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The U.S. Elections and the End of Comfort for the Canadian Government

The presidential elections in the U.S. have triggered an unexpectedly hectic activity in Canadian government policy. For Justin Trudeau's minority government, which was almost written off, new opportunities have emerged—at least in the short term—to demonstrate its ability to act in challenging times. Just a few weeks before taking over the G7 presidency, the election campaign in Canada is already well underway. The Conservatives, led by Pierre Poilievre, continue to lead decisively in all polls.

Dr. Bernd Althusmann

The US elections give the Trudeau government only a modest lift

The clear outcome of the presidential elections in the U.S. came as unexpected and surprising to many Canadians and the local media. The consequences for Canada might be greater than previously assumed, and Donald Trump's election could potentially influence the already ongoing election campaign in Canada.

For months, polling institutes in Canada have been predicting a change in government. The Conservatives, who have been in opposition since 2015, currently enjoy high levels of trust, with around 60 percent of Canadians wanting a change in government. Many no longer believe that Justin Trudeau's incumbent government is capable of addressing the upcoming challenges. Canada is facing a serious challenge: the expansive public budget has led to high levels of debt, with the budget deficit now exceeding 40 billion Canadian dollars, resulting in increasing tax and contribution burdens. An unprecedented housing shortage, partly due to high immigration in recent years and weak construction activity, continues to worsen. Canada's economic performance is faltering, and the declining

productivity of its industries is causing much-needed investments to dwindle. According to many experts, the quality of healthcare and medical services has significantly deteriorated. By the next scheduled parliamentary election for the House of Commons in October 2025, a change in government in Canada is highly likely. With strong positions on reducing the high tax and contribution policies, addressing energy and climate policy—which in Canada is divided between provincial and federal responsibilities—and tackling housing policy, Conservative opposition leader Pierre Poilievre is skillfully using every opportunity to put the government on the defensive.

Meanwhile, Justin Trudeau's government has, in recent weeks, left little opportunity unused to make its policies appear, at times, as though they might not have been fully thought through. With the majority of Liberals, once again supported by the NDP under party leader Singh, the Parliament passed a law to temporarily suspend Canada's tax on certain holiday essentials and specific items for two months. However, its implementation could fail to achieve the intended effect due to complicated case-by-case regulations. The government aimed to

provide relief to lower-income groups and to mitigate the high energy and living costs for the Canadian population just before Christmas. Surprisingly, this tax reduction or two-month suspension also applies to, among other items, alcohol including beer and wine as well as treats and Christmas trees. As expected, the opposition, parts of the business community, and even some provincial governments have criticized this plan, which is limited to the period from December 14, 2024, to February 15, 2025, as impractical and overly complicated. Some of the taxes being reduced or suspended are not applied at all by certain provinces. The opposition has labelled it a transparent election manoeuvre, claiming it will turn out to be a flash in the pan that costs taxpayers a significant amount of money. With a \$40 billion hole in the Canadian budget, this project comes with additional costs of over \$1 billion, as every Canadian is also supposed to receive a one-time payment of 250 Canadian dollars in early spring 2025.

The U.S. election surprised Canada

While the debate over this specific measure continues, the Canadian government was indeed surprised by the outcome of the U.S. presidential elections. Whether the Canadian government was sufficiently prepared for a second term of Donald Trump, as some now claim, remains open to question. However, the clear result in favour of Donald Trump served as a wake-up call for the Canadian government.

The committee on Canada-U.S. relations, which had reportedly been largely inactive since 2017, was immediately reactivated. Ultimately, however, it wasn't just Trump's re-election that was decisive for Trudeau's government, but also Trump's unequivocal demand for action on issues such as illegal migration and drug trafficking, which he directly raised in interviews. While Trump's statements may have been provocative, for Justin Trudeau, this presented possibly the last opportunity to demonstrate his government's ability to act—and to do so as visibly as possible for Canadians.

Trump's warning to Canada and Mexico that he would impose a 25% tariff on Canadian goods if there were no concrete measures to curb illegal

migration from Canada to the U.S. and combat cross-border drug trafficking was a direct challenge that prompted immediate action from the Canadian government.

This threat hit the Canadian economy at a particularly vulnerable time, as Canada is already grappling with weak economic productivity and a trade dependence of roughly 80% on the U.S. The interdependence between the Canadian and U.S. automotive and supplier industries means such tariffs would have devastating effects on Canada's economic stability. Even before the U.S. election, the Canadian Chamber of Commerce had warned of severe losses in the event of Trump's victory. Exports of the oil, gas, and mining sectors could drop by 40%, automotive exports by 20%, and Canada's GDP could shrink by 1.7% by 2028 (The Globe and Mail, October 10, 2024).

Recognizing these dangers and responding to Trump's threats, Justin Trudeau seized the opportunity for an immediate lightning visit to Donald Trump in the first week of December. Following this meeting, he strategically informed party leaders in Parliament and then the public about the initial results, emphasizing that further discussions were planned, particularly after Trump's inauguration on January 20, 2025. In the meantime, numerous delegation meetings are scheduled to highlight the U.S.'s dependence on Canada as a supplier of resources and gas. Regardless of the actual outcomes, Trudeau's actions represent a shrewd political move, and it is remarkable how he has positioned himself as the sole defender and statesman for the Canadian public in dealings with the incoming Trump administration.

Whether this perceived success will materialize remains to be seen, as Trump's demands extend beyond migration and drug enforcement issues.

NATO-Partner Canada and the Arctic

The new U.S. administration under Donald Trump is well-known for expecting all NATO allies to significantly increase their defence efforts and national defence budgets. Canada, currently spending about 1.3% of its GDP on defence, remains far from NATO's so-called 2% target.

Trump's threat to withdraw the U.S. from NATO, though legally difficult to execute, serves as an effective pressure tactic on Canada and other European allies. The fact that Canada had pushed the NATO goal of 2% GDP spending to 2032 has already been flagged by the new Trump administration in talks with the Canadian government, which has prompted immediate actions and activities from Canada.

Coincidentally or not, Canada has now presented a new Arctic Foreign Policy aimed at prioritizing the region in light of threats from Russia and China. With this strategy, the Canadian government also seems eager to demonstrate to the U.S. its willingness to contribute more to the shared defence of the NATO alliance. Canada plans to invest approximately 34 billion Canadian dollars in expanding its defence infrastructure, with additional billions allocated to dual-use infrastructure and supply chain enhancements in the coming years.

Issues surrounding supply chain security and infrastructure, as well as cybersecurity, are taking on a new level of importance. On December 6, 2024, Canada's Foreign Minister Mélanie Joly announced the establishment of two new consulates in the Arctic, headed by a dedicated ambassador for Arctic affairs. Additionally, provinces and the rights of Indigenous peoples, especially concerning land ownership, will be given greater consideration. However, all stakeholders now recognize that without dual-use civilian and military infrastructure, the defence and surveillance of the Arctic and its maritime routes will not be feasible.

After years of debates on the Arctic's strategic importance and numerous NATO partner initiatives, Canada plans to strengthen Arctic security through an additional alliance with the U.S. and Nordic countries in the European Union. Increasing violations of airspace and border activities by Russia and China require a clear response from Canada as well. The security of sea lanes and international trade routes, which could open up during periods of ice-free conditions, demands joint efforts from all northern nations.

A renewed Arctic agenda is essential, especially as discussions within the Arctic Council, particularly with Russia, have often failed to

produce tangible results or cooperation. At the Halifax International Security Summit (November 22-24, 2024), Canada's Foreign Minister Mélanie Joly echoed sentiments from her colleague Bill Blair, the Canadian Defence Minister since 2019/2020, who has long advocated for an improved Arctic strategy with additional funding. Activities by Russia and China have significantly escalated since Russia's invasion of Ukraine. As a result, improved collaboration among northern nations—including Finland, Sweden, Norway, Denmark, Iceland, Germany, Canada, and the U.S. with Alaska—will be essential to strategically protect the Arctic as a gateway against aggression from Russia and China. Infrastructure related to undersea cables, pipelines, roads, and sea routes has become a heightened focus for Canada. Canada will need to reevaluate its insufficient road and rail infrastructure in the North-South axis, improve maritime defences in the Indo-Pacific and North Atlantic regions, and strengthen its air forces within the NORAD framework alongside the U.S.

Unexpected Help in the Election Campaign

Until a few weeks ago, hardly anyone in Canada expected that the U.S. election would offer the still-in-office government of Justin Trudeau any new opportunities for political positioning, at least in the short term. But it was precisely the U.S. election that provided the sitting Prime Minister with the opportunity to defend his government's policies and prepare the Canadian population for difficult times. However, the agreements reached with the new Trump administration were unclear in their outcome. Therefore, the Conservatives, led by Pierre Poilievre, remain for many people in the country the only hope for change and economic recovery. Trust in the current government seems to have been permanently damaged. Despite nearly 10 years in opposition, the Conservatives have yet to find a clear solution to the unexpected and indirect assistance from the U.S. on this matter. They find themselves in a difficult position, as the surprisingly re-elected President of the United States is, according to media reports in Canada,

not particularly popular. A position opposing the Trudeau government is therefore hardly possible for the Conservative Party if it does not want to risk being seen as arguing against Canada's interests. Ultimately, there remains only the seemingly justified criticism that Justin Trudeau

has not achieved anything particularly exemplary. The election year of 2025 is expected to be an important and exciting one for Canada. Most political observers anticipate early elections in the spring of 2025.

Konrad-Adenauer-Stiftung e.V.

Dr. Bernd Althusmann
Leiter des Auslandsbüros Kanada

www.kas.de/canada
bernd.althusmann@kas.de

