



The Empire Club Presents

AMBASSADOR DAVID MACNAUGHTON, CANADIAN AMBASSADOR TO THE UNITED STATES OF AMERICA

January 30, 2017

Welcome Address, by Paul Fogolin, Vice President of the Ontario Retirement Communities Association and President of the Empire Club of Canada

Good afternoon, from the Arcadian Court in downtown Toronto. And, welcome, once again, to the 113th season of the Empire Club of Canada. For those of you who are just joining us either through our webcast or our podcast or live on Rogers TV, welcome, to the broadcast.

Before our distinguished speaker is introduced

today, it gives me great pleasure to introduce our Head Table Guests. I would ask that each of our Head Table Guests rise as their name is called. Traditionally, we usually ask people to refrain from applauding, but that never works, so, as people are called up, clap all you want to.

HEAD TABLE

Distinguished Guest Speaker:

Ambassador David MacNaughton, Canada's Ambassador to the United States

Guests:

Mr. Ali Badruddin, Managing Director, Management Consulting, StrategyCorp Inc.; Director, Empire Club of Canada

Mr. Chris Benedetti, Principal, Sussex Strategy Group; Director, Empire Club of Canada

Ms. Vivien Clubb, President, Providential Pictures Inc.

Ms. Jenny Coco, Chief Executive Officer, Coco Group

Mr. Darryl White, Chief Operating Officer, BMO Financial Group

Mr. Mike White, President and Chief Executive Officer, IBK Capital Corp.

Mr. Barry R. Campbell, President and Founder, Campbell Strategies

Mr. Kevin Safrance, Chief Operating Officer, Mastronardi Produce

My name is Paul Fogolin. In my day job, I am the Vice President of the Ontario Retirement Communities Association and your President of the Empire Club of Canada this season. Ladies and gentlemen, your Head Table.

In celebration of Canada's sesquicentennial—try to say that five times fast—we have a tradition. We have a cake up here. I would like to call up the Ambassador and Mike White, the CEO of IBK, which is

our sponsor for the sesquicentennial series, and we will do a ceremony of blowing out the candles. We will make a wish.

Happy Birthday, Canada!

Before I formally introduce our guest of honour, I will note that we have a magnificent turnout today, and we have some guests that I do want to point out who have joined us. First off, the Right Honourable, John Turner, former prime minister, is here today. If you could join us, Mr. John Turner. We also have the Honourable David Peterson, former premier of Ontario. We also have three past presidents, to my knowledge: Mr. Noble Chummar, Mr. Bill Laidlaw and Ms. Nona Macdonald.

Finally, the Ambassador has been kind enough to take some questions and answers at the end of his speech. Our staff will be going around. There is paper on the table to write down a question, and they will collect them. I will be reading those questions at the end of the Ambassador's speech.

In April of 1987, Allan Gotlieb, who was Canada's Ambassador to the United States at that time, addressed the Empire Club, just a few months before the historic signing of the Canada-U.S. Free Trade Agreement, which is the precursor to NAFTA. In his speech, focused on dispelling Canadian myths about the United States, Ambassador Gotlieb spoke at length about what he calls the 'trade myth' that Americans are deeply committed to free trade throughout the world, that there is consensus that global free trade is in

the U.S. national best interests, and that protectionist pressure represents a blip on the radar.

Gotlieb goes on to say, "Protectionism in the U.S. is not a temporary aberration, but rather a deep-rooted, political response to structural challenges in the U.S. economy. The sentiment that the rest of the world is not playing fair is deep, broad and growing. Protectionism is not going to disappear soon, nor is it going to spare Canadians."

Who would have thought that quote from a speech in 1987 could resonate so strongly 30 years later? Canadian reaction to the election of President Trump has been varied, to say the least. What is consistent is the pervasive sense of uncertainty, the "What comes next?" Anytime there is a change in leadership in Washington, there is always a bit of unpredictability concerning how that president will govern in relation to how they campaigned. There really is no analogue to the situation we are facing today: A president who has never had governing experience, occupying the Oval Office. In light of this, I cannot think of a more fitting time for us to be hearing from our ambassador to the United States.

Mr. MacNaughton has graciously offered to speak to us on a variety of subjects including— but not limited to—the environment, the border, Keystone and, yes, of course, trade. As part of our sesquicentennial series, the Ambassador will speak to the value of the unique historical relationship between our two countries, in particular, the

strength of the partnership that will endure through these uncharted territories and beyond.

David MacNaughton presented his credentials as Canada's Ambassador to the United States on March 3, 2016. As a seasoned entrepreneur and political strategist, Mr. MacNaughton brings a unique set of skills and experiences to his new role as Ambassador. Colleagues have described him as having whip-smart political savvy and a record of sound judgment and consensus-building that reaches beyond partisan divides.

In the 1980s, Mr. MacNaughton transformed the public affairs industry by building an organization that combined government relations, public opinion research and public relations. After selling his business in 1989, Mr. MacNaughton became president of Canada's largest government and public relations firm, and, subsequently, the North American president of the world's largest public relations firm. From 1995 until 2003, Mr. MacNaughton was President of Strathshore Financial and was an advisor to one of Canada's leading investment institutions.

Mr. MacNaughton's public sector experience includes work at both the federal and provincial levels. He was principal secretary to the premier of Ontario from 2003 to 2005, and, from 2005 until he became Ambassador, he was Chairman of StrategyCorp.

Active in community affairs, Mr. MacNaughton has served on a number of boards including, but not limited

to, North York General Hospital, the Stratford Festival and TIFF.

Mr. MacNaughton is married and has four daughters.

Ladies and gentlemen, please, join me in giving a very warm welcome to Canada's Ambassador to the United States, Mr. David MacNaughton.

David MacNaughton

Thanks very much, Paul. It is a pleasure to be back here in my hometown of Toronto. I would like, before I get into the substance of my remarks, to spend a minute to talk about the tragedy that happened in Québec City last night. I know that the prime minister has conveyed his sympathies to the families involved, and I know that the president of the United States has just recently phoned the prime minister and conveyed the sympathies of the people of the United States to our prime minister and to the people involved. It is always, these days, an unfortunate occurrence that is happening too often when these events occur. I know we all feel badly for those in Québec City.

As I said, it is a delight to be here. I am happy to see former prime minister the Right Honourable John Turner and David Peterson. When Paul was talking about some of the comments that some people have said about me—some nice things that they have said—I do recall at one point, I think it was in 1987, walking into Premier Peterson's office.

He was there with a couple of other people. He looked up, and he saw me coming in. He said, “Here comes the most devious SOB I have ever met in my life.” My remark was, “Thanks very much. That is the nicest thing you have ever said to me, Premier.”

As indicated by Paul, I have now been in Washington for almost a year. I said to the prime minister, in taking on this responsibility, that I was not looking for a sinecure, but a real job, a tough job, a job that would cause me to use all of my abilities and then some. Well, I guess that falls into the category of being careful of what you ask for. Seriously, it is an honour and a privilege to represent your country abroad. To do so as Ambassador to the U.S., our most important trading partner, ally and friend, is truly special. I want to spend the time I have with you to give my assessment of what some of the factors are that have caused the change that we see manifesting itself in the United States—how I see the current administration in its first ten days, and what I see going forward for our relationship with our neighbour to the south, or, perhaps, I should say our neighbours to the south.

I think the anxiety that many Americans have been feeling that caused them to want to see a change is felt not only in the United States but is evident throughout the world. The dynamic impact, the expansion of global trade and the transformation of our entire economy through rapid adoption of new technology have created new wealth and

lifted many out of poverty. That new wealth, however, has been very unevenly distributed, and the disruption to many segments of our society have been profound and painful.

For many Americans, this phenomenon was very real, and many of those affected felt no one in Washington was listening to them, or, worse, they were telling them that they were wrong, and they did not understand.

Bernie Sanders tapped into that sentiment and so did Donald Trump. While I will not claim to have predicted the outcome of the U.S. election—I did not—it did not surprise me. The prime minister said, frequently, during the U.S. election, “We will work with whomever the people of the United States elect.” He meant it. We were prepared ourselves for any outcome. Since the election, we have engaged with the new president’s team frequently and, for the most part, positively.

Many observers were of the view that what Donald-Trump-the-Candidate said during the election campaign would be different from what Donald-Trump-the-President would do once elected. It is understandable that many would think that. We have all witnessed candidates who, once in power, once confronted with reality rather than seeking electoral success, have modified their views and their actions. We could not assume that this was the case, and we did not. We, immediately after the election, signaled publicly that we were prepared to discuss improvements to NAFTA. Some advised keeping our heads down, hoping

that either the new president would abandon his commitment to significantly change NAFTA or focus only on our other partner, Mexico, in that tri-party agreement.

I have no problem keeping my head down; I just do not believe in sticking it in the sand. Changes to NAFTA are coming, and changes to NAFTA are needed. The case we need to make to the U.S. and the case we have been making and will continue to make is that the changes we seek are not just for our benefit but for the mutual benefit of both our countries. We obviously will be consulting—and have consulted—with sectors of the economy, of our economy, who might be affected. I obviously prefer, for reasons that I think you will understand, not to negotiate these changes in public.

I should also say something about our friends, the Mexicans. Some have suggested, both in the Mexican media and the Canadian press, that somehow we are not being supportive of their cause or their interest. Let me be clear: We are putting forth suggestions that will maintain NAFTA as a vibrant tripartite agreement. We prefer to seek solutions that benefit all three countries. We do, however, have an obligation, as do the Mexicans and the Americans, to have a laser-like focus on those things that are best, first and foremost for Canadians. We will not forget that.

We do believe NAFTA has been good for all three of us, and we will strive to make it more effective. We also, however, have a significant bilateral relationship with the

United States, and there are many issues that are clearly outside of NAFTA and are critical to creating and maintaining good-paying jobs in Canada and in the United States and to preserving the safety of our citizens and promoting peace and stability throughout the world with the U.S. and our other allies. In that regard, we have tried to focus on areas where our interests and our policies are similar or complementary to the new administration.

Let me highlight a few of those areas. First and foremost, both our prime minister and the U.S. president are striving to help create good-paying, middle-class jobs. Currently, more than nine million U.S. jobs depend on trade and investment with Canada. That trade has been more or less in balance for many years, but, more importantly, our two-way trade has made both our economies more efficient and more competitive and has given our consumers better quality products at better prices.

As technology, innovation and human capital become more and more important to success, the erection of barriers to the flow of goods, capital and people and ideas between our two countries would not only impede our growth, it would halt it.

Some of the ideas that are being advanced in the United States that are being labeled as protectionism should instead carry the label that accurately describes their impact: Destructionism. Specifically, we have advanced ideas and will continue to pursue policies that will grow both the

economies of the United States and Canada. They include the expansion of preclearance beyond existing sites to two new airports, including and, most importantly, Billy Bishop, and two passenger rail services, as well as working with the U.S. to expand preclearance to cargo, which would improve efficiency and reduce border congestion.

Secondly, we are talking about expanding the areas where we have harmonized regulations or recognize each other's regulatory bodies. This would not only improve efficiency, but remove a significant burden for small- and medium-sized enterprises. We will never compromise health or safety in this pursuit, but when you consider that we recognize each other's nuclear regulators and food safety inspectors, one has to believe that much more can be done.

Both of our governments have identified infrastructure as a priority. We are pursuing three opportunities in this regard. One is working to identify cross-border infrastructure projects where we can work together to improve the efficiency of the movement of people and goods. Another is sharing with the U.S. our experience and expertise in private-public partnerships in pursuing large infrastructure projects. We must also continue to pursue energy infrastructure, such as pipelines and transmission lines that make our economies more competitive and sources of energy more secure for North America. In the case of hydro and renewables, we must make our environment cleaner. None of these beneficial initiatives will be successful with the im-

position of more restrictive buy-American provisions.

Fourthly, we are committed to working with the U.S. in a cooperative manner to mutually enforce trade restrictions on countries that are not abiding by international trade laws or who have inadequate labour or environmental standards.

Fifth, we see many areas of potential cooperation on the innovation front. Much of that is happening in healthcare, in energy, in areas like artificial intelligence. Cooperation among Canadian and American universities, private foundations and corporations take place every day. Our government should be encouraging this and facilitating more of it happening, not putting barriers in its way.

I focus mostly on trade, but, of course, our bilateral relationship goes well beyond that into the obvious military partnership in NORAD, our mutual participation in NATO, as well as our work on drug enforcement, intelligence sharing and cooperation on cybersecurity. The reality is that in almost every aspect of our lives, we work cooperatively with our neighbour, the United States of America. Our challenge is that most of this relationship works so well, it is hardly noticed, particularly, by many of our friends south of the border. Our problem is that when they become more isolationist and protectionist, they can take actions that are not aimed at us but have unintended negative consequences, not just for us, but for them, also. That is why I have been urging Canadians from all walks of life, from business,

labour, federal, provincial, and municipal governments to assist in helping highlight in very real and very tangible and very specific ways how Canada has helped, can help and is helping to make America the great nation it has been and is now.

We have, I would suggest, taken our relationship with the United States for granted, and we can no longer afford to do so. Fortunately, we have had nothing but cooperation, enthusiasm, and real tangible assistance from the business community, from labour, and from all levels of government. This effort will need to be sustained for a long time in order to be effective.

We must also realize that in any relationship that is as complex and all-encompassing, we will not always agree. There will be disputes on specific trade matters as there are now, and there will be policies that each of us pursue that the other will not agree with. That is called democracy, and that is called sovereignty, and we must make sure that both of these are robust and healthy.

I am pleased to say, so far, that our relationship with the new administration has been professional, cooperative and productive. We also need to remember that congress and state governments play a crucial role in our bilateral relationship. We have a challenging path ahead of us. We must continue to pursue these policies that reflect the values and aspirations of Canadians while respecting the democratically elected administration of the United States

of America, and we need to work closely with the U.S. to facilitate the creation of good-paying jobs on both sides of the border.

With your help and the help of Canadians from coast to coast, that is exactly what we will do.

Thank you very much.

Questions & Answers

Q: The greatest threat to Canada with new U.S. policies will not be terrorists and the border but cheaper energy and lower taxes, and the U.S. and Canada will no longer be competitive. What is Canada's strategy, since our taxes are higher, and our energy costs are higher than ever with the carbon tax?

DM: I guess you decided to start with an easy one. Well, I think, I am not going to comment on personal tax rates because, obviously, there is a substantial difference; although, depending on what state you are in, they are either higher or lower, but I think our corporate taxes are competitive, and, even if the United States changes some of their tax rates, I think we can continue to be so. A CEO of a U.S. company was telling me that one of the problems that they have had in terms of making investments in Canada is that, because their effective tax rate in the United States is actually not the high rate; it is actually a low rate. But, if they earn profits abroad, and then they bring it back, they have to pay 40 plus percent tax. So, it has caused them not to make as many investments as they want to.

If you actually bring the U.S. corporate taxes down, and you can bring the profits back, particularly, if you are a dividend-paying company, it will actually facilitate more investment abroad rather than less. As

long as we maintain a competitive corporate tax rate, I do not see bringing down their tax rate as being a negative thing.

On the energy side of things, I think that what the prime minister has said, and in terms of the carbon pricing, there is not a tradeoff between pursuing environmentally friendly policies and economic growth. I would prefer not to deal with the cost of energy in Ontario as a question, but I think I will leave that to the provincial government to answer that question.

PF: We had the minister of energy here.

DM: Yes, so, obviously, maintaining competitiveness has many, many facets to it. I remember when I went into the premier's office in 2003, I think it was the president of Honda Canada who came to me, and it was after the blackouts had occurred in the summer of 2003, and his position was that energy costs were not a significant cost in their production, but the thing that caused them real problems was when there were blackouts or brownouts, and you could not maintain your just-in-time supply chain. That was much more of a factor than the actual price. I know that there are other businesses where energy costs are a high percentage of it, so we have to maintain competitiveness and find ways to do that, but I do not think they are all about energy costs. I think there are other ways that we can enhance our productivity. Try to find an easier one next time,

will you?

Q: If there turns out to be a prolonged softwood lumber dispute, is the federal government prepared to defend and support its softwood lumber sector, which supports 60,000 direct jobs in Ontario alone?

DM: Yes, I think we are going to be in for—that dispute is going to last for a bit, obviously, until the interim finding. I think it comes in April or May or something. In terms of what the interim tariffs are going to be, if commerce actually plays it straight and the tariffs that are imposed are not crazy like they have been in several other cases, I think it will put pressure on the U.S. industry to settle, but we are going to have to wait and see. I have talked to the minister of energy concerning the natural resources and where the funding would come from, and we are looking at a package, a support package for the Canadian industry should we get into a prolonged dispute.

Obviously, we have to be careful about the way in which we might provide that assistance so that we do not cause further problems in terms of countervail. I was hoping that we could have got something to happen before the Obama administration left, and we worked pretty hard right up to the end. The reality is that I think that 50% of the U.S. industry has to sign off on any agreement that the administration reaches, and they felt the protectionist wind in their sails, and

they were more anxious. They thought they would get a better deal under Trump than they would under Obama in any case. We will see. I am hopeful, but it is a tough one. I would like to get that one behind us, but it is not easy.

The point that I make to the U.S. congress and the administration is that this is not just about the shareholders of some very important companies in our country; this is about communities that exist from British Columbia right through to the Atlantic provinces, and, in many cases, they are single-industry towns where we simply cannot accede to these kinds of protectionist measures. While we are anxious to get a deal, we are not prepared to do a bad deal that sees mills close and communities suffer.

Q: You said that relations with the new administration are positive, for the most part. Can you talk about the other part?

DM: Well, I think one of the things is that you have got some very talented people that are around the president. He has made some good appointments. Some of them have yet to be confirmed. In the White House, he has some people who are also extremely knowledgeable and talented. One of the things is that, however, a lot of them have not spent any time in government. That is both a blessing and a curse in the sense that not having been in government does not cause you to get frus-

trated right out of the starting gate that you cannot get things done, and they are much more oriented towards outcomes rather than process and all the rest. Having said that, some of the ideas that they have come up with are not practical and will not work and would cause damage not just to us, but to them. We have been trying to make that point on a couple of items, and I do not really want to get into the details, but I think that they have seen some of the consequences of the actions that they thought were simple.

Generally speaking, I must say, it has been more than cordial. What they have reinforced in every discussion we have had, every meeting we have, is that they want to build a solid, positive relationship with Canada and that they do not think that Canada is part of the problem. As I said in my remarks, part of the problem is that—and in fairness, I did not understand until I went to the United States, to Washington, the depth and the breadth of the relationship we have—any move they make, even if it is designed to get at someone else, and I use the word collateral damage, ends up hurting them, too. So what we have got to be able to do is to really educate them that those kinds of things do not just hurt us, but they hurt them, too. And rather than having them make a decision and then have to back off from it, we need to really build up the relationship so that they are actually thinking about that

before they have taken an action, and we can help them with that. As I say, 90% of the interaction we have had has been extraordinarily positive.

You take people like General Kelly, Secretary of Homeland Security, who has fought side by side with people like our chief of the defense staff. The relationships are very deep and very personal. You get Secretary of State Rex Tillerson—he understands Canada well. There are a whole series of them who are smart and knowledgeable about Canada and very positively inclined. I am optimistic, but, as I say, it is only going to work if we really, really work together. I can tell you that I have never seen the degree of cooperation between the federal and provincial governments, between the government in business, the government in labour. Rona Ambrose was down at the inauguration, and she came to the Embassy, got briefed in advance, went out and did media, was very positive about the Canada-US relationship. Her line to me, which I think is really important, is, “I will fight the government in the House of Commons, but we are not going to fight in the United States.” I think that is the sentiment that is pervading all of our political and business and community relations. I think that is really good for us.

PF: Ambassador, there is a question in here about who is going to win the Stanley Cup, but I will spare you that

one. Thank you so much for taking our questions today.

DM: Thank you very much.

Note of Appreciation, by Darryl White, Chief Operating Officer, BMO Financial Group

Thank you, Paul, and congratulations to you, Paul. As I think about the Empire Club of Canada's mission since 1903, the Empire Club has consistently delivered speakers who are highly interesting and with an impeccable sense of timing. I congratulate you on having achieved that today on both fronts.

On behalf of everyone here, I want to offer our thanks to you, Ambassador MacNaughton, for your words today. Over the years, as I said, the Empire Club has had the opportunity to hear from leaders and thinkers during important moments of our history. I think it is pretty clear we find ourselves in one of those moments.

Reflecting on the past few months, I am reminded of the famous saying, "May you live in interesting times." I think I speak for everyone here when I say that all of us have been contemplating—each of us in our own ways—what the impact of the new administration will be on Canada, on our economy, on our businesses and on our lives. Ambassador, your words today have inspired a sense of confidence that Canada's representatives are working hard to ensure that our close relationship with the United States remains strong and to the betterment of Canadians and Americans alike.

Ambassador, your strength and your leadership

will be more important than ever in the coming months and years. We wish you the best of luck, and we offer you our support. Thank you for your remarks today.

Concluding Remarks, by Paul Fogolin

Thank you once again, Darryl, for your remarks. Again, a generous thank you for BMO for being our lead sponsor. We could not host these events without sponsors. We are a not-for-profit club. A great thanks to BMO as well as IBK Capital, our sesquicentennial sponsor, and Campbell Strategies, our VIP sponsors. Please, a round of applause for our sponsors today.

Thank you, as well, to the *National Post*, which is our print media sponsor, and to Rogers TV, our local broadcaster. I would also like to thank mediaevents.ca, Canada's online event space for live webcasting today's events to thousands of viewers around the world.

Although our club has been around since 1903, we are in the 21st century and are active on social media. Please, follow us on Twitter @Empire_Club, and visit us on Instagram, Facebook and LinkedIn as well.

Finally, please, join us for a few upcoming events: On February 8th, we will have "For Whom the Road Tolls," a panel discussion on road tolls. I did not come up with the title. Another very interesting topic. I will leave that there. Another exciting event: We will have an evening event with Dr. Catherine Zahn on February 13th. She is the President and CEO of CAMH. She will be talking—again, as part of our sesquicentennial series—about 150 years of mental health and how we need to do better.

Thank you, once again, for attending today's lunch. This is our largest turnout of the year. I hope you have a fantastic afternoon. This meeting is now adjourned.