1 in 125
2006	1998	11	9.0 (4.2-12.1)	1 in 110
2008	2000	14	11.3 (4.8-31.2)	1 in 88

hour Market Opportunities for Persons with Disabilities presents compelling reasons to create new employment opportunities for persons with disabilities in Canada.

Current employment rates among persons with neuro-developmental disabilities – 1 in 6 Canadians – are inadequate; as an example, employment for persons with autism spectrum disorder (ASD) ranges in studies from 10 to 55 percent. In a recent study of a Canadian cohort, some young adults with ASD with average to above average intellectual skills simultaneously exhibited substantial challenges in adaptive and workplace functioning. Many of these challenges, however, could be addressed by modifying the workplace environment, ensuring support, and fostering understanding among employers and the broader community. Sufficient employment supports that mitigate employment challenges can lead to stable and positive vocational and income outcomes for the individual with ASD and enhanced human resources for the economy. This potential to increase labour supply in the Canadian labour market is substantial given that the childhood diagnosis rate of ASD has been identified at one in 88 persons.

Finding pathways to inclusion and workplace productivity appears integral to individual and family quality of life, effective community partnerships, organizational productivity, and, ultimately, the strength of the nation. Like typical Canadians, persons with disabilities keenly desire to contribute via vocational activity and to derive benefits from meaningful work.

The net present value at birth of the incremental costs of supporting the ASD population over its neurotypical peers in Canada can be estimated to be \$3.4 billion for each annual birth cohort.

Supporting persons with disabilities to find and succeed at work is estimated to yield a wide variety of social and economic benefits, but requires an investment in terms of elements such as employment readiness and sustainability (e.g., training, job coaching, employer support, etc.). These costs can be considerable. Based on a 2006 US study by M.L. Ganz, the net present value at birth of the incremental costs of supporting the ASD population over its neurotypical peers in Canada can be estimated to be \$3.4 billion for each annual birth cohort.

Considering the cost savings and the productivity gain from additional workers in the marketplace, the benefits of employment for persons with disabilities are substantial. Moreover, emerging anecdotal accounts of the effectiveness and commitment of persons with disabilities in employment invite further analysis of hypothesized benefits of heightened productivity and employee retention. From both economic and societal perspectives, considerable benefits thus emerge related to employing this group of currently un- and under-employed persons. The *Rethinking Disability in the Private Sec-*

tor Report from the persons with disabilities panel highlighted promising practices and government action to build on their success. Increasingly, examples suggest that hiring people with disabilities is good business, but the scale on which this hiring can occur will depend on increasing training and opportunities for persons with disabilities, including ASD.

An additional benefit of supporting employment and increased independence for individuals with disabilities is a potential reduction of burden placed on Canadian families. In a recent study by Zuleyha Cidav and colleagues, average earnings in families with children with ASD, for instance, are 28 percent lower than in families whose children do not have health limitations and 21 percent less than families with children with other health limitations.

In their 2007 report, *Pay Now or Pay Later: Autism Families in Crisis*, the Standing Senate Committee on Social Affairs, Science and Technology indicated it had heard from parents and advocacy groups about the tremendous emotional stresses and financial challenges faced by families with a child with ASD. The Senate committee was told that families must substantially attend to the needs of their loved one with ASD. For example, one stay-at-home parent is often required to provide comfort, consistency, support and intervention. Accordingly, beyond benefits of employment for persons with disabilities and society as a whole, benefits to families and communities also emerge. Conversely, quality of life among persons with disabilities and their families may spiral downward from a lack of employment or other meaningful vocational activity, with potentially deleterious impacts for the individual, family and community.

The Senate committee was told that families must substantially attend to the needs of their loved one with ASD. For example, one stay-at-home parent is often required to provide comfort, consistency, support and intervention.

There are five significant areas of the 2013 federal budget that will address labour market enhancement for persons with disabilities.

1. Reforming Labour Market Agreements

The federal government has committed \$222 million to support skills training, including for persons with disabilities.

2. Strengthening Federal Programming for Persons with Disabilities

The Opportunities Fund, which was due to end, will continue in its present form and as of 2015-16, will grow to \$40 million per year. Human Resources and Skills Development Canada (HRSDC) will be integral in the development of a national employment model for persons with disabilities that can be supported out of the Opportunities Fund. The Social Sciences and Humanities Research Council (SSHRC) will be given \$7 million per year starting immediately to support research in labour market participation for persons with disabilities. Also, the Canadian Institutes of Health Research (CIHR) will be allocated an additional \$15 million, which will be committed to strategic patient-oriented research (SPOR) networks.

3. Creation of the Canadian Employers Disability Forum

The government has allotted \$2 million to support the Canadian Employers Disability Forum. This group will offer leadership in employer training and awareness to create a permanent community of employers who will strengthen their workforce by including persons with disabilities.

4. Extending the Accessibility Fund

This fund was allotted \$15 million per year to support “workplace accommodations” including training and infrastructure assistance for persons with disabilities with accessibility needs. This could entail physical disability accommodations such as ramps, or accommodations related to other types of disability such as, in the case of ASD, accommodation for sensory issues such as white noise or sound clouds.

5. Canada Job Grant Program

The Canada Job Grant is anticipated to assist in skill development through potentially matching dollars of \$5,000 each (federal government, province and employer). This will enhance job skill training and opportunity for persons with disabilities, but requires employer and provincial engagement.

There is a growing awareness that employing a diverse workforce can be a major factor in organizational productivity and success.

The federal government is demonstrating strong national leadership in addressing labour force gains in Canada that are anticipated as a result of greater inclusion of persons with disabilities in the workforce. There is a growing awareness that employing a diverse workforce can be a major factor in organizational productivity and success. Studies from DuPont indicate that disabled workers performed comparable to or better than non-disabled peers with regard to safety, attendance and job performance. The Labour Market Panel found that turnover, absenteeism, and tardiness drop appreciably in organizations with disabled workers. Moreover, customers view organizations that hire people with disabilities favorably and likely prefer to patronize organizations that employ a diverse workforce even if it means switching companies or brands. Accordingly, various metrics increasingly favor the inclusion of a diverse workforce; however, finding effective ways to engage and support this workforce are critical to widespread engagement of persons with disabilities in the Canadian labour market.

These are promising days as we move forward in seeking increased labour force participation among persons with disabilities. To that end, we propose the following:

1. We need to proactively support individuals with disabilities, their families and employers in this transition to increased employment, engagement and stability.
2. Evidence-informed models are needed to ensure optimal vocational

support services. A better understanding about outcomes and how salient processes foster or conversely impede successful vocational outcomes are important for policy and resource development.

3. Greater clarity may be needed in the administration and priority setting of budget allocations. As an example, how are persons with disabilities defined in terms of service eligibility across provinces and territories? Federally mandated support for services and outcome targets will have to be clearly delineated at the outset of reforming labour market agreements and other matching programs.
4. Understanding the influence of the federal government on provincially mandated programs is important yet jurisdictionally complex. Greater clarity in program development, delivery and markers for evaluation are needed.
5. Proactive change invites multiple levels of development including opportunities and supports to individuals and families, labour market shifts, and the development of more accepting social values and attitudes regarding diversity. Engagement at municipal, provincial and federal levels is crucial in large scale change that is ultimately meaningfully and broadly realized within Canadian communities.

A final thought. The cost of labour market training programs for persons with disabilities is modest compared to the economic and human return on investment. Persons with disabilities in the labour force contribute to the economy, and have the pride and satisfaction of knowing it. For their families, of the one in 88 Canadian children on the ASD spectrum, for example, just being a priority in the federal budget is a major and highly positive development.

David Nicholas is an associate professor in the Faculty of Social Work at the University of Calgary.
nicholas@ucalgary.ca

Margaret Clarke, former Fraser Mustard Chair, is a professor of pediatrics at the University of Calgary.
margaret.clarke@albertahealthservices.ca

Herb Emery, is a professor and Program Director for Health Policy in the School of Public Policy at the University of Calgary.
hemery@ucalgary.ca



The Lester B. Pearson Building in Ottawa, home of Canada's foreign policy establishment. The 2013 budget folded CIDA into the Department of Foreign Affairs, a welcome development according to authors Derek Burney and Fen Hampson. Photo: *Ottawa Citizen*.

CIDA RIP: A Shift that was Long Overdue

Derek Burney and Fen Osler Hampson

After years of debate and speculation, the Canadian International Development Agency is no longer an agency. From its new home at the Department of Foreign Affairs and International Trade, Burney and Hampson argue, the organization that long represented the tired motto that “the world needs more Canada” will be more streamlined, practical and efficient. In the process, it will change the way we deliver official development assistance.

The government's decision to fold the Canadian International Development Agency into the Department of Foreign Affairs and International Trade was long overdue and indeed welcomed by most. The public and media reaction to the decision has been generally positive. Even the *Globe and Mail*, whose editorial page is not always kind to the Conservative government, applauded the decision. Save for a few predictable critical voices, there was surprisingly little gnashing of teeth in Canada's development community, with most NGOs preferring to take a quiet, “wait-and-see” attitude to the bureaucratic restructuring and the re-ordering of priorities that will follow.

Why the government decided to act now is still unclear and a story yet to be told. It may also be the case that the Harper government realized that Canadians have become a bit more cynical about what we bring to the world. The tired refrain that “the world needs

The poverty alleviation narrative became less persuasive as the actual number of low-income countries (LICs) continued to shrink. China and India, which, on a per capita basis, aren't major aid recipients, have lifted themselves out of the poverty trap by their own bootstraps and the workings of the global economy.

more Canada" may have finally run its course.

However, what is undeniable is that CIDA had become a dull knife in the drawer of the development enterprise, rendered increasingly obsolete by a changing global context and a growing awareness that development is not really about "poverty alleviation" *per se*, but economic growth, investment, good governance, and the empowerment of marginalized groups like women and youth through education and access to opportunity.

The poverty alleviation narrative became less persuasive as the actual number of low-income countries (LICs) continued to shrink. China and India, which, on a per capita basis, aren't major aid recipients, have lifted themselves out of the poverty trap by their own bootstraps and the workings of the global economy.

LICs are, understandably, the target of official development assistance (ODA). But, in foreign policy terms, some of the most politically troublesome and unstable states are lower middle-income countries (like Pakistan, for example) where there are wide disparities in wealth between different parts of the country, lack of state control over areas where there are local insurgencies, and chronic state failure. Yet these countries are typically ineligible for development assistance according to poverty-level benchmarks.

With the stroke of a pen, development assistance moves from the periphery of government (CIDA had become an orphan in our foreign policy machinery) to the centre (or at least that is how DFAIT would like to see it itself). Canada's three principal instruments of foreign policy will now be concentrated in what should be a more coherent, more complementary and more effective whole.

Even so, the devil is in the details and in the manner in which the restructuring of Canada's roughly four billion-dollar aid program will now be implemented. Questions persist about the effectiveness of virtually all bilateral ODA efforts by governments. Various models for delivery have been tried. The aid business is plagued by the ebb and flow of new fashions and fads.

In the 1960s and 1970s, development aid was about supporting major infrastructure programs in developing countries so that they could attain the "takeoff" speed for growth. During the Cold War, development assistance was also seen and used as a tool to combat the rise of communism in the developing world. In the 1980s, it shifted to providing assistance to the poor, addressing the needs of especially vulnerable groups (women and children), and focusing on the delivery of basic public services (e.g., health and education). In the 1990s, the wheel turned yet again to a focus on public sector outputs and the requirements of good governance. Hence, the focus on improving systems of public finance in developing countries; providing budgetary support and strengthening systems of accountability, ending corruption, and promoting democracy and the rule of law.

At the beginning of the 21st century, donors began to pay much greater attention to how to make things happen through the multilateral system through improved donor coordination, stronger partnerships between donors and recipients, program-based approaches, and greater coherence between aid and non-aid policies in trade, investment, and technology transfer.

Canada also began to pay greater attention to the need to focus aid on a fewer number of countries.

However, all of these shifts in priorities have left many taxpayers wondering what is being done with an ever-chang-

ing cluster of programs and whether they are having the desired impact.

The untying of Canada's aid also hit some of CIDA's own Canadian NGO partners hard. Many have struggled in recent years to stay in business and some indeed succumbed in that struggle.

Genuinely independent approaches like that of the Gates Foundation and some select NGO's tend to get higher accolades, but the track record and analyses of results are checkered.

Extra layers of administration do not really help. In the delivery, governments too often see self-aggrandizement by the recipients as the most visible outcome.

In 2008, the Government's *Independent Panel on Canada's Future Role in Afghanistan* noted critically the reluctance of CIDA to launch projects such as hospitals, schools or irrigation dams, preferring instead to emphasize somewhat opaque (and purportedly neutral) objectives like "capacity building," forgetting that the needs were more fundamental.

CIDA's own administrative structures also became progressively more cumbersome as the government raised the bar on accountability. This raised the transaction costs for those with whom CIDA did business.

Canadian taxpayer support for ODA depends on the awareness of the public of tangible success stories, which are rarely trumpeted, leaving a lingering sense that they are far and few. Constant program reviews have been, at best, inconclusive, and the lessons from developing countries that have made a successful transition are not easily transferable.

CIDA's own administrative structures also became progressively more cumbersome as the government raised the bar on accountability. This raised the

transaction costs for those with whom CIDA did business. The common refrain from many NGOs was that they got 10 percent of their funding from CIDA and yet CIDA's reporting procedures accounted for 90 percent of their paperwork.

Undoubtedly, some these complaints were exaggerated, but many of CIDA's NGO and even intergovernmental partners were joyless companions in the development enterprise.

Notwithstanding such complaints and criticisms, it is important to recognize that CIDA has performed nobly, if not always ably, over the years. There has always been a consistently high degree of professionalism in its own officer corps.

Even so, CIDA's geographic and functional focuses were shuffled regularly in line with prevailing trends and its administrative back office grew excessively. (The headquarters-to-field ratio was 4:1 versus 2:1 for DFAIT).

Even so, CIDA's geographic and functional focuses were shuffled regularly in line with prevailing trends and its administrative back office grew excessively. (The headquarters-to-field ratio was 4:1 versus 2:1 for DFAIT). A steady rotation of junior ministers overseeing the agency was about the only constant, but certainly not one that was conducive to coherent strategy or impact.

In becoming an integral part of DFAIT, with at least one senior minister to call on, development assistance now has a chance of being more relevant and more effective.

But this should not be left to chance alone. During the 2006 transition to the Harper government, an attempt was made to move CIDA organization-

ally into what had become by then a bifurcated DFAIT. The move was resisted by senior bureaucrats in a manner that would have made the writers of the "Yes Minister" series proud: "Too complicated, likely to arouse negative reaction, too technical and not worth the agony," etc. Those sentiments on shifting CIDA prevailed. Instead, efforts to reintegrate trade back into Foreign Affairs succeeded even though key instruments of trade policy were left in departments like Finance and Agriculture.

The "Yes Minister" problem will still be there in the implementation of this new reorganization unless the government fights bureaucratic inertia and makes a concerted effort to fundamentally change its ways of doing business.

In the end, much will depend on the leadership given to Canada's ODA programs by ministers and officials, wherever they reside. But, if more of what we do is presented as reflecting or reinforcing our foreign policy principles and priorities, that is as it should be. Monies will also have to be spent in a manner that is accountable and transparent but efficient and cost-effective, including when NGOs and other partners are involved in program delivery.

Funding of major multilateral institutions such as the World Bank and the World Food Program will continue but, even in those cases, greater relevance to foreign policy goals cannot hurt. The impact of what Canada is doing and why may just be better understood by all.

In the face of global tragedies, whether in Fukushima, Haiti or Sudan, the humanitarian response by Canadians has been second to none. Most of all, the ODA actions of our government should reinforce that commitment and that spirit to assist tangibly in times of greatest need.

The organizational shift does not signal a de-emphasis of ODA. Rather, it involves a recalibration of how we allocate and distribute assistance; ideally, in a more streamlined and consistent manner.

Long debated and never consummated due to bureaucratic resistance or inertia – the biggest obstacles to change in any government – this change is most welcome.

*Derek Burney is senior associate at Norton Rose Canada LLP, a former chief of staff to Prime Minister Brian Mulroney, and later ambassador of Canada to the United States. He is the author of *Getting It Done*, a memoir of his life in the Canadian foreign and public service, published by McGill-Queen's University Press (2005).*

derek.burney@nortonrose.com

Fen Osler Hampson, is Distinguished Fellow and Director of Global Security at the Centre for International Governance Innovation (CIGI) and Chancellor's Professor at Carleton University. A Fellow of the Royal Society of Canada, he is the author of nine books and co-editor of 26 volumes on international affairs and Canadian foreign policy.

fhampson@cigionline.org



The Nexen tower in Calgary, Alberta. Istock photo.

The Unpredictable Evolution of Canadian Investment Policy

Michael Coates

Between BHP Billiton's unsuccessful bid for Potash Corp. and CNOOC's successful bid for Nexen, the rules changed for foreign companies with an eye on Canadian assets. Increasingly, The Harper government is defining its economic policy in terms of the national interest. While Canada will continue to be an open economy and to encourage foreign investment, the days of the slogan "open for business" are over where control of significant Canadian companies is at stake.

One of the more surprising aspects of the Harper government over the course of its seven years in power has been the evolution of its stance on foreign direct investment (FDI). While in opposition, the Conservatives mostly advocated a policy of minimal restriction on FDI, but the more nuanced demands of governing tested this policy early. As a result of several high-profile foreign acquisitions and takeover bids, the government has continued to adjust its FDI policy to meet political and economic realities.

Early in its first minority mandate, two major takeovers helped to shape the Harper government's approach to FDI, as Brazilian-owned Vale acquired Inco and Xstrata plc acquired Falconbridge. Against this backdrop, Prime Minister Stephen Harper launched the Competition Policy Review Panel, chaired by L. R. "Red" Wilson, to review Canada's competition and foreign investment policies. After lengthy deliberations and away from public debate, the Wilson panel's central recommendation on investment was a "reverse onus" test. In effect, Wilson artfully suggested that the government avoid the politics of major acquisitions by eliminating the so-called "net benefit" test in the *Investment Canada Act* and put the onus on government to prove why an acquisition should *not* be concluded.

The suggestion was ingenious, as Wilson knew that the preference of politicians is to sidestep difficult issues. Wilson had no doubt observed that the existing approval process, with its legislated (and lengthy) review timetables, could force governments to bow to public opinion and media pressure on commercial transactions that they ought to leave to the marketplace to decide.

Tellingly, the recommendation was never adopted. The 2008 global economic meltdown forced government and business to retrench. It wasn't long before foreign investors like Vale, and most particularly U.S. Steel, which had acquired Stelco in 2007, began to reconsider many of the promises, or "undertakings," they had made to Investment Canada to secure foreign investment approval. In the past, investors were largely given the benefit of the doubt when it came to responding to market changes. So when the meltdown happened, U.S. Steel promptly closed its Canadian steel production but kept its US facilities open until the market readjusted. It was a rash decision that showed complete disregard for the company's promises and validated the concerns of those who felt that foreign acquisitions hollowed out head office decision making.

In an unprecedented move, the Canadian government sued U.S. Steel and achieved a favourable settlement. The government had concluded that Canada needed to play by much tougher rules when it came to enforcing the contractual commitments of foreign investors. More generally, it came to the realization that it could not take an entirely "free market" view on foreign investment. And Wilson's recommendation for a reverse onus policy, made before the 2008 meltdown, was soon forgotten – even as think tanks such as the Conference Board of Canada had successfully demonstrated that the "hollowing out" argument against foreign acquisitions was more perception than reality.

In the summer of 2010, the Anglo-Australian diversified mining giant BHP Billiton made an unsolicited offer for Potash Corporation of Saskatchewan (PCS). Initial outreach by BHP Billiton to federal decision makers showed the offer for PCS was received positively. Even though the offer was hostile, BHP Billiton promised to es-

tablish its global potash headquarters in Canada, relocate its entire Canadian operation to Saskatchewan, spend billions to develop the largest potash mine in the world on the Jansen site, and use the management expertise of PCS to help with the process.

The Prime Minister's early reaction to the transaction was summed up in his comments in the House of Commons, when he said the fight for Potash Corp. was over "a proposal for an American-controlled company to be taken over by an Australian-controlled company."

Unfortunately for his government, the transaction grew to be a political liability. While most Potash shareholders were already outside Canada, the conservative government of Saskatchewan quickly came to the "rescue," citing myriad concerns, from the loss of tax revenue to the lack of dependability of foreign investment undertakings. At a time when every vote counted to Harper's minority government, Saskatchewan Premier Brad Wall was able to marshal enough political opposition to give the federal government pause.

Opponents of the transaction began to question why Canada was so open to foreign investment when other countries were more protective of locally owned companies. The US, that bastion of free enterprise, had just blocked the sale of a string of US ports to a United Arab Emirates-owned enterprise, as well as the acquisition of Unocal by China National Offshore Oil Corporation (CNOOC). Australia itself had blocked the sale of Woodside Petroleum to Shell Oil. So why was Canada being so naïve in allowing this transaction to take place, particularly in an industry where Canada is a world leader? We had allowed "our" ownership of nickel, iron ore, and aluminum companies to slip away, and allowing BHP Billiton to buy PCS would have given the Australian concern control of 70 percent of the world's potash production. At least, that's how the argument went.

Less hysterical observers noted that the resources were not actually sold, but remained provincially owned and regulated. But in the world of politics, perception matters more, and the federal government was not going to spend any political capital explaining this to the public when the politics was with "the crowd." Rejecting the application, despite unprecedented economic and

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Prime Minister Stephen Harper at a news conference in the foyer of the House of Commons in December 2012, announcing approval of the CNOOC-Nexen deal. "It is important for Canadian and also foreign investors to understand that this is not the beginning of a trend but the end of trend." PMO photo.

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other commitments, soon became the expedient decision.

Out of this debate emerged an attitude that has become a tenet of public policy in the approval process, despite having no legal basis in the *Investment Canada Act*: namely, an inherent skepticism about the benefits of acquisitions of Canadian companies that have strategically significant industry positions globally. Jason Kenney, the man who led the internal opposition to last year's \$19-billion acquisition of Nexen, Inc. by CNOOC, said as much when he stated in December 2012 that "I make no bones about it... I have concerns about wanting to ensure that foreign governments do not directly or indirectly end up with a disproportionate control of key Canadian industries, or large parts of the Canadian economy."

Not surprisingly, the CNOOC/Nexen deal has created a whole new test around foreign investment even though, like the BHP Billiton bid for PCS, the initial reaction to the bid was positive. For CNOOC's limited entry into Canada raised the stakes about state-owned en-

terprises (SOEs) controlling a significant part of our economy.

CNOOC had studied the BHP Billiton case well, and learned from its own Unocal mistakes in the US in 2005. It came with a friendly deal for Nexen, premium-priced for shareholders and with significant commitments to the Canadian government, including the full retention of Nexen employees and management, establishment of a North American headquarters, and a public listing on the TSX – a significant concession designed to clearly meet SOE guidelines introduced by the government in 2008. These guidelines stressed the transparency of reporting and the commercial operations of the investment. The government had correctly anticipated the next wave of foreign investment; indeed, the guidelines represent one of the few occasions where the government anticipated a policy requirement rather than being forced by events into preparing one.

The CNOOC transaction was crafted to meet the "net benefit" test and existing SOE

guidelines, and was the first major investment by a Chinese company since Prime Minister Harper travelled to China and announced that Canada was "open for business." But as time went on, the federal government's support for the deal began to erode. Concerns soon arose from conservative quarters about a Chinese government-controlled company paying a premium for a publicly traded Canadian company. Opinion polls show that acquisitions of Canadian companies by foreign ones are never broadly supported by the public, but an acquisition by a company owned in part by the Chinese government was particularly problematic. An Ipsos poll for the Canadian Council of Chief Executives last September found that while Canadians were generally in favour of foreign investment, 76 percent of respondents were concerned about ownership of the resource.

Ultimately, the government allowed the deal to proceed because it met its legislative and SOE test, but the transaction resulted in further refinement of the approval test, as it brought total Chinese investment in the oil sands to above 10 percent of production, and total SOE investment, including the OECD-based Statoil and Total, above 20 percent. As the PM said when announcing the approval of the CNOOC/Nexen deal: "To be blunt, Canadians have not spent years reducing the ownership of sectors of the economy by our own governments, only to see them bought

Simultaneously announcing approval of the \$5.2 billion takeover of Progress Energy Resources by Petronas of Malaysia, the PM pointedly added: “It is important that Canadian and also foreign investors understand that this is not the beginning of a trend but rather the end of a trend.”

and controlled by foreign governments instead.” The government then announced it would restrict further SOE investment in the strategically important oil sands, except under “extraordinary circumstances.” Harper also said: “When we say that Canada is open for business, we do not mean that Canada is for sale.”

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Much speculation has gone into what “extraordinary” means, with critics trying to anticipate the loopholes, but this misses the point. What is really significant is that the oil sands, like potash, are now (at least informally) designated as a strategically important asset. The CNOOC/Nexen transaction affected only three percent of oil sands output and has no strategic significance on production, but the concern was more for the precedent it set for possible future acquisitions of larger Canadian companies like Encana, Canadian Natural Resources, or Suncor.

So what lessons can we learn from this unpredictable evolution in Canadian investment policy?

First, each transaction must be assessed as a separate event. The *Investment Canada Act* sets out some specific criteria that can offer guidance but there are no clear rules on whether these transactions will be approved. That is not necessarily a bad thing. Retaining some flexibility is important for government because it is impossible to anticipate all the implications of future transactions. That said, the process has become very political, and companies investing in Canada must manage on that basis.

Second, don’t be confused by the Harp-

er government’s “Conservative Party” label. This is not a government driven by ideology. As the Prime Minister has said, “Practical government rarely permits such simplicity”. The Harper government is highly attuned to public opinion and will not turn a blind eye to a foreign acquisition if it has an impact on its own popularity. Some sort of risk mitigation for the government’s own interests will likely be required for any potentially controversial transaction.

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Third, the government is increasingly defining its economic policy in terms of the national interest, and all of its actions need to be seen in light of whether the country’s wealth and power are enhanced. If an acquisition were to seriously erode the national interest in a particular industry sector, expect the government to be very skeptical.

Fourth, no major takeover can expect to be approved without significant attention to the provinces. Support from Alberta helped CNOOC in Ottawa while opposition from Quebec short-circuited any formal application from Lowe’s when it was contemplating a hostile offer for Rona, the Quebec-based Canadian retail hardware chain.

Fifth, any acquisition of a significant brand or operation that is likely to gain public attention could well trigger a policy backlash. This risk exists whether

the acquirer is private or government-owned, but it certainly increases with the amount of government ownership in an SOE in concert with the size of the investment target and the diversity of its shareholder base.

Finally, there is no substitute for being prepared. Political risk transactions need to be assessed well in advance of any announcement date, with government relations and communications planning and preparation for decision makers and stakeholders. An Investment Canada outline of a package needs to be designed and in all probability the framework announced when public communications commence in order to mitigate political fallout.

Canada will continue to be an open economy and to encourage foreign investment. As Harper himself said after the decision regarding BHP, “No one should doubt this government’s policy ...that, generally speaking, foreign investment is in the interests of the Canadian economy.” That said, the days of the slogan “open for business” are over where control of significant Canadian companies is at stake. In these uncertain economic times, the current government’s assessment of its own interests and the Canadian national interest will be the norm going forward. Foreign investors would be wise to study the evolution in Canada’s investment policy and to do a formal political risk assessment before entering into talks with a Canadian target company.

The government has come a long way from the Wilson task force. Each new acquisition will likely write a new chapter in this unpredictable evolution of Canada’s investment policy.

Michael Coates assisted CNOOC in its successful takeover bid for Nexen as well as BHP on its unsuccessful bid for Potash. He also advised the Maple Group on its successful acquisition of the TMX. He is Chairman and CEO of Hill+Knowlton Strategies Canada, and a member of H+K’s global council. He is also a member of the CANDU board of directors and a frequent commentator on public affairs issues. To read more of his work, visit his blog at <http://hkstrategies.ca/author/mcoates/>.

michael.coates@hkstrategies.ca



Suncor upgrader complex adjacent to the Athabasca River. Photo: Chris Evans, The Pembina Institute.

Canada's Shifting China Posture

Brian Bohunicky

When, in the largest foreign takeover ever by a Chinese firm, state-owned CNOOC made a bid to acquire Nexen, it quickly became a crucial test of Canada-China relations. The Harper government's ultimate acceptance of the bid both nuanced Canada's openness to foreign direct investment and established its third posture toward China since 2006. Canadian business must look to Asia and especially China for future growth but those opportunities will not be fully seized without a sustained and substantive policy focus by the national government.

The recent takeover of Calgary-based Nexen by China National Offshore Oil Corporation (CNOOC) triggered the third distinct approach to China by Canada's government in just seven years. While it is the most nuanced so far, the latest posture is primarily transactional and political rather than far-sighted or strategic.

Given the importance of China for Canada's economic future, none of the three approaches has been adequate to serve Canada's long-term interests. Still, it can be argued that each approach had a short-term measure of success, depending on who you ask.

The Harper government's first posture toward China, which ranged from indifference to belligerence, has been its longest-lived so far. It lasted nearly four years, and was best captured when the Prime Minister boasted that he would not "sell out (Canadian values) to the almighty dollar." The winners were in the Conservative party's ideological base, hard-core Conservative voters and opinion leaders who remain antagonistic to "Red China". They liked the tough talk and distance. But posture number one could not defy economic gravity forever. Indulging in a policy of grumpiness toward the world's second

largest economy lacked credibility, not to mention maturity. The Prime Minister signaled its demise when he made his first visit to China in late 2009.

He was greeted with a highly unusual tongue-lashing from Premier Wen Jiabao, who said it was good that he finally showed up, but took way too long to get there. After the verbal spanking, posture number two got underway, as a “let’s be friends, allies and business partners” motif. The ensuing period saw follow-up visits by various ministers, some with supposedly passé Team Canada style business delegations, and eager invitations to invest in Canada, especially in resource extraction.

This friendly stance was a winner with Canadian business, particularly those elements attuned to the big picture of global growth opportunities, Canada’s need for investment capital and the future of our export-dependent prosperity. The shift to amity was so complete that when the Keystone XL pipeline encountered serious political difficulty in Washington, posture number two allowed an apparently deft pivot, with the insinuation that our good friends in the Middle Kingdom would buy our oil if Uncle Sam gives us a cold shoulder.

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The key feature of posture number two was rhetorical openness to expanded two-way trade and investment flows between Canada and China. This was tactically sound. It did not take much to impress Canadian media commentators, some of whom saw a strategic bold stroke. Canadian exporters saw benefit in improved political relations. So, posture number two was handy. Until it wasn’t.

The rhetorical stance didn’t delve beneath the surface. It didn’t pose the inevitable tough questions about deeper connections with a system very differ-

ent from our own. But when CNOOC made a well-prepared bid to acquire Nexen, in the largest foreign takeover by a Chinese firm, it quickly became the most serious test of Canada-China relations in many years, triggering delicate political calculations and complex policy issues.

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The transaction drove straight to the heart of not just one but two signature gambits of Harper-led economic strategy: warmer relations with China, and self-proclaimed “energy superpower” status. Canada had said it was wide open for business with China. And we were until they got serious about it. We said we welcomed foreign investment, but we weren’t really prepared for a big move by a large Chinese state-owned firm buying outright a mid-sized Canadian oil sands firm with global assets. The notion of state ownership, and the nature of the state in question, made this foreign acquisition one for which our existing policies were inadequate.

The Nexen deal also dented the Canadian claim to be an energy superpower. If reliance on foreign investment to develop our energy resources didn’t already make the claim questionable, surely being thrown into a political tailspin by one such proposed investment exposed troubling cracks. That was especially true given that the source of the investment was the most rapidly growing one in global terms – China’s massive state-owned energy sector. The credibility of the superpower claim was cast in doubt, but there was no doubt about the end of Canada’s China posture number two.

If you were looking, you could have seen it coming. However, neither the existing foreign investment policy framework nor the China approach of

the moment effectively anticipated a development like the Nexen deal, so both had to change.

The Harper government announced approval under the Investment Canada Act of the Nexen deal and another bid by Petronas of Malaysia, together with policy changes for future application of the Act. These moves further qualified Canada’s openness to foreign direct investment, and in so doing established the third posture toward China since 2006.

China posture number three is a “yes, but...” concoction, with emphasis on the “but”. We’re not going back to the hostility of posture number 1, *but* we will be circumspect. We’re open to direct investment from China, *but* not all of it. We will explicitly prefer dealings with private firms over SOEs. And not all sectors are equal – the oil sands are different, and presumably “strategic”, since outright foreign acquisitions in that sector by SOEs will only be acceptable in “exceptional” circumstances. While the new investment rules apply to all nations, the messages and implications for the China relationship were clearly paramount. CNOOC’s purchase of Nexen, Prime Minister Harper asserted, was “not the beginning of a trend, but rather the end of a trend.”

Posture number three is a more nuanced stance than the previous two versions. It paved the way down the middle of the road between approval and rejection of the Nexen deal. The government saw the test in political terms, and managed it accordingly.

In the end, conservative China hawks weren’t thrilled, but there was no economic case for rejection, and they were placated by the deliberate efforts to communicate that the door was only open wide enough for present purposes. Business interests saw a measure of victory in the approval of a landmark deal. The Harper government, undoubtedly alarmed by the prospect of becoming a laughing stock if it rejected the deal after so ardently promoting Chinese investment in Canada, rightly calculated that Chinese leaders would be unlikely to object strenuously to any qualifications for future investment reviews, as long as the present deal got the go-ahead. For a government that thrives on politics more than policy and transactions over vision, the Nexen decision was a success.

While further reform is likely, the state-owned sector will remain a guiding force for China. If you want to do business with China, it is nonsensical to rule out the state-owned sector.

Beyond the transaction, however, much larger policy and strategic questions remain to be answered. The following are several of the largest.

How can the government of Canada claim to be open to foreign direct investment while discouraging it from Chinese SOEs?

A recent Conference Board of Canada report, *Fear the Dragon? Chinese Foreign Direct Investment in Canada*, cited data confirming the emergence of Chinese foreign direct investment as a major force reshaping global investment flows. That Chinese investment is heavily weighted in natural resources, and predominantly from large state-owned enterprises. Before the Nexen bid, China was on the way to becoming the second-largest foreign direct investor in Canada, after the United States, by 2020. SOEs are pillars of the Chinese economy. Several phases of restructuring in the state-owned sector have been integral to the economic

miracle of modern China over the last 35 years. Of course, the entrenched power of the SOEs poses some serious challenges for China's new leadership, and debate continues on whether to phase out SOE monopolies in key industries. While further reform is likely, the state-owned sector will remain a guiding force for China. If you want to do business with China, it is nonsensical to rule out the state-owned sector.

Is it really sound to make a distinction between state-owned firms and "private" firms from China?

Many observers seem to apply a Western distinction between public and private sectors that reflects a questionable grasp of China. The dividing line is a different concept there, one that foreigners frequently misunderstand. The role of the Communist Party of China is another one. The Party does not run businesses, state-owned or private. However, it manages the placement of senior personnel across the entire

economy. State entities are also often major shareholders in large private firms. If you are suspicious that a large Chinese acquirer might one day depart from its commercial mode of operation to pursue state policy (a suspicion itself worth debating), it is questionable to worry only about SOEs.

National security is a legitimate consideration in any foreign investment policy, and recent issues and decisions in Canada and other countries have not been confined to state-owned enterprises.

The fine print in the government's guidelines released at the time of the Nexen decision appears to expand the definition of SOE to include firms "influenced directly or indirectly" by a foreign government. It remains entirely unclear how that will be interpreted in practice, but was likely intended to afford the government maximum flexibility to manage transactions case-by-case.

Since many Canadian observers remain concerned about "reciprocity", is it tenable for Ottawa to ignore China's invitation to negotiate a free trade agreement?



Laureen and Stephen Harper with then Chinese Premier Wen Jiabao on the PM's first visit to Beijing in 2009, three years after taking office. The Chinese message was that it was good the Canadian PM finally showed up, but that he took too long to get there. Photo: Jason Ransom, PMO.

Specific transaction decisions are not opportunities to formally address fair and reciprocal treatment of unrelated investments seeking to move in the other direction (though if good personal relationships existed between leaders, there could be ways to address the issue *informally*). A broad, formal deal between national governments would be the best way to advance equitable treatment and a rules-based environment for trade and investment. China has expressed clear interest in a bilateral free trade negotiation, but Canada has shied away from the opportunity to be one of the first developed countries with such an arrangement. If we continue to ignore China's invitation, we will not only miss a pivotal opportunity but also find ourselves at a disadvantage after less timid competitors take our place at the negotiating table.

If Canadians are uneasy about control of our precious resources, we should get serious about how our governments exercise their powers over exploitation and stewardship of those resources.

Given China's explicit interest in a trade deal, it might even be possible to take a slightly creative approach, perhaps focusing on certain sectors of Canadian strength, or perhaps going beyond conventional models to mandate and frame collaborative interactions that complement and broaden trade relations, for example in the field of education.

If a resource like the oil sands requires special treatment, shouldn't we focus on how it is regulated, not just on who can buy companies that extract it?

The federal government seems to be sensitive to fears – found both among oil patch heavyweights and the general public – that foreign or foreign state presence in the oil sands will take away something from Canada. That fear animated the politics around the Nexen decision, and it remains a factor. It also reflects an important misunderstanding. Resource companies, regardless of their nationality, do not own the resource. Provincial governments do. They license firms, foreign and domestic, to extract the resource;

they tax those firms and regulate how they do business, and – if they choose – those governments can use their existing powers to influence the nature and pace of development of the resource. The federal government also has relevant existing powers. If Canadians are uneasy about control of our precious resources, we should get serious about how our governments exercise their powers over exploitation and stewardship of those resources. It may be only a slight exaggeration to say that the preoccupation about the ownership nationality of extraction firms is a mere distraction.

These are just some of the questions that illustrate the limits and missed opportunities of the current and recent approaches to China by Canada's federal government. The frequent shifting is itself a major impediment to the trust and respect among senior leaders that is necessary for fruitful relations in the long term.

Today, few would dispute that Canadian business must look to Asia and especially China for future growth. It is happening, but the opportunities will not be fully seized without a sustained and substantive policy focus by the national government. As the foreign investment issues illustrate, seriousness about China will not be without challenge and controversy. Their system is fundamentally different than ours, and China will continue to steer its own development on its own terms. That gives rise to tough questions. But surely we have reached a level of political maturity sufficient to go in with our eyes open, to engage Canadian business and the public on the trade-offs and pursue a consistent and confident policy that advances our long-term interest in mutual economic benefits, rather than just fearfully managing the local politics of transactions on a one-off basis.

As decisions around the Nexen deal demonstrate, a narrow and disciplined transactional approach might suffice in the short term, but the issues and opportunities left unaddressed are likely to hurt us down the road.

Brian Bohunicky is president of Baker Group International, a consulting and business development firm focused on China. He was previously a federal public servant and a senior political adviser to the Liberal leader and cabinet ministers.
brian@bakergroupinternational.ca

China has expressed clear interest in a bilateral free trade negotiation, but Canada has shied away from the opportunity to be one of the first developed countries with such an arrangement. If we continue to ignore China's invitation, we will not only miss a pivotal opportunity but also find ourselves at a disadvantage after less timid competitors take our place at the negotiating table.



Grand Chief Shawn Atleo in a pensive moment at an Ottawa news conference. “Not yet 50,” Robin Sears writes, “Atleo is at the leading edge of this new generation. He has nearly 30 years of experience as a leader, first locally, then in British Columbia and for the past four years at the national level.” Photo: Matt Usherwood, iPolitics.

The AFN and the PM: Retiring the Missionaries

Robin V. Sears

The federal First Nations bureaucracy has challenged prime ministers, confounded ministers and enriched battalions of lawyers and consultants. What it has done lately for First Nations comes in a federal budget delivered amid the eruption of Idle No More, the explosion of law suits and roadblocks against resource development in the North and in western Canada and the mobilization of young Cree to march hundreds of kilometres to Ottawa. As both the Harper government and the First Nations leadership weigh their options, powerful templates for change exist right in their backyards.

That Canada’s enormous aboriginal bureaucracy has failed to deliver despite dispensing billions of dollars a year for decades is not hard to explain – their values and methods differ little from their forbears of two centuries earlier. Just as Anglican and Catholic missionaries used a combination of carrot and stick to replace local languages and culture with English and Victorian values, so today’s zealous bureaucrats use grants, project funding – and the threat of their withdrawal – to reward ‘good Indians’ and punish the recalcitrant in defense of a classic clientist welfare agenda.

The department changes its name every decade or so, in the apparent belief that new paint will disguise the ancient, rigid superstructure it conceals. No more responsible for “Indian Affairs,” the newest packaging is about aboriginal peoples and northern development. To its friends and enemies it is always simply, “The Department.”

Local chiefs who attack the department’s diktat for its failure to supply clean water or safe schools risk placing themselves outside the “circle of grace,” as a patient missionary would have explained to their ancestors. Money has replaced the threat of force as the state’s preferred means of ensur-

ing compliance. Although the department selectively leaks the abuse of its funds by some First Nations communities – as a caution to those tempted to “get off the reserve” as it were – it rarely offers a view of its own internal use of taxpayers’ funds, nominally designated to address Canada’s indigenous peoples’ social and economic issues.

It would surely horrify the diminishing and battered cadre of Reform Party true believers to know that their government has overseen a rapid growth in the hundreds of millions of dollars that the department spends on outside consultants – a large percentage of them former employees of the department itself, rewarded with contracts by their former colleagues. The most recent figure is \$350 million dollars a year and growing rapidly.

It is this army of consultants who are sent to disaster zones such as Attawapiskat, at a cost of thousands of dollars a day, to usefully report that, indeed, there remains mould in children’s bedrooms and classrooms, poisonous water, domestic violence and substance abuse on reserve. The causes that their expensive reports predictably cite are bad band management and weak budgetary controls, never departmental policy or funding – after all, like a certain class of consultants everywhere, they know what their clients expect of them and they understand that their next contract depends on their expert stroking of those expectations.

Next to the accountants and the management consultants, the profession that dines most sumptuously on the riches of the broader aboriginal bureaucracy is – no prizes for guessing – lawyers. Billions of taxpayers’ dollars have been wasted on legal battles funded by the federal Department of Justice, backed by several provincial governments, to frustrate resolution of hundreds of outstanding land claims. A generation of lawyers’ entire careers have been funded by Canadian taxpayers in this bizarre exercise. Regularly smacked by the Auditor-General and even the Supreme Court, no Canadian government – no federal or provincial government – has yet had the will to force an end to the circus.

Once a decade or so, a brave or naive new minister is handed the mess than

is Canada’s First Nations policy, and he or she decides to take on the department. They announce measures that will deliver real change in health, education and economic possibility on reserve and among Canada’s burgeoning urban aboriginal communities. What follows is like a poorly scripted episode of “Yes, Minister,” as the department’s enormous ranks of mid-level bureaucrats adopt their best passive-aggressive postures, smiling and nodding at the innocent politician’s stern admonitions.

They’ve seen off a half-dozen of his predecessors and know that slow – walked production of strategic plans, seminars and consultations will be enough to ensure the preservation of the status quo ante, until the arrival of a more pliable supervisor. The list of well-meaning but ultimately frustrated ministers is long: Jean Chretien, Bryce Mackasey, Bob Nault in days of old; Chuck Strahl and Jim Prentice more recently.

The arrival of a seasoned old-hand in the form of Bernard Valcourt, is a token not only of Prime Minister Harper’s frustration with the department’s intransigence, but also of his recognition that he must break it if he is not to wear the political cost of a complete breakdown in relations between the Crown and Canada’s First Nations.

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Valcourt has already sent a frisson through the department’s most hard-

core gatekeepers of Canada’s last 19th century welfare bureaucracy. His early declarations, both to the First Nations leadership and to his officials, have been refreshing. In effect: “I am here to deliver the changes that the Prime Minister has promised for Canada’s aboriginal peoples and I do not intend to fail.” His ability to deliver, however, will be determined by events and decisions outside the department, the government and his control.

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As Assembly of First Nations National Chief Shawn Atleo has repeated ad nauseam in the past year, Canada truly is at a cross roads. The eruption of Idle No More, the explosion of law suits and roadblocks against resource development in the North and in western Canada, the mobilization of young Cree to march hundreds of kilometres to Ottawa are the storm warnings of a confrontation just over the horizon. Its roots lie in the centuries of broken treaties, residential schools, and abusive federal “Indian officers.” Today’s trigger is a new generation of well-educated, confident First Nations leaders and the threat of dozens of mines and pipelines crisscrossing their lands.

Atleo is at the leading edge of this new generation. Not yet 50, he has nearly 30 years of experience as a leader, first locally, then in British Columbia and for the past four years at the national level. Like a Martin Luther King in contrast to a Malcolm X, he is genuinely committed to the path of negotiation and civil disobedience if necessary.

However, like King he is surrounded by a much more hawkish group of advisers and competitors, convinced that only the threat of violence and economic disruption will wrest power from the department that controls life on the reserve, and force the resource sector to share the billions earned on their territories.

The National Chief has made a courageous gamble that he can keep this government's feet to the fire about delivering real change. He has a very limited ability to ensure the delivery of good schools and housing, or real economic opportunity for tens of thousands of unemployed and angry young people – unless he lets slip the dogs of war. As the fiasco surrounding the Chief Spence protest and the efforts of several political competitors to use it as a platform to undermine the National Chief and his agenda demonstrated, the pressures to move in that direction are powerful and growing.

He backstops his gamble in two ways. First, in a constant tour of venues and associations across Canada, taking a simple and powerful call for justice to groups of Canadians. He's grown into a compelling speaker, and has perfected the TV sound bite. Secondly, he consciously reaches over the heads of the First Nations establishment to the young and frustrated members on reserve and in urban Canada with a message of hope and self-empowerment. His poll numbers among both groups are impressive.

His internal challenge is that he is merely the voice of, not the empowered leader of, the several hundred chiefs who elect him. National Chiefs before him, faced with the scarce resources and authority of a role that sounds more powerful than it has ever been, have retreated to complaint and regular criticism. Atleo knows he has the power of a bully pulpit that he uses well, but among his constituents are an older generation who long ago made their peace with the Department. Beneficiaries of its largesse, they have little incentive to support dramatic changes that might undermine their authority.

Atleo and Harper have established a relationship that is a credit to both politicians. On Atleo's side, he has gambled his reputation and his future on his being able to deliver real change, not simply angry rhetoric, in the lives of

his people. He has attempted to secure it by keeping public pressure on Harper to keep his promise to break the department's iron grip and to force negotiation of real resource sharing agreements and treaty implementation.

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The risks on the Prime Minister's side are no less real. Failure to deliver could mean violence for which he will pay the political price. Failure also means no new resource development and the riches it will bring for governments and investors alike. Harper is nothing if not a capable political strategist – even if some of his minions' fascination with day-to-day dead-end tactics might lead one to conclude otherwise. He understands that an important part of his legacy – new resource development successes and his Western Canadian political fortress – are hostage to making progress on the First Nations file.

For reasons that are hard to understand strategically, he has permitted a set of legislative initiatives that seem designed to rub salt in First Nations yet-unhealed wounds. On issues as sensitive as matrimonial rights, local chiefs' compensation, property rights and the election of band leadership, he has stuck a legislative finger in the eye of the First Nations establishment again and again. A sympathetic observer might conclude it is the necessary sop to his more knuckle-dragging, anti-First Nations political base. A more cynical view is that he sees it as a means of gratuitously demonstrating how tough he is to his negotiating partner.

Unlike Paul Martin, whose commitment to change on these issues was equally authentic and determined, Harper is keenly focused. Not for him the broad Magna Carta of a Kelowna Accord. This prime minister is a quintessential *etapiste*: choose a short-term achievable goal, deliver it, and only then set out the next. His vision of a long term goal of an economically and socially transformed Canadian First Nations network of communities in cities and on reserve may not look that different than his predecessors'. His path to achieving it seems likely to have a greater prospect of success.

His formidable Chief of Staff, Nigel Wright, a seasoned Bay Street deal maker, schooled in a business where the bonus comes only on the successful delivery of a profitable transaction, is now charged to do battle with a departmental bureaucracy where survival



Prime Minister Stephen Harper and PMO Chief of Staff Nigel Wright in the PM's Centre Block office. The personal engagement of Wright and Privy Council Clerk Wayne Wouters on the First Nations file has sent a message that Harper is serious about the dialogue with AFN Grand Chief Shawn Atleo. Photo: Jason Ransom, PMO.

There are two missing players during these fateful days for Canada and its relations with its first peoples. The first is the business community, especially those with the most at stake: the resource sector.

and therefore success is marked by how many cans you can kick down the road to your successor. Together with Privy Council Clerk Wayne Wouters, they have sent lightning bolts through the system about the Prime Minister's seriousness.

The time to act on the promises made in the January meetings with Atleo and his leadership team in the first Crown/First Nations Gathering last year, in their smaller and more intense discussions this past January, and in the promises in last month's Budget is running out. If the money promised for new schools, investigating missing and murdered women, infrastructure development on reserve and new job training does not begin to flow soon, and deliver visible change, the clock will have run out for both the National Chief and the Prime Minister by this time next year.

Both men will be in their pre-election seasons. Whether one or both chooses to seek another term from their respective electorates, their internal and external opponents will use the failure to deliver as a powerful political cudgel.

There are two missing players during these fateful days for Canada and its relations with its first peoples. The first is the business community, especially those with the most at stake: the resource sector. Scattered efforts by various corporations, business associations, and aboriginal business groups notwithstanding, no one has succeeded in mobilizing a high-level commitment to a negotiating process to establish a code of best practices, a model of resource revenue sharing, and a consultative process that is acceptable to First Nations communities.

The forestry sector did it in British Columbia more than a decade ago – a process a younger Shawn Atleo was a keen participant in. The template for success is available in that history and the counsel of the leaders who made it happen. If competitive jealousies or anxiety about the risks in being a 'first mover' block a similar effort when new

resource development is concerned, it is not First Nations communities that will be the biggest losers.

Similarly, the provinces need to step up to the plate. The 'pass the potato' behaviour the provinces and the always-territorial department officials have indulged for decades has secured the careers of the bureaucrats and the politicians involved: "You're responsible for clean water!" "No, I only do testing." "But I delivered a water tank, and you failed to inspect it." And on and on. When provinces believe it is in their interest to assert their authority in areas of shared or even exclusive federal jurisdiction, few hesitate. Their hesitancy in joining a movement for change where First Nations issues are concerned is purely political risk aversion.

It is the province of Quebec that has negotiated, not once but twice, enormous agendas for change with its Cree peoples. Driven by the reality that its dream of an economy secured by American hydro power revenues was forever hostage to the First Nations peoples whose lands would be flooded, they negotiated hard and seriously.

There is positive history here as well, for those who are genuinely committed to change. It is the province of Quebec that has negotiated, not once but twice, enormous agendas for change with its Cree peoples. Driven by the reality that its dream of an economy secured by American hydro power revenues was forever hostage to the First Nations peoples whose lands would be flooded, they negotiated hard and seriously. The incentive to deal was powerful. As one Cree leader of the first generation of negotiators observed drolly,

"Pipelines can always be patched, a power dam can't..."

That round of negotiations in the 1970s established the trust for an even more far-reaching and impressive second agreement negotiated by the Charest government covering political governance, revenue sharing, and shared legal jurisdiction and accountability with the province, municipalities and Cree-led political institutions. This improbable success was patiently and adroitly pushed across the finish line by one of Canada's great public servants, Dan Gagnier – the only person ever to have served as chief of staff to premiers in two provinces and as a deputy minister in each as well as Ottawa. Those involved in that torturous process on each side attest that their biggest challenge, their most formidable opponent, was the Machiavellian federal department and its cousins at the provincial level. The next generation of negotiators would be wise to seek his counsel.

Bob Rae's agreement to attempt a similar process on behalf of Northern Ontario bands in the province's "Ring of Fire" development plan bodes well, given his history as a supple and creative negotiator – but only if he has a negotiating partner as committed to overcoming resistance as were the several premiers of Quebec who backstopped its surprisingly successful process.

This is a classically glass half full or empty political spring on the First Nations file. We have a prime minister invested in it, supported by two exceedingly capable lieutenants and a new minister not easily duped or bullied. The National Chief of the Assembly of First Nations is the most impressive leader of his generation and a seasoned veteran of governmental and business negotiation. We have an increasingly focused and implementable agenda.

For those who believe that our future is forever imprisoned by our centuries of failure, the glass is more than half empty.

Canadians should hope that those who have gambled their own futures on success can break the bonds of that bitter history.

Contributing Writer Robin V. Sears is a principal of the Earncliffe Strategy Group.

robin@earnscilffe.ca

Policy

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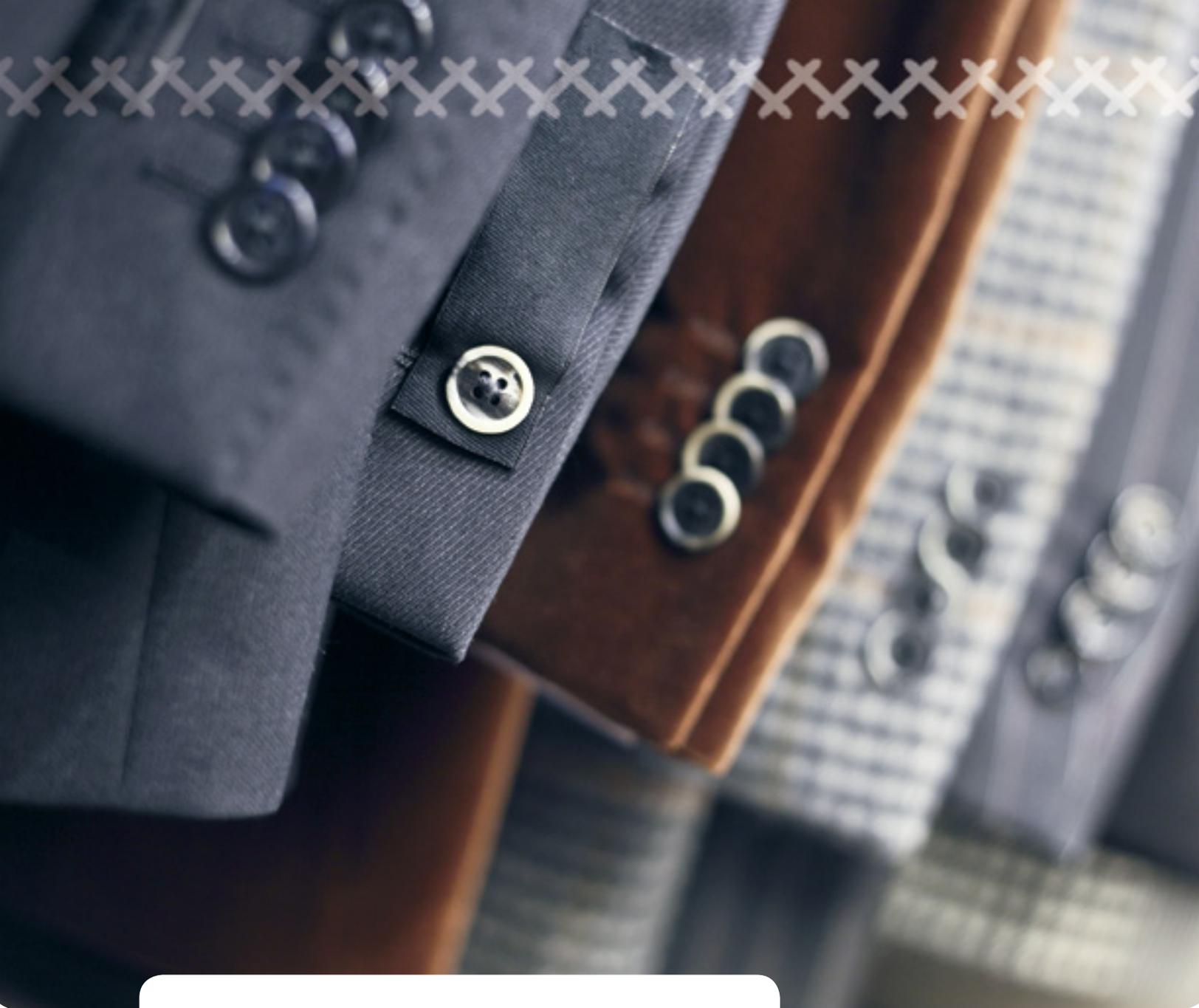
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