



## AFTER 7 YEARS AND 4 CAMPAIGNS, A MAJORITY!

Let the electioneering end and the work of governing Canada begin. The clear winner and undisputed champion on May 2<sup>nd</sup> was Prime Minister Stephen Harper. After seven years of nearly constant campaigning, four elections, three Liberal leaders (one Prime Minister and two in opposition) and many gut-wrenching twists and turns along the way, a sufficient number of Canadian voters agreed with Mr. Harper's simple, consistent and forceful campaign message that it was time for a majority government. And as any wise politician knows, the voters are always right.

History was made on May 2<sup>nd</sup>, with consequences that could reverberate in Canada's political firmament for years to come. One needs only to look at the table below to see why:

- The once mighty Liberal Party of Canada has, for the first time since its 19<sup>th</sup> century inception, been reduced to third party status in the House of Commons.
- The leader of the perennial third or fourth party, the NDP, will now sit directly across from the Prime Minister in the House of Commons, as well as occupy Stornoway, the official residence reserved for the Leader of the Official Opposition.
- The Green Party of Canada, although seeing its percentage of popular vote reduced significantly, elected its first Member of Parliament.

With the election over, and Prime Minister Harper presiding over a very comfortable majority for the first time in his five-plus years as PM, it is time to focus on what the newly installed Conservative government will be working on in the coming weeks, months and years.

| <i>Final Seat Count<sup>1</sup></i> |     |
|-------------------------------------|-----|
| <b>Conservatives</b>                | 167 |
| <b>NDP</b>                          | 102 |
| <b>Liberals</b>                     | 34  |
| <b>Bloc</b>                         | 4   |
| <b>Greens</b>                       | 1   |

## PRIORITIES OF A CONSERVATIVE MAJORITY

While the constant electioneering of the past seven years is over, Prime Minister Harper and his closest advisors will nevertheless have an eye on the October 2015 election as they craft their political and policy agenda over the next four years. How do they consolidate their impressive gains in the Greater Toronto Area? How do they maintain and build on their seat count in the rest of vote-rich Ontario while at the same time keeping their bedrock western base happy? What can they do to keep the NDP strong enough to keep the Liberal Party down but not so strong as to become a truly viable alternative in 2015? These questions and more will be on Mr. Harper's mind as he and his inner circle prepare Mandate Letters for every Minister setting out the PM's priorities and expectations.

<sup>1</sup> Note: there are two ridings under judicial recount – Etobicoke Centre, ON and Montmagny-L'Islet-Kamouraska-Riviere-du-Loup, QC. Both of them were declared for the CPC on election night.

With the electoral Sword of Damocles no longer hanging over Mr. Harper's head, look for slow, steady, incremental change that will entrench the Conservative Party at the centre of the Canadian political landscape, if not the political spectrum. Remember, Stephen Harper's goal since he became the Leader of the united Conservative Party back in 2004 has been to replace the Liberals as Canada's "natural governing party". No one should expect the Prime Minister to shift his government to the hard right. He will occupy, and govern from, the new middle.

Governing from the new middle of the political road should deliver some good news to Canada's business community. For starters, the corporate tax rate will fall, as scheduled, to 15 percent next year. The record federal deficit incurred during the global meltdown will be eliminated by 2014-15, barring another global economic catastrophe, a year earlier than projected in the ill-fated 2011 Budget. The pro-trade agenda will continue apace, with a particular focus on agreements with the European Union and India. And work will continue on the *Declaration on a Shared Vision for Perimeter Security and Economic Competitiveness* announced jointly by Prime Minister Harper and U.S. President Obama in February 2011.

What else will we be looking for of interest to our clients and to the business community at large? Here are some policy developments to watch for in the early days and months of the 41<sup>st</sup> Parliament:

- Infrastructure – Permanent funding will be provided for municipal infrastructure through the Gas Tax Fund. And, a long-term plan for public infrastructure will be developed with provinces, territories and other stakeholders extending beyond the expiry of the current Building Canada Plan.
- Aerospace – A policy framework will be developed to enhance the competitiveness of Canada's aerospace and space industry. This initiative will be supported by stable funding for the Strategic Aerospace and Defence Initiative (SADI).
- Regulatory Reform – A bill will be introduced requiring the government to follow a One-for-One Rule. Every new proposed regulation will have to be met with the elimination of an existing regulation. Moreover, the work of the Red Tape Reduction Commission, on hold during the election campaign, will recommence and report to the government later this year.
- Capital Cost Allowance – The 50 percent straight-line accelerated Capital Cost Allowance rate for manufacturing or processing machinery and equipment will be extended.
- Copyright Reform – A *Copyright Modernization Act* will be re-introduced. If launched early enough in the new majority mandate, such a bill will pass this time.
- Securities Regulator – If the Supreme Court of Canada rules that the proposed Canadian securities regulator championed by Jim Flaherty would be within the jurisdiction of the federal government, the Government of Canada will continue on its determined path to work with willing provinces and territories to establish such a body.

- Property Rights – A long-held grievance in some quarters is the absence of the protection of property rights in the Charter of Rights and Freedoms. While the Harper Government would rather collectively walk five miles in tight shoes than launch a process to amend the Constitution, some incremental changes can be made to respect and protect property rights. For starters, the *Species at Risk Act* will be examined with a view to having compensation paid when compensation is owed.

In the medium term, the Harper government will wrestle with a few thorny policy issues raised during its minority mandates that can now be dealt with given the comfort of a solid majority in the House and Senate. These include:

- Telecommunications Ownership Policy – In a minority Parliament, the Conservative government hinted at reforms to the foreign ownership restrictions imposed on telecommunications enterprises but was not in a position to make changes that would potentially be controversial. Armed with a safe majority, it is likely that the federal government will engage in a serious policy discussion regarding foreign ownership. With regard to telecommunications, it is reasonable to expect the government will adhere to its earlier plan to review foreign ownership in the context of the wireless spectrum auction scheduled for 2012. Stay tuned.
- Foreign Investment Review – The previous Harper government surprised many (but not TACTIX' experienced foreign investment advisors) with its decision in the fall of 2010 to block the proposed acquisition of Potash Corp. by BHP Billiton. The post-Potash announcement of an *Investment Canada Act* review was set aside because it was considered to be a political hot potato in the context of a pre-election minority Parliament. Mr. Harper will want to reassure the foreign investment community that Canada remains open for business. Accordingly, it would not be surprising if the “net benefit to Canada” test set out in the Act were examined or, at a minimum, if some further degree of clarity was provided to the international investment community.

Although not of particular interest to Canada's business community, the newly elected government will reward its faithful base in Western Canada by quickly addressing three key policy items, namely:

- Early passage of an omnibus law and order bill;
- Terminating the long-gun registry; and
- Phase-out and elimination of public subsidies to federal political parties.

## GETTING THERE FROM HERE – THE PROCESS STORY

Although the Governor General has issued a Proclamation calling for the return of the House of Commons on May 30<sup>th</sup>, it is the prerogative of the Prime Minister to determine when the 41<sup>st</sup> Parliament will commence its proceedings. For a very practical reason – the ability of the Government of Canada to continue funding its operations – PM Harper will get Parliament back to work sooner rather than later. The election prevented Parliament from voting Supply on the Main Estimates which must be passed by no later than June 23<sup>rd</sup> (we are not aware of any precedent that would permit later passage). The Estimates provide the government of the day with its funding.

With that bookend in mind, the likely schedule of events is as follows:

Week of May 9<sup>th</sup>: The Prime Minister will announce his Cabinet and the composition of his Cabinet Committees. It is reasonable to anticipate that he will make a moderate (i.e., not minor, not major) shuffle of the Cabinet to replace lost ministers (3 from Quebec, 3 from BC) who either did not run or who failed to win re-election. The PM will want to put a new face on his government and therefore is expected to move top talent like John Baird from his role as Leader of the Government in the House of Commons (a key role in a minority, less so in a majority) to a post with other government priorities. One key post to keep a watch on is that of the President of the Treasury Board. As the General Manager of the Government of Canada, the Treasury Board will oversee the strategic and operating review of all direct program spending. The objective of this review is to achieve a minimum of \$4 billion in ongoing annual savings, representing 5 percent of the review base, by 2014-15. In addition to examining the ongoing relevance of existing federal programs, this review will focus on operating expenses and enhancing the productivity of the public service. This job requires a strong-willed Treasury Board President who will be called upon, along with the Minister of Finance, to resist the pleas of fellow Cabinet ministers to spare their departments and agencies from the proverbial axe.

Week of May 30<sup>th</sup>: The House is likely to meet, with the first order of business being the election of a new Speaker (former Speaker Peter Milliken did not run in Election 2011). This is done by secret ballot and any sitting MP is eligible to run, save members of the Cabinet and leaders of official parties. Given the Conservatives' majority status, it is safe to assume they will have a clear preference and that candidate will be elected. Many pundits are speculating that former Minister Michael Chong may get the nod from his Commons colleagues.

The day after the election of the Speaker, the Governor General will open the 41<sup>st</sup> Parliament with a Speech from the Throne. The Speech (written by the Government) will lay out the Conservatives' plans for the coming session of the House. In addition to the policy initiatives outlined above, the Speech will almost certainly set the tone of the majority Harper government: one that is moderate, co-operative and focused on an agenda that is more ambitious than what was possible in a minority Parliament.

Week of June 6<sup>th</sup>: The Estimates must be re-tabled, debated and adopted in the House before June 23<sup>rd</sup>. It is also reasonable to anticipate the tabling of a Budget bearing a striking similarity to the one tabled by Minister Flaherty on March 22<sup>nd</sup>. This would be consistent with the government's narrative that the recent election was unnecessary and the work of Parliament that was interrupted by the campaign must commence anew.

Week of June 23<sup>rd</sup>: The House will break for the summer and the Senate will likely not sit much longer.

Summer 2011: As the new Cabinet rolls up its sleeves, the real work of developing the policies of a majority government will get underway. Come September, the work of the 41<sup>st</sup> Parliament will begin in earnest.

## LONGER TERM IMPLICATIONS OF ELECTION 2011

### Democratic Institutions

The Senate and the judiciary have long been targets of conservative scorn in Canada, criticized as agents of past Liberal administrations. What then can we expect of a majority Conservative government regarding these institutions of our democratic system? With regard to the Senate, the government is committed to re-introducing legislation that would limit the terms of Senators. Moreover, the Government of Canada will work with provinces to establish a process for selecting Senators. This work should get underway *post haste* – over the course of the government's four year term no fewer than 26 Senators are scheduled to retire (12 of whom are non-Conservatives). Assuming that a sufficient number of Senators appointed by way of a democratic selection process in co-operation with the provinces are Conservatives, this guarantees that the majority currently enjoyed by the Conservatives in the Senate will continue unabated many years into the future. The Harper government will have no trouble getting its legislative agenda passed in the House and Senate for the next four years.

Significant changes are also in the offing for the composition of the Supreme Court of Canada. Four Supreme Court justices are scheduled to retire over the next four years, giving the Prime Minister the opportunity to appoint his choices to the Court. We are fortunate that the extreme politicization of the Supreme Court selection process in the United States is not part of the Canadian political tradition. This is expected to continue. Nevertheless, having already appointed two Supreme Court judges, the future appointment of four more judges by Prime Minister Harper means that his appointees will constitute a clear majority of the 9-person court. It will also mean that conservatives will, in future, no longer be able to point to the Court as an alleged instrument of past Liberal administrations.

### National Unity

The Conservative's majority was fashioned without significant support from the Province of Quebec. The new reality facing Quebeckers is that they are at the mercy of a majority government in which they have scant representation. Quebeckers have placed their faith in record numbers in the federalist New Democratic Party, soundly rejecting the Bloc Quebecois, a party committed to Quebec sovereignty. This has interesting implications for the national unity file, which may once again rear its ugly head should the separatist Parti Quebecois form the next provincial government following the 2012 Quebec election. First, any new national unity threat from Quebec would be met by a majority federal government rather than a tentative, fractured minority Parliament. This is good for Canada. Second, NDP leader Jack Layton spoke openly during the election campaign about the possibility of constitutional change to make Quebeckers feel more secure within Canada. This has created expectations, putting enormous pressure on the 58 NDP MPs elected in Quebec and potentially creating a political minefield for Mr. Layton. Disappointment in the failure to deliver to Quebeckers could stir up national unity unrest in the province. The Conservative's decision to provide the Quebec government with over \$2 billion in compensation for agreeing to harmonize its sales tax with the federal Goods and Services Tax years ago will provide some salve to aggrieved wounds, but experience tells us that this is highly unlikely to be sufficient. Canadians should expect the national unity file, one that has been subdued for many years, to come alive again in the next few years.

## POLITICAL FACTOIDS THAT MAY BE OF INTEREST ONLY TO US

Election 2011 yielded some interesting outcomes. Here are some of our favourite political factoids:

- Stephen Harper becomes only the third Conservative Prime Minister since Confederation in 1867 to win three consecutive elections, joining Prime Ministers Macdonald and Diefenbaker.
- This will be the first majority government in Canadian history so poorly represented (6 out of 75 seats in the House of Commons) by Quebec, Canada's second largest and only majority francophone province.
- Mr. Layton commands 58 seats from Quebec; on his best day, three-time majority Prime Minister Chretien only mustered 37 seats in the province.
- The youngest MP in Canadian history was elected in Sherbrooke, Quebec at the age of 19 years, 11 months, surpassing the mark long held by former MP and Mulroney-era Minister Perrin Beatty.
- The Liberal Party caucus will be comprised of more appointed Senators than elected MPs.

## THE WAY FORWARD

A brand new Parliament is an exciting time for those of us in the government relations business. Our clients have numerous new MPs and political staff with whom they must meet and build relationships; fresh Parliamentary Committees will be struck; Cabinet Ministers – some old hands and some rookies – will be handed responsibility for the work of their departments and agencies; new policies, regulations and bills will come forward, some of which has been waiting in the wings of the minority Conservative government to be tackled by a majority Conservative government; and new decision-making processes may emerge. It is a time of renewal, of excitement, of possibilities. TACTIX' team of experienced strategic advisors will watch closely for opportunities for our clients, keep a close eye out for unintended consequences of actions that may be considered by the government, and be on guard for regulatory burdens that may not be well understood by decision-makers. And that is the TACTIX difference: we know because we have been there.

Thank you for reading our Election Watch 2011 Commentary series. We look forward to working with you in the months and years ahead.

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