



GOVERNMENT RELATIONS AND PUBLIC POLICY BULLETIN

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NEW CANADIAN GOVERNMENT PROMISES STRONGER CANADA-U.S. RELATIONS

When the Canadian Parliament resumes sitting on April 3, 2006, a new Conservative Party minority government headed by Prime Minister Stephen Harper will be at the helm, replacing the successive Liberal governments of the past 13 years.

Four of the new government's campaign commitments should have a significant impact on Americans doing business in or with Canada:

- improved Canada-U.S. relations;
- stricter border security;
- an immediate reduction in the Goods and Services Tax; and
- increased opportunities for private sector participants in the publicly-funded health care system.

CANADA - U.S. RELATIONS:

The Conservatives have vowed to improve relations with the U.S., which have been strained in recent years. The new government is more ideologically aligned with the Bush administration, and senior Republicans have expressed their satisfaction with the election of the Conservatives in Canada. One of Prime Minister Harper's first actions was to appoint Michael Wilson as Canadian Ambassador to the U.S. Mr. Wilson played a significant role in negotiating the Free Trade Agreements with the governments of Ronald Reagan and the senior George Bush. Harper has announced that he will speak directly with Wilson weekly, sending a signal that the new Ambassador has access to and the confidence of the Prime Minister. The first test of the Harper-Wilson team, together with former Liberal-turned-Conservative Minister of International Trade David Emerson, will likely revolve around the ongoing softwood lumber trade dispute, as Canadians wait to see whether this new "U.S.-friendly" government can succeed where the previous government had not.

SECURITY:

The Conservatives have long advocated strict law and order policies. In addition to tougher criminal sanctions, the creation of a National Security Commissioner, more timely deportation of non-citizen criminals, and the establishment of a mandatory DNA data bank for sex offenders, they also campaigned on a policy of tighter border and airport security. While this could potentially cause increased delays for cross-border commercial traffic, it is consistent with the U.S. Government's ongoing efforts to increase security, and there have been discussions regarding more streamlined processes for commercial goods. Hopes are high that the stronger relationship between the Bush and Harper administrations will lead to more efficient border crossing processes, as well as possible infrastructure investment for new roads, bridges or tunnels between the U.S. and Canada.

TAXES:

The government has declared one of its main priorities to be a reduction in the federal Goods and Services Tax from the current 7%, down to 6% immediately and to 5% within five years. The initial reduction is expected to be included in the government's first budget this spring. By contrast, personal and corporate income tax cuts promised by the Liberals appear to be off the table in the short term.



However, the Conservatives and the new Prime Minister have long been advocates of lower taxes, so depending on how the economy performs and how long this government is in office, further tax cuts may be on the way. The appointment of Jim Flaherty as the new Finance Minister sends a strong signal in this regard. Mr. Flaherty had previously been Finance Minister for the Province of Ontario, where his government was responsible for some of the largest income tax cuts in Canadian history, while at the same time balancing the budget for five consecutive years.

HEALTH CARE:

The government has promised to work with the provinces to establish a Patient Wait Times Guarantee which will ensure that all Canadians receive treatment within medically acceptable time limits. In order to achieve this, the Conservatives seem ready to open the door somewhat to private, for-profit health care providers, as long as the services are paid for by provincial health plans and not directly by patients on a co-pay system. Such an approach appears to have initial support from the Quebec, Alberta and British Columbia governments, with other provinces more reluctant to commit to a position as their own election cycles approach.

Observers also expect the Conservatives actions to reflect three other areas of core interest:

ACCOUNTABILITY:

The fall of the Liberal government can be attributed in part to the "Sponsorship Scandal", in which the Liberal Party allegedly received kickbacks from government contracts awarded to partisan advertising firms. The Conservatives campaigned on a promise to clean up government, including the introduction of a Federal Accountability Act, which would ban all corporate and union political donations and prohibit ministers and senior government staff from lobbying the federal government for five years after leaving office. The new government is likely to be extremely careful about transparency and fairness. Corporate government relations strategies will therefore have to be re-evaluated in light of the new rules.

SMALLER GOVERNMENT:

The Conservatives' belief in smaller government and streamlined bureaucracy was highlighted by a reduction in the size of Cabinet, from 37 to 28 ministers. While speedier, less onerous regulatory processes may be pursued, the tenuous minority status of this government may mean that such changes are not implemented as quickly as, or to the extent that, the government would like. The focus on greater accountability and control of government expenditures, combined with pressure to implement a recent judicial inquiry report on the Sponsorship Scandal, may present further obstacles to bureaucratic streamlining.

AGRICULTURE AND ENERGY:

The Conservative Party's traditional base of support comes from Western Canada, including Alberta and the Prairies, where the economy is fuelled by agriculture and energy exports. Support for the farming community will be strong, particularly as farmers struggle with various tariffs, trade disadvantages and the occasional import ban imposed by the U.S. on Canadian products. The government's support for the oil and gas sectors may also be reflected in its attitude towards the Kyoto Protocol (negative) and the Alaska and Mackenzie Valley gas pipelines in the north (positive).

As a minority government, holding just 125 out of 308 seats in the House of Commons and 24 of 104 seats in the Senate, the Conservatives' hold on government is tenuous. Most pundits expect another election within two years.

Written by Mike Richmond

The foregoing provides only an overview. Readers are cautioned against making any decisions based on this material alone. Rather, a qualified lawyer should be consulted.



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