

Canada – United States
Inter-Parliamentary Group
Canadian Section



Groupe interparlementaire
Canada – États-Unis
Section canadienne

**Report of the Canadian Parliamentary Delegation respecting
its participation at the Annual National Conference of the
Council of State Governments (CSG)**

Canada-United States Inter-Parliamentary Group

**Covington, Kentucky, United States of America
6–8 December 2018**

Report

DELEGATION MEMBERS AND STAFF

From 6–8 December 2018, Senator Michael L. MacDonald, Co-Chair of the Canadian Section of the Canada–United States Inter-Parliamentary Group (IPG), attended the annual national conference of the Council of State Governments (CSG) accompanied by Mr. Brett Capstick, Advisor to the Canadian Section of the IPG. The conference was held in Covington, Kentucky.

THE EVENT

The CSG serves all three branches of state government and provides regional fora – the western, midwestern, southern and eastern regional conferences – through which ideas and insights are exchanged with a view to shaping public policy.

Each year, the CSG convenes a national conference, which is attended by state legislators from throughout the United States, as well as selected governors.

DELEGATION OBJECTIVES FOR THE EVENT

The CSG's national conference provides members of the Canadian Section with the opportunity to speak with state legislators representing regions throughout the United States. Moreover, the conference provides members of the Canadian Section with an opportunity to give input to, and gather information about, state-level issues that may affect Canada. Accordingly, participation in this conference contributes to the Canadian Section's ability to achieve the IPG's four main goals: identify points of convergence in respective policies; initiate dialogue on points of divergence; encourage exchanges of information; and promote better understanding among legislators on shared issues of concern.

ACTIVITIES AT THE EVENT

The following sessions were held at the CSG's 2017 national conference:

- Stay at Work/Return to Work State Toolkit
- Using Science to Inform State Policy
- The Intersection of Innovation & Infrastructure
- Overcoming Social Inequalities with Technology Today
- Understanding Gene Replacement Therapy
- Cybersecurity Preparedness for State Policymakers
- U.S.–Canada Relations: Best Practices in Regional Cooperation
- Transforming Tobacco to Harness Innovation for Public Good and Economic Growth
- U.S.–Canada Relations: Looking Ahead – New Opportunities to Strengthen Relations
- The Best Policy Tool for Sustainability – Building Energy Codes
- U.S.–Canada Relations: Keynote Discussion with Ambassador Craft

- Using Technology to Create and Inform your Opioid Strategy
- The Future of Electrification: Impact on Grid Infrastructure
- Growing Green: Marijuana Policy Impacts on State Budgets
- Understanding Gene Replacement Therapy
- Working Families and the Struggle to Find Early Care and Education
- State Impacts of the Tax Cuts and Jobs Act of 2017
- Keynote Session with J.D. Vance
- Leading the Way in the Logistics Economy
- CSG Election Cybersecurity Communications Mapping Initiative
- Opioid Crisis: How States Have Financed Treatment
- Federal Mid-Term Report: From POTUS to SCOTUS
- Reducing the prevalence of Behavioral Health Conditions in Jail

In addition, the following National Center for the Interstate Compacts – a facilitator in the creation and revision of new interstate compacts – “Summits of the States” were held:

- A Tested Solution to Today’s Policy Issues
- How State Collaboration Can Strengthen the Workforce
- Over Here – States Work Together to Increase Opportunities for Military Families and Members
- Nuts and Bolts – Administering Interstate Occupational Licensure Compacts
- Legal Roundtable – The Year in Interstate Compact Law

This report summarizes the discussions that occurred during selected sessions.

U.S.–CANADA RELATIONS: BEST PRACTICES IN REGIONAL COOPERATION

Matt Morrison, *CEO, Pacific NorthWest Economic Region*

- The Pacific NorthWest Economic Region (PNWER) was formed out of CSG West as a response to a growing need for regional co-operation in areas such as invasive species control, energy planning, disaster resilience and border security.
- Legislators should seek to create regional co-ordination bodies such as PNWER, as they can be more effective at pursuing policy objectives than individual states/provinces.
- Regional co-ordination bodies should aim to involve local governments in addition to the private sector, as each may play a separate but pivotal role in addressing regional issues.
- In general, U.S. businesses are becoming increasingly aware that that the Canada–U.S. trading relationship is vital to their financial success.

Senator Ed Charbonneau, Indiana

- The Great Lakes and St. Lawrence Caucus (formerly the Great Lakes Caucus) was formed out of the need to protect and manage the region's water resources, which provide 40 million individuals with drinking water across eight states and two provinces.
- Regional co-ordination bodies, or caucuses, are ideal venues for the development of inter-state/provincial agreements – referred to as “compacts” – to formally address regional issues.
- Regional co-ordination bodies can operate outside party politics by focusing on specific practical issues, as these issues may not be inherently political in nature.

U.S.–CANADA RELATIONS: LOOKING AHEAD – NEW OPPORTUNITIES TO STRENGTHEN RELATIONS

Joseph John Comartin, *Consul General of Canada in Detroit*

- The Canada–U.S. economic relationship is overwhelmingly mutually beneficial, such that 47 out of 50 U.S. States have Canada as their first, second or third most important export market.
- Canada buys more U.S. goods than it does from China, the United Kingdom and Japan combined, and \$2 billion in bilateral trade occurs each day.
- The Canada–U.S. relationship extends beyond trade and investment, as it also includes security and defence, environmental collaboration, and a host of other successful partnerships.
- The section 232 tariffs on certain steel and aluminum products that have been levied by the U.S. have damaged the economic operations of businesses on both sides of the border; the impact of which has cost the Canadian economy \$10.6 billion, and have cost the U.S. economy \$8.2 billion as a result of Canadian retaliatory tariffs.
- Both Canadian and U.S. consumers are beginning to feel the effects of these tariffs as the producers of household goods have began increasing their retail prices.
- Canada believes the United States' imposition of section 232 tariffs on certain steel and aluminum products to be a measure directed at China's trade practices as opposed to being related to Canadian or Mexican trade activity. Canada would remove its retaliatory tariffs as soon as the section 232 tariffs on Canadian goods are lifted.
- Instituting ‘Buy American’ policies will force similar “Buy Canadian/Mexican” policies in their respective jurisdictions, which harms the economies of all three nations.
- The Gordy Howe International Bridge, which will connect Detroit and Windsor, will help facilitate the movement of U.S. goods into Canada and vice-versa; the existing Ambassador Bridge is used by 7,000 transport trucks a day, representing 30% of all Canada–U.S. surface trade and \$105.5 billion per year.

Dan Ujcz, *Dickinson Wright PLLC*

- The naming of the United States Mexico Canada Agreement (USMCA) / Canada United States Mexico Agreement (CUSMA) / New North American Free Trade Agreement (NAFTA) / El Tratado entre México, Estados Unidos y Canadá (T-MEC) is political

theatre, as parties seek to either distance or emphasize the similarity of the new free trade agreement to the original NAFTA.

- The coming inauguration of Andrés Manuel López Obrador was an important reason for the timing of the conclusion of the USMCA negotiations, as the United States sought to avoid negotiating with a new party in Mexico.
- There have yet to be negative political consequences for President Trump's trade policy, as the majority of individuals in the regions that were the "hardest hit" by such policies nevertheless voted for the Republican party in the 2018 midterm elections.
- Having concluded the USMCA negotiations, there is no reason to continue to impose section 232 tariffs on certain steel and aluminum products onto Canada and Mexico.
- The imposition of section 232 tariffs on certain steel and aluminum products onto Canada and Mexico will soon become a larger problem for manufacturing businesses, as they typically "lock" themselves into a purchase price for steel and aluminium for a set period, and the price uncertainty created by these tariffs will have profound effects on their "price-locking" behaviour.
- The United States is moving towards managed trade with China.
- After the conclusion of the USMCA negotiations, North America has become the "safest" place for foreign direct investment.
- Mexico operating as the "low-cost production platform" for North America may be a better outcome for the continent than China taking up this role.
- The U.S. federal government prioritised certain outcomes in the USMCA negotiations, including ensuring that China could not use Canada or Mexico as a "backdoor" for goods entering the United States as well as rebalancing its trade with Mexico.
- Legislators should return to, and institutionalize, "pre-President Trump thinking" with respect to Canada–U.S. trade, including the increased integration of our markets through trade barrier exemptions, neighbour state/province agreements and liberalized workforce mobility.
- Work continues to be required with respect to regulatory alignment between state and provincial governments.
- It is unlikely that the USMCA will be passed by the U.S. Congress in 2019, as the newly elected Democratic majority in the House of Representatives will likely seek to obstruct President Trump's policy agenda.
- It is important for free trade agreements to be flexible enough to accommodate new trends and technologies, such as an increasing need for workforce mobility between our nations.
- It is likely that the World Trade Organization (WTO) will side with Canada in its challenge with respect to the United States' imposition of section 232 tariffs on certain steel and aluminum products. Certain members of the U.S. Congress would view this WTO ruling as evidence for the need to leave the WTO, as they disparage the interventions of foreign decision-making bodies into domestic matters. Therefore, resolving the dispute before this ruling takes place would be better for both nations.

Regina Strivers, Deputy Secretary of Tourism, Arts and Heritage Cabinet Kentucky

- Canadian visitors to the United States increased in 2018 from the previous year despite the political rhetoric concerning the tension between our nations.
- While the import/export treatment of spirits under the USMCA will be the same as it is under NAFTA, Kentucky bourbon is currently the subject of Canadian retaliatory tariffs, which is harmful to the sector.

U.S.–CANADA RELATIONS: KEYNOTE DISCUSSION

Kelly Craft, U.S. Ambassador to Canada

- It is a testament to the close relationship between our nations that former Canadian Prime Minister Brian Mulroney spoke at the funeral of former President George H.W. Bush.
- With respect to the USMCA negotiations, Canada was adamant about maintaining the cultural exemptions that were present in NAFTA, which would allow Canadian policymakers to continue favouring their domestic cultural industries, including publishing, film, television, news and music.
- As the U.S. Ambassador to Canada, Ms. Craft considers herself a guest in our nation, and understands her job is to bring President Trump’s message in a different “tone” than communicated by the President.
- Disagreements over the dairy industry were among the last to be resolved during the USMCA negotiations.
- As a proud Kentuckian, Ambassador Craft feels privileged to serve the U.S. administration in its efforts to partner with Canada

STATE IMPACTS OF THE TAX CUTS AND JOBS ACT OF 2017

Panel Discussion with: Joseph R. Crosby, *MultiState Associates*; Dwight V. Denison, *University of Kentucky*; Saerim Kim, *Columbus State University*; Douglas L. Lindholm, *Council on State Taxation*; and Scott Roberti, *Ernst & Young*

- Every State links its corporate tax base – but not its tax rates – to the federal tax code. Therefore, the broadening of the corporate tax base that occurred in the federal *Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018* (Tax Cuts and Jobs Act) has similarly broadened the tax base at the state-level but has not lowered the state-level tax rates in a manner that mirrors the changes to the federal tax rates. This has led to an unintended increase in corporate taxation at the State level in some instances.
- Certain States that anticipated this increased corporate tax revenue reacted in different ways: Georgia lowered its corporate tax rate to counteract the revenue increase resulting from the Tax Cuts and Jobs Act, while New Jersey increased its corporate tax rate to offset the perceived “windfall” that corporations received from the Act.
- The decrease in federal tax revenues brought on as a result of the corporate tax reductions in the Tax Cuts and Jobs Act will be largely offset by a broadening of the

corporate tax base, while the decrease in federal tax revenues brought on as a result of the individual tax reductions will be financed by deficit spending.

- The Tax Cuts and Jobs Act moved the United States into a territorial tax system, as opposed to the worldwide system it previously operated; only six countries continue to operate worldwide tax systems.
- In moving to the territorial tax system, a transition tax was introduced in the Tax Cuts and Jobs Act that incentivized the repatriation of U.S. based corporate income abroad; this transition tax is applied on income abroad regardless of whether it was repatriated, but the income is taxed at a lower level in the event of repatriation.
- State tax policy has historically exempted repatriated foreign corporate income from taxation.
- The Tax Cuts and Jobs Act also included measures designed to address U.S. patent protection and institute minimum taxation levels of base erosion profit shifting activities, whereby multinational companies seek to utilize mismatches in international tax rules to pay no, or substantially lower, overall corporate tax.
- No job growth has been attributed to the Tax Cuts and Jobs Act, though tax policy is generally considered to have a slower effect on the economy than other “economic levers.”

KEYNOTE SESSION

J.D. Vance, *Author*

- Socio-economic related employment barriers became apparent to him upon entering law school at Yale, having come from a “blue collar” background.
- Students coming from a lower socio-economic status do not possess the same skill set as their higher socio-economic status peers.
- Over the course of a generation, the number of Americans who believed that they will be “better off” than their parents have decreased from 80% to 50%.
- The children of families with a lower socio-economic status are increasingly unable to improve their circumstances over the course of their lives. Democrats believe the solution to this problem lies in structural impediments that could be removed, while Republicans believe the solution lies with the individual making better choices for themselves. Both ideologies are partially correct, though this issue is far more complicated than either solution might suggest.
- Childhood trauma may have lasting effects into the individual’s adult life, and such traumas may be more prevalent in families of a lower socio-economic status, as statistics demonstrate that they face more poverty, crime and violence.
- State legislatures should not incentivize specific companies to relocate to their jurisdiction, as this practice harms workers and the American economy as a whole. Instead, legislators should focus on creating an environment that fosters local entrepreneurship and growth.

- Immediately after the 2016 U.S. federal elections, Democrats held 53 of the 100 most affluent districts in America, but now hold 73 of them.
- President Trump may have been elected in large part because he ignored a significant portion of traditionally Republican ideology. What it “meant” to be a Democrat or a Republican in the past has changed and will likely continue to change in our lifetime.
- U.S. citizens do not have a common purpose, such as a common goal or enemy that could bridge the political divisions that separate them. Consequently, the government should consider fostering such a common goal for the good of the nation.

CYBERSECURITY PREPAREDNESS FOR STATE POLICYMAKERS

Ryan Harkins, Microsoft

- The world is currently in the fourth industrial revolution, which is characterized by cloud computing and artificial intelligence. The previous industrial revolutions were the steam engine, the invention of electricity and the microprocessor, respectively.
- While previous software relied on individuals to input data into specific categories in order to be processed properly, this is no longer the case. Current software can process unstructured data, allowing software to perform a much wider range of tasks.
- By the year 2020, the global cost of cybersecurity will exceed eight trillion dollars.
- In 2016, there was a 750% increase in ransomware development.
- The median number of days it takes a company to detect that their systems have been infiltrated is 99.
- 90% of infiltrations are the result of an email phishing scam.
- The development and launching of ransomware has become a service for hire, which has significantly increased the availability of this course of action for those who would seek to do harm.
- Nations are engaging in cyberattacks against other nations, such as the Russian interference in the 2016 U.S. presidential election.
- Lawmakers should inquire whether their jurisdiction have:
 - a comprehensive risk-based cybersecurity policy;
 - best practices in place, such as multifactor identification;
 - a constantly updating security system with advanced threat detection; and
 - a segregated server so that an individual’s access is limited to only what they require to perform their duties.
- All companies and public service departments need to develop a culture of cybersecurity, in which every employee receives the proper training.

FEDERAL MID-TERM REPORT: FROM POTUS TO SCOTUS

Mark Strand, *Congressional Institute*

- As a result of the 2018 U.S. midterm election, the Democratic party has significant leverage to direct U.S. federal policy.

- When the President of the United States (POTUS) has an approval rating below 50% coming into a midterm election, its party has historically lost an average of 40 seats in the House of Representatives.
- President Trump's midterm campaign message was focused on immigration.
- During the 2018 U.S. midterm election, men voted equally for the Democratic and the Republican parties, while 70% of the women voted Democratic. More specifically, women with a college education voted overwhelmingly for the Democratic party.
- The Democratic party raised more money for the 2018 U.S. midterm election than the Republican party did.
- In general, urban areas in the United States vote for the Democratic party while rural areas vote for the Republican party. The "battlegrounds" for swing voters are generally located in the suburban areas.
- There are fewer Republican women elected to the House of Representatives than in the previous U.S. Congress.
- 92% of Democrats in the House of Representatives favour initiating impeachment proceedings against President Trump, but the general population is overwhelmingly against this course of action.

Lisa Soronen, *State and Local Legal Center*

- The appointment of Brett Kavanaugh to the Supreme Court of the United States (SCOTUS) means that the court will have a majority of consistently voting conservative Justices for the first time in many generations.
- Justice Kavanaugh's predecessor, Justice Kennedy, was the "swing vote" on a number of large issues before the U.S. Supreme Court; including matters concerning the death penalty and abortion rights.
- In contrast to Justice Kennedy, Justice Kavanaugh's legal decision-making record has been "reliably conservative."
- This majority of "reliably conservative" U.S. Supreme Court Justices will likely prompt certain issues to be considered by the court, including property rights, land use, abortion, race based affirmative action and gun control.
- Justice Roberts of the U.S. Supreme Court opposes the notion of the court operating as a political institution and has increasingly taken up the role of the court's "steward" in protecting its non-partisan status. As a result, he may become the "swing vote" to temper any perception of the court's connection to the Republican party.
- Justice Roberts' role on the court will be "tested" immediately, as the court is set to consider whether the prohibition on discrimination on the basis of sex extends to discrimination on the basis of sexual orientation.
- The liberal members of the U.S. Supreme Court are also among its oldest members. Therefore, they are the closest to retirement.
- It is likely that the next open seat on the U.S. Supreme Court will only be filled when the political parties of the sitting President and Senate majority are aligned.

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	Annual National Conference of the Council of State Governments (CSG)
DESTINATION	Covington, Kentucky, United States
DATES	6-8 December 2018
DELEGATION	
SENATE	Hon. Michael L. MacDonald
HOUSE OF COMMONS	
STAFF	Mr. Brett Capstick, Analyst
TRANSPORTATION	\$ 1,608.84
ACCOMMODATION	\$ 678.45
PER DIEMS	\$ 426.73
MISCELLANEOUS	\$ 600.10
TOTAL	\$ 3,314.12