

When Security Trumps Trade — Keeping America's Doors Open to Canada

In the wake of the war on terror and the war in Iraq, Canada's vital economic relationship and defence ties with the United States have come under unprecedented stress and scrutiny. Canada is participating in the effort to create a security perimeter around North America in a manner that does not disrupt \$2 billion a day of merchandise trade flows. But Canada's decision not to join the US and Britain in the invasion of Iraq, absent a United Nations resolution authorizing force, has resulted in tensions between Ottawa and Washington. Michael Kergin, Canada's ambassador to the United States, sat for an interview with *Policy Options* editor L. Ian MacDonald, and discussed the state of Canada's most important relationship.

Dans la foulée de la lutte contre le terrorisme et de la guerre en Irak, les liens vitaux qui unissent le Canada et les États-Unis en matière de défense et d'économie ont été soumis à des pressions sans précédent. Le Canada participe à l'effort visant la création d'un périmètre de sécurité nord-américain de manière à préserver entre nos deux pays des flux commerciaux atteignant deux milliards de dollars par jour. Mais la décision canadienne de refuser — en l'absence d'une résolution des Nations unies autorisant le recours à la force — toute participation à l'invasion de l'Irak aux côtés des Américains et des Britanniques a créé de vives tensions entre Ottawa et Washington. Michael Kergin, l'ambassadeur du Canada aux États-Unis, s'est entretenu avec notre rédacteur en chef L. Ian MacDonald de l'état de cette relation cruciale pour notre pays.

Options: The US ambassador to Canada, Paul Cellucci, has said that the US was disappointed and even upset that Canada had not signed onto the coalition of the willing. You are a diplomat, is that language diplomatic?

Michael Kergin: That is a pretty accurate reflection [of the situation] actually, because it does come from the White House. There is no question that the ambassador would not have said that if he hadn't consulted, and I suspect in this case, frankly, it was the White House that initiated the suggestion that the ambassador should go public on this. Because it certainly does reflect reasonably accurately, that there is a sense of disappointment in the United States. That doesn't mean that we took the wrong decision, but it is a situation where they have so many troops, or so many sons and daughters in harm's way, almost going up to a

quarter of a million, that they felt on this one, Canada should have been with them. We have our reasons for not being with them. And I don't think it caught them by surprise, because we had signalled pretty clearly over the preceding year, and months and weeks before the actual breakdown of the process in New York, that we would require a Security Council resolution that would go beyond 1441. So I don't think they were surprised. But they are disappointed.

Options: So while his language was quite unambiguous, he was reflecting the views of his government, there is no doubt about that?

Michael Kergin: No doubt. I think that is accurate. I think diplomats have to be very careful to do that. And yes, that is the view of the US government, and to some extent a number of Americans, as we have seen in the odd

regional editorial piece and anecdotal evidence from Canadians in the United States. There is a certain degree of disappointment — and sometimes even incidents that are a little more difficult than just an expression of disappointment. They are isolated, but they are there. We will get through this. And once the war finishes its pyrotechnics phase and we move into the post-conflict reconstruction phase, Canada will have a fair amount to offer and probably will be part of the coalition building and the rehabilitating of that society.

Options: I want to get to that. But when Americans see the American anthem booed at hockey games in Montreal and the American flag burned in anti-war demonstrations on the streets of Montreal, is there fallout from that, that you feel at the embassy?

Michael Kergin: I haven't felt it directly at the embassy. Obviously we

keep our channels open and when we talk to the National Security Council or to the State Department, beyond that initial expression by Ambassador Cellucci, I can honestly say that we haven't had any continuing expressions of concerned disappointment. When the decision was taken by

We have had differences in the past on foreign policy issues, we will have in the future, but we both recognize the importance of the relationship and we will overcome these things.

Canada and announced by the prime minister in the House of Commons, we did get some expressions of disappointment from the NSC and from the State Department. Then we had the ambassador go public about a week later. But since that time it is as if they have made their views known, both privately to us and publicly through their ambassador, and now it is a question of getting back to business as usual in terms of where can we fit into this next phase when it arrives.

Options: Do you get calls from people on the Hill in the congressional delegations saying this too will pass, that their relationship is too important, 87 percent of Canada's trade goes to the United States, about a quarter of America's trade comes to Canada. You have said in speeches that Canada is the leading trade destination for thirty-eight states. This is pretty important stuff.

Michael Kergin: It is important, and I think a lot of the congressional people know that. We have had a number of members of Congress or staffers saying: you know we respect your decision — we are disappointed by it — but the relationship will go on. This too shall pass because the relationship really is too deep, too broad, too multifaceted to be damaged by any one decision, or any one act. We have had differences in the past on foreign policy issues, we will have in the future, but we both recognize the importance of the relationship and we will overcome these things.

Options: Some have said that this marks the lowest ebb in Canada-US rela-

tions since the Diefenbaker-Kennedy period, and certainly seems to be at some remove from the high watermarks of the Mulroney-Reagan and Bush era, and indeed the Chrétien-Clinton years. You have served in Washington before as deputy head of mission, and now as ambassador. What is your sense of it?

Michael Kergin: It is hard to compare different periods. Like most of us, I have read about the Diefenbaker-Kennedy period. It is interesting. The personal relationship between Prime Minister Chrétien and President Bush actually is quite a good one, in terms of the psychology and their personal interchange. They are both very political; they both have good senses of humour; they both are managers letting their own ministers or cabinet secretaries run their portfolios. So the personal relationship that I have witnessed on phone calls, or through personal meetings, is actually good.

Canadians tend to underestimate the sense of vulnerability, of violation, that 9/11 caused in Manhattan — the searing images of the towers collapsing and so on. For us, of course, they were awful, and of course Canada lost two dozen people. But if you lived in Manhattan and you were part of that fabric of society, it is a very visceral event.

Whereas the media see differences on softwood lumber, on wheat, and now on Iraq. And they tend to personify that and give the impression the personal relationship isn't a good one. My observation hasn't been that. I suspect that with Kennedy and Diefenbaker it was more of a personal thing, you really did have two different personalities, two different generations.

The other thing is that we have certain mechanisms in place, like the NAFTA, which help to regulate some of our differences. We have mechanisms in place on dispute settlement to try and avoid the differences getting out of control, which again did

not exist back in the Diefenbaker-Kennedy period.

Options: Do you get a sense when you come home, that Canadians don't quite understand the extent to which Americans were affected by the events of September 11: an attack on their homeland at the symbolic centres of their financial and military might, with thousands of civilian casualties? And do you have any sense talking to students for example, that there is in Canada a certain sense of moral superiority to Americans, and that the war on terror isn't our fight?

Michael Kergin: I think Canadians tend to underestimate the sense of vulnerability, of violation, that 9/11 caused in Manhattan — the searing images of the towers collapsing and so on. For us, of course, they were awful, and of course Canada lost two dozen people. But if you lived in Manhattan and you were part of that fabric of society, it is a very visceral event. It is interesting as one goes to different parts of the United States — Indianapolis for example —

while the sense of vulnerability is there, it is not as acute as it is in Washington and New York. So there is this regional difference as well. But certainly the decision makers in the United States now — in Congress, in the executive branch, those who suffered directly — do have this sense that security will have to trump economics, if it comes to that. And we Canadians have to be sensitive to that. I am not at all convinced that we are as aware of, that deep sense of vulnerability and fragility that the Americans are experiencing.

As for any Canadian sense of superiority, it is hard to generalize. There have been some public comments that



The Gazette, Montreal

Ambassador Michael Kergin: "This too shall pass"

have been made that the Americans could perceive as being somewhat smug, and somewhat morally self-satisfied. There have also been expressions of support and solidarity with the US as well, so it is a little bit of a mixed bag. But certainly in Canada we do have a cross section of opinions.

Options: Cellucci said that in fact security trumps trade, he was pretty upfront about that. Then John Manley, the minister responsible for the relationship with the US, said it is one thing for us to have a difference of opinion with the Americans, but we should express these views with respect. He also said we are not disinterested onlookers as between the US and the Iraqi regime.

Michael Kergin: When the government made its decision not to be part of the military intervention in Iraq, there was quite an outpouring of support, with the polls running very high. And then there was the US reaction. I suspect there was a bit of an awakening from some Canadians who hadn't anticipated or understood the sense of vulnerability, and the sense of desire for Canada to be part of the US-led coalition.

Manley's message was we aren't part of that particular campaign, but we respect their right to do what they are doing. And let us not — when they have a quarter of a million of their sons and daughters in harm's way — be intemperate in our comments. That realization of the importance of sensitivity is settling in across Canada.

Options: Do you have any sense in Washington that US administrations in general, and this one in particular, are unilateralist by preference, and multilateralist by necessity?

Michael Kergin: That is the old "selective multilateralism," I use it when it is useful.

Options: Could this be a source of some Canadian annoyance with the US?

Michael Kergin: Yes. I don't know if it is much more than the previous administration, it is maybe a question of degree. The United States as the hyper-power tends to see the world when it deals with the international community as putting constraints on its freedom to act, because it is so powerful. And so you do have a degree of philosophical difference to start off with between the United

States, which has this power to act and sees constraints placed upon it by the international community — or through the structures that the international community has established — and smaller countries like Canada who see their security, their predictability, and their opportunities safeguarded by international institutions such as the United Nations.

This has always been the case with the United States, but what we are finding now is that the US has become so incredibly more powerful since the Soviet Union disappeared. The defence budget of the United States is larger than the next fourteen countries in a row. And this sense of a growing gap between the United States' geostrategic influence — certainly in a military sense — and the rest of the world tends to give it the impression that it has the license to act unilaterally.

It doesn't necessarily mean the US is unilateral by ideology. For example, in some of the economic areas, such as the World Trade Organization, Bob Zoellick, the United States Trade Representative, is working very hard in the multilateral context to develop rules and regulations relating to agriculture subsidies, and so forth. So it is a bit of a mixed bag. But it is true that this administration, like the Clinton administration but more so because the "power gap" is growing, tends to be perceived as being more unilateral.

Options: Kyoto, for example: how can you solve the problem of global warming when a guy with 25 percent of the world's emissions gets up and walks away from the table?

Michael Kergin: The answer to that is that we will have to watch very closely how much the United States achieves Kyoto by other means. The rhetoric is that through technological advances and through voluntary emissions trading and techniques like this, the US intends — perhaps not at the same speed — to reach Kyoto targets in its own way. On that, we will have to put them up to the test, and take a look at whether it is just rhetoric, or

whether there is a sincere effort to try and reduce their emissions.

Options: Detroit is important in that regard isn't it, and states such as California?

Michael Kergin: Yes, very important. California is starting to impose standards on automobiles which will have an impact on Michigan, the manufacturer, or Georgia, where these cars are being manufactured. Because if they don't meet the standard in California, they won't be able to sell the car to California, and California is a very important market. So it is an interesting situation. I think that this is also true in the rest of the world, because the Americans recognize that they are going to have to sell products. But with the restraints put on those products from an environmental perspective, they will lose their market if they don't do it. So there is an economic self-interest and motivation here for the executive branch of the US government, through technology — maybe even through legislation up to a point — to start putting controls on emissions that I say will get to Kyoto — perhaps a little slower, but moving in that direction.

Options: Michael Ignatieff has said in the pages of our magazine that the Americans are very good at taking over the neighbourhood, and not necessarily very good at running it. Is this where Canada could come in and play a role in the reconstruction of Iraq? Not just in peacekeeping and humanitarian assistance, but in terms of institution-building, because we are a diverse country and we know something about running a federation.

Michael Kergin: Yes, there is a lot to be said for that; we will have to see how that develops in terms of mechanisms to engage in that area. There is this big debate about whether the UN should be the administrator, which the US right now is not prepared to accept. On the other hand, time is a great healer, and often as things evolve there will be perhaps a change in view on that. And the question is,

does Canada engage itself with the coalition? We might — I wouldn't rule that out — or are we going to have to wait until the UN is the administrator? These are issues that haven't been settled yet.

Options: Have there been conversations in that regard with the NSC and the State Department?

Michael Kergin: Yes, there have. They are quite interested in having Canada on board, because of some of the points you have just made. Frankly, I also think we would come to the table with hands that are not seen to be part of the military intervention. To a certain extent that might help a little bit in terms of the Iraqi people. So yes, there have been some very informal conversations, the prime minister has said publicly — and the foreign minister as well — that we

The question is, does Canada engage itself with the coalition? We might — I wouldn't rule that out — or are we going to have to wait until the UN is the administrator? These are issues that haven't been settled yet.

want to be part of the postconflict rehabilitation.

Options: The US has talked about going into Iraq with their own pro-consul much like General MacArthur in Japan, and it just seems like not a very good idea.

Michael Kergin: It is again a bit early to say. There are different power centres in this game. The Pentagon obviously is running the war, as they should. That is their job. They have certainly made it clear that they have views on this transition from war to peace to rehabilitation. What nobody really knows is how clean that will be. If it is a situation where you have maybe the end of bombing in Baghdad and the end of the regime, but there could still be a lot of pockets of resistance around the country, that could mean that the phase of stabilization would be quite protracted. Inevitably that would require a fairly

strong military presence. At that point perhaps the Pentagon would be more in charge of administration, because of the military insecurity. If it is a shorter period, then it is possible that other elements of the US Government, the State Department, for example, would be more in charge. And again, the British have made it quite clear they would like to see a multilateral approach to this rather quickly, in other words not have the pro-consul.

So we will have to see. There is a lot of uncertainty, a lot of unknowns. But certainly I think there is an interest for Canada to get in fairly quickly in a very much of a rehabilitation role, institutional strengthening and building would be one that we could do quite well. You have mentioned the federation. I think that has some interesting possibilities, as well as probably in health, and maybe some environmental rehabilitation.

Options: We are great multilateralists, there is no club that we do not join that will have us. I am wondering what you see as the damage, short-, medium-, and long-term that has been done to the multilateral institutions such as the United Nations, NATO, the WTO, the G7, the G8?

Michael Kergin: You have to look at each one. Obviously, the UN's role in peace and security has been wounded, has been damaged in the short term. But over the longer term I think it will start to pick up again. Largely because you can't reinvent the UN — one hundred and eighty five countries. Its network in terms of the social and economic influence that it has in the world is such that I don't think it can be replaced. Little by little the recognition will be there, and it will retake its role in national peace and security. But that may take some time, and this will depend on how the French, the Russians, and the Americans can patch up their differences on the Security Council. Canada has been trying very hard to broker between the two, and

we will have to see. We weren't very successful in February, obviously. We will have to go back at it in the post-rehabilitation era.

Obviously, the UN's role in peace and security has been wounded, has been damaged in the short term. But over the longer term I think it will start to pick up again. Largely because you can't reinvent the UN — one hundred and eighty five countries.

NATO — that took a bit of a blow with the whole question of the initial refusal of several countries to support the Turkish request for assistance. And that was a pretty fundamental blow, because you had a member of the Alliance asking for something, and then there was quite a protracted period before it was decided.

Options: A pretty direct hit to the doctrine of collective security.

Michael Kergin: Very much so. Now, there again, we have got the new members of NATO, and it is very interesting that the East Europeans, who really see NATO as much as anything as a political institution — as a bridge to the West. But not only that, even more importantly [they see it] as a bridge to North America. Some of them will get into the European Union. That's fine, that gives them a bridge to Western Europe. But they still see NATO as being also a bridge to North America — Canada and the United States. And they will probably enthuse, and infuse, some of the vitality the alliance will need, and perhaps rebalance or recalibrate its role — we will possibly see more of a role out of the North Atlantic region. The French are very critical here. So NATO has taken a hit. But in the longer term, with the infusion of the East Europeans, I am generally optimistic, more optimistic about NATO. The G8, well, that is an interesting question. Who knows?

Options: Do you get a very good level of interest from your American interlocutors about a change of leadership in Canada, are they kind of moving on to the next prime minister?

Michael Kergin: I haven't had that sense. One can speculate on that, but some of the files that we have right

now, softwood lumber and the wheat files, and again, the re-engagement after the shooting finishes in Iraq, will require pretty solid engagement

with the current Government of Canada. Obviously they read the Canadian political scene, much as Canadians do, so they are probably speculating as to what will happen next, but for the time being they are engaging with us.

Options: Finally, on the relationship, even before 9/11, you spoke at the Economic Club of Detroit about the necessity for a smart border, which was unhappily prophetic in one sense, and eerily so in another. I wonder what is your sense is of the management of \$2 billion a day of cross-border merchandise trade?

Michael Kergin: I think we have made a lot of progress on it since the signing of the smart border accord of December 2001 — almost eighteen months ago. Naturally with the war and Code Orange, this has made the facilitation or access of commerce a little more challenging because of the intensified inspections and so on. But there is still progress.

We have got a number of files we are looking at. One of the major challenges we have is national security entry-exit registration system, known as NSEERS. Only bureaucrats can come up with an acronym like that! That is the issue of registering everybody in and out of the country — the old Section 110 problem that we had before. And that is being mandated by Congress. So we are going to have to find a way of dealing with that so that we don't just slow down our border, and have great lineups as well.

We have got to do more work in terms of expanding use of the Nexus card, which is the portable identity card which both Canadians and Americans can have. Just swipe the card through,

and move through quickly.

We are facing some challenges on the question of the agricultural food inspection service, where regulations are now up for discussion, for consultation, that say the manifests for all produce — fresh produce — going across the border, coming into the United States must be filed twenty-four hours in advance. When you are dealing with fresh produce that is a very difficult thing to do. Most of that loading is so close to that border that you [only] know within two hours when a truck is [going to be] crossing the border. To have a twenty-four hour advance notice [is a real burden]. We are trying to get some relief from that on certain product lines. But that will have an impact on the fresh fish exporters, or on the fresh fruit exporter, and so on. There is a fair amount of work to do.

Options: Seventy percent of our trade moves across the border by truck, as you know, and about 80 percent of that is just-in-time inventory. So delays are significant, are they not, in areas such as auto parts?

Michael Kergin: Absolutely. That is exactly why on the automobiles and so on we have developed these protocols with the assembly and the manufacturing plants, so they can go through in the fast lanes. Free and secure fast lines, and it is only through that kind of approach that we can guard against the risk that at some point maybe people will start to say, well, we are going to put our plant investments in the United States to be inside of the tent, rather than outside. So these are things that are very important to Canadians.

Options: When you look at the border, not one of the September 11 terrorists came into the United States from Canada. Fifteen of them had Saudi passports, and yet we have incidents where Canadians get arrested for gassing up in the United States. Doesn't that contribute to a climate of anti-Americanism in the country?

Michael Kergin: Well certainly it doesn't help very much, but it does reflect what we were talking about before — this sense of vulnerability — some would say paranoia. The trouble with security, as you know so well, is that you just don't want to be responsible for a lapse, so therefore you set the bar extremely high, certainly to the point of inconvenience. But the point is that nobody wants to be blamed if somebody gets through. So we say, well, we put it up to the absolute limit that we could. We couldn't put the security any higher, therefore it is not our fault if somebody infiltrates that security.

Options: There were stories in the press recently about the Americans proposing a second line, once you have crossed into the country, and a line for egress for leaving the United States, which would contribute, again, to serious delays, wouldn't they?

Michael Kergin: Absolutely, absolutely, there would be.

Options: We used to get side-swiped on trade issues. Are we getting side-swiped on security issues?

Michael Kergin: Well I think this whole thing is a worry. I don't think they are necessarily targeting Canadians, but they are worried that people coming through Canada might have bad designs and malicious assignments on the United States. I believe we have been very successful in convincing the executive branch of the US government that we are very competent in being able to police our part of the North American real estate. If you look back, the only real incident we have had was the Ahmed Ressam incident, and that person was caught.

The *Boston Globe* said that on September 12th five of these hijackers had come through Canada, and then of course it turned out they hadn't. I still go to dinner parties today, two years later, where people say, five of those hijackers that flew planes into the World Trade Center came through Canada. A story like that takes a long time to shake.

Options: I want to ask you about an issue that has been around probably

since you joined the diplomatic service, and that is softwood lumber. Do we spend too much time trying to negotiate this issue, and not enough time trying to understand the nature of the problem?

Michael Kergin: That might have been true. In this round, more time has been spent on trying to understand the nature of the problem. What I mean by that is we are looking more now at modifying, reforming, changing up to a point our forest management practises to make them more "transparent." So that it will be more difficult for the US or the lumber coalition to make the case that there is a hidden subsidy, or that the system of "stumpage" in fact is really a subsidy issue.

The American side has come up with what we call policy bulletins, which are sort of statements of how the provinces would manage the forestry harvest. And they have been very careful to negotiate with each of the provinces. We are almost at a point now that there has been buy-in for those policy bulletins, which would then be acceptable forest management practises. By meeting those criteria there would be no grounds for any countervailing, or antidumping, or basically countervailing at this point.

So they are looking at the basic fundamentals, and British Columbia has recently made quite a few changes about a week or so ago in its forest management practises. The second phase of this is essentially the problem of what do we do with the 27 percent tax. Because changing forest management practises can't be done from one day to the next. It is going to take time. It could take a year or eighteen months. So there has to be built in a kind of interim [regime] as these [new] practises are being implemented. And the negotiation now is a question of at what level should the [interim] tariffs be set, and what constitutes progress to ensure the lowering of those tariffs, and what is the end period.

The third issue which hasn't been really determined yet, is the question of what to do with all the

taxes that have already been collected, which is several billion dollars worth of taxes. Canadians feel that should come back to Canada for redistribution. Americans want to keep the tariffs that have been collected already over the last year and a half or so.

So we are getting through, to answer your question, I think we are starting to address the fundamentals of the problem. I think we are getting very close to that. The next thing is sort of what to do with the actual monies and how do you get from here to there, and what do you do with the money?

Options: At some level this has always been about the exchange rate too, hasn't it, something that the Americans can't litigate on, so they go to other things such as "stumpage." I am wondering, as the dollar rises to 68 cents, does that take some of the pressure off, compared to when it was 62 cents?

Michael Kergin: Yes, it will help. It will also weaken the case of the coalition a little bit. The huge surprise in this whole thing is that, completely counterintuitively, when that 27 percent tax was put on and was extremely high, everybody thought the price level will go up. Of course, interestingly, the price level went down. It has been the lowest for many years, lower than \$300 per thousand board feet, and our production has stayed more or less the same, which illustrates that we just are far more efficient in our manufacturing.

Options: There is a demand for Northern board wood too, isn't there?

Michael Kergin: For Northern board wood — and the whole story. I mean, basically we have more trees and less people than the United States does. And it is so simple, but it is true.

Options: Do you think that there will be a solution during your lifetime, or at least during your posting as ambassador to the United States?

Michael Kergin: Well, I hope the two are not coincidental. I hope there is quite a difference. I don't know if it will be during my time as ambassador to the United States, but I hope it is very much before I leave the planet, yes.