

WEBVTT

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<v SPEAKER_1>Hello and welcome to Energy Security Cubed, Canada's foremost energy geo-strategy podcast, where we explore the factors shaping energy and economic security in Canada and around the world.

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<v SPEAKER_1>I'm Joe Calnan, Vice President, Energy and Calgary Operations at the Canadian Global Affairs Institute.

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<v SPEAKER_1>For today's interview, recorded April 27th, 2026, we walked through an update on the role of energy and minerals in the upcoming KUSMA USMCA review.

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<v SPEAKER_1>With us to discuss this is Eric Miller.

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<v SPEAKER_1>Eric is a CGAI fellow and the president of Rideau Potomac Strategy Group.

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<v SPEAKER_1>He is also currently a senior advisor at Boston Consulting Group along many other affiliations.

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<v SPEAKER_1>And he's a longstanding expert in Canadian trade with the United States.

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<v SPEAKER_1>Delighted to have you on the podcast, Eric.

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<v SPEAKER_2>Thank you very much, Joe.

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<v SPEAKER_1>So to start off with, our listeners might know that you're based out of Washington DC.

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<v SPEAKER_1>So you're very much integrated with the goings on down there.

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<v SPEAKER_1>So I'd like to get your read on the general mood down in the US Capitol.

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<v SPEAKER_1>So the war in Iran is ongoing.

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<v SPEAKER_1>There's been yet another assassination attempt on President Trump, and we're ramping up to one of the most consequential trade fights with the review of USMCA CUSMA on July 1st.

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<v SPEAKER_1>So on Canada Day, we'll have some big update on how things are going there.

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<v SPEAKER_1>So I'd just like to get your sense of the tone of the mood down there.

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<v SPEAKER_1>What is the thinking down in Washington DC at this moment?

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<v SPEAKER_2>Sure.

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<v SPEAKER_2>So first of all, I'm speaking in this context for myself and not for any of the organizations I'm affiliated with.

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<v SPEAKER_2>The mood in Washington is essentially summed up by one word, which is exhausted.

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<v SPEAKER_2>There has been a whole series of actions that have taken place.

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<v SPEAKER_2>The Trump administration has been profoundly disruptive, as they promised to be during the campaign, in reshaping institutions, in going after people that the president doesn't like, in seeking to pass certain types of legislation, to roll back certain types of regulations.

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<v SPEAKER_2>People have grown used to checking their true social feed multiple times a day, because it's never too late or too early for an update.

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<v SPEAKER_2>Then you have the external context of Iran.

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<v SPEAKER_2>The war in Iran has seen gas prices go through the roof.

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<v SPEAKER_2>This has really hurt the affordability side of the equation, which the president has been hoping to work through.

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<v SPEAKER_2>Certainly, many people who voted for the president in 2024, were doing so on the idea that he would keep the United States out of wars and would deal with the affordability crisis.

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<v SPEAKER_2>But that's not necessarily what has happened.

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<v SPEAKER_2>You see the Straits of Hormuz currently closed as we speak, effectively, and the US is blockading the Iranian blockade.

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<v SPEAKER_2>So we've got multiple levels of obstacles of getting 20 percent of the world's crude to market.

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<v SPEAKER_2>So you've seen in the United States just a situation of exhaustion.

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<v SPEAKER_2>So as we look ahead to the KUSMA, or as they call it in the US, USMCA negotiations, there is a certain sense of trepidation on those on the Canadian side dealing with the United States, while also at the same time exerting confidence.

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<v SPEAKER_2>Certainly for those who are advocates of the historic approach to the Canada-US relationship in North America more generally, there is a sense of fear that the underlying infrastructure is going to fall apart.

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<v SPEAKER_2>Because the administration, for example, has said you need to get used to there being tariffs, which means we're going from a free trade environment in North America to one that is very much non-free trade.

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<v SPEAKER_2>A lot of concerns, a lot of issues that are in people's minds, and frankly, nobody's sleeping enough anymore because they're dealing with all of these different alligators.

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<v SPEAKER_2>Yeah.

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<v SPEAKER_1>I feel like there's always a concern here that there's a million things always going on in Washington, DC.

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<v SPEAKER_1>The United States has interests all over the world.

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<v SPEAKER_1>But up here in Canada, we're really just focused on this one thing, which is a trade with the United States and because of how important it is for Canadian prosperity.

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<v SPEAKER_1>Before we get into the energy and minerals considerations though, there are some concerns and this is something that has been rumored to be happening, that the United States is looking to negotiate with Canada and Mexico separately and effectively create two bilateral agreements and then merge them later or something along those lines.

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<v SPEAKER_1>This could have really uncertain impacts on the continuity of the trilateral arrangement that I think really benefits the smaller players Canada and Mexico in this.

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<v SPEAKER_1>Is this something that we should be concerned about or do you think it's being blown out of proportion?

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<v SPEAKER_2>No, I think it's something that Canada should be concerned about.

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<v SPEAKER_2>Certainly there's been a lot of uncertainty around what you could call the modalities of the negotiation.

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<v SPEAKER_2>And so at the end of last year, USTR Ambassador Jameson Greer said, well, maybe we'll pull out of the agreement and maybe we'll have a bilateral set of agreements and maybe we'll have a trilateral or some combination thereof.

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<v SPEAKER_2>And where things seem to have landed is that there will be bilateral agreements on certain areas that will then be overlaid with the current trilateral agreement.

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<v SPEAKER_2>Now that sounds very neat and elegant, but as you know, sectors are integrated together in surprising ways.

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<v SPEAKER_2>I think the largest meat processing plant in Canada is owned by Cargill in Alberta, and those cows move back and forth across the border, and people will think, well, auto parts move across the border, but do cows?

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<v SPEAKER_2>Well, in fact, they do, that they can be born in Alberta and raised in Nebraska and then shipped back to Alberta.

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<v SPEAKER_2>And so you have this integration that exists across a whole array of different sectors.

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<v SPEAKER_2>And the more that you put bilateral frameworks in place, the more that you start impacting that, because many of the sectors have in fact grown to be trilateral over time.

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<v SPEAKER_2>The classic example, of course, would be automotive.

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<v SPEAKER_2>On average, Mexico accounts for 45 percent of the content that's in a North American built vehicle.

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<v SPEAKER_2>Now intends to skew toward certain types of vehicles, but it means that if you are having rules on automotive rules of origin that are bilateral, and it says that a vehicle must be 70 percent built in Canada, in the US in order to qualify, yet 45 percent of the vehicle today is built in Mexico, then nobody is able to build a vehicle that can qualify.

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<v SPEAKER_2>As you do these bilateral arrangements, one has to keep in mind the realistic production structures that exist in order to be able to carry through a bilateral structuring.

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<v SPEAKER_2>So there are just existing ways that structures are done, as we've talked about previously, about Canadian heavy crew going to the US Midwest.

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<v SPEAKER_2>That's how the system works, and if you put in place

barriers to that, it means that the system begins to break down, and that would be a very bad thing for everybody involved.

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<v SPEAKER_2>So yes, in principle, this can work, but one has to be very, very clear about how these agreements would relate to each other, what would be trilateral, what would be bilateral.

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<v SPEAKER_2>Given that there is no sense at the moment that Canada, Mexico, and the United States are all going to be in the same room.

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<v SPEAKER_2>It's all just bilateral conversations, if no conversations at all, mainly in the case of Canada, then you could end up with a situation where you create rules that don't work for anyone and would have to be revised over time.

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<v SPEAKER_1>That just creates additional uncertainty where no companies are really aware when all this is going to be resolved, when they finally have the-

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<v SPEAKER_2>The poor cow gets stuck at the border.

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<v SPEAKER_1>Yeah, exactly.

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<v SPEAKER_1>Then that creates affordability issues across the supply chain.

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<v SPEAKER_2>Absolutely.

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<v SPEAKER_1>Yeah, because all of these companies, they're unsure if they can invest in where they can invest and what makes most sense for them.

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<v SPEAKER_1>They're going to become less certain about all that stuff.

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<v SPEAKER_1>It could really cause a recession and that wouldn't be good for anybody.

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<v SPEAKER_1>But let's turn to really the energy context of these negotiations and this broader context.

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<v SPEAKER_1>The current energy crisis resulting from the closure of the Strait of Hormuz and the broader instability in the Middle East has really resulted in a massive spike in fuel prices across the world.

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<v SPEAKER_1>This includes in the United States.

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<v SPEAKER_1>Canada is, of course, a very stable and reliable energy supplier for the US.

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<v SPEAKER_1>That's something that we're proud of up here in Canada.

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<v SPEAKER_1>I'd just like to, and I think I know the answer to this, but I like your thoughts along these lines.

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<v SPEAKER_1>Do you think that this current kind of affordability crunch provides an opportunity for Canada to really open conversations on Coos Marine Review by emphasizing how useful it is to have these sort of stable trade relations on energy, but then also more broadly on the rest of the integrated economy?

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<v SPEAKER_2>Yeah, absolutely, because right now, the president is staring down midterm elections in a number of months down the road in November, and there are affordability challenges.

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<v SPEAKER_2>I think part of the challenge that Canada and, indeed, Mexico have had with this Trump administration, the second one especially, is to have them understand that trade within North America, including in energy, is tangibly different than trade with China or Japan or Europe or any other partner, that there is a level of integration which exists that doesn't exist anywhere else.

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<v SPEAKER_2>They've done studies on this, for example, and they found that in a typical Mexican export to the US, it's about 40 percent US content coming back in.

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<v SPEAKER_2>So that's a lot of US content which went to Mexico, got

transformed and came back.

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<v SPEAKER_2>In the case of a typical export from China, you're looking at more like three to five cents in content.

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<v SPEAKER_2>What it means is that the depth of impact of North American supply chains on the mid-stream of suppliers is something that is much larger and is not really understood.

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<v SPEAKER_2>I would also wonder how many people in the administration fully grasp also the Canada-US energy relationship.

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<v SPEAKER_2>The linkages, for example, that Alberta has with the refineries in Pad 2 in the Midwest.

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<v SPEAKER_2>You also have heavy dependence on Canadian heavy crude in the Mountain West, even in the Gulf Coast in some cases.

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<v SPEAKER_2>To have them understand that, no, you cannot just replace this with Texas light-sweet crude that lo and behold, they're all different and they're used to make different products downstream and all the rest of it.

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<v SPEAKER_2>To have an understanding that the Canadian energy relationship provides the United States with a reliable, affordable supplier of energy is something that's critical.

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<v SPEAKER_2>When you look at the United States, yes, the Trump administration will say, we have all of this energy abundance, we don't need the rest of the world.

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<v SPEAKER_2>But the United States is exporting huge amounts of natural gas to Europe and as a response to the energy crisis that was created by the displacement of Russian natural gas coming into that particular market.

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<v SPEAKER_2>There are huge numbers of benefits that the United States gets.

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<v SPEAKER_2>Incidentally, and their estimates vary, but a significant amount of the oil and natural gas that is exported from the US Gulf Coast is actually Canadian origin.

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<v SPEAKER_2>Canada provides supply into those refineries and those refineries export, but they're classed as American exports.

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<v SPEAKER_2>Even on America as an energy superpower that's feeding the world, it's actually feeding the world with Canadian feedstock.

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<v SPEAKER_2>So having an understanding of the interconnectedness of energy supply chains is a critical precondition to maximizing the advantages that should be able to be realized.

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<v SPEAKER_2>Canada should be a major energy supplier to the United States, and it should be a major energy supplier to Asia.

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<v SPEAKER_2>All of those years that Canada did not build pipelines to the West Coast, all of the years that it did not develop 10 versions of LNG Canada, now come back to haunt Canada, because 20% of Qatar's natural gas infrastructure, on an estimate is that it's been destroyed.

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<v SPEAKER_2>And so that means that Germany, who had a 27-year contract with Qatar, signed after former Prime Minister Trudeau said there was no business case in selling natural gas to Germany.

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<v SPEAKER_2>All of a sudden, they can't get access to those inputs anymore.

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<v SPEAKER_2>And there's no war in Alberta, there's no war in BC.

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<v SPEAKER_2>Canada should be supplying what the world needs, but it has to actually commit to getting infrastructure built quickly.

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<v SPEAKER_2>And this would have a positive impact both on Canada standing in other countries, including in Washington, but also on economic development and dynamism in Canada itself.

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<v SPEAKER_2>And so, you know, this is the moment, and we need to be able to seize this moment, but if you don't seize it, you can't deliver the benefits, and all of that good stuff which could flow from being the world's reliable energy supplier doesn't happen, doesn't materialize, and including the relationship with the US., which is made much stronger by energy, so all of a sudden gets put into question ways that it shouldn't be.

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<v SPEAKER_1>Yeah.

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<v SPEAKER_1>It's a good point that, and I've made this point before, that this infrastructure is some sort of, it's treated as an environmental menace until it's already built, and once it's built, it becomes so critical that we can't possibly ever shut it down because it's just, this energy infrastructure is so important for both Canada's domestic energy security, but also our relationships with our partners internationally.

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<v SPEAKER_1>So this is how we got to think about this infrastructure.

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<v SPEAKER_2>I mean, if you had an oil pipeline to the West Coast, the long-standing curse of the differential on Western Canadian select would all of a sudden disappear because you've got optionality there.

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<v SPEAKER_2>So this is what Canada needs, is optionality.

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<v SPEAKER_2>It needs to be able to sell to Asia, it needs to be able to sell to the United States, and having a good strong energy relationship with the United States is something that on the face of it should be easier than putting this on a tanker and shipping it across the Pacific because of the pipeline connectivity and all the rest of it.

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<v SPEAKER_2>And I think we want to lean into that, but there's enough out there that you can lean into that and lean into Asian exports at the same time.

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<v SPEAKER_1>Absolutely.

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<v SPEAKER_1>Now, I'd like to quickly turn to Mexico, kind of getting into some of the historical kind of grievances that we're popping up

here.

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<v SPEAKER_1>Canada, of course, is not the only member of the trade agreement that the United States has historically been upset with.

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<v SPEAKER_1>And actually, Canada has also had some issues with Mexico too on the energy side.

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<v SPEAKER_1>And this is specifically, or the concerns over how energy investment has been treated by the Mexican federal government and effectively, you know, whether it's a competitive investment situation or American and Canadian companies looking to set up energy projects in Mexico.

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<v SPEAKER_1>So since the CUSMA agreement came into force, there was some, there was, of course, agreements around investment, trying to make it more free market for energy companies.

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<v SPEAKER_1>However, Mexico, both the United States and Canada have raised concerns that the Mexican government is discriminating against foreign energy companies, including those based in Canada and the United States.

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<v SPEAKER_1>Through kind of favoring places like Pemex and I forget the name of the electricity, state-owned electricity company.

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<v SPEAKER_2>The CCE.

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<v SPEAKER_1>Yes, yes, that's it.

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<v SPEAKER_1>But do you anticipate, this hasn't been talked about very much lately, I think there's just been other things in the news, but do you think that these concerns could come up again in negotiations around the agreement?

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<v SPEAKER_2>Yeah, so there's two levels to these concerns.

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<v SPEAKER_2>I guess first to take a step back and put the foundation.

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<v SPEAKER_2>In 1938, Lazaro Cardenas, who was one of the very biggest, most famous of the post-revolutionary period presidents, essentially nationalized the energy sector, and it was put into the Mexican Constitution that energy is reserved for the state.

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<v SPEAKER_2>And so even if you read back in the original NAFTA, it says Article 1 of the energy chapter is, energy is reserved to the state in Mexico.

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<v SPEAKER_2>When the Pinyonieto government came along and they were in power for much of the renegotiation of the NAFTA agreement, they wanted to attract foreign capital into the sector.

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<v SPEAKER_2>And the reason is that Pemex didn't have the money to put the latest efficiencies in place, they didn't have the technology, they were not structured as a competitive enterprise, because if you're a state-owned electricity company that essentially feeds the government with resources, efficiency is not your most prized attribute.

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<v SPEAKER_2>And so the Pinyonieto government came in and said, we're going to privatize the electricity sector and we're going to do all of these nuances to have competition in the oil and gas sector.

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<v SPEAKER_2>And then you had the Morena government, the left-leaning Morena government of Andrés Manuel López Obrador that essentially choked this back.

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<v SPEAKER_2>But during that period, you got important investments, particularly on the electricity side in Mexico.

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<v SPEAKER_2>And so you have a company out of California called Sempra Energy, for example, that has a big wind farm in Tecate in northern Mexico.

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<v SPEAKER_2>And you have various discussions about the extent to which they're being able to operate.

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<v SPEAKER_2>Because the government of López Obrador, and now of President Scheinbaum, has put Mexico's energy back into the

traditional understanding of electricity is owned by the government, oil and gas is owned by the government.

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<v SPEAKER_2>But you have had this investment that's come in and you've had people who've had varying degrees of experiences.

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<v SPEAKER_2>I mean, some Canadian companies, for example, have had major issues in Mexico with rights of way and local communities and all of that sort of stuff.

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<v SPEAKER_2>So it's a messy issue.

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<v SPEAKER_2>If you're the Mexican government, you'll say, well, we have in the agreement fundamentally reserved the control of energy for the state.

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<v SPEAKER_2>What Pena Nieto was trying to do was a pragmatic response to the situation faced by many state-owned enterprises where there's not enough capital invested in infrastructure, there's not enough capital invested in new technology.

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<v SPEAKER_2>Where Pemex is especially is they burned through a lot of the easy-to-access oil wells and you need new technology, which is available in market-based energy economies that allows them to access harder to reach but abundant resources in the ground.

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<v SPEAKER_2>What's essentially happened is you had a partial opening, choking back Mexico will say, the Constitution always says that it was the power of the state, and you have this weird hybrid period.

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<v SPEAKER_2>Now, the Trump administration, I don't think will be too preoccupied about this being in the Mexican Constitution.

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<v SPEAKER_2>They'll say, we want opening for US energy companies and how you deal with the legal side of it is your issue, and certainly, if you're a US investor that has assets on the ground, they're going to want to be sure that those US investors are treated fairly.

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<v SPEAKER_2>But it's a bit of a complicated situation where you had the legacy of a partial opening and then resistance from the current

government to doing anything like that again.

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<v SPEAKER_1>Yeah.

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<v SPEAKER_1>I guess also got to wonder, since Donald Trump hates windmills so much, whether that could enter into the situation where whatever, like you said, Sempra or the other companies that have established renewables down there, which are now being in some ways locked out of the market, I suppose, by the state-owned electricity company, whether they have the ins with the Trump administration to advocate on their behalf for this down in Mexico.

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<v SPEAKER_1>But that's a whole other question.

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<v SPEAKER_2>It will be a tricky advocacy situation for those that have assets in Mexico and the renewable space.

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<v SPEAKER_2>Of course, the real tragedy of this is that Mexico doesn't have the latest technology for oil and gas production.

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<v SPEAKER_2>It doesn't have a road to building a truly modern electricity grid that would allow it to take electric vehicles and data centers at scale, and all these other things that people might want to put on the grid online.

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<v SPEAKER_2>But that's a policy choice and also a legal foundation, which they will have to grapple with.

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<v SPEAKER_2>But certainly the Trump administration and Canada, in cases where Canadian investors have been impacted, which they have, will have to figure out where and how they want to push this in the negotiation.

00:24:34.817 --> 00:24:39.417

<v SPEAKER_2>But fundamentally, Mexico will just turn back and say, read our Constitution.

00:24:40.397 --> 00:24:41.077

<v SPEAKER_1>Absolutely.

00:24:41.497 --> 00:24:51.557

<v SPEAKER_1>Now, as much as it would be great for Canada to not get

the eye of Trump so much and for most of this to be Mexico, I don't think that's the way any of this is turning out.

00:24:52.597 --> 00:24:59.117

<v SPEAKER_1>I think auto manufacturing is one area that's going to be very contentious where it comes to Canada-US negotiations here.

00:25:00.237 --> 00:25:15.097

<v SPEAKER_1>One of the issues that I think could pop up, and you can tell me if I'm right here, is when Canada agreed to import a small number of Chinese-built electric vehicles as part of this normalization of relations with China.

00:25:15.357 --> 00:25:17.097

<v SPEAKER_1>I mean, you can call it normalization.

00:25:17.097 --> 00:25:24.397

<v SPEAKER_1>Other people are saying that Canada has been going further than that, and there's questions about the strategic thinking behind it.

00:25:25.437 --> 00:25:27.737

<v SPEAKER_1>Of course, there's all sorts of complications here.

00:25:28.077 --> 00:25:32.817

<v SPEAKER_1>But there's this agreement on Chinese-made electric vehicle imports into Canada.

00:25:32.937 --> 00:25:39.317

<v SPEAKER_1>There's also talks about Chinese companies establishing factories in Canada as well to build electric vehicles.

00:25:41.077 --> 00:25:48.697

<v SPEAKER_1>I think that this could be an area of concern for the Trump administration, even for future administrations, even Democrat administrations.

00:25:49.317 --> 00:25:51.357

<v SPEAKER_1>I could anticipate this being an issue.

00:25:51.657 --> 00:25:55.097

<v SPEAKER_1>But how are these developments being perceived south of the border?

00:25:55.177 --> 00:25:56.757

<v SPEAKER_1>Are they being talked about at all?

00:25:56.757 --> 00:26:02.757

<v SPEAKER_1>Or what's kind of the takeaways that you think Canadian policymakers should be aware of?

00:26:03.597 --> 00:26:04.637
<v SPEAKER_2>Yeah.

00:26:04.917 --> 00:26:14.757
<v SPEAKER_2>So before Mark Carney went to China, there was absolutely zero focus or interest in what Canada may or may not do with China.

00:26:15.477 --> 00:26:28.637
<v SPEAKER_2>And he went to China, and you kind of have this coming roughly around the same time as the Davos speech and the discourse around rupture.

00:26:29.077 --> 00:26:39.017
<v SPEAKER_2>And now, Canada-China relations are very much on the radar screen of the Trump administration.

00:26:39.517 --> 00:26:54.537
<v SPEAKER_2>Now, first of all, I think it's important to say that the deal that Canada made with China is remarkably similar in structure and scope of ambition as the deal that the US made with China in November.

00:26:55.397 --> 00:26:59.917
<v SPEAKER_2>So the US deal focused on let's get the flows of rare earth elements back.

00:27:01.017 --> 00:27:03.077
<v SPEAKER_2>That's something the US wanted from China.

00:27:03.257 --> 00:27:11.237
<v SPEAKER_2>In the case of Canada, it wanted to get certain agricultural products in.

00:27:11.237 --> 00:27:16.237
<v SPEAKER_2>The US also wanted sorghum and logs and things of that nature.

00:27:16.237 --> 00:27:26.697
<v SPEAKER_2>So you had some natural resource pieces, you had some elements that each country wanted, and then there was some statements about we're not going to raise further tariffs.

00:27:26.997 --> 00:27:32.977
<v SPEAKER_2>Now each country did that deal based on its own perceived set of national interests.

00:27:32.977 --> 00:27:36.177
<v SPEAKER_2>So it's not like the US hasn't been doing deals with China.

00:27:36.377 --> 00:27:41.737

<v SPEAKER_2>China is a central player on a lot of these fronts, so everybody's dealing with them.

00:27:42.357 --> 00:27:48.577

<v SPEAKER_2>But there also is the question around the future of the auto sector.

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<v SPEAKER_2>And, you know, there has been some frustration in Canada around perceptions and actually real actions that there have been some reduction of footprint in Canada at the behest of the Trump administration.

00:28:06.217 --> 00:28:19.037

<v SPEAKER_2>And this has led to a situation of quite overt conflict with the Carney government and with US automakers.

00:28:19.297 --> 00:28:42.097

<v SPEAKER_2>Now, as a matter of fact, when you look at the structure of production in Canada, Toyota and Honda account for 75% of the output of vehicles in Canada, so in places like Austin, Ontario on the Honda side and Cambridge, Ontario on the Toyota side and so on.

00:28:42.337 --> 00:28:46.757

<v SPEAKER_2>So you've got a lot of production coming from Japanese producers.

00:28:47.317 --> 00:29:24.737

<v SPEAKER_2>There is a view which one can put a question mark around, but there is a view in certain quarters that the future of the Canadian auto sector is perhaps much more Asian than it is North American, where what we've seen on the US side is essentially an ability to factor out US content in vehicles, because you know how we talked earlier about how much intermediate content goes into a lot of these products.

00:29:25.157 --> 00:29:34.517

<v SPEAKER_2>If you say on average, a fair guess would be that 50 percent of the value of North American built vehicle would be US content.

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<v SPEAKER_2>What it means is that if you're supposed to pay a 25 percent tariff on a vehicle export that's going from Canada into the United States, you can effectively see that cut in half to 12.5 percent if you are counting the US content.

00:29:54.677 --> 00:30:20.697

<v SPEAKER_2>So there are question marks though, that if there is this long-term structural disadvantage of the Canadian parts sector, where companies are given incentives to not use Canadian or Mexican parts but to use US parts, that perhaps de-linking the sector is something which is desirable.

00:30:20.957 --> 00:30:28.517

<v SPEAKER_2>Now, I'm not putting this out as a statement that I would see it this way, but there is a view out there that would see that.

00:30:28.517 --> 00:30:46.837

<v SPEAKER_2>As part of the accompanying perspective on that would be, the Koreans are likely, and they've indicated they want to set up an assembly plant in Canada, particularly if a certain company were selected for a certain submarine contract.

00:30:47.297 --> 00:30:58.397

<v SPEAKER_2>But the idea would be that Korea would manufacture Kia or Hyundai in Canada.

00:30:59.017 --> 00:31:06.157

<v SPEAKER_2>You would have also, in the vision of some people, a Chinese assembly plant that would come in.

00:31:06.217 --> 00:31:17.437

<v SPEAKER_2>Now, the problem with the BYDs of the world is they're all vertically integrated, and they tend not to buy from the local supply base and all of those sorts of problems.

00:31:17.597 --> 00:31:37.777

<v SPEAKER_2>But still, people say, all right, if we get Korea, we get a Chinese plant, we've got Toyota and Honda, do we need to fight as hard for exports to the US, or could the sector survive behind tariff walls where everything that comes from the US gets hit with a similar level of tariffs?

00:31:38.257 --> 00:31:52.357

<v SPEAKER_2>Now, that's a big gamble, and the dynamism within the sector is such that large Canadian parts producers and smaller Canadian parts producers supply an awful lot into the market.

00:31:52.577 --> 00:32:03.437

<v SPEAKER_2>There's this debate about how do you deal with the problem that the Trump administration has wanted to put structural disadvantages on Canadian parts producers?

00:32:04.577 --> 00:32:06.577

<v SPEAKER_2>What is the policy response to that?

00:32:06.817 --> 00:32:13.817

<v SPEAKER_2>How do you ensure that those measures are not included in the future?

00:32:14.697 --> 00:32:27.737

<v SPEAKER_2>If there is a moving away of the seamless integrated North American auto supply chain, then the question becomes what comes after, and what is the role of the US as an export market?

00:32:28.517 --> 00:32:44.077

<v SPEAKER_2>If we do a hard scrutinizing of the numbers, is the proposition that a China-Korea investment coupled with the investments that you have now, does that make for a workable situation?

00:32:44.077 --> 00:32:53.797

<v SPEAKER_2>And do companies like Ford that sell, you know, the Ford F-150 has been the best-selling vehicle in Canada for decades, literally for decades.

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<v SPEAKER_2>You know, do you get Ford to make that in Canada if you can't ship it from Chicago?

00:32:59.817 --> 00:33:02.877

<v SPEAKER_2>And so, you know, there are a lot of second-

00:33:02.877 --> 00:33:10.977

<v SPEAKER_2>and third-order effects that are coming from the, you know, what may or may not happen from the auto sector.

00:33:11.397 --> 00:33:18.957

<v SPEAKER_2>But, you know, certainly there are debates about fundamentals in ways that we have not seen really for decades.

00:33:18.957 --> 00:33:27.137

<v SPEAKER_2>I mean, the last time we had a serious discussion about the directionality of the auto sector, I guess, was after NAFTA, then it was after the Canada-U.S.

00:33:27.137 --> 00:33:30.917

<v SPEAKER_2>Auto Pact, in 1965.

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<v SPEAKER_2>But, yeah, things, you know, the times they are a change in, but the question becomes changing to what and benefiting whom and punishing whom in the process.

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<v SPEAKER_2>So this is going to be one of the most tricky issues for the countries to navigate.

00:33:50.897 --> 00:33:51.637

<v SPEAKER_1>Yeah, yeah.

00:33:51.637 --> 00:34:05.297

<v SPEAKER_1>And it's gonna be challenging if we do have kind of a splintering of this market, especially in Canada, if we want to have, you know, like if we're trying to get companies to invest in new lines of production for all these different models of cars.

00:34:05.297 --> 00:34:16.157

<v SPEAKER_1>Like, I'm not, I can't see for sure how many models of cars are finished in Canada, but it's definitely not the whole range that are available for sale, for purchase.

00:34:16.517 --> 00:34:18.457

<v SPEAKER_2>Well, Joe, and it's not just cars.

00:34:18.697 --> 00:34:27.797

<v SPEAKER_2>I mean, when you, so one of the things that, you know, 10 years ago I worked on, had to do with the tire sector.

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<v SPEAKER_2>So you had, Michelin has three plants in Nova Scotia.

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<v SPEAKER_2>And the kind of trade-off that was made for years was that during Iraq and Afghanistan wars, every single tire that went on to a US Army Humvee was made in Nova Scotia.

00:34:49.937 --> 00:34:59.037

<v SPEAKER_2>But every single one of those tires that was used on the giant machines digging in the oil sands was made in South Carolina.

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<v SPEAKER_2>And so what it meant was that Michelin was able to reach economies of scale on the mega tires in South Carolina and seamlessly export them to Alberta and that those plants in Nova Scotia were able to supply the US and you got efficiencies through economies of scale and specialization, Adam Smith would be proud.

00:35:23.697 --> 00:35:32.797

<v SPEAKER_2>But when you begin to break this apart, it means that all of these types of arrangements begin to fracture.

00:35:32.797 --> 00:35:51.257

<v SPEAKER_2>Because if there's a 25% tariff on the mega tires that go into the oil sands, maybe there's fewer of them that go into the oil sands, or maybe somebody sets up a production facility in Canada, but it means that the production facility in Nova Scotia is maybe not supplying the US military in the same way.

00:35:51.837 --> 00:35:56.077

<v SPEAKER_2>And so these things are complicated.

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<v SPEAKER_2>We've had such a positive beneficial arrangement among the three countries.

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<v SPEAKER_2>And one of the things we have to keep in mind, and I know that President Trump talks about, we don't need it, I don't care if we have an agreement.

00:36:11.057 --> 00:36:23.657

<v SPEAKER_2>But at the end of the day, there are thousands upon thousands upon thousands of companies who are seeing benefits from this level of interconnection.

00:36:23.657 --> 00:36:31.017

<v SPEAKER_2>You even take semiconductors, which is seen as the most advanced of the economic sectors.

00:36:31.237 --> 00:36:37.837

<v SPEAKER_2>Well, IBM makes advanced semiconductors in New York state, and they finish them in Montreal.

00:36:38.897 --> 00:36:50.497

<v SPEAKER_2>And so, you have the housing, which actually takes the sensitive product and makes it into a workable product that you can put into a machine.

00:36:50.837 --> 00:36:53.657

<v SPEAKER_2>That finishing, in that case, is done in Montreal.

00:36:53.717 --> 00:37:12.417

<v SPEAKER_2>And so, you have specialization and benefits in just every sector you can imagine, from cows to cows with semiconductors on them, to that come from this kind of specialization.

00:37:12.417 --> 00:37:20.317

<v SPEAKER_2>And I think we have to really take a step back and ask, well, if this ends, it ends badly.

00:37:20.717 --> 00:37:26.737

<v SPEAKER_2>And it ends badly, likely with retaliatory tariffs and animosity.

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<v SPEAKER_2>And for your energy listeners, considering we've already seen the Trump administration look at 10% tariffs on oil and gas

exports and on critical minerals, that's not a good situation.

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<v SPEAKER_2>And it's also not a good situation for consumers in the US.

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<v SPEAKER_2>And so before we jump off the edge, go ahead.

00:37:51.077 --> 00:37:56.077

<v SPEAKER_1>For the longest time, those exports, there was that 10% tariff.

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<v SPEAKER_1>But they're shielded, like if you managed to do the paperwork to get it put under USMCA, then they were exempt.

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<v SPEAKER_1>So all of the oil and gas companies, they had just taken the most favorite nation, tariffs for so long because the paperwork, they just didn't think the paperwork was worth it.

00:38:11.937 --> 00:38:13.357

<v SPEAKER_1>They all switched the paperwork.

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<v SPEAKER_1>But now with this review, we have no idea where USMC Acusma is going to go.

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<v SPEAKER_1>And then that shield could go away.

00:38:21.377 --> 00:38:26.297

<v SPEAKER_1>And then who knows what sort of terrorists would be feasible without those carve-outs.

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<v SPEAKER_1>So yeah, that's definitely.

00:38:29.157 --> 00:38:30.397

<v SPEAKER_1>Yeah.

00:38:30.397 --> 00:38:37.517

<v SPEAKER_1>And so as a final question before we wrap up, I know that this is really where you thrive, where you've been doing a lot of your work lately.

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<v SPEAKER_1>Let's dig a little bit into critical minerals.

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<v SPEAKER_1>And so big interactions between critical minerals and chips with EVs, with advanced missiles, all of this sort of stuff.

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<v SPEAKER_1>And really, what I want to dig into is that the fragility of the American Defense Industrial Base has been highlighted by the ongoing war with Iran.

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<v SPEAKER_1>Some of these technologies, which are really like, you know, operating at the limits of physics, require very specific types of materials in order to function.

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<v SPEAKER_1>And before all of this trade stuff started really popping off, there was quite a few discussions about Canada and the United States really cooperating very closely on critical mineral supply chains.

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<v SPEAKER_1>So I'm interested in talking a little bit about where that stands right now.

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<v SPEAKER_1>So what is the current status of this cooperation between Canada and the United States on supply chains for some of these materials?

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<v SPEAKER_1>And would you see the trade tensions have complicated or derailed any of these discussions?

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<v SPEAKER_2>Yeah.

00:39:45.677 --> 00:39:52.237

<v SPEAKER_2>So, I mean, first of all, the Defence Industrial Base is very fragile.

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<v SPEAKER_2>The Trump administration has tried to be more aggressive than the Biden administration and they indeed have been.

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<v SPEAKER_2>But as one who's looking at projects and counting what's in the stockpile in the United States, they need to be 10 times more aggressive.

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<v SPEAKER_2>I mean, they need to move a lot of capital and a lot of projects forward.

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<v SPEAKER_2>That's not a criticism of them because it's easy for me to sit there and do it, but they're operating within an institutional context and they need to look at different projects to assess are they good and useful and all of these sorts of things.

00:40:39.337 --> 00:40:41.437

<v SPEAKER_2>So, we need more activity.

00:40:42.337 --> 00:40:52.277

<v SPEAKER_2>In terms of the bilateral relationship, so, historically, you've had a good bilateral relationship.

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<v SPEAKER_2>Interestingly, the US, due to some SEC regulations, some years back, did a lot to diminish its mining sector.

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<v SPEAKER_2>It's coming back now.

00:41:05.217 --> 00:41:21.357

<v SPEAKER_2>So, the reason why a lot of the best mining finance deals in the world are done in Toronto is because there is a depth and breadth of knowledge and capital in Toronto to fund mining that just doesn't exist in New York in the same way.

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<v SPEAKER_2>So, you've had Canada as a good partner for financing, a good partner for investment in the United States.

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<v SPEAKER_2>One of the things that we've seen is a clear, tangible example of how the USMCA or CUSMA process has been complicating this is, the Trump administration in early February held a summit on critical minerals in DC and they've announced a process called FORGE.

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<v SPEAKER_2>FORGE was supposed to be an initiative of 50 plus governments where you'd have cooperation and price floors and things around to guard against Chinese market manipulation, which essentially means that the Chinese have a predominant share of control of supply and can put material on the market or withdraw it at will and engage in the radical process of buying low and selling high.

00:42:27.577 --> 00:42:31.937

<v SPEAKER_2>So the administration has been wanting to look at allies and partners to deal with that.

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<v SPEAKER_2>Well, one of the things that was said by Minister Enan coming out of that was Canada's participation will essentially be conditional on the success of the Kuzma or USMCA negotiations.

00:42:48.737 --> 00:42:51.937

<v SPEAKER_2>Now, this is something that the administration is frustrated by.

00:42:52.397 --> 00:43:14.437

<v SPEAKER_2>The government would tell you that in a context where everything is a battle of leverage and Canada is looking to build up maximal leverage that it could give away or concessions that it could offer over time, they're saying, why would we sign up for free when we might be able to be paid to join later?

00:43:15.837 --> 00:43:22.297

<v SPEAKER_2>But this is the kind of bargaining pervades everything mindset we are in and we are looking at.

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<v SPEAKER_2>The reality is that from a formal perspective, Canada is an incredibly beneficial partner to the US and is in a very beneficial position.

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<v SPEAKER_2>Since the 1950s, Canada has been considered domestic for the purposes of the US defense industrial base, which means that you can seamlessly sell to the US military.

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<v SPEAKER_2>It means that the US can invest in Canadian projects.

00:43:52.337 --> 00:44:05.137

<v SPEAKER_2>Indeed, we have seen during the Biden administration or we saw cases where the US and Canada co-invested in particular critical minerals projects in Canada.

00:44:05.697 --> 00:44:12.437

<v SPEAKER_2>That was again something where you are trying to provide financing to move essential projects forward.

00:44:12.677 --> 00:44:29.597

<v SPEAKER_2>I think we can get there again, but because everything now is caught up in the dynamics around trade, it means that areas where Canada and the US both have an interest in cooperating end up getting complicated.

00:44:30.517 --> 00:44:38.737

<v SPEAKER_2>I think the thing we have to keep in mind is a lot of what Canada needs to do, make its processes move faster.

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<v SPEAKER_2>I mean, to your oil and gas listeners, this may sound familiar, but you need to get permitting done more quickly.

00:44:45.417 --> 00:44:47.137

<v SPEAKER_2>You need to get approvals done more quickly.

00:44:47.137 --> 00:44:48.717

<v SPEAKER_2>You need to get infrastructure done.

00:44:48.877 --> 00:44:54.577

<v SPEAKER_2>There are people like Premier Doug Ford who are really leaning into the ring of fire.

00:44:55.677 --> 00:45:00.877

<v SPEAKER_2>When you look at the major projects office, there are some mining projects that are on that.

00:45:00.877 --> 00:45:12.257

<v SPEAKER_2>But the demand and interest from the world for these minerals is so profound that much like the Trump administration needs to move faster, so too does Canada.

00:45:12.737 --> 00:45:18.457

<v SPEAKER_2>Because, if we do that, then we are actually in a position to reweight the stakes.

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<v SPEAKER_2>Now China has dominant market positions in commodity after commodity, because over the last 30 years, they invested in refining, they have a large stockpile, they are able to deploy that stockpile and deploy that refining capability to their own benefit.

00:45:38.537 --> 00:45:48.537

<v SPEAKER_2>Where the Western countries, including Canada and the United States, need to go is they need to recognize that you need that infrastructure in your own countries.

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<v SPEAKER_2>At the same time, you also have to recognize that Canada and the US are not China, and that things are going to cost more.

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<v SPEAKER_2>Solving this vexing problem of who pays the differential between Chinese price and the Western price, that's going to have to be dealt with.

00:46:09.277 --> 00:46:42.217

<v SPEAKER_2>Because when you look at the subsidized nature of the Chinese system of production, the fact that you have certain materials that were maybe mined with child labor and some jurisdictions with lower regulatory environments, and they go into the Chinese supply chain and that we have very robust traceability rules in place to guard against that, all of that leads to a better, more ethical supply of critical minerals.

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<v SPEAKER_2>But the problem with ethical supplies of critical minerals is someone has to be willing to pay the price differential between the unethical and the ethical.

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<v SPEAKER_2>There's a big government role in helping to drive the downstream users of that to be able to take that on board, albeit in a manner which is fair and distributive to others in the supply chain.

00:47:08.857 --> 00:47:10.817

<v SPEAKER_2>There are a series of vexing problems.

00:47:11.017 --> 00:47:15.697

<v SPEAKER_2>The thing to keep in mind though is, you have the resources in North America.

00:47:16.737 --> 00:47:21.137

<v SPEAKER_2>That is something which people in many other places don't have.

00:47:21.457 --> 00:47:25.917

<v SPEAKER_2>So you need to have nickel deposits in order to be able to mine nickel.

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<v SPEAKER_2>We've got nickel deposits in North America.

00:47:29.837 --> 00:47:38.797

<v SPEAKER_2>When you look at copper, copper has gone crazy because everything that involves electricity conductivity needs copper.

00:47:39.137 --> 00:47:58.217

<v SPEAKER_2>But there is a mine that's owned by Rio Tinto in Arizona, that they are seemingly now getting through the process of permitting and eventually building and commissioning, that will supply 25 percent of the world's copper from Arizona.

00:47:58.477 --> 00:48:06.437

<v SPEAKER_2>And so solutions are there in the US, in Canada, and in other jurisdictions that are friendly.

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<v SPEAKER_2>But we have to do what's necessary to both build a downstream market foundation for it, and to actually get those things permitted so they can get the production to begin with.

00:48:16.677 --> 00:48:17.777

<v SPEAKER_1>Yeah, absolutely.

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<v SPEAKER_1>We had to get out of our own way, and to learn how to work together again, I think, is kind of the big takeaways for both Canada and the United States.

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<v SPEAKER_1>And quite a few of our problems are really self-inflicted.

00:48:30.717 --> 00:48:35.137

<v SPEAKER_1>I feel as though, you know, in a lot of cases, we kind of need to look in the mirror.

00:48:35.377 --> 00:48:42.257

<v SPEAKER_1>But overall, I think Canada and the United States have, there's so many ways in which working together makes so much more sense in trying to go it alone.

00:48:42.417 --> 00:48:45.597

<v SPEAKER_1>So my hope is that we get back to that idea.

00:48:46.117 --> 00:48:51.157

<v SPEAKER_1>But one last question for you, Eric, and this is something our listeners are always interested in.

00:48:51.157 --> 00:48:54.937

<v SPEAKER_1>And I'm sure that you have something very interesting on your bedside table.

00:48:55.077 --> 00:48:58.097

<v SPEAKER_1>What is a book that you'd like to recommend to our audience?

00:48:59.837 --> 00:49:07.017

<v SPEAKER_2>I'm reading right now, A Gentleman in Moscow by Amor Towles.

00:49:07.757 --> 00:49:24.117

<v SPEAKER_2>It's a fantastic story of Count Rostov, who is basically, when the Soviets take over, he is essentially sentenced as a former aristocrat to life in the Metropol Hotel in Moscow.

00:49:24.117 --> 00:49:38.217

<v SPEAKER_2>And so it tells the story of his life as a prisoner in a hotel in a period of profound change in what then was the Soviet Union and following it over time.

00:49:38.217 --> 00:49:48.397

<v SPEAKER_2>I haven't finished it yet, so luckily for listeners, I cannot provide spoilers, but I'll be glad to come back on and blow the ending if you would like in the future.

00:49:48.577 --> 00:49:49.617

<v SPEAKER_1>Yeah, absolutely.

00:49:49.617 --> 00:49:54.417

<v SPEAKER_1>Now, when this podcast is released, I'll actually be down in Washington, DC staying at a hotel near the White House.

00:49:54.417 --> 00:49:58.457

<v SPEAKER_1>So hopefully, I don't end up in the same situation as The Gentleman in Moscow.

00:49:58.617 --> 00:50:02.337

<v SPEAKER_1>I'd rather not have a book about me called The Gentleman in Washington, DC.

00:50:03.097 --> 00:50:13.177

<v SPEAKER_2>Well, we would have very much bigger problems in the USMCA negotiations if they were taking you prisoner, but we'll do our best to be vigilant.

00:50:13.437 --> 00:50:13.877

<v SPEAKER_1>All right.

00:50:13.877 --> 00:50:14.277

<v SPEAKER_2>Perfect.

00:50:14.277 --> 00:50:15.437

<v SPEAKER_1>Thank you so much, Eric.

00:50:16.117 --> 00:50:17.517

<v SPEAKER_1>Thanks so much for coming on.

00:50:17.517 --> 00:50:28.777

<v SPEAKER_1>I think this is really useful information for our listeners, and we'll be doing more along these lines talking about energy and the KUSMA trade considerations.

00:50:28.777 --> 00:50:29.877

<v SPEAKER_1>Thank you so much for coming on.

00:50:29.877 --> 00:50:30.517

<v SPEAKER_1>This is great.

00:50:30.717 --> 00:50:31.417

<v SPEAKER_2>My pleasure.

00:50:32.777 --> 00:50:39.717

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00:50:40.397 --> 00:50:43.037

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00:50:43.417 --> 00:50:45.337

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00:50:45.517 --> 00:50:49.277

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00:50:50.377 --> 00:51:01.337

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00:51:05.777 --> 00:51:09.357

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00:51:09.937 --> 00:51:12.437

<v SPEAKER_1>Thanks go out to Drew Phillips for our music.

00:51:12.957 --> 00:51:14.057

<v SPEAKER_1>I'm Joe Calnan.

00:51:14.257 --> 00:51:16.697

<v SPEAKER_1>Thanks for listening to Energy Security Cubed.