

Canada – United States
Inter-Parliamentary Group
Canadian Section



Groupe interparlementaire
Canada – États-Unis
Section canadienne

**Report of the Canadian Parliamentary Delegation respecting
the 56th Annual Meeting with Members of the U.S. Senate
and House of Representatives**

Canada–United States Inter-Parliamentary Group

**Ottawa, Ontario, Canada
15–17 June 2018**

Report

DELEGATION MEMBERS AND STAFF

From 15–17 June 2018, members of the Canadian Section of the Canada–United States Inter-Parliamentary Group (IPG) hosted a delegation from the U.S. Congress for the IPG’s 56th annual meeting in Ottawa, Ontario. The Canadian delegation, which was led by Senator Michael L. MacDonald and the Honourable Wayne Easter, P.C., M.P., Co-Chairs, also included Senators Marc Gold and Mobina Jaffer, Q.C., as well as four of the Canadian Section’s Vice-Chairs: Mr. Kerry Diotte, M.P.; Mr. Randy Hoback, M.P.; Mr. Brian Masse, M.P.; and Mr. Francesco Sorbara, M.P. The U.S. Senate delegation was led by Senators Mike Crapo and Amy Klobuchar, Chairman and Vice-Chairman of the U.S. Section, respectively, and also included Senator Roy Blunt. Representative Paul Cook attended from the U.S. House of Representatives.

THE EVENT AND DELEGATION OBJECTIVES

During the annual meeting with their Congressional counterparts, Canadian parliamentarians generally focus on a range of issues that are important to the Canada–U.S. relationship. The 2018 annual meeting was similar in intent to previous annual meetings, and involved discussions about economic, defence and resource issues. In particular, the agenda for this annual meeting was the following:

- Bilateral economic and financial cooperation:
 - the Foreign Account Tax Compliance Act and money laundering/terrorist financing;
 - trade agreements and irritants;
 - integrated supply chains; and
 - border facilitation
- Bilateral security and defence cooperation:
 - border security;
 - cybersecurity; and
 - global conflicts.
- Bilateral environmental cooperation:
 - the Great Lakes;
 - renewable energy; and
 - clean technology transfer.

Because the discussions that occur among the Canadian and American legislators are designed to be private and “off the record,” this report summarizes the general nature of their comments.

ISSUES RAISED BY THE CANADIAN SECTION OF THE CANADA–UNITED STATES INTER-PARLIAMENTARY GROUP

Economic and Financial Issues

A. Taxation

- Dual U.S.–Canadian citizens who reside in Canada experience a tax situation that some believe is unfair; the situation may be an unintended consequence of U.S. tax changes.
- Because the United States’ recent implementation of a transition tax is affecting selected Canadians, some are threatening to avoid U.S. travel and a number of individuals are changing their retirement plans as a consequence.
- It would be helpful if the U.S. Internal Revenue Service were to issue guidance about the actions that should be taken by dual U.S.–Canadian citizens.

B. Money Laundering and Terrorist Financing

- Canada’s House of Commons Standing Committee on Finance is currently engaged in a five-year statutory review of the country’s anti-money laundering and anti-terrorist financing regime.
- Globally, money laundering and terrorist financing are significant issues, and the implementation of recommendations made by the Financial Action Task Force may help to address at least some concerns; Canada and the United States are among the countries that must deal with these issues “aggressively.”
- For some small financial institutions, such as credit unions, the costs of complying with the requirements of Canada’s *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* can be high.
- Money is sometimes “laundered” through paying inflated prices for real estate.
- Canada and the United States should have similar compliance requirements in relation to money laundering and terrorist financing.

C. Other

- It is possible for one country to access another country’s technology through making strategic investments; for example, consideration might be given to the sectors in which Chinese investments are occurring, and the reasons for such investments.
- Beneficial ownership and shell companies are issues that must be addressed.

Trade Issues

A. General

- It is important to ensure that the benefits of trade are shared.
- Canada and the United States have a bilateral trade relationship that spans decades, including through the 1965 Auto Pact, the *Canada–United States Free*

Trade Agreement and the North American Free Trade Agreement (NAFTA); at present, the value of the two countries' trade with each other is essentially balanced.

- Although some see Canada's supply-managed systems as a "sacred cow," there are other ways in which the country's producers of supply-managed products could be supported; as well, it should be recognized that the United States also supports its dairy farmers, albeit in a way that differs from Canada's approach.
- Canada's market is more open to dairy imports than is the market in the United States, and the United States' current "dairy problems" are due to U.S. overproduction, not to Canada's system that manages supply to meet demand.
- Like the Trans-Pacific Partnership agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership is more of a geopolitical agreement than it is a trade agreement; it brings countries into a "sphere" that is not "China's sphere."

A. *North American Free Trade Agreement Negotiations*

- As NAFTA is renegotiated, the focus should be the changes that are needed to improve North American competitiveness.
- The NAFTA negotiations may be affected by the July 2018 elections in Mexico, the November 2018 midterm elections in the United States and the fall 2019 election in Canada.
- Canada feels very strongly about a number of issues being discussed in the NAFTA negotiations, including a five-year sunset clause, dairy trade and auto trade; Canada understands the political reality that President Donald Trump must perceive that he has "won," but there are certain areas where Canada is not able to compromise.
- Regarding a sunset clause in NAFTA, the agreement is already – implicitly – reviewed annually by virtue of article 2001 of NAFTA; this article, which established the "Free Trade Commission" comprising cabinet-level representatives or their designees from each of the three countries, requires the Commission to convene at least annually, thereby providing an opportunity for ongoing dialogue about possible improvements to NAFTA.
- The "gap" in working conditions between Canada and the United States on one hand, and Mexico on the other hand, needs to be narrowed.

B. *Steel, Aluminum and Softwood Lumber*

- Tariffs and duties benefit no one other than lawyers and accountants, and some of the firms that are affected by such measures – including those that produce

softwood lumber – have operations in both Canada and the United States; the two countries are economically interconnected.

- Canada will respond to the U.S. tariffs of 25% and 10% on certain Canadian steel and aluminum products, respectively, by introducing countermeasures of equivalent financial effect, and these measures will affect the two countries' integrated supply chains, as well as consumers and firms; among other things, these countermeasures will be directed at products designed to put political pressure on certain members of the U.S. Congress.
- The U.S. tariffs on certain steel and aluminum products will “slow things down” at the Canada–U.S. border.
- The United States had a legitimate concern about Chinese steel entering the United States through Canada, and Canada recently made regulatory changes in order to address U.S. concerns about the transshipment of steel.
- Canada and the United States have the same concerns about Chinese steel, and should work together on a solution to the problem of Chinese steel flooding certain markets.
- Large softwood lumber firms have operations in both Canada and the United States; with the current softwood lumber dispute between the two countries, small firms will be “squeezed out.”
- Because of the current dispute between Canada and the United States regarding trade in softwood lumber products, the average U.S. house is now \$7,000 more expensive than would otherwise be the case.

Shared Border Issues

A. Technology and Infrastructure

- Regarding the Ambassador Bridge at Windsor, Ontario–Detroit, Michigan, more than 40% of Canada–U.S. trade is taking place on two miles of aging infrastructure; a new bridge is needed.
- The Canadian position is that the Ambassador Bridge should be dismantled, while the U.S. position is that the Ambassador Bridge has historical value and should be retained.
- The use of technology should be maximized at the Canada–U.S. border in an effort to identify people and goods that may be a security risk to either country.
- Pre-clearance for all modes of transportation and at as many locations as possible is important for improving security and facilitating movement across the Canada–U.S. border.

B. Cannabis

- Canada's legalization of cannabis on 17 October 2018 will lead to long wait times at the Canada–U.S. border, and U.S. Customs and Border Protection will not be increasing the number of personnel at the border.
- From Canada's perspective, it is not just a question of smoking cannabis, carrying cannabis or having the smell of cannabis on clothes or vehicles and attempting to enter the United States; Canadians could face a lifetime ban on entering the United States if they respond affirmatively to a question about whether, at any point in their lifetime, they have smoked cannabis.

Security Issues

- Canada and the United States need to work together to “break the back” of terrorism in the Middle East and elsewhere.
- Some countries are questioning whether the United States, as the world's most powerful nation, is willing to continue to play its historic global role.
- Although Canada is among the countries that are concerned about the United States “pulling back,” the United States cannot be expected to protect the rest of the world alone.
- According to some commentators, Canada has been underfunding and undervaluing its military for generations.
- Canada is among the world's countries that are spending less than 2% of their gross domestic product on defence; however, the country believes that more spending elements should be included in the calculation, which would bring Canada closer to the 2% target.
- China has an increasing presence in the Arctic, which is resource-rich.
- China has too much influence in the world, and is acquiring resources and other assets in a number of countries.
- It is important to identify the range of cybersecurity challenges, and to determine ways in which Canada and the United States could work together to address them, including perhaps through North American regulations in this area that assure modernization while protecting the sovereignty of each nation.
- When cyberattacks happen, firms are sometimes afraid to make the breach public because of concerns about liability.

Great Lakes Issues

- Canada and the United States work well together on Great Lakes issues, including in relation to mapping fish habitats and habits, invasive species, etc.
- The Great Lakes are important from such perspectives as tourism and a transportation link between Canada and the United States.
- Electrical barriers are being used to stop Asian carp from entering the Great Lakes.

Energy Issues

- Together, Canada and the United States could be energy self-sufficient, and could export energy around the world.
- Canada's oil reserves are the third-largest in the world, and the United States is – essentially – Canada's only export market.
- Canada's oil sector is heavily regulated, and there is a great deal of oversight designed to ensure the sector's safety and environmental "cleanliness."
- Canada is attempting to diversify its energy export markets; in that regard, the TransMountain pipeline, in respect of which there are some legitimate concerns about spills and environmental impacts, is important for exports to Asia.
- Like the United States, Canada has significant natural gas reserves.
- A number of communities support the movement of energy by pipeline, which some – but not all – see as environmentally friendly.
- New technologies are emerging in relation to nuclear and coal energy sources; for example, regarding the latter, carbon capture and storage is an option.

ISSUES RAISED BY MEMBERS OF THE U.S. CONGRESS

Economic and Financial Issues

A. Taxation

- Regarding the tax situation of dual U.S.–Canadian citizens who reside in Canada, a number of tax changes are needed to address unintended consequences; the timing for any changes is unclear in light of other priorities, and attempts may be made to resolve issues through regulations.
- Recent changes to the U.S. tax code dramatically changed the way that international corporations are taxed, and there were some unintended consequences that must be addressed.
- The U.S. Internal Revenue Service and the Congressional committees that author tax legislation can be helpful in providing guidance to dual U.S.–Canadian citizens.

B. Money Laundering and Terrorist Financing

- There is a need to study money laundering and the financing of crimes, which are significant issues in the United States that affect national security.
- A hemispheric, if not a global, solution to money laundering and terrorist financing is needed.
- Regarding the \$10,000 threshold for making reports to the U.S. Financial Crimes Enforcement Network, the compliance costs are relatively high and the “results” flowing from the filing of these reports are relatively low; better evaluation techniques are needed.
- With entire New York City apartment buildings being owned by foreign nationals, it is important to ensure that the buildings are not being owned for criminal means.
- While money laundering is a serious issue, so too is the purchase of critical technology, assets and properties by “hostile actors.”

C. Foreign Direct Investment

- With “increasingly dramatic” foreign investment activities in the United States, the country’s foreign investment statute is being reviewed; foreign investment can jeopardize the United States’ security.
- Export controls should be examined because both incoming and outgoing assets can be important; more generally, there is a need for more government intervention in, and control over, the flow of funds into and out of the United States, and for more U.S.–Canada cooperation in this regard.

Trade Issues

A. General

- Many Republicans in the U.S. Congress do not support the Trump Administration’s trade policy, and President Trump’s negotiating approach and strategy differ from those of previous U.S. presidents.
- President Trump prefers bilateral free trade agreements to agreements involving three or more countries.
- Canada’s supply-management systems continue to be an irritant for the United States; U.S. dairy farmers are being disadvantaged and dairy farms are being “lost.”

B. North American Free Trade Agreement Negotiations

- It is important to compete as a North American region, and to modernize NAFTA.

- Although the United States may have been “out-negotiated” by Canada and Mexico 25 years ago, it is time to “move on” and to recognize that NAFTA has been “integrated into” the economies of the three countries; it is time to renegotiate NAFTA to improve the agreement, and to address issues both that the United States considers to be important and that have arisen since NAFTA was implemented.
- The idea of a five-year sunset clause that is being discussed as part of the renegotiation of NAFTA is a “bad idea”; such a provision would make it difficult to plan.

C. Steel, Aluminum and Softwood Lumber

- The value of trade in steel between the United States and Canada is essentially balanced; it is hard to imagine that there is a steel-related security issue between the two countries.
- Regarding Chinese steel, the real issue is transshipping and dumping; enforcement is critically important in this regard and more generally.
- Some members of the U.S. Congress believe that, at least in relation to Canada, the U.S. tariffs on certain steel and aluminum products is not just a steel or aluminum issue; rather, it is linked to the NAFTA negotiations, and progress in these negotiations that is acceptable to President Trump may lead the tariffs to be removed.
- Generally, Republicans in the U.S. Senate think that section 232 of the *Trade Expansion Act of 1962* should be used sparingly, and not for reasons of economic security; President Trump feels that economic security is part of national security.
- Regarding U.S.–Canada trade in softwood lumber, the United States’ view is that Canada’s stumpage rates are below market value and constitute a producer subsidy that harms U.S. softwood lumber producers.
- As an alternative to litigation, the United States and Canada should reach an agreement regarding bilateral trade in softwood lumber products.
- There is a significant degree of cross-border ownership of timber firms.
- It should be relatively easy to undertake an independent assessment of the market value of timber.

Shared Borders and Drug Issues

- Drugs are a more significant problem along the United States’ southern border than it is along the country’s northern border; at the southern border, cocaine, methamphetamine and fentanyl are significant concerns.

- Most U.S. states allow the use of medical cannabis.

Security Issues

A. North America

- Canada is the United States' "northern flank," and Russia has been very active with overflights in the Arctic as it tests various U.S. systems.
- It is possible that the North American Aerospace Defense Command needs a stronger commitment from other North Atlantic Treaty Organization (NATO) members.
- While it is important for the United States and Canada to support NATO, there is also a need to focus on security in the hemisphere.

B. International

- The United States and Canada are "too trusting" of other countries, and the two nations should be more suspicious about threats to the security of sovereign countries, especially those that are democracies.
- U.S. Secretary of Defense James Mattis believes that the United States is the strongest military power in the world, but the country cannot do everything itself and national security priorities must be established; the United States needs coalitions with other countries, which can bring their particular expertise "to the table."
- It is important to continue to have military exercises, including those in which various nations participate.
- Women need to be accepted as equal partners in military teams.
- Americans expect a lot from Canada, which has a high degree of professionalism; that said, Canada needs to "do more," including in relation to reaching the target of spending 2% of gross domestic product on defence.
- The United States is concerned that Canada and some other countries are not spending 2% of their gross domestic product on defence, and will continue to push nations to achieve this target; defence spending can take a number of forms, including humanitarian aid, personnel and disaster response.
- Not every NATO ally is equally reliable.
- "Cyber actors" are attempting to influence U.S. elections.
- The United States has not been "doing enough" regarding cyber issues, although more funds are being allocated.

- It is hard to anticipate what the next security breach might be.
- It is not only hacking and the stealing of personal information that are of concern; of perhaps greater concern are the identification of data that are being collected as a result of the hacking and the reasons why those data are being targeted.
- Consideration should be given to determining the reasons for private-sector collection of significant amounts of information about people, and to outlining the role of governments in limiting the collection of such data.
- With “private-sector big data” and “public-sector big data,” there are privacy risks relating to hacking.
- Because of rapid changes in technology, it is hard to pass legislation quickly enough to deal with cyber issues.
- China is among the most aggressive nations globally, and is purchasing mineral and other assets throughout the world; it is hard to determine the scope of how aggressively China is behaving, partly because an investor’s identity may be unclear or camouflaged.
- The “drug problem,” including fentanyl and other opioids, has security implications.

Energy Issues

- Approval of the Keystone XL pipeline is a welcome development.
- The United States is rich in natural gas and other carbon-based energy sources; while attention should be paid to all sources of energy, the reality is that the country will use carbon-based energy sources for the foreseeable future.
- The market should determine the best mix of energy resources; governments should not pick “winners” and “losers.”
- Nuclear energy has a “place” in a diverse energy mix.
- It is hoped that Canada will be able to find a location for its nuclear waste.
- Israel is, and Egypt is attempting to become, energy-independent.

Respectfully submitted,

Hon. Michael L. MacDonald,
 Senator, Co-Chair
 Canada–United States
 Inter-Parliamentary Group

Hon. Wayne Easter, P.C., M.P.
 Co-Chair
 Canada–United States
 Inter-Parliamentary Group

Travel Costs

ASSOCIATION	Canada-United States Inter-Parliamentary Group
ACTIVITY	56th Annual Meeting
DESTINATION	Ottawa, Ontario, Canada
DATES	15–17 June 2018
DELEGATION	
SENATE	The Hon. Michael L. MacDonald The Hon. Marc Gold The Hon. Mobina Jaffer
HOUSE OF COMMONS	The Hon. Wayne Easter, P.C., M.P. Mr. Kerry Diotte, M.P. Mr. Randy Hoback, M.P. Mr. Brian Masse, M.P. Mr. Francesco Sorbara, M.P.
STAFF	Ms. Miriam Burke, Executive Secretary Ms. June Dewetering, Senior Advisor Mr. Brett Capstick, Advisor Ms. Tanya Dupuis, Advisor
TRANSPORTATION	\$ 1,926.25
ACCOMMODATION	\$ 0.00
HOSPITALITY	\$ 13,598.34
PER DIEMS	\$ 1,955.93
OFFICIAL GIFTS	\$ 142.16
TOTAL	\$ 17,622.68