



January 17, 2017

Rt. Hon. Justin Trudeau, P.C., M.P.
Prime Minister of Canada
Langevin Block
80 Wellington Street
Ottawa, Ontario K1A 0A3

Dear Prime Minister:

Recent world events underscore that the regional and global economic order will be tested in 2017 and beyond. The Canadian Chamber of Commerce welcomes your recent Cabinet changes and we look forward to working with you to ensure Canada successfully navigates the challenges ahead for the benefit of our economy and all Canadians. We are always strongest when we stand together.

In that spirit, we are writing to offer the perspectives of the Canadian Chamber's Board of Directors on four critical public policy issues. We hope you will find them of interest and assistance.

The discussions that generated these perspectives - as well as the recommendations on how to move forward on each for the Canadian Chamber and your government - occurred at the most recent meeting of our Board. Reflecting the views of well-informed business people who closely follow public policy, these observations give a perspective of how a cross-section of Canadian business regards the issues of Canada's Relationship with the United States, Growing our Economy, Our National Strategy Concerning International Trade and Combating Climate Change.

Canada's Relationship with the United States

This discussion took place - not surprisingly - in the context of the anticipated changes in U.S. policy under the Trump administration.

While the conversation began on a note of concern about the agenda of the new administration, directors also identified many opportunities.

Office of the President and Chief Executive Officer | Cabinet du président et chef de la direction

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Our Board members had no difficulty identifying areas of potential concern. President-elect Trump's commitments to lift/ease regulations in the fossil fuels sector, combined with Canada's commitments to pricing carbon could put us at a further competitive disadvantage in the U.S. market. Mr. Trump's promise to reduce U.S. corporate taxes and regulations while punishing companies that invest outside the US may encourage American multinationals to keep their capital at home and not invest in their Canadian operations. The Canadian Chamber's concern over these measures is deepened by recent reports that the U.S. may impose a form of border adjustment tax. Such a tax, which would likely violate World Trade Organisation rules, would seriously damage the trade and investment relationship between our two countries.

As we look at other areas of potential concern, we note that increased border security may be a feature of U.S. policy, especially if there is a perceived threat from Canada. An evident suspicion of refugees and immigrants could be part of that "threat." Our Board strongly supports the Government of Canada's humanitarian initiatives to resettle refugees and we urge your government to ensure its security efforts are well publicized to the American leadership. The U.S. government must understand that Canada is as committed as they are to protecting the security of North America and that Canada is their most important partner in doing so.

Board members identified a host of ongoing items of disagreements which could become more difficult if U.S. leaders bring a more aggressive approach to them. These might include disputes over consumption of water in shared waterways as well as Canadian cultural ownership and carriage limits and softwood lumber. Additionally, should NAFTA be re-opened, the supply-managed agriculture sector will certainly be a target of U.S. interests and a challenge - economic and political - for Canada.

Our Board members also saw important opportunities.

They speculated that, if the U.S. enacts more restrictive immigration policies, Canada may be able to welcome firms and individuals who are unsettled by such gestures.

Additionally, Canada's free trade agreement with the EU and others places our country in a desirable position for investment. A rising U.S. dollar could make tourists choose Canada in large numbers and we have urged your government to increase its commitment to tourism marketing to take advantage of this opportunity.

We believe that Canada still has many friends in Congress and that we should also redouble our efforts to build relationships with state governors and mayors. With more than thirty-five states counting Canada as their largest export market, these relationships need to be leveraged to send positive messages about Canada's importance to Washington. Even the economic contribution of Canadian "snowbirds" should be quantified and publicized to the new Administration.

Our highly successful bilateral regulatory cooperation initiative has won support within the business communities on both sides of the border. We encourage your government to consider this as a pragmatic, non-ideological program which demonstrates tangible progress between the two countries.

While the Canadian Chamber plans to work with our colleagues at the U.S. Chamber of Commerce to build upon existing relationships and explain the importance of our bilateral partnership to the new Administration, we will also ready ourselves for a possible renegotiation of NAFTA. We have supported an updating of NAFTA in the past, and we continue to believe it *can* be a positive development, although clearly that is not guaranteed. Much will depend upon the quality of Canada's commercial and diplomatic initiatives.

In Canada's discussions with the United States, it will be important for the government and Canada's business community to present a united front. As we see the new administration's priorities unfold, the Canadian Chamber's goal is to be publicly and vocally supportive of Canada's stance. This will be easier, of course, if your government is consultative and inclusive as you manage the relationship with our most important business partner.

The Canadian Chamber will redouble its efforts to connect U.S. and Canadian businesses, and especially to approach U.S. legislators in tandem with U.S. partners. We will also work with credible American individuals who have relationships with Canada to serve as our business "ambassadors" in Washington.

Growing our Economy

Members of our Board recognized that slower growth is the central challenge for many countries around the world as aging populations and declining rates of productivity are weakening the economic performance throughout the OECD countries.

Over the course of our discussion three main points emerged.

First, we agree that government spending can stimulate growth, but only if it is spent on the infrastructure that enhances productivity: roads, ports, bridges and digital infrastructure that are trade-enabling or that will support future economic activity. We encourage the government to target its investments, to be bold and to take on big transformative projects.

Of course, one of the most transformative projects in Canada today is the proposed expansion of Kinder Morgan's Trans Mountain Pipeline. We heartily congratulate you and your Ministers for your decision to approve this project, and we pledge our support to your government in carrying it through to completion.

The Trans Mountain project illustrates the substantial private sector infrastructure investments from which Canada can benefit if the private sector has confidence in our national policies and regulatory processes. It is also a critical signal to the world that our petroleum sector will continue to justify investment even as Canada moves towards a low carbon economy to meet our Paris Agreement commitments.

Second, our Board members expressed concern about rising deficits. In the years ahead, the government may come under pressure to spend even more, particularly if the economy remains soft. We believe it is critical to have a plan to return to balanced budgets. This plan should provide a firm timetable for achieving balance. A strong fiscal anchor provides the discipline that enables governments to make hard choices.

Third, our Board is seized with making Canadian business more competitive. If President-elect Trump enacts even a small portion of his fiscal promises, which include lowering corporate tax rates penalizing imports and eliminating regulations, then a serious competitiveness gap could open up between Canada and the United States.

Our Board recommends that your government identify ways to reduce the cost of doing business in Canada. Our suggestions include selectively lowering taxes and undertaking a comprehensive review of Canadian regulations, similar to former British Columbia Premier Gordon Campbell's regulatory reform, to reduce or eliminate those that are not serving their purpose.

Our National Strategy Concerning International Trade

Our Board recognises that the world may be moving away from multilateral trade agreements and Canada needs to start planning accordingly. However, Canadians have typically profited from multilateral negotiations and we recognise that our leverage is much reduced when we negotiate bilaterally with larger partners. We urge your government both to continue supporting multilateral discussions and to open bilateral processes with key nations.

On specific geographies and trading blocks, we make the following recommendations:

NAFTA: The top recommendation regarding threats to the Agreement is to avoid over-reaction and remain engaged with allies in the United States. The Canadian Chamber has sought an updating of

this agreement in the past, and although caution is called for, we should be willing to discuss changes. In this respect the Canadian Chamber offers its support in helping your government consult and include business in its plans for any negotiation. As one suggestion, we urge you to reinvigorate the US/Canada Regulatory Cooperation initiative, which might be a practical, popular and non-contentious file for early cooperation.

CETA: The Agreement is very positive but not yet guaranteed. Advocacy is still needed to influence countries or groups that resist it. Canadian business is interested in participating in this effort, and would welcome outreach by your government, which should coordinate the campaign.

Asia-Pacific: Canada should move aggressively to advocate bilateral agreements to fill the gap left by the probable demise of the Trans Pacific Partnership.

China: We should continue to send positive signals on a carefully considered and planned deepening of our economic relationship. This will be greatly assisted by the naming of Hon. John McCallum as our Ambassador to China. At the same time, initiatives such as the annual economic dialogue need to be sustained and have political backing. Given the uniqueness of this relationship and the implications—both positive and negative—for Canadian businesses, the federal government should establish trade advisory committees representing specific sectors to advise Canada and serve as a bridge to Chinese businesses with an interest in this negotiation.

Our Board of Directors noted that a more strategic approach is needed to increase Canada's success in international markets. There are multiple influencers that can help enhance trade, including foreign direct investors, marketing of Canada's business brand and promoting tourism. These efforts should be consolidated into a strategic plan.

We urge the government to undertake economic assessments in each market to identify Canada's competitive advantages and to subsequently engage the relevant Canadian stakeholders across business and the provinces/territories that best represent them. Trade missions can then be custom-designed for each market, with support from both the government and business community.

Further opportunities could be explored regarding Canada's geographical advantages, including our borders with three oceans, our privileged access to the North America and European markets and the opening up of the Northwest Passage, where Canada needs to assert a strong presence.

The recommendations proposed by the Canadian Chamber in the report: *Turning it Around: How to Restore Canada's Trade Success (May 2014)*, could form the basis a new strategy.

Combating Climate Change

The Canadian Chamber believes that climate change poses a serious economic and social threat to Canada and the rest of the world. Our network of more than 450 chambers of commerce has advocated putting a price on carbon since 2011, and we support the high priority your government has placed on the climate change issue.

However, we also recognise that measures to protect Canada's economic competitiveness must be central to the design of climate change policies and how we transition to a lower carbon economy. Finding the right balance between the economy and the environment is important. Otherwise, we risk putting ourselves at a serious disadvantage in global markets. Policies that push emissions and jobs outside of Canada do nothing for the global environment and can be disastrous for Canadian business. The Canadian Chamber network believes that, for the government's climate change policies to succeed, the private sector must be at the core of their design and execution.

Several themes recurred throughout our discussion of climate change, including the need to:

- Implement transparent and detailed economic modeling of the costs of carbon policies;
- Avoid a sector-by-sector approach to emissions reductions, focusing instead on holistic approaches that examine how different industries and countries can work together to transition to a low carbon economy; and
- Use revenues from carbon pricing regimes for tax reductions that increase business competitiveness or in innovation strategies that are likely to have the greatest impact addressing climate change, in particular investments to de-risk disruptive green technologies.

Our Directors stressed the links between Canada's climate agenda and your government's innovation agenda. Ultimately, raising the cost of carbon can only be one part of a successful transition strategy. Providing cost-competitive alternatives is essential and only new technologies are likely to provide that.

It is important that Canada's laws and regulatory environment are able to keep up with the increasing rate of change in technology and consumer behaviour. The technological innovations needed to adapt to climate change and de-carbon major economies will come from the private sector.

Prime Minister, we hope that you will find these suggestions helpful. As the organisation that represents the spectrum of business small and large, from coast to coast to coast, we are keen to make ourselves available to your government and officials on these and other issues of importance to Canadian families.

On behalf of the Canadian Chamber's Board of Directors and members, we want to express every good wish for success in 2017.

Sincerely,



Duncan Wilson
Chair



Perrin Beatty
President and Chief Executive Officer

c.c.: The Canadian Chamber of Commerce Board of Directors

*Hon. William Morneau
Hon. Navdeep Bains
Hon. Chrystia Freeland
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