



This new series, written by Paul Frazer, the Canadian Chamber of Commerce's Special Advisor on Canada-U.S. Relations, provides briefs on issues and events that have implications for Canadian businesses. Based in Washington, DC, Mr. Frazer has 10 years of experience and is a well-known and influential player in Canada-U.S. issues.

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The mid-term elections in the United States can be seen as a large by-election. As in Canada, these elections are opportunities for voters to express their displeasure with the policies and actions of the current government rather than an occasion to show strong support. That is why, as a rule, the percentage of voter turnout in the mid-term elections is significantly less than those who vote in presidential elections every four years.

The vote last week meets that pattern. A new and important variable this time is the “tea party” phenomenon which served to focus the opposition message on the need to create jobs and to cut government spending. We do not know yet to what extent and what detail the “tea parties” will determine the nature and implementation of the Republican agenda but we are reminded of at least one comment by tea party followers that “the Republican party is on probation” as well.

The 2012 presidential political cycle has now begun. The minority leader in the Senate, Mitch McConnell (Republican-Kentucky) has stated clearly that his main objective is to make sure that President Obama does not have a second term. John Boehner, the putative Speaker of the House in the new Congress appears to be focusing his remarks on jobs creation and government spending cuts. It is important to keep in mind that no law can be adopted without initial passage by the House and the Senate. Given the outcome of this week's vote, such legislative activity will be meager compared to the last 24 months. It is also important to note that the president retains his veto power and the vice president has a tie-breaking vote in the Senate whenever needed.

The State of Play

The 112th Congress begins on January 3, 2011. The House committees will be chaired by Republicans. They, led by the Speaker, will determine the House agenda for hearings and legislation. We expect any legislative movement regardless of sector to be incremental; the days of the “grand policy or plan” are over for now. In the Senate, the order of play is much less predictable because of the nature of that chamber; the Democrats remain in the majority and can block movement on legislation. Every legislative effort will be examined through the prism of job creation and/or reduced government spending. In some cases these two elements will be at odds. In such cases the partisan political rhetoric will be increased and the results may well be gridlock.

There were several Republicans who won governor's races and several state legislatures turned Republican as well. They, too, will be affected by the “tea party” rhetoric and political energy. This should serve as a warning to Canadians that they need to maintain very close relations at the state

level. Often the more damaging trade developments emerge locally and move to the state level and on to Washington, DC. Canadian consulates are already doing an excellent job in this regard. However, in states with this new configuration they must start again to blanket governors and legislators with the Canadian message.

Foreign Policy

Foreign policy was not a central topic of debate during the campaign. However, the loss of jobs because of outsourcing and unfair competition with China and India was often mentioned. The “tea party” group has not yet developed any foreign policy stance. However, given the ongoing tough economic climate, it can be expected that we will see possible actions against China, in particular, as a means of protecting American jobs. Unfortunately, whenever this kind of activity rears its head we can expect problems for Canadian business. It is critical that the Canadian government and businesses give very serious thought to how soon and in what manner they will brief incoming members of Parliament and the Senate on the economic benefits that every state and each political district enjoys because of the enormous trade and economic relationship with Canada. Canada must show the members the numbers in jobs and dollars that are at stake every day, and it must show them the enhanced magnitude and variety of economic activity that the United States and Canada need to nurture on a consistent basis. It is time to prepare a very clear and precise message about the nature and degree of supply chain integration that involves so many local areas of the United States and Canada.

Trade

In trade generally, the administration has already indicated its interest in moving forward on FTAs with South Korea, Panama and Columbia. The president will likely enlist the support of the U.S. Chamber of Commerce in helping to move the Korean agreement at the first opportunity. The president will be in Seoul next week and we presume that he will say something significant on this at that time. These agreements would mesh well with his policy of trying to double U.S. exports in five years. For Canada, it will be critical to monitor closely any moves in the Congress that would imperil any exports to the U.S.

Other highly regulated sectors such as finance will see some efforts to impede and/or roll back elements of the financial regulations passed in this Congress. We expect a similar situation for health care. Although the Republicans are committed to repealing the legislation, they will be forced to focus on eliminating as many aspects of the health care plan as possible. Any attempt through legislation to repeal the president’s health care plan would fail in the Senate and if not there would be vetoed by the president.

Energy and the Environment

On energy we can expect legislative efforts to include something on nuclear, natural gas, coal and renewable standards. There will be efforts to move on rules for off-shore drilling and encouraging more domestic production of energy. The cross-over with the environment will involve efforts to undermine the Environmental Protection Agency (EPA) and in particular to affect the agency’s ability to implement new regulations to limit greenhouse gas emissions. We do not expect measures to affect negatively Canadian exports of oil and natural gas.

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