

## What will a Biden administration mean for Canada?

November 10, 2020

President-elect Joe Biden will likely have to work with a Republican-controlled Senate when his administration takes over early next year, although runoff elections in Georgia in January could still deliver a majority to the Democrats. The extent to which the Democrats control Congress will help determine how much of the Biden administration's agenda can be implemented, at least without compromise. In the meantime, the Biden camp has begun rolling out its early policy plans. Here's what we know:

### Re-shoring of American supply chains? Not so fast

One of the top priorities in the Biden administration's early transition plan is to "ensure the future is made in America." That will raise concerns that Canada could be shut out of U.S. government procurement. Canada is covered by the WTO's Agreement on Government Procurement (GPA), which aims for open procurement markets. But that doesn't mean Canadian exporters would be immune to a "Made in America" procurement policy. One only has to look back at the 2009 American Recovery and Reinvestment Act, put in place by the Obama-Biden administration to help the U.S. recover from the last big recession. The ARRA included significant "Buy America" provisions that created barriers for Canadian firms. In early 2010, Canada obtained an exemption from Buy American rules, but only after an intensive effort to convince the Obama administration that those rules were detrimental to our interconnected economies.

Another Biden goal, encouraging the reshoring of private-industry supply chains, will be hard to accomplish quickly. To be sure, the pace of globalization was already slowing pre-Covid, but problems sourcing medical PPE early in the pandemic underscored how difficult it is for supply chains to adjust to a major shock. Decades of increasing global trade flows have left highly integrated cross-border supply chains that would be time-consuming and expensive to disentangle, and that is especially true across the U.S.-Canadian industrial sectors.

### Narrowing Canada's immigration advantage

The Trump administration's immigration policies were perceived as giving an edge to Canada in attracting skilled immigrants from some regions. A Biden administration would increase competition for global talent, and come just as Canada has set ambitious immigration targets for the next three years to make up for a dramatic Covid-related falloff this year. The Biden campaign has pledged to lift the temporary suspension of H-1B visas, which are used extensively by the tech sector. It also aims to enable certain regions to petition for additional immigration visas – similar to the Canadian provincial nominee program. PhD students in STEM programs would be exempted from visa limits and given automatic green cards. The extent to which the Biden administration will be able to enact changes in immigration policy will depend on which party controls the Senate. But it's clear the Biden administration will be more open to immigration, creating a more competitive environment for Canada.

### The return of some predictability in international trade policy

Control of Congress is still important to the President's ability to implement a trade agenda, although the Trump administration demonstrated that significant measures can be implemented by unilateral presidential action. We expect President-elect Biden to follow a more traditional path to enacting trade policy. That doesn't mean trade tensions will disappear. Tariffs on Chinese imports are likely to remain, although the odds of further constructive negotiation will be higher than under the Trump presidency. For Can-

ada, a positive campaign message from the Biden camp was the pledge to avoid picking fights with allies. The U.S. is also expected to be more of a constructive participant in multilateral forums like the WTO. All signs point to Canadian exporters being able to operate against a more predictable international trade backdrop.

## Wary Alberta eyes fate of Keystone XL

A Biden administration has pledged to re-enter the Paris climate agreement and take a more aggressive role in policies to curb greenhouse gas emissions. As part of his environmental plan, Biden has pledged to revoke permits for the U.S. portion of the long-delayed Keystone XL pipeline project. But the overall outlook for oil production looks a lot different than it did a few years ago, when President Trump approved the project. Canadian oil & gas investment has never recovered from the 2015 oil-price collapse, and was running 80% below 2014 levels as of Q2 2020. The Trans Mountain Pipeline expansion project (now owned by the federal government) and Enbridge's Line 3 expansion are both moving ahead. Although all three pipelines are probably not needed in the near-term, further delays in building pipeline capacity would be yet another disappointment for Alberta – particularly given the provincial government's significant financial stake in the Keystone XL. Biden has also signaled he will seek to re-enter the Iran nuclear deal, which could marginally lower the price of oil. But he's likely to take a more hawkish regulatory approach to U.S. domestic oil & gas production, which at the margin could improve the relative attractiveness of investment in the Canadian energy sector.

## Awaiting Senate clarity to determine outlook for stimulus, taxes

A Biden administration's ability to impose tax-and-spend policy will depend on who controls Congress. If the Republicans ultimately end up holding the Senate, it would clearly limit the ability of a Biden administration to push through a promised partial reversal of President Trump's corporate tax rate cut – to 28% from 21% -- and to boost taxes on those earning more than US\$400,000 per year.

A Republican Senate is also likely to fall out of love with deficits and debt once in opposition. That will likely constrain the size of fiscal stimulus.