

Transcript - October 10th

Check Against Delivery

Ben Woodfinden: Hello, welcome to the MBP Roundtable. I'm Ben Woodfinden, the Director of MVP Intelligence. I'm here with Tyler Meredith, Ken Boessenkool, and Shannon Phillips.

We have some big and important things to discuss today. First, we're going to discuss the changes announced this week to the timing and the presentation of the upcoming federal budget that's to be tabled on November 4th.

And then we're going to get into pipeline politics and some of the big developments on this front in recent weeks with Premier Danielle Smith's announcement of her government's plan to support another pipeline from Alberta to the West Coast. And then this week, the revival of, once again, of Keystone XL discussions.

Third, we're going to discuss the state of Canada's auto sector in light of leaked comments from Commerce Secretary Howard Lutnick saying once again that the Trump administration's goal is to kill the auto manufacturing industry and move those jobs south.

And then last we'll do a bit of a wrap, we'll go around the loop and we'll highlight some stories that we think you may not have seen that we think you should be aware of

So let's get straight into it.

Finance Minister Francois-Philippe Champagne announced this week changes to the timing and presentation of the federal budget. The major announcement this week was making fall budgets a permanent fiscal fixture as opposed to fall economic statements, which will now be moved to the spring. And then as promised in the Liberal Party's election platform, the budget's going to distinguish between operational and capital spending allocations.

This moving to a fall budget by the Carney government is adopting a relatively new practice being borrowed from the UK that began in 2017 when the UK budget was moved to the fall. Now it's probably worth noting that Carney was the governor of the Bank of England when this change was made and that's something we can discuss. Government officials have given a few different reasons for this and I'll say of the two changes that the government announced for budgets, this one seems less controversial. Certainly isn't inviting the kind of pushback from opposition parties in the same way.

Government officials speaking on background at a technical briefing this week said it will help organizations that rely on federal funding to deliver programs by giving them a better idea of what funds they have before the fiscal year starts in April. Officials also said it will help businesses prepare well in advance of construction season to get projects off the ground quicker. And officials also said that releasing the budget well in advance of the spring main

estimates means MPs can better oversee planned spending and anyone that's ever worked in opposition trying to scrutinize a budget, knows how stressful and chaotic that time of year is. So that's the first change that was announced. The second change, is the more controversial part, separating the operational spending from capital investments. Operational spending is kind of day-to-day functioning of government spending. And I think that's pretty straightforward for people.

The more interesting part is how the government's defining capital investment. I'm going to quote here from a Finance Canada background document that was released this week. So quote, capital investment is broadly defined as any government expense or tax expenditure that contributes to public or private sector capital formation held directly on the government's balance sheet or on that of a private sector entity, Indigenous community, or another level of government. And the document explicitly goes on to say that the intention is to focus on two types of capital expenditures. The first is situations where an entity receives funding from the government and is then required to invest it to create infrastructure or other capital assets. And the second is when government spending enables investment in identifiable sectors or projects. Spending that increases the country's housing stock or pays off the cost of an asset over time would qualify as capital spending, as would tax breaks that give companies incentives to invest in asset research and development.

But one important thing to note about this, because this has been a point of contention with opposition parties, is that despite the separation, Finance Canada will still have an overall deficit number when the budget is delivered. And recall that Carney is committed to balancing the operating budget by 2028-2029.

Let's get into this a bit. What conservatives have attacked, you know, as an accounting trick. The PBO, we talked about last week, they praised the move to a full budget, as did many kind of fiscal experts, where the PBO was more critical with concerns about how broadly defined the capital expenditure was.

Tyler, I'm going to start with you here. Tyler, you've been involved in many of these discussions and many federal budgets over the years so first off, what's your general sense of the government's thinking on this? Why are they doing this now? We've talked about some of the reasons for it.

Tyler Meredith: What's interesting, right, is that the definition of capital and operating was something that the prime minister ran on in the campaign. And I may or may not have had a bit of role in helping with that definition. And we can talk about that in a second. But what's interesting is that the change that was announced on the budget timing was not something that was foretold in the campaign. And that was something that, you know, as we're learning more and more about this new prime minister as he's taken office and growing into the job, it was, I think, a distinctly carny-esque idea as he began to kind of work his way through how the system is operating.

And let me just start maybe on the timing issue and I'll come back to the operating capital definition. I'm of two minds on the timing issue. I think it's correct that there are obvious advantages from a public administration standpoint of going earlier and you mentioned some of them Ben, certainly the alignment with the main estimates and having that out and available to parliamentarians earlier I think will be an important gain for the independence of parliament and the ability of parliament to scrutinize especially with the amount of time right before the fiscal year starts given that as you may remember from your days in the office of leader of the official opposition, the Budget Implementation Act that often comes with the budget gets rushed along and I think often times committees don't feel like they have enough time to really scrutinize the significant implications that are in that document.

The one thing, one or two things that I would say about the timing, first is from a public administration standpoint, there's obvious gains that, and we haven't talked about this as much in the public discourse, there's obvious gains on the delivery side, right? One of the challenges that I think the Trudeau government faced was that they would announce lots of big ideas, but it would take a long time for those ideas to actually come into practice. And one of the reasons why it would take a long time for that to happen is because it would be this logjam of once you announce something in the budget as an intention, having to actually go to Treasury Board to go get the policy approval and the spending approval to be able to go and actually access that funding and then subsequently define a timing of a supplementary estimate where you can go and ask parliament for money, wait to get that money, and then once you've gotten that money, which could be nine or 12 months later, then start the process of hiring people and sending out grants and contributions, which means it could be up to 18 months before a new program that the government intends to move even quickly would be able to actually start to actually do things. So I think from a delivery standpoint, this has the ability potentially to compress that delivery timeline. And for a prime minister who's focused on execution, that's potentially a big win. The downside that I would say with this timing issue, and again, I still want to get into the operating capital thing in a second, but the downside that I see on the timing issue that is not a small thing is that people need to remember how a budget is built, right? At the core of the budget is the actual fiscal baseline against which you then make decisions to either add or subtract things, right? A lot of what actually affects a budget is below the waterline of these moving pieces, largely impacted by what's changing in the overall economy. And what happens in that context is heavily influenced by the basic assumptions of economic growth and inflation and other macroeconomic variables that the universe of economists that the Department of Finance surveys on a quarterly basis every three or four months and those inputs come together in advance of the budget.

Now, when you survey the University of Chief Economists, they ask for those macroeconomic variables forecast over five years so that we can construct the same fiscal baseline as we present in the budget. But let's be honest with ourselves. Human behavior is very recency-focused, right? And so you understand and can forecast with greater certainty what's going to happen in the next two, three, four, five, six months. You can't forecast with greater certainty much beyond that. It's really hard to say, what do you think economic growth is going to be a year from now? Right. And oftentimes you see in these forecasts is they all heard

around a number, usually somewhere between 1.5 and 2%, very consistently 1.5 and 2 % because that's just, that's just easy to forecast because you really don't actually know what's going to happen. Now that we're introducing a situation where we say, tell me what your numbers are going to be for next year, six months earlier, potentially, right? Because we're going to table a budget in November for April.

There's a risk there that that psychological behavior of the chief economist is just going to give you an estimate that doesn't have as much information in it. And my worry is that that's going to actually reduce the quality of our ability to forecast around what we see the potential economic baseline looking like in the next fiscal year. Maybe I'll stop there for reactions, and then we can get into the operating capital stuff.

Ken Boessenkool: I had a couple of criticisms of this teed up and Tyler stole my first one, which is just the recency or the length. You're forecasting a budget six months in advance before it starts happening. So that's a benefit when you're spending, but it's downside when you're doing revenue. anyway, Tyler said that I'll just repeat it. The other thing though that I think will happen because of this is if you're planning or spending six months in advance, there's going to be a lot, the spring economic statement is going to start looking a lot more like a budget because if those underlying revenue numbers change a lot, either going down or going up, you're going have to make some adjustments to the budget you presented in the fall. And so it's sort of an implication of my first criticism is that I think you're going to see more new things happening in the economic statement, which is now in the spring, than you used to see in the economic statement, which used to happen in the fall because of these economic forecasting changes.

So I think it's going to make it feel more like we're having two budgets a year than it did before. I mean, there have been years in the past where the fall economic statement was almost more substantive than the spring budget. So it's not something entirely new, but I think we're going to move more toward a world where we're having what feels like two budgets every year as opposed to one. So I'll leave it there for now.

Shannon Phillips: I think it will help in policy design a little bit and it will help stakeholders as well navigate because they will know what is coming at least because that's the big fixation whenever we're talking to people who are interfacing with the government is how much is in there. At least we will know that and I think that the way that that Carney has also rewired cabinet a little bit will help stakeholders plug in their asks into what is already allocated.

Instead of waiting into the future for that allocation and waiting on tenterhooks for that allocation. And there's that six month window then that they can also work with government on some of the design of programs and tweaking and so on. So from an outsider's perspective, maybe who are people who care a little less about the forecasts, a little less about the balance between spending and revenues, it's going to be better for them or could be better for them and I would argue probably will be because it will give them some time and some runway.

Tyler Meredith: Can I just say on the stakeholder piece, think Shannon's absolutely right there. There will be implications for everyone who puts their submission into the budget process in a pre-budget consultation. There will be obvious implications of changing the calendar, right? So we're going to flip a bit of that calendar in the way that it used to happen in the summer, you know, leading into a fall process that would eventually culminate in a budget. That is probably going to get brought forward in time. So I think everyone who has marked off the August period to get their FINA submission into the finance committee's pre-budget consultations in the summer, which you've heard me and other contacts say doesn't always matter, which I still think it doesn't always matter, that timing for everyone who's listening is probably going to get pulled forward. I think it's important to note though that there is an important distinction between a budget and an economic update, right?

A budget is where every department gets to proactively make their case for the things that they want. And everyone gets their kind of piece of the table. Now it's a little, maybe a little different in a Carney government than it was in a Trudeau government, but an update is something else. That's much more contained, much more narrow in focus. It's not meant to be 400 pages. And it's actually more meant to largely, as the word says, update how we are tracking against the budget, but also to really focus on more narrow, centrally driven thematic of the moment that the government wants to put its flag on. It's not an opportunity where you invite departments to bring in all of their new ideas, right? In the way that a budget is an opportunity to do that. So in that sense, right, it now means that that summer fall period is going to be when departments have to think about six months, nine months in advance potentially of a new fiscal year, right? What do they wanna do with new money and where are they tracking? That's gonna require a horizon and a thinking, a forward thinking that I think the public service hasn't necessarily adapted to before. And as Shannon says,

It does provide more time around policy design. Hopefully that means that they will engage more thoughtfully with the outside world. But it also is going to require a lot more forward and longer-term planning thinking within the public service than I think we've been used to for the last number of decades.

Shannon Phillips: Well, and it's going to mean that stakeholders have to adjust as well because they are going to have to be thinking in a lot more longer timelines than they are used to thinking.

Ben Woodfinden: Before we leave this, think we do need to spend a bit of time specifically on capital investment and how the government is thinking about this. But there are some legitimate criticisms here of how broad this definition is and what it could be used for. So, I'm going to throw this to you again very quickly Tyler:

Tyler Meredith: Let me first start, just because I think it will benefit all listeners, let me first start by defining what is this operational budget that the Prime Minister is describing, which is different than the definition of capital for a second. So I think it's easy to get confused because when you think about what's the operating budget, you think, well, does that net off against

revenues or not? It has nothing to do with revenues. This is entirely in both cases an expenditure side focused thing. So when the Prime Minister says the goal, ultimately, that by 28, 29, we balance the operating budget, what he means is you take total government spending, right, all in once you've added up all your new measures, and you subtract out of that number what you believe to be capital. And so this new definition that's just been announced is that is going to guide the decision around what gets categorized as capital versus operating. You take that capital number, so let's say we start with a government spending plan that assumes, let's say, 16.5 % of GDP of government spending in the economy, of which 1.5 % of which is going to be capital. So now we're down to an operating spend of 15. And if by year four, right, I have revenues that I take in are equal to about 15 % of GDP and I have a 1.5 % deficit to GDP and a 1.5 % GDP capital spending plan, then in that context, my operating budget is balanced because I've matched the total value of spend in the economy on operating dollars equal to what I'm taking in on revenues. That's what he means when he says balancing the operating budget. So it's really just saying how do we categorize in spending terms what is capital? Now I think what's interesting here, right, and this was central to the Prime Minister's message in the campaign, his concern, and you see this in the background documents that the government has released, is that there's been an inadequate level of private sector investment in Canada.

He's talked about wanting to catalyze 500 billion dollars of private sector capital. The public sector has an important role through the tax system, but also through direct interventions through things like Build Canada Homes in helping under in helping catalyze and release that private sector capital into the economy, in part through how you create the conditions of confidence, but also how you stimulate activity. Right. And so this this shift in budgeting, which, by the way, Ben, you mentioned the influence of the UK for the timing is also an influence from the UK, la Gordon Brown in 1998 or so when they introduced this the same concept in the UK as quote-unquote the golden rule, right? Meaning that deficits over time should largely just be about the development and creation of capital assets.

Not to say that the UK doesn't have a deficit today, right? It actually still has a deficit and we can make that maybe that criticism that the golden rule doesn't necessarily change as much the behavior of spending as you would like. But in principle, the idea here is that it's meant to support the overall government objective of wanting to stimulate a composition shift in spending towards things that will actually grow the economy. And so if we've got to close that gap on private sector investment, this is one way to do that, right?

And I think it's important because this is the first of many big steps this government is going to take where it departs from the Trudeau government. Where it is less focused on things like spending on social policy, transfers to people, transfers to governments that aren't actually about building assets. And there's some controversial pieces to this, right, over time as this shifts the behavior and the incentive structure of government around what it does. This is going to mean that we invest more in things like affordable housing or in the healthcare context, more in the creation of and the acquisition of say, capital equipment, diagnostic equipment, or the building of hospitals, but not the investment.

in the people, right? Not the investment in the human services, the nurses, the support workers, and not in the things that are consumable, right? And so, like, there's, I would say there's a risk, certainly for social policy people.

This crowds out the way in which the federal government can intervene. And it probably is going to mean, if this does actually have some durability to it, it's probably going to mean a bit of a rethinking around what is the federal spending power, right? It's kind of pushing the federal government towards an infrastructure heavy, capital heavy focus. And that, to the extent that that crowds out necessary other investments on the operating side in the public sector, that may need to be a bit of a reordering at the provincial and municipal level around those responsibilities because not everybody's going to have an ability to invest in capital if that's what the federal government is focusing on.

Ken Boessenkool: I've got a couple of super nerdy comments to make about, you're probably not listening to this podcast unless you're a super nerdy policy person. So here we go. I was in Alberta treasury when we switched from cash accounting to accrual accounting. And when we did that, we went from accounting for capital expenditures fully in the year in which they were spent to spreading that over time. And that change didn't just affect how we presented the budget. It affected the public accounts and the way we publicly recorded these things.

The change that that Carney is making is going to change the presentation in the budget, but isn't going to change the public accounts. And I think it's a very nerdy observation, but but I think it goes to whether people are going to believe whether this is credible. so I think there's going to be the public accounts aren't fundamentally going to change. And so when the public accounts come out, people are going to say, wait a minute, I thought we balanced the operating budget, but the public accounts may will not show the same thing.

I just think there's gonna be some dissonance there. Before, I know you wanna jump in, Tyler, but before you do, the other comment I'm gonna make is that, and it wraps these two things together. If I wanted to make one change at the federal level on how the budget process works, I've worked in a couple of provincial, I've worked in Alberta and British Columbia, and in both of those provinces, policy that goes into the budget goes to Treasury Board first and gets into the budget only after it's in Treasury Board. And the federal level, things in the budget go to Treasury Board after they're in the budget. And I think this is one of the reasons why policy development at the federal level takes so long and isn't as efficient. And if I were to advise Mark Carney to make one totally nerdy but very important change to the budgeting process, it would be to change the order in which things happen. Things should go to Treasury Board first. Tyler referenced this in his comments a few minutes ago. They should go to Treasury Board first to get allocation of funding, to get program design. All of those things before they show up in the budget and not after. This is how the provinces work, but it's not how the federal government works. So there's your two very nerdy comments.

Tyler Meredith: And sorry to monopolize time here, because I do want to let Shannon and Ben get in here. But Ken's absolutely right. This is not an accounting change. There will not be any

change in the public sector accounting rules the federal government uses. The Auditor General is still going to audit and present and look at the financial statements as she does in the public accounts on a normal basis. So the government is still going to have to defend what is happening with gross debt and what is happening with total nominal deficit. And whether that is a number that freaks people out or not still has to defend that. But at the same time, it's adding effectively another table and chart and line item that categorizes the spending so that people understand what is the composition and the purpose of that spending. And I think the idea is that the Prime Minister believes this is actually an increase in transparency because it provides more information around why the federal government is taking on, as he says, a time to build, why it is taking on more debt potentially to be able to invest in order to change the trajectory of growth and as we economists would say, the Y star, right? How are we increasing potential GDP over time? That's his goal. As a central banker, that's what he ultimately cares about. And I think this is a step in that direction, but it is not cooking books. This is not a way to somehow re-characterize your deficit. You still have to defend whether you believe a deficit that's, as we said last week, somewhere in the order of two to 3 % of GDP is something that is sustainable, to use the PBO's words, but also the right thing for the moment. And I think this is where the politics are going to hit the moment in very short order.

Shannon Phillips: The only thing that I want to add is what is pick up something that Tyler talked about in terms of its effect on social policy and reductions in operating spending because that is going to put pressure on the provinces. Absolutely, because there are places and spaces that are where the federal government spends, which we anticipate will be subject to reductions in the operating budget. I'm thinking here of Employment Social Development Canada. I'm thinking here of some of the Health Canada programs and some other places where we know that federal government will have to reorganize its operational investments. That will put pressure on the provinces. One of the ways that the federal government could respond to that is to put more conditions and or strings and or actually enforce those that exist already for the Canada Health Transfer and the social transfer.

The fact of the matter is that there are conditions already that the federal government just essentially doesn't do anything with. I'm thinking here specifically of the social transfer. those ~ governments, provincial governments, will feel the shoes pinch with a federal reduction in spending. They are going to either get that back as political pressure or they will have to blame someone else.

in that case, they do have an ability to follow where their money is going. So the provinces aren't just turning around and spending their health transfer on, I don't know, a corporate income tax cut or a serial reorganization of the system or other places that we have seen, you know, provincial investments go in places where there is pressure on the healthcare system.

Ken Boessenkool: I expect social policy advocates to start saying that childcare spending is capital spending and I'm not going to weigh in whether it is or it isn't but...

Tyler Meredith: It isn't. It isn't. That's the point. Human capital is actually not included in this definition. You have to draw the line somewhere. This is the point. I kind of have always been of the view that, look, childcare has a productivity enhancing role in the economy. It is important to do. It is one of the most economic growth positive things that government, federal government has done in the last number of decades, overall, even since NAFTA.

But it is not capital spending. We just have to be honest about ourselves. It's not capital spending, it's people, it's human resources. And there is a role for human service delivery that supports productivity. But this definition does not allow for that.

Ben Woodfinden: Okay, I'm going to leave that there. I'm sure you guys could talk about this all day and longer. We'll be sure to come back to this in the next couple of weeks. So let's move on to our next topic, pipeline politics. So the Alberta government this week announced it is taking the lead on the application for a major new oil pipeline to the West Coast, to the BC coast. And the idea is to hammer out a proposal for a million barrel per day, a bitumen pipeline. And this proposal, the Alberta government said this proposal will be sent to the new major projects office by May next year, May 2026. No route has been finalized yet, but it looks like the route will be going to Prince Rupert or Kitimat, which matters obviously for how you get that oil potentially overseas afterwards. Alberta does not want to be the financial backer. It's hoping that it can kind of initiate kickstart this project and then ultimately the private sector and other interests will step in.

Smith is obviously, calling the PM's bluff on this. She specifically is pointing, citing various things that have caused the ire for both her and the federal conservatives as well. Things like C-69, the quote, no pipeline law, the tanker ban, things like this. Smith is essentially testing whether C-5 can actually be used to get something like this bill, right?

And then just a couple days ago, we'll mention this quickly, when the Prime Minister was in Washington, it seems that he revived discussions of Keystone XL, the pipeline that was on and then off and then on and then off again, and that there's now potential interest in that too. So Shannon, you've been on the front lines on this in Alberta. What do you make of this? Do you think that this is an attempt by Smith to just play some politics with this. What do you think? There's actually serious serious efforts here to try and get another pipeline built

Shannon Phillips: I think mostly this is going to have to be Kabuki theatre unless there are Indigenous nations along the route of a West Coast pipeline that are interested in this project. You can override every single environmental law that has ever existed on the books in the history of this country and you will still have a hurdle of the treaty rights in the Constitution. And that piece is, as far as I know anyway, relatively insurmountable when it comes to a West Coast egress.

And C5 does not allow for overriding of the foundational constitutional treaty rights that the country is built on. So that's the first thing. So yes, is concepts of a plan. Absolutely. When you look at its actual terminus, I do not understand why we are still talking about Prince Rupert.

Prince Rupert was taken off the table for technical reasons in the original Northern Gateway application by Enbridge some, it must be almost two decades ago now. And certainly when you look at what the mayor of Prince Rupert is saying, he's worried about things like sewer pipelines. He is not worried about this kind of pipeline. He hasn't even taken a position because that community is not going to be affected by this. Again, this is not really real.

A million barrels a day, either going west or going south, will mean that pipeline capacity outstrips supply by about a million barrels a day. When you look at forecasts, either Keystone or another west coast egress means that it's about 1.3 million barrels a day that we have of excess capacity than we have supply. Under the high warming global oil consumption forecast scenario. That is to say we've decided as a planet by 2050 that a high warming scenario is acceptable to us and we are going to continue to pump oil in the growth that is commensurate with that to about 6 million barrels a day coming out of Alberta for example. If that happens then or sorry, I form at 4.9 million barrels a day coming out of the Alberta oil sands. The forecast is 6 million as ~ a pipeline takeaway capacity. Still that that that is the kind of numbers that make Keystone or another West Coast pipeline economic. That is the other reason why this will have to be a public project if it isn't anything because that uncertainty remains.

Regardless of what happens with Mr. Trump in the short term, regardless of what happens with Canadian climate policy, the demand remains uncertain. So it will have to be a public project regardless. In the case of Keystone, this was smart of the Prime Minister. I'm sure we can get into the politics of it because all pipeline issues I think are politics at this point as opposed to policy.

So it was smart for him to go look over here. It was the equivalent in the Oval Office of dangling the keys and having Trump look at that. But it's also a good distraction for domestic politics and takes the conflict out of Alberta, British Columbia and towards a relatively non-confrontational, at least on the Canadian side, pipeline project. So I think I'll leave it there. But we are making an awful lot of assumptions here with either project.

The only other thing to add on Keystone is that there is also not a proponent. There is sort of an owner because the assets were transferred to a very, very small company from TC Energy. so there is at least an owner of some of the initial infrastructure that was done for this project, but they are not a TC Energy and Enbridge.

Ken Boessenkool: If I can make just three quick points. Number one, and this reflects what both of you said, but I think, think just going to put a period on it, which is both Daniel Smith and Mark Carney are playing politics here. And I would argue that they're both playing it well and they're both playing it well against each other. Daniel Smith is like, you've been mentioning you a pipeline. Well here, I'm going to put some, I'm going to make it sound like there's a real pipeline. And Carney's responds by saying, you want a pipeline? I'm going to go to Washington and talk about a pipeline. So it's sort of.

They're muddling to a draw here, but let's be clear, as both Ben and Shannon said, I think this is a lot of politics. Point number two is that I think there's a serious debate, and we don't have time to have it here maybe in a future episode, a serious debate about whether on oil pipelines, is there, are we now in a world where only the government can build a pipeline? Partly for the reason Shannon mentioned, which is the indigenous issues around them, but also because it's not just indigenous, but as we've seen this past week, provincial governments also have the ability to block these kinds of things. And so is our pipeline something that only governments can build? I'm not going to prefer an answer to that, but I think it's a real question. My third point is maybe political, but I worry a little bit that these projects that are theoretical are going to get in the way, the debate around the projects that are theoretical are going to get in the way of projects that are not theoretical.

And I think we need to demonstrate to international investors that we can do things. And there's a lot of projects, whether it's the round one projects that Carney announced or the round two that are coming, Ring of Fire and other things, there are a lot of projects that should be built in Canada. And if a lot of our public debate is taken up around a debate around pipelines that aren't even real and don't have private sector proponents or aren't fully formed, it could just get in the way of us getting some of these other projects done. So I worry a little bit that this pipeline discussion is a distraction that will hurt other projects getting done. So I'll stop there.

Tyler Meredith: Look, I think it's heartening for me as somebody like Shannon who was involved in the acquisition and then building of the Trans Mountain Pipeline to hear and to see a provincial government now wanting to sponsor the development and construction of that pipeline. It's heartening in the sense that it reminds us that it actually maybe wasn't a crazy idea of Justin Trudeau to want to build a pipeline. It probably was what was necessary to Ken's point that only sometimes government can step in and provide that certainty. I think there's two or three things here that are really interesting. The first is I think that the timelines are something that seem to be at a bit of a mismatch, right? You've heard Danielle Smith say that she'd like some sense of signal or direction from the federal government by November. Well, that's clearly not gonna happen because this is still a theoretical project and you can't pass judgment on theoretical project, number one. And part of that, number two, is that the...

Minister Hodgson has recently just said we're recording this podcast on Friday has recently just said that BC will have to be involved in some in some in some way in this project in in in potentially creating the social license for it to go and I think that's he's just stating the obvious frankly, but if that's the case that's gonna that's gonna take much longer than the timeline that that that Premier Smith has and even potentially much longer than The timeline that CEO of the major projects office Don Farrell has recently suggested of four or five months, right? If this is still a theoretical project, which to Shannon's point doesn't have a end egress point and has various routing options that still have to be figured out, there's going to be eventually a significant negotiation between BC and Alberta that has to be sorted out. And Ken, his time with Christy Clark, can obviously tell you how long that takes and how protracted those negotiations can be. So I think this is not something that I expect will have any near-term resolution.

And hopefully that doesn't stop us from Ken's point about the theoretical versus the possible from actually building things like the Pathways Project that could be a substantial reduction in emissions within the oil and gas sector and has been frankly up to \$60 billion investment project that's been sitting on the sidelines with a lot of interest by government to get that built and done for the last number of years, but which there's yet to be a final investment decision by those proponents. The second and third points that I would make is

You know, it's interesting to me that what we are not talking about here is a more ~ obvious option if the goal is to get more oil to global markets, a more obvious option which would be to build on the existing capacity the Trans Mountain Pipeline itself has, right? The CEO of the Trans Mountain Pipeline, which remember is a crown asset the federal government owns, it's generating lots of income for the federal government, right? Has mused about that. Now, it was interesting when that ~ thought bubble emerged into the public debate a few months ago,

Minister Hodgson was very quick to kind of bat that down. Now, I won't say anything about the fact that Minister Hodgson's not actually the minister responsible for the Trans Mountain Pipeline Corporation, but whatever. That actually, if the goal is to try to get more oil into market, you can easily look at various options for either putting a third pipe on that existing route or even expanding the existing capacity that's still not fully utilized on that pipeline.

And I think we need to be thinking about that option because A, that route's already been established. We've gone through the deep and hard process of getting it built and working with affected communities to do so. But it is something that I think the BC government, despite being led by David Eby who opposed the Trans Mountain Pipeline in the first case, probably could look the other way on. And that might be the best thing for national unity. The last, last point I will just make is at the end of the day,

These things bring a lot of construction risks. I've heard numbers, you know, in the order of \$10 billion is potentially the exposure for the Alberta government if they're gonna build this. I'll just say having been involved in the Trans Mountain Pipeline Project, expect that number to go up. And I think it'll be interesting to see whether folks in Alberta, once they fully understand the magnitude of what that involves, and now that it's being backed by the provincial government and the provincial taxpayer, what the level of interest is in that option versus alternative routes that already exist.

Shannon Phillips: The only other thing I'll add on BC because everybody loves the politics of the fireworks between Alberta and BC and I'm certainly part of it too, but the BC Energy Minister and I think to a lesser degree in terms of detail the Premier himself have expressed ~ not just openness but willingness to entertain both getting more tankers in and out of the Port of Vancouver and dredging that port.

They in fact have supported that. They have said, let's make sure that we are filling the existing TMX line. But also if we need to talk about expanding that line in some way, shape or form, we are open to that. And, you know, of course, the North Coast has a lot of LNG development and

phase two is ~ now moving along. So this is not a government that is anti-development especially when you compare this is the same group of people as ten years ago who vehemently opposed TMX who vehemently even were opposed to LNG or at least tepid on LNG they have now embraced those projects with their full chest it is

Tyler Meredith: David Eby personally was opposed to the trend. I think your point is, yeah, I think your point Shannon is really important, especially the Premier himself was part of that, I will say cabal of people who were anti-development.

Shannon Phillips: Yes! I mean he was a point gray MLA and Adrian Dix in fact ran an entire leader or an entire provincial election campaign or at least the back half of it when he flip-flopped on opposing TMX. So here we are in a much different world with much different incentive structures for the government of British Columbia and the re-elect offer coming from the BCNDP but a much different orientation towards resource development. you know, I think people are reaching for the conflicts of yore and to go back and fight the last war. But this is a different government with different relationships, different incentives and different players around the table. And to Ken's point, let's focus on those big projects where there is already a consensus and where we can actually put people to work to Tyler's point around construction risk, but there's also construction jobs and I get things moving quickly.

Tyler Meredith: Just before we leave this topic, and Ben, I want to put you on the spot a little bit here. So if we imagined ourselves in an alternative universe where Pierre Polye is the Prime Minister of Canada and the election played out as I think you and your colleagues had originally hoped a year ago it would. If we were in a situation where we're likely the Conservatives had actually made significant gains in British Columbia, right, which everybody expected would happen, potentially even coming close to sweeping the province, how would have Polye government have looked at this question and presented with the same issue. Because you can't even as a conservative ignore the fact that as Shannon says, there are going to be opposition even in places where in lower mainland or even in northern parts of British Columbia, voters may vote for the conservative party because they want to build stuff, but they also want to build stuff in the right way that doesn't directly impact their communities. How would a conservative government have thought about that issue potentially?

Ben Woodfinden: Well, look, I think the options would have been somewhat limited in that, had we won, we would have been running explicitly on getting rid of certain pieces of legislation that I think we built a case around. it not just does, it's very similar to the case. I recommend people go and read, I think it was in the Financial Post, but an op-ed penned by Daniel Smith, that kind of lays out their case. And they explicitly make the point that part of the reason these projects kind of attract private investment is to do with things like C69, the tanker ban, these kinds of things. And so, look, you can quibble with that. You can disagree with that. But I think, had we won, we would have been running on getting rid of these pieces of legislation, or at least, know, substantially reworking them to create legislation that enabled the kind of certainty that investors want. think was Shannon that said the other big parts of this is what goes on with consultation with First Nations, Indigenous groups, what happens in the courts and C5 itself doesn't address

any of that, right? They can't address any of that. So I think a conservative government would have had to, it would have faced challenges in this, of course, but we also would have to be kind of crass about it. We would have had a mandate because we would have been running on getting rid of these things. And then we would have actually, we would have tested whether the conservative theory of the case was correct. This was not actually down to kind of broader macro conditions. This was actually about specific, you know, lot of Trudeau era legislation that was killing investments and killing the ability for companies to want or make these kinds of investments.

Okay, we'll leave that there. We'll move on to our final topic here. ~ We've been having extensive discussions here just a couple days ago, the US Commerce Secretary was at a conference, an event hosted by BMO and the Eurasia Group in Toronto. I think he was there virtually. And he spoke under what was supposed to be Chatham House rules, but they didn't last, shall we say. Within minutes, people were leaking what was going on in the room.

And according to sources, Lutnick basically said that the US would continue to buy maybe auto parts from Canada, but that's about it. And then I want to be clear, this is not an explicit Lutnick quote. This is what someone in the room quotes Lutnick as saying. So we shouldn't say this was a verbatim quote from the Commerce Secretary. Quote, car assembly is going to be in America and there is nothing Canada can do about it. The question is, what is Canada going to do instead?

This comment sparked a bit of an understandable reaction. Premier Doug Ford was in the room, so was Premier Daniel Smith, but Ford obviously had a lot to say about this. The auto industry is largely concentrated in Ontario and it plays a big role in the economy here and a ton of jobs that it supports. Ford came out firing afterwards and to quote, will put legislation in if he wants to destroy our auto sector, our steel sector, and protect the aluminum sector, there won't be a grain of critical minerals going south of the border. There will not be one ounce of energy coming from Ontario. And he goes on a bit, but you see the point here. Ford and the people around Ford clearly see this as an existential threat to the auto industry in Canada and specifically in Ontario. Just a few quick facts here. I'm taking these from the Canadian Vehicle Manufacturers Association.

Auto manufacturing contributes 16 billion to Canadian GDP. Vehicles are our second largest Canadian export by value in 2024, valued at nearly 47 billion. 92 % of those vehicles are exported to the United States. So we are dependent on the US market for these exports. And not just do we depend on exports, domestic consumption of vehicles manufactured within our own borders is just 9.4 % of vehicles. we are clearly vulnerable here, right?

The auto manufacturing sector accounts for 106,000 direct jobs in Canada and then potentially 600,000 more direct and indirect jobs. So, Ken, I'm gonna throw this to you first. The threat here is, this is not the first time that someone in a Trump administration has said this. Trump himself said this this week in his sit down with Carney, right? That we want cars, they want cars. And there clearly is an explicit goal here of trying to take auto manufacturing jobs, value added jobs

and bring them, take them from Canada, move them to United States. So let me throw this to you. How should we be thinking about this? can we do about this? What options do we actually have?

Ken Boessenkool: Well, we've gone over time on our other two topics. And on this one, I think we should treat this as a teaser because I think we have a guest soon who knows much more about these issues than the four of us and another four of us and another four of us combined. So maybe I'll just make a few quick comments and we can go around the horn, So number one, this is very, very serious. This is a very serious challenge. You know, I think Canadians elected Mark Carney, not necessarily to get results with, but because they thought they would have someone in the room who was capable of negotiating these kinds of deals and negotiating with Trump, sort of the adult in the room that we've all heard so much. But in this case, it sounds like, and again, I don't want to say it is, but it sounds like he is trying to get a deal on steel and aluminum and maybe some other sectors. But the auto sector has not been discussed by the Canadian side in the last week very much, at least in terms of the discussions of with Trump. So I think this is why Doug Ford is teeing off and there's been, you know, for the first time in a while, what appears to be a gap between what Doug Ford is saying and wanting and what Mark Carney is apparent appears to be saying and wanting. And so I think, I think that gap is significant. I think there's been largely and broadly alignment between Doug Ford and Mark Carney on these things. You know, I think, I think Mark Carney may call Doug Ford every once in a while and say, Hey, can you ratchet up a little bit? Can you say some things I can't say?

And maybe there's some of that going on here, but clearly, clearly there is a gap between Mark Carney and Doug Ford, is a significant development. The third thing that I would say is, as the Europeans are finding out, a deal with Donald Trump is actually no deal at all. Because you do a deal with Donald Trump and months later, he puts tariffs on other things and does some sectoral tariffs and does some tariffs on your pharmaceuticals and other things. So I think know, rushing into a deal as fast as we can is, I'm nervous about that. I'm nervous about getting into a deal too quickly and then three months later finding new tariffs on new kinds of autos or new tariffs on something else. So think there's a risk of going into a deal too quickly. I think Canada should be much more fight instead of fold. And I think, you know, I think some of the things the current government has done in the last few months, I would characterize as folding instead of fighting.

Whether you thought there was a reason to get rid of the DST, the digital services tax or not, it felt like they were folding rather than fighting. So I think we need to do that. I'll just conclude with this. We do need a strategy on autos. Canada and our trade, we need to think seriously and hard about what we're gonna do in this negotiation about autos. Because right now, it feels a little bit like they're gonna be the odd man out and that's gonna be bad for Canada bad for Ontario and that's why Doug Ford is fighting. So I'll leave it there. know we have someone coming next week. He'll talk a lot more about these issues.

Tyler Meredith: Maybe I'll go next and I'll just say a couple of things. The first is, I think this is one of the files on the Canada-US trade agenda where it's actually very clear in the language that both the president and the Latinx have used what their ultimate objective is. In other

sectors, I think there's a lot of behind the scenes negotiations with opportunities to give and take, but in this case, it's bluntly obvious what they're trying to do. Not only to pull production to the other side of the border, that's already happening as we know as GM and Ford have downed some of their operations and increased them in other places in the United States. But even in what you see the president and Lutnick having said this week, it's actually clear that they have, I will say, an imperialist objective, right? Which is Lutnick and Trump have said, we want you to basically continue or you may be permitted to continue to sell us auto parts, but we want the actual assembly jobs in Canada.

And Canada has both a very vibrant auto parts sector and also an OEM production. And so what Nick is saying is you can continue to do auto parts to serve an American production assembly line, but you can't have assembly. You can't produce Silver Autos, you can't produce RAV4s, you can't produce, unless it's for your own domestic consumption, if you want to export into the United States, the assembly actually has to happen in the United States. Construction has to happen in United States.

If that's the case, it's not just one or two plants that are at risk. It's multiple plants across a bunch of different communities in Cambridge, in Ingersoll, in Oakville, in Windsor that are going to be affected by this. Because remember, 85 % or so of what we produce in Canada in the auto sector is export oriented. If we don't have access for assembly into the United States, those cars are not going to get built here, right? And so we will lose our production. And when we lose our production, we will also likely then lose our auto parts. What Dleitnick and Trump is saying is you can be a branch planned economy, Canada. We do not want you to actually be able to assemble and do your own things because at end of the day, we want at the top of the economic pyramid, we want the United States to have the full value capture of what's produced in those embedded goods. And that's a real, I mean, it hearkens back to the basic question of Canadian economic history of,

How have we taken our endowments of significant resources and tried to turn that into moving up the value chain? But that's the inherent objective that he has. He wants to make Canada a branch plant economy. And if we actually want to be a sovereign nation that captures value in what we do, we must resist that. And the last point I will just say is I think some leaders in the auto sector, on certainly the employer side, have rightfully up to this point held their fire because I think they know how integrated our Canadian and American supply chains are and they've assumed that at some point there will be a rationality that will overtake things. I think it's clear from the comments that we've seen this week that, again, to the extent that Trump actually wants to steal that production, it is very, very, very much at risk. And Canada has to decide

Do we want an auto sector? Other countries in the world, like Australia, have lost their auto sectors, right? So this is a real possibility of whether we lose our auto sector in Canada. And we must, in my opinion, for sovereignty reasons, but also frankly because it is inherent to whether we are able to build a high value added advanced manufacturing base in this country. If we want those manufacturing jobs,

right, along with all the other jobs that we want in tech and so forth. But if we want a vibrant advanced manufacturing sector, we must defend our auto sector.

Shannon Phillips: The only thing I'll add, I can't disagree with the word I've heard from either of my colleagues, but I will just add this, which is that the signal that Carney sends to Canadian domestic economy now in response to this, if we are at risk of losing 100,000 jobs, direct jobs, plus the half a million more, if we are at risk of losing 40 some odd billion value of exports then that is going to have a massive knock on effect in terms of domestic consumption in the north of the border, north of the 49th parallel. And so therefore, we need to see those, the response or the possible response within the budget. We need to see it with a level of seriousness. We need to see with a level of concreteness how Canadian workers and Canadian communities that are affected by this are going to be affected. It is not just a political question of, you know, is he losing ground to the NDP or the CPC if he doesn't do this? It is a question of signals to the economy. If you are looking at making an investment of a different kind in Southwest Ontario, you're going to be looking at some of the economic forecasts.

If this comes to pass and wondering about the economy's ability to respond to your investment, wondering about domestic consumption within Canada. This is an economy-wide crisis that will actually require a government-wide ~ response given its scale. will require a public policy response that we, akin to what we saw in COVID. I have not yet seen a lot of that articulated. I've seen it articulated very piecemeal, but that is over and above the political risks for the government there are serious economic risks that government is going to have to meet with its spending powers.

Ben Woodfinden: Okay, we'll leave that there. So we'll do this every week now. We're gonna go around the hall in here a little bit. I've asked everyone to come to the table here with something they think people should be paying attention to. Maybe it's not on the radar of everyone, but something that's important and worth watching. So I'm gonna pull a name out of a hat here and I'm gonna start with Ken here. What's something you think people should be watching this week?

Ken Boessenkool: I need to go back to our last topic. What, if anything, is the Prime Minister going to say about the auto sector? He has to send a signal, I think, and he has said very little in the last number of days. And the question is, what, anything, will he say about the auto sector? And like I hinted earlier, we'll have a guest that is very interested in these issues. So I'll leave it there.

Shannon Phillips: Going to be looking for the outcome of the postal workers strike. They've switched to these rotating work stoppages and there's a lot of indication that there's daylight between union leadership and union membership. And so how government now uses that in order to resolve this is going to be something I'm watching this week.

Tyler Meredith: All right, well, I'm going to throw a little bit of an unexpected one into the mix here. So every morning I wake up by starting my day by watching Bloomberg Surveillance on Bloomberg Television, which is the kind of headline morning show from Bloomberg TV in the US. And what's fascinating to me is that for the last month, literally every single day, they have been obsessed with talking about whether we are in an AI investment bubble whether that is an actual bubble, if it's something we should be concerned about, and at what point in time will that bubble burst? Just given the daily headlines of major deals that we're starting to see in that part of the economy, and including, as we've seen, the Trump administration also trying to get itself in by owning a piece of Intel, for example. That conversation has not been happening in Canada. And yet the government, especially Minister Almond and others, have been rapidly pursuing an agenda of wanting to make sure that Canada is competitive in this global arms race that's happening around AI. And that's, think, the right thing to do. My only point is, I'm interested to see at what point Canada catches up with that discourse around whether we are in an AI investment bubble and how, therefore, we look at investments that are being asked of by provincial governments, for example, in data centers in Alberta or Ontario, which is very much on the public agenda right now. At what point does that public sector investment around AI also potentially burst if that bubble.

Ben Woodfinden: Interesting, interesting. I'll close off here then. This week, this may not be something anyone really is paying attention to, but there's been a little bit of an unexpected growth spurt going on in the Conservative caucus and the Senate. This might not sound like it matters, but it does. The lone senator from the Northwest Territory, Senator Dawn Henderson joined the Conservative caucus bringing the number up to 13, but that's four senators that have crossed the floor, to speak, since Senator Leo Housakos became the Conservative Senate leader this summer. This matters for a few reasons, as I pointed out. First off, are, since the, you know, there's not many Conservative senators left now. They've been dwindling bit by bit with their mandatory retirement. A lot of conservative senators are due to retire in the next couple of years. The Senate obviously was reformed. There some changes brought in by the Trudeau government on this to try and make it less partisan. The Senate is still structured to have an official opposition and still has role for that. And the conservatives have been kind of playing that role in a dwindling, but still very, very important fashion. These numbers up allows them to maintain a certain caucus, which gives certain procedural benefits for that, that's resource benefits and I'll just give a shout out to Senator Housakos as well who I consider a friend as well. He's doing a remarkable job here bringing some of his colleagues over and you we don't pay much attention to the Senate. We should pay more. Quite frankly it does play a role in the legislative process so that's my shout out for the week. We'll leave it there. ~ I hope people have enjoyed this episode. Reminder to everyone to go to mbpintelligence.com. If you want more of our content, sign up for our, get written briefs things every Tuesday and Thursday. Content is complimentary for now but it won't be forever so please do consider signing up and we'll see you next week.