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SOURCE: PCO

DATE: MARCH 30, 2009

REFERENCE/ RÉFÉRENCE: 3003doc1

LOCATION/LIEU: NEW YORK, NY

TIME/ HEURE: 9:30

LENGTH/DURÉE: 63:23 MINUTES

PRIME MINISTER'S INTERVIEW WITH THE FINANCIAL TIMES

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For Internal Information and Research Purposes only

RT. HON. STEPHEN HARPER (Prime Minister of Canada): We're on...

REPORTER: And the team is recording it also, so you'll have your recording.

RT. HON. STEPHEN HARPER: Yes, the Prime Minister's Office always records these things for posterity, so...

REPORTER: That's good, that's good, and they've even kindly offered to send it to us, should our tape recorder not work.

KORY TENNEYKE (Director of Communications for the Prime Minister): Hi there.

REPORTER: Hi, how are you Kory? Nice to see you.

KORY TENNEYKE: Yes, thanks.

REPORTER: (Inaudible) want to sit down. And did you get something to eat?

RT. HON. STEPHEN HARPER: No, I just had something to eat. I'm trying to stay away from all of this stuff. I guess there's some fruit there I could have.

REPORTER: I'm sure (inaudible), there's some fruit which is probably safe.

RT. HON. STEPHEN HARPER: Well, I just had some fruit, so I'm fine, thanks.

REPORTER: Anyway, as you may have seen from today's FT, we spoke to President Obama on Friday, and our main line of questioning was about the G20, and one of the things obviously that we pressed him on a little bit was this apparent division between the Europeans

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and the Americans on how much fiscal stimulus is necessary. What we were wondering was whether Canada might find itself playing a little bit of a mediating role, understanding as it does the American position, but finding itself maybe in terms of its own financial house a little bit more similar to the Europeans and maybe not needing to step on the gas quite so heavily.

RT. HON. STEPHEN HARPER: Well, first of all, I think it is important that we do reach a consensus on these issues. My discussions to this point have convinced me that the gaps aren't nearly so wide as has been suggested in some media. Canada's own fiscal stimulus is bigger than most European countries, but not as big as the American. Now, obviously we're in a, you know, a different position. Our financial position from which we're obviously executing this fiscal stimulus is much stronger. We can execute a considerable fiscal stimulus, and as long as we keep the spending temporary, we shouldn't have any kind of structural deficit problem. I would say, though, what I would emphasize in this discussion when we get to it in London is less the size of the fiscal stimulus. I do think it's important that everybody do at least the two percent (inaudible)...

REPORTER: At least two percent or 1.8?

RT. HON. STEPHEN HARPER: Two percent is the number we've been throwing around, but I think everybody should do, you know, what the IMF has been suggesting, and do it in a way that's not protectionist; that's also important. But probably the most important thing about stimulus as we have been looking at ours is that it actually be delivered in a timely manner. Some, you know, problem or concern I have with some stimulus programs is that, you know, if you're out there conceiving whole new spending initiatives, it's going to be a considerable time before that gets out the

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door. We actually do need the fiscal stimulus right away. We don't need it a year from now or two years from now. What we've done in Canada to try and achieve that is we have actually for the most part we have a range of stimulus initiatives, but for the most part, what we've done on infrastructure is we have simply accelerated and moved forward existing capital expending plans, and we've done that in coordination with other levels of government. The advantage of doing it in coordination with other levels of government, besides it's more effective, is that it actually will help us make this a time-limited initiative as well, because if they're all putting their skin in the game, they have every incentive at the end of this to also, you know, come out of it and go back to more normal spending levels. So yeah, I hope we'll find...I hope we'll find a consensus on this issue. I'm optimistic we will and I, as I say, I'm also hopeful that, you know, that consensus will involve doing at least what the IMF has asked for.

REPORTER: Some people have talked about how this summit might not be enough and that already attention is turning to the next G20 meeting, and that might be the one where there's a breakthrough?

RT. HON. STEPHEN HARPER: Well, I think there will be another G20 meeting. I...you know, I really do hope we make significant progress here. I think it's important to point out that a lot has actually occurred since the last G20 summit. You know, most countries have undertaken fiscal stimulus measures. There has been somewhat better coordination on the monetary policy side. The trade standstill hasn't been fully respected, but you know, nevertheless we haven't seen any kind of massive drift yet towards protectionism, though that remains a danger. And certainly although the financial sector problem is not fixed, the situation is much more stabilized than

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it was in November. So I think there's been considerable progress. There's been a bunch of working groups set up. As you know, Canada has co-chaired with India the working group on future financial regulatory reform. We have a very good report, which I think will gain consensus. Essentially what we're... you know, we did come down on that one in a kind of a middle ground position. We hope we'll get the support of both the United States and Europe, Europeans and others, and that is that we actually think it is important that you have strengthened system of national regulation as opposed to an international system of regulation. Canada's own case is proof that a strong system of regulation can...national regulation can in fact work. At the same time, we do think in a global market where global instruments are being traded, what we need is some kind of peer review mechanism so there is...without, without impinging on national sovereignty there can be some kind of international assessment and review of financial national regulatory systems and then countries can respond to those recommendations...

REPORTER: And would that be through the IMF or a new body?

RT. HON. STEPHEN HARPER: I think it's done... should have checked this before I came. There is such a thing done now. I believe it's done through the IMF now. Canada has subjected itself to those, and has always found those to be very useful.

REPORTER: (Inaudible) IMF.

RT. HON. STEPHEN HARPER: Yeah, yeah, very useful. So no reason it couldn't continue to be done through the IMF. The Americans and others, some of the emerging countries, have been resistant to such an idea, but I...you know...

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REPORTER: Do you think you might give in this time?

RT. HON. STEPHEN HARPER: Well, I see certainly indications they will. Look, we're in a global market with global problems. There has to be, you know, some significant level of global cooperation in addressing these things. If we simply address them...you know, if we simply draw...we simply make policy solutions respect borders, then that's not going to be sufficient to deal with problems we've got in front of us.

REPORTER: Just...just to follow up on this question of follow-ups...to this summit, which obviously had a fair amount of achievements as far as I can see so far, but presumably you're going to have to decide when you're there where you go with this group next.

RT. HON. STEPHEN HARPER: My sense is...my sense is...

REPORTER: And what is...where are you on the agenda?

RT. HON. STEPHEN HARPER: My sense is there's probably momentum to another meeting. But I'm always reluctant to get into that because I'd like to see how much we can accomplish at this one first.

REPORTER: What I was going to ask following on that is what issues do you think...(SOUND OF GLASS SMASHING)

RT. HON. STEPHEN HARPER: Oops, I'm sorry.

REPORTER: Just be careful.

RT. HON. STEPHEN HARPER: Oh boy, that really shattered.

REPORTER: Don't cut yourself.

REPORTER: Reminds me of my home life. I have two little kids.

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REPORTER: It's still helpful...

RT. HON. STEPHEN HARPER: Sorry.

REPORTER: Knew these napkins would come in handy, if not for food! But what I was going to ask is on the basis of what you see as the outcome of this summit, what should (inaudible) need further work? I've been very struck by the recent discussions (inaudible) led by the Chinese on the future of the international reserve system, the role of the SDR in that context. (Inaudible) the whole question of global imbalances. There also seem to be quite (inaudible). Do you see this as an agenda that still has to be addressed, or...?

RT. HON. STEPHEN HARPER: Well, it's an agenda that is going to be addressed. I...and I'm not trying to dismiss the importance of any of those things. I just think it is critical at this summit our number one priority be restarting global growth, dealing with the lingering causes of the slowdown, and having the will to take coordinated action to deal with that. That's not to say that all these other issues aren't important, won't form part of this or a future discussion. But I do think one of the big risks at these kinds of summits is...is that they become about the process. They become about structures, about institutions, about arrangements, instead of about the problem at hand. Now, I'm not saying they're unrelated, but we could have a lot of meetings to discuss these institutional issues. That's actually not why we're meeting in the first place. So that's kind of my concern.

REPORTER: (Inaudible) question on what...there is some difference between...there seems to be a consensus that the IMF's resources should one way or another be increased to deal with the problems of

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emerging economies...well, to deal with the problem. And some difference on scale, where do you think you'll come out?

RT. HON. STEPHEN HARPER: Well, we definitely support doubling it and our minds are open in terms of going higher than that. And you know, we certainly recognize there has to be some kind of reconstitution of the shares. We've been supportive of steps in that direction in the past, even though we've been one of the ones hardest hit in terms of our own share coming down, but we viewed these developments as inevitable. I would just say this. I would hope that if we get into that kind of discussion, that we, you know, we talk about the other side of it, which isn't just the desire or even, quote, the "right" of emerging economies to play a bigger share in these things according to their rowing power, but also their responsibilities. I am concerned, I was vocal at the last G20, although I was in a minority, I remain vocal about the fact that underlying systems of global imbalances cannot be perpetuated. You know, I do think that's...it certainly...it certainly...in a sense, not the most burning issue, but I do think it's an underlying cause of this problem, when, you know, there are policies that are dependent on, you know, some countries accumulating significant imbalances in one direction, balanced off by other countries being heavy borrowers and spenders, and I don't think that kind of system can continue in the long term, so we need...we need more balance in the global system, and I would suggest that those emerging economies who want to have greater role in the international dialogue are going to have to take the responsibilities that go with that. And that's, I think, moving away from the system of global imbalances that is problematic.

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REPORTER: You hit the bull's eye there, because Martin has just published a book on global imbalances as the central illness of the global economy, so...

REPORTER: Very final question: has Canada thought about this issue of SDR allocations? Seems to have (inaudible) the last few weeks as an idea. If you have one, what would your position on that be?

RT. HON. STEPHEN HARPER: We haven't taken a firm position. I think it is true, to start with Krista's initial question, that on some of these things we do, you know, we do try and act in a sense as a bit of a conciliator on some of these issues. We're maybe not a central player or a central debater.

REPORTER: Can we maybe turn to the cars?

RT. HON. STEPHEN HARPER: Sure.

REPORTER: Oh, can I ask one more thing about G20?

REPORTER: Sure!

REPORTER: Just the story that we carried not so long ago about your hosts in London separating G20 into two different groups, and Canada being in the lower half, as it were, a second-rate G20 country. What did you make of that? What do you make of that?

RT. HON. STEPHEN HARPER: Well, I won't comment on it. I'll just say that at the last G20, you know, all countries were treated equally around the table. You know, we're not under any illusion that by the very nature of their size, some voices are louder than others. I expect it'll be the same at this. I don't expect there'll be anything that will distinguish, you know, a tier one from a tier two country. Canada's, you know, Canada's position at these kinds of summits is interesting in that we are often in a

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position where we're big enough to matter, but not big enough to be a threat to anybody, so we're often in a position of being able to express opinions that can be seen as genuine best interest opinions as opposed to a kind of a vested interest or a camp. And that's an advantage we have. Of course, the other advantage we have is that among the developed countries, we're...you know, we...we're in a different...we're in a different situation. We're not one of the developed countries that is in any way a cause of this problem. We have a strong banking system. We're not a source of any contagion for anyone else. And we have, as you know, a number of other strong attributes, strong balance sheets, strong record of monetary policy, strong public pension plan, so you know, it gives us a unique voice in this debate we're having today. We're not one of the developed countries everyone points at and says, "You caused the problem."

REPORTER: Is that, is that issue looming large? I mean, we had the Brazilian President talking about blue-eyed people causing the crisis.

REPORTER: (LAUGHING) Blue-eyed white people?

REPORTER: Yeah.

REPORTER: Blue-skinned people, the real cause.

RT. HON. STEPHEN HARPER: You know, let's face it, in the last couple of decades, you know, the developed world, through international institutions have imposed real serious constraints on a lot of developing economies, particularly when they've had financial crises of their own. And now...and now the shoe's on the other foot, and now when a lot of developed countries get up and say, you know, well, you know, as we normally do, here's how we believe it should be fixed, others are saying well,

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hold on. This time you're the cause. So this is a different kind of debate. So yeah, I think there's that underlying tension. Absolutely.

REPORTER: Do you think that's kind of weakening the American sort of bully pulpit?

RT. HON. STEPHEN HARPER: Well, there's no doubt that the...there's no doubt that the American bully pulpit has been weakened by this development. I do think somewhat unfairly that in that, you know, in some circles you would think this was an entirely American-created problem. That is of course not true. There are other countries who have very similar problems to the United States and have compounded this enormously, but there's no doubt that American economic and financial prestige has been damaged, but I don't think that changes an underlying calculation, which is when that's all said and done, there's still very little in the world that can be done without American leadership. It's true that United States is less able to set the agenda and particularly set it unilaterally than it has been able to do for some time. But at the same time, there's no one else out there who can set the agenda and lead it without the United States playing a predominant if not the leading role. That remains, still remains the case. And by the way, Canada sees that as a good thing. Nobody should be under any misunderstanding for the differences we sometimes have with the United States, we view American leadership in the world as an overwhelmingly positive feature of the global system and one we would not want to see lost.

REPORTER: And how about the...

REPORTER: Sorry, on this particular point, it's not clear to me. Do you feel that there are some emerging countries, particularly the

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bigger ones, who have actually contributed intellectually to this particular process, this summit, in a significant way?

RT. HON. STEPHEN HARPER: I'll know better the answer to that when we get there. At the last summit – and I'm not trying to criticize the contribution of anyone – certainly the focus of the developing countries tended to be on their own issues, combined with institutional reform-type issues. You know, what we hope to see at a summit like this, and you know, I understand it's difficult to do, is you know, for people to put their own national interests a little bit to the side. We really, as I keep repeating, and I know it's a trite thing to say, but it is a global system with a global problem, and there has to be some ability to think globally to solve it. The issue of imbalances that I gather that you've wrote about...written about, that I just spoke about, is an example that we have a lot of trouble getting a good discussion of that last time. I don't think, frankly, we did get a good discussion of it. It is an underlying problem that has to be addressed. It is an example of a number of countries undertaking national strategies that may be popular or desirable from their own short-term interests, but that in total are not desirable for the system as a whole. And on some of these things, we do have to look back and I do hope other leaders will look at what is the greater problem here that has to be fixed, which is the problem of the global economy, not simply our national interests in the global economy. I'm going to move that out of the way. (LAUGHTER)

REPORTER: It's just too dangerous.

RT. HON. STEPHEN HARPER: Looming there, threatening me.

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REPORTER: Just returning to this point of American leadership, President Obama visited Canada first.

RT. HON. STEPHEN HARPER: Yeah.

REPORTER: And he had a really euphoric reception. What do you think, in fact, of the Obama factor will be at this meeting? Can his global popularity make a difference?

RT. HON. STEPHEN HARPER: Well, you know, as you all know, the simple word is "hope". I think Obama has brought a sense of hope to the plate. Some of that's the nature of his campaign and his personality. Some if it, you know, is just the fact of change. One of the great difficulties, you know, and I felt for him. One of the great difficulties President Bush had at the last G20 summit was that, you know, when everybody knows his world ends on January 20th, there's not much way of bringing a hopeful perspective to things. In a sense, we were in a holding pattern, and that was just, that wasn't President Bush's fault. It's just the nature of the American system of government. President Obama's brought considerable hope to the United States. There's considerable...by extension, considerable hope about what he'll bring to world scene, and there's a lot of... there's a lot of expectation about a more, as you know, a more multilateral or consensual approach to American leadership. I'm hopeful too. I would just...I would...the only caution I would have, on both sides, both to the Americans and to the others, that in the end, nothing displaces American leadership. It's important that...I do think it's important that President Obama fulfill his promise to provide a more consensual approach to this and other issues. That said, Americans must lead in the end, and I say that to the other side. In the end, once you get this consensual approach, you have to respond to it.

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REPORTER: Would that apply, the more consensual approach, apply to bilateral negotiations as well? And I'm thinking especially about the border, the concerns that Canada has about border security. You know (inaudible) a major, major problem for you.

RT. HON. STEPHEN HARPER: Well, look, since President Obama came up to see me, we've had no less than eight of our cabinet ministers come down here and have bilaterals with their equivalents, and in most of these areas, there are not joint work plans that are concrete. On the border...I mean, the border...look, the border has been...problematic for Canadians because this is a, you know, a big historic shift. We had essentially an unguarded border and we're moving towards, you know, for lack of a better term, a guarded border. I don't know if passports really present what you would call a guard, but in a sense we're moving towards a more traditional or a more typical border arrangement. The position, our position, I think that's unfortunate in some ways, maybe inevitable, but unfortunate. Our position has been in Canada and we've certainly worked on the past administration, we'll work on this one; our position is that, be under no misunderstanding that the national security concerns of the United States are shared by Canada, and that any...in fact, it's more fundamental than that. Any threat to American national security is by definition a threat to Canada, not just because it would have immediate impacts on trade flows and everything else to Canada, but because the targets are approximate. An attack on the United States could easily become an attack on Canada, and in fact the people who threaten the American people and the American government make the same threats towards Canada. Those who, you know, it's unfortunately well known that the kinds of people who plot to assassinate US presidents also today plot to assassinate the

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Canadian prime minister. This is a reality of the world. So we share these concerns. What's important is I think as we go forward is that we develop, try and work with this administration. This is where we would hope to have a change. Work with this administration to produce what we call a risk management approach to the border, that we try and develop systems that are effective at identifying and deterring and preventing real risks as opposed to being large bureaucratic systems that are simply an encumbrance on all types of border activity or border traffic. I use as an example – it may not be one that appeals to this group, but I certainly used with the last administration the analogy of some of the gun controls Canada brought in in the 1990s. We've always had a strong system of gun control, but in the 1990s, we added this additional element, which was requiring every single hunter and farmer in the country to register every single shotgun. This has cost us a couple of billion dollars and doesn't do a thing to identify likely perpetrators of crime. And you know, our concern with border management is, has descended into a gun registry approach: let's create, you know, paper trails and registries and processes for every person and every business that goes across the border, but this is not actually doing much to proactively identify high risk. And that's what we need to do. That's...and we share, so we share the security concern. Let's do it intelligently. We don't want systems that I think...though I'm trying to remember the line one said to me, that are burdensome to the law-abiding and have no effect to the larcenists. I mean, we don't want systems like that.

REPORTER: Maybe we could lead to cars.

REPORTER: (Inaudible) or Julie, why don't you lead with cars?

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REPORTER: Well, I guess I'm curious. I mean, we saw a pretty significant change just yesterday in the government, the US government becoming much more open about plans for GM, and for Chrysler in particular. Do you worry about the fallout, given that there are a lot of Canadian suppliers as well, in potentially letting them disintegrate into...

RT. HON. STEPHEN HARPER: Well, first of all, you have to understand, the industry here is completely integrated. And what I mean is not just that it's the same manufacturers and the same companies on both sides of the border, and not just that they manufacture within each country for the market on both sides of the border. They actually manufacture simultaneously on both sides of the border. A car crosses the border, can cross the border, a vehicle, up to seven times in the process of being put together. That's how integrated this industry is. That's why with the previous administration, we made the commitment that we wanted...we wanted to work together with the United States on whatever rescue package they're putting together. We have 20 percent of the Detroit three manufacturing in North America. We're prepared to put our 20 percent skin in the game, and with the previous administration and this administration, we have been in daily contact on what their plans are.

REPORTER: Did they talk to you yesterday before they took the steps with Wagoner?

RT. HON. STEPHEN HARPER: We've been talking to them over the last several weeks. Now, that's not to say we will do something identical to what the United States will do, but in the end, we will do something fairly simple.

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REPORTER: And should we expect that 20 percent ratio to be abided by?

RT. HON. STEPHEN HARPER: Yes, absolutely.

REPORTER: 20 percent of the funds that are around about what the US is...

RT. HON. STEPHEN HARPER: Whatever we do will be about 20 percent of the total package. Now, as I say, ours could be different, but it will be different in the detail, not different in the general direction. And we said that when the US put up its initial sustainer loans...I forget what they're calling them, but the initial short-term loan facility. We created a similar facility at 20 percent of the size for the Canadian industry.

REPORTER: 20 percent of the size of the US package, or 20 percent of the total?

RT. HON. STEPHEN HARPER: I think it's 20 percent of the total, 20 percent of the total. These things get confusing, because one's in Canadian dollars and one's in American dollars, but it amounts to 20 percent of the total. This is a huge concern to us, because first of all, what's going on here, and we'll call it what it is, it's essentially politically directed restructuring, and we want to make sure that in the course of that, it isn't moved out of our country. That would be a risk if we didn't participate in some way...

REPORTER: Is that a risk even now? I mean, we see US taxpayers really stepping up, and we've seen US taxpayers have very strong views about what government money should be used to do. Is there a risk that GM, say, might be pressed to close its Canadian facilities to keep the US ones running?

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RT. HON. STEPHEN HARPER: Well, they may be, but that's precisely why we're putting our 20 percent in...

REPORTER: And I mean, you've got an immediate problem right now with Chrysler, don't you, and the Canadian Auto Workers, where they're saying they're going to pull out of the country if they don't get the concessions that they need, because they're...

RT. HON. STEPHEN HARPER: Can I get to that in a second? Let me just finish the other answer, then I'll talk about that. So this is why we're doing this. And it's a huge issue in Canada. I can't...I should know off the top of my head what the percentage of the auto industry is in Ontario, but almost all the Canadian auto industry is in Ontario, and it's a huge part of the economy. In the Canadian economy as a whole, it's something like nine percent of GDP, so in Ontario it would be...got to be 15, 16, 17 percent.

KORY TENNEYKE: About 600 000 jobs.

RT. HON. STEPHEN HARPER: It's a huge, huge part of the economy, so this is obviously a very central concern to us. First of all, let me just say about what the Obama administration is doing, that we are extremely supportive of. I think the message sent today is that the Obama administration is going to force the industry to make the tough decisions, to swallow the bitter pills. We, whatever taxpayer money goes into this must lead to a successful outcome. Yes, it will be a smaller industry, yes there will be job losses, but in the end, we must produce viable companies. If we throw a bunch of money in and it fails anyway, or we have to do it over again in a year and a half, this is an absolute disaster, and all the signs, based on what the Obama administration is doing today, is they're not prepared to take that risk. And I think that is very positive. Now, you asked me...

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REPORTER: Can I, just before you get to Chrysler, sorry, can I...was it the right thing to require Rick Wagoner to step down?

RT. HON. STEPHEN HARPER: I'm not going to comment. I'm not going to comment on that. What's the right thing is to force this industry, all the stakeholders, all of the stakeholders in the industry and in these companies to take the tough decisions necessary.

REPORTER: And how about bankruptcy? Could that be in the offing, and would that be a good approach?

RT. HON. STEPHEN HARPER: There's a range of options, and I'm not going to comment on those specifically. You know, I... obviously we're, you know, I have a lot of confidential information in this. We don't want to betray any of it. On Chrysler, there are two issues...Chrysler has two specific issues in Canada. First of all, just on the more general question of are you worried they might close their plants there and not here, I think because we've got our skin in the game, those decisions will be made based on, you know, the state of the plant, the profitability of individual plants, and I think we'll end up...we're confident we'll end up with our share; that's why we're doing this. On Chrysler, you're right, there are two specific issues in the case of Chrysler. One is that Chrysler has an ongoing dispute with governments in Canada and the United States on taxes, on transfer pricing and tax implications of that. I can't comment on that, obviously. It's a legal matter, and the government of Canada must ensure that these things are settled in a way that respects the law. On the issue of CAW, I just say what...I just say what I said about the Obama plan. The position of the government of Canada is no different. Every stakeholder in this industry is going to have to take the difficult decisions necessary to ensure long-term viability or they will

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not get support. It's that simple. You know, it's a tough decision to put taxpayers' money into these companies. It is not a popular decision. I know that hundreds of thousands of jobs are dependent on it, but we must make good decisions that will work, and the government of Canada, like the government of the United States, is not going to put money into companies unless all the stakeholders in these companies have taken the decisions necessary to ensure long-term viability.

REPORTER: Is it problematic to you that the Canadian auto industry is so closely intertwined with the industry in the US? Is there a way to...you know, would you be interested in diversifying, working more with European or Chinese automakers?

RT. HON. STEPHEN HARPER: Well, we have good presence of Japanese automakers. Like they are in the United States, they are in Canada, and in fact, have been growing very quickly in Canada. They're not...I forget the figures, but my recollection is they're something like 40 percent of car production now, so it's a very large and growing part. Look, normally...let's be frank. Normally having the big Detroit three automakers present and integrated into Canada is a good thing, when they're making money. When they're not making money, it's not a good thing. You know, it's the same thing if you asked me that question in a sense about, you know, is the global economy a good thing for Canada? Are we happy about the fact that even though our banks are strong, our balance sheets are strong, our monetary policy is strong, even though I think we've done everything on the public sector side we need to do, am I upset about the fact that all of a sudden we have catastrophic drops in our export markets and commodity prices, and that this is effecting our economy? Well, obviously on days like this it's not a good

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thing, but it's still the lifeblood in the long term, and you know, it's tough... look, it's tough for governments to accept that in...whether it's the auto industry or the, more broadly, the nature of the global economy, it's tough for governments to accept that the resolution of individual problems are beyond our control, at least beyond our control acting alone. What that tells us is not that we should give up. It tells us that we should coordinate our efforts where we need to. It's what we're doing on the auto sector with the US. It's what we're trying to do through the G20, and certainly within Canada in terms of our own stimulus package, we're working with other levels of government to ensure our actions are effective within the country.

REPORTER: Just one question on stakeholders in the auto industry. What are your thoughts on what should be done with health benefits south of the border? What kind of advice would you give to people thinking about that?

RT. HON. STEPHEN HARPER: I wouldn't give advice on that.

REPORTER: You wouldn't say just set up a national healthcare system, guys. It'll take care of your (inaudible)?

RT. HON. STEPHEN HARPER: I'm not going to get involved in that decision. We have, as you know, we have a system of universal public health insurance in Canada. It's supported across the political spectrum. It's a system not without its problems, but it's not one that Canadians want to trade for any other system. The American healthcare debate, I know enough about it to know it's extremely complicated and it's a controversy I don't need to get into.

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REPORTER: Just one point on the car industry. Given that you have been in consultation with this administration and the previous administration, is there anything...would you have done it in any different way? I mean, the critics will say that they waited too long to act and then they were forced to act, doing things they could have done six months ago. Do you share that view, or do you...?

RT. HON. STEPHEN HARPER: No, I actually don't. I actually don't. You know, it's...it's easy to say that, but you know, I do think in the modern age, you know, a good, thoughtful long-term government tries to let the market operate, and the first responsibility for creating viable car companies is with the management of car companies themselves. It's not with the government. It's not with the government, and you know, I think we have to be very careful here. As I say, we have to force them to make the tough decisions, but should we as governments start saying you should be building this kind of car and not that kind of car, and we think the market's going to look like this and not like that? In the end, these companies, even with our assistance, have to discover the secrets of their own success, or they will not be successful. They've got to run their own businesses. So I think government gets involved in something like this as a last resort.

REPORTER: I wanted to ask a question about pensions on (inaudible)...

REPORTER: Just before we get to pensions, Deborah, I just wanted to ask one more car thing. You talked about the big three. How worried are you about Ford, or are they going to make it?

RT. HON. STEPHEN HARPER: Certainly all the indications are that Ford is stronger, but you know, it is a sector as a whole

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under significant stress. As you know, even some of the Japanese automakers are seeing some significant stress, at least in the short-term. But certainly of the three, Ford is the one that, you know, is banging on our door significantly less. That's got to say something.

REPORTER: I just, you know, what's happening in Canada, pensions are quite similar to what's happening here, which is the corporate funds are now running into problems with their funding and they're asking for legislative suspension, so on and so forth, and the state funds, which were obviously...had a problem even before the financial crisis, announced (inaudible) any loans and possibly a bailout. What's your view as to what could or should happen there?

RT. HON. STEPHEN HARPER: Well, there are two issues. I think I heard two issues in the question. On the issue of state pension plans, we have an actuarially sound public pension plan in Canada. Several years ago, governments proactively and pre-emptively raised contribution rates on our national public pension plan, on the Canada Pension Plan, CPP, QPP, and as a consequence, we created a long-term rate that was sufficient to create an investment fund that we're now managing, and the plan is actuarially sound. It may be expensive, but it's actuarially sound, so we don't have that problem, and it's one integrated national pension plan across federal and provincial governments. On the issue...we have the same problem you do on the issue of the private plans. We're, you know, we're obviously moving to create more flexibility for private sector actors who are trying to juggle those pension obligations in the short term. What we've obviously got to do is we simply have to provide a clear...I think we're still 100 percent clear how we're doing it all. We have to provide more flexibility in the short term; in the longer

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term, we have to move obviously to a more countercyclical nature of management of those plans.

REPORTER: Can I ask...oh, sorry, are you finished?

REPORTER: No, just when you say you're not quite sure how you would do it, there is a possibility of suspension...?

RT. HON. STEPHEN HARPER: We have already – I can't give you the details. My office could provide them. We've already provided some short-term relief and suspensions, and we have ongoing negotiations with the sector. We're certainly going to avoid a crisis, but you know, there is obviously, as we do that, we create risks of longer term mismanagement that are going to have to be addressed.

REPORTER: Can I ask you briefly about the Arctic?

RT. HON. STEPHEN HARPER: Yeah.

REPORTER: You've made quite a thing about the Arctic. I think the last time I saw you, you were opening a diamond mine, which subsequently went bust, unfortunately.

RT. HON. STEPHEN HARPER: It did, actually, unfortunately.

REPORTER: But you know, the Russians lately have seemed to be flexing their muscles in that part of the world. What's Canada's response to that? I know it's obviously an important area...

RT. HON. STEPHEN HARPER: Well, as you mentioned, our government's made that a high priority. Canada owns a significant chunk of the world's Arctic, as you know, and historically we have been fairly neglectful of what is a very large portion of our territory. Our government is making significant investments in the Arctic. They range from, you know,

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military to scientific, social, the creation of a new economic development agency. We believe two things. We believe that Arctic resources, which are abundant, will become more economically viable, and certainly a larger issue in the years to come. And we also just believe that as a mission of national sovereignty, it's our responsibility to, on all...in all dimensions, to more greatly assert our presence in the Arctic. I make a point of going not just North, but going to the Arctic regions at least once a year. I've been to a lot of the communities, and...

REPORTER: It's the nicest part of Canada, isn't it?

RT. HON. STEPHEN HARPER: It's...it's a fascinating place to go. I have to admit that I've never gone...I've gone very far north, but never gone to the true Arctic in the dead of winter. I've never experienced... and I can't even imagine the 24 hours of darkness and the cold. But I've been...I can tell you a couple of stories. I remember going to Resolute Bay, which is one of our most northern communities, north of the Northwest Passage, in August, where my flight had to be delayed for a day because the winds, the winds were so strong, a sudden Arctic storm in August, were so strong that my advance guy was being blown off his feet on the runway, literally blown down like a tumbleweed. That's how bad it was. So it's a fascinating part of a very rugged, very...in some ways very both beautiful and forbidding. But it's, as I say, it's part of our...Canada is a northern nation. It's part of our national mission, and Canadians are very supportive of the investments we're making. And obviously there is concern about...there is concern about Russian activity. I think there's a...you know, as you know, more broadly a concern about Russian aggressiveness generally.

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REPORTER: (Inaudible) I did want to ask this question because (inaudible) climate change, which will make Canada of course much more habitable, and open up the Northwest Passage, and therefore you should be strongly in favour of (inaudible) climate change as possible. (LAUGHTER)

RT. HON. STEPHEN HARPER: I've been accused of that. (LAUGHTER)

REPORTER: I'm aware of that. President Obama seems to indicate a rather different approach from his predecessor, to put it mildly, on this issue. And (inaudible) seems to be really quite serious about this. Where do you think that leaves the world in terms of progress (inaudible)...?

RT. HON. STEPHEN HARPER: I'm very encouraged... I'm very encouraged by the Obama administration's approach to climate change on three levels. First, they're taking it seriously. Second, while taking it seriously, they are establishing realistic objectives. I believe President Obama's stated target is a – in short-term – is a 14 percent reduction over 2005 levels by 2020. That's very close to the government of Canada's target. We've been criticized for having targets that were too soft, but these targets, our targets are actually based on what is economically viable in the short term. You know, you can't have targets that the only way they can be met is simply by shutting down economic activity. So Obama's administration are looking at targets that we view as fundamentally realistic in terms of negotiations. And third, the Obama administration so far has taken a very clear position that all major emitters have to be in. This is another area where we've taken a very firm position and I must admit on this one, the environmental groups mystify me, because we all know – I mean, I could show you a graph – it is impossible

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to control...to control the growth of greenhouse gas emissions, if only the developed world has targets is simply mathematically impossible. And so if we're serious about this, we have to get efforts from everyone. Obviously efforts in the case of a developing country will be of a different magnitude than our own. One wouldn't expect necessarily reductions, but one's got to see...one's got to see a control in the level of growth or we will not reduce emissions. We will not reduce climate change. So I'm encouraged. I don't know whether...I don't know whether...I wouldn't want to bet on an agreement being reached this year, but I think the fact that we're having a dialogue from the administration that is both serious about the problem and realistic about the solutions, especially in the short-term, is a very healthy thing.

REPORTER: Can I ask you a more general question just quickly, back to the corporate sector? Do you think that what's happening with the financial crisis and government interventions in US and Europe is signalling a paradigm shift in the role of government that goes beyond the crisis, that we will see government being much more intervention, even when the economy recovers, or will you (inaudible) back to its old position when we get back...?

RT. HON. STEPHEN HARPER: Well, I hope not. You know, I hope not, in all honesty. Of course, I'm a Conservative, and you know, I do believe that in the long term economic growth will be generated from private sector innovation and entrepreneurship and financing. And I think that's the only real long-term viable path to economic development. So why are we doing what we're doing now? We're doing because something, a set of things, because we know we're in a situation that requires a certain type

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of government intervention. I'm generally not a Keynesian, but we're in Keynesian times. When interest rates go to zero and nobody's investing, the only solution is for the government to borrow funds at low rates of interest and put them to work in the economy. That's the only solution. But Canada itself has shown that if you have a, you know, reasonable system of regulation, there is no need for governments to be nationalizing banks and directing executive compensation and trying to micromanage economic activity. So I don't think we need to go there. I think the problem has been in some...obviously what happened in some places, that in the name of...in the name, unfortunately, in the name of conservatism or free markets, in some cases, governments ignored very fundamental lessons we knew from history about the institutional structures that markets required to operate...to operate properly. We think of markets as spontaneous order, and there's some truth in that, but markets do have real institutional frameworks to operate properly. We know that unless financial systems are regulated in a way that encourage transparency and encourage, you know, encourage reasonable leverage ratios and knowledge about what's being traded, we know that there will be asset bubbles leading to recessions. We know this from history. Every single major recession has been like that. We already knew this lesson. That's what I find so frustrating. So we didn't...in Canada we didn't get away from a reasonable...you know, five, six years ago there'd be, you know, I'm sure there'd be lots of people saying, "Well, look at Canada. You're over-regulated," while in fact...

REPORTER: Well, especially Bay Street, right? I mean, they were complaining furiously.

RT. HON. STEPHEN HARPER: Some were, yes. Some were, and look, there may be some types of regulations they were correct to

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complain about; others not so correct. But the fact of the matter is that one could say we were over-regulated, but our solution is going to lead us to having the most free enterprise financial sector in the world. Because we're the only one not nationalizing or partly nationalizing or de facto nationalizing our financial sector. So...now, this is to say, not to say our regulations are not perfect. There are gaps in our own system. There are areas where we probably over-regulate, but by and large, you know, we didn't lose sight of the fundamental institutional structures that some markets require, so you know, I think as long as a market is...as long as the market economy is managed in a way that you create sufficient knowledge and transparency about transactions, and that as well you have systems of social support that don't allow market outcomes to create, you know, vast gaps of social injustice or social displacement, which is also, we know, part of a modern market economy; then the market with those caveats, the market will be the engine of growth.

REPORTER: What was it...sorry.

REPORTER: I was...just on the financial system again, are you worried that you might be...end up being uncompetitive vis-à-vis nationalized banks around the world, that your relatively good capital position might end up being far inferior if other banks are nationalized? Your banks are raising pref shares. Other banks are raising true dividend capital...true capital, that you'll end up having worse capitalized banks on the planet, simply because they've done reasonably well.

RT. HON. STEPHEN HARPER: No, this is a very real worry. We have had to...we've had intervened in financial markets, beyond, you know, monetary policy actions, and some of that intervention has been principally because what has happened elsewhere. As you know, we've done

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some market transactions. We've swapped mortgage assets with banks. We've done that primarily because banks couldn't acquire the liquidity (inaudible). That problem seems to be abating now, but we've also provided guarantees to wholesale lending. I should tell you, you know, all these things, you know, I was talked into these things very reluctantly, but we did that principally because in the absence of that kind of government guarantee in Canada, our banks were facing an increasingly competitive disadvantage where other national governments are a de facto underwriter of their banks' activities. I guess my short answer would be I worry about it in the short term. In the longer term, I think the opposite will be true. I do think in the longer term, this government intervention in the financial sector, if it's not unwound, will lead to politicization of the sector and poor management and poor...I mean, I just don't think government-run or government partially run banks are going to be very effective institutions over time. So I should think this is an opportunity. I think as long as we take...as long as we take note and respond to the possible competitive disadvantages, we keep our sector as close as we can to a true private...

REPORTER: I guess you can (inaudible) capital by keeping it very arm's length, unlike what they're doing here in the US, for example.

RT. HON. STEPHEN HARPER: Well, I think the best thing is still that they'd be genuine private institutions responsible for their own decisions within a regulatory framework. And if we can do that, then I actually think there's an opportunity for Canada to actually expand its role in the world financial sector, because I think that kind of...

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REPORTER: Are they going to come shopping south of the border, these guys?

RT. HON. STEPHEN HARPER: Well, as you know, some already have significant...a couple of our banks have significant presence outside of Canada, and some will be looking to expand that. I will say this: you know, one of the things I'll be taking to the G20 is obviously ongoing concerns about protectionism. I can assure you that the...the steps we're taking in the financial sector will not be designed to promote greater protectionism. In fact, I do want to see our banks obviously not abandoning the domestic market. I do want to see them use this opportunity to increase their access to opportunities elsewhere. That's part of what we can get out of this crisis.

KORY TENNEYKE: Just the size (inaudible)...

RT. HON. STEPHEN HARPER: Yeah, I should mention these things. I always keep...we always keep forgetting that outside of Canada, nobody knows our statistics, but our four biggest banks are now in the top 20...?

KORY TENNEYKE: Top ten in North America.

RT. HON. STEPHEN HARPER: Top ten in North America.

REPORTER: We've ran a chart pointing this out just two weeks ago.

RT. HON. STEPHEN HARPER: Yeah, five, the top five are in the top 50 globally now. Now, you know, obviously a lot of that's because others have fallen, but this is, as I say, and I'm not going to try to run banks, but I hope our banks will see this as an opportunity to build the brand,

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the country's brand, their own brand and to expand their scope and profitability over time. I think there's great opportunities for them.

REPORTER: How do you...

REPORTER: Just as a final...

REPORTER: ...well, about Canadian investors, whether it's the banks or private investors, participating in those public-private partnerships, maybe buying up toxic assets that come out of the US banks?

RT. HON. STEPHEN HARPER: Well, you know, as long as...I'd go back. As long as we can be convinced that these...any such participation...and I don't know whether they're even considering it, any such participation would be...

REPORTER: I think the Ontario Teachers might be interested.

RT. HON. STEPHEN HARPER: As long any such participation is a good business decision, and obviously within things that we think regulatory (inaudible) should be allowed. And I think they should look for opportunities.

REPORTER: Maybe it's even a good thing to have US taxpayers help fund Ontario teachers' pensions.

RT. HON. STEPHEN HARPER: (LAUGHS) It's a decision for US taxpayers.

REPORTER: Just as a final...on a totally different subject, Canada has been involved for a long time and at really pretty great human cost in Afghanistan. Are you happy about the stepped up US involvement? Is it coming too late?

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RT. HON. STEPHEN HARPER: Well, we're very happy about it. As you may recall when we extended the Afghan mission last year to 2011, one of the conditions was that we would find a partner in Kandahar and the US has stepped up to that. In fact now the US is stepping up with far more than we requested. This remains, as you know, an extremely difficult mission. My caution in all this has been I do think we need greater and sustained American and allied engagement. We just have to be realistic about what our objectives are here, and I actually do think the plan President Obama put out last week is very close to the plan we constructed in Canada and I do think the...as I read it, the objectives are realistic. Afghanistan has always had some kind of insurgency. You're not going to eliminate, entirely eliminate the insurgency or every insurgent. You're not going to create a...someone said Switzerland in Central Asia in my lifetime.

REPORTER: So what can you do?

RT. HON. STEPHEN HARPER: But we can...we can produce a viable state, a state that is capable of handling its own day-to-day security and an insurgency is reduced to the point, certainly, where it does not by its nature create a global threat, or a threat beyond the areas it actually operates in in Afghanistan. So I think those are realistic objectives. I noticed...I noticed washing some of Secretary Gates' comments, he's very much distinguishing between Al-Qaeda and the Taliban. You know, I think... I'm not quoting him directly, but clearly the elimination of one threat is essential. The control of another is, you know, is a different matter. Taliban is primarily a domestic force, not to say that it isn't a source of significant instability and one that the Afghan government currently can't manage on its

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own, but that is very different than Al-Qaeda, which...whose target is the United States and the developed world.

REPORTER: And is there enough focus on Pakistan?

RT. HON. STEPHEN HARPER: Well, as you know, the new strategy involves a significant focus on Pakistan. This is also a welcome development. You know, our own bipartisan taskforce a year and a half ago had said that we had to see this as not just an Afghan problem, but an Afghan/Pakistani problem. The problem with that is there's very little Canada, operating in Kandahar, can do about the greater problem. This is an example of an issue that does require an American and allied leadership. So I'm encouraged to see they have that focus. I don't think the solutions to that are very easy, obviously. It's a very difficult problem.

REPORTER: And are you worried that you'll face sort of irresistible political pressure to pull back in Afghanistan?

RT. HON. STEPHEN HARPER: Well, our...

REPORTER: Canadian Forces back?

RT. HON. STEPHEN HARPER: We've already...we've already said that our military mission will end at the end of 2011 and that we are already in the process, not just of training Afghan forces, but of increasing our civilian presence to make a transition to greater emphasis on governance and development. We are already, by the way, in the top five...top five donors to Afghanistan, in absolute terms Canada is. It's our largest aid mission besides being our largest military mission. So we're already looking at making that transition. You know, Canada, as you all know, has paid a very heavy price in Afghanistan, and I've been encouraged by the fact that the Canadian public has been patient as long as it has.

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REPORTER: I'll just ask you one...

RT. HON. STEPHEN HARPER: And our morale, the morale of our people remains very high, despite the casualties we've taken.

REPORTER: Recruitment's never been high.

RT. HON. STEPHEN HARPER: Recruitment has never been high, and the military morale has never been high, but it has been a very difficult mission, and we are in, you know, we are in the heartland of the insurgency.

REPORTER: I just wanted to ask you a question, because Canada's situation is similar to Australia's, my country, where many people would argue that trend of growth rates would be higher and we would be a much more civilized place if our population was tripled. What's the sort of macro view on population growth in Canada? What's your...

REPORTER: Canada has (inaudible). (LAUGHTER)

RT. HON. STEPHEN HARPER: Well, we certainly have lots of space, let me tell you that. As someone who travels up to the Arctic...

REPORTER: But it's a lever a lot of other countries don't have.

RT. HON. STEPHEN HARPER: It's a big empty country. We don't really have a debate on population policy, per se. What we do recognize is that we have a very big, looming problem of labour shortage. We were seeing it, before this recession kicked in, we were seeing it in certain parts of the country and in certain sectors. As soon as this recession ends, Canada will be confronted with growing labour shortages across the economy. As you know, we have...we probably have per capita the largest immigration program in the world, and it is also relatively non-controversial in Canada.

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There's...not to say there aren't problems in the immigration system, there are all kinds, but there's no ideological opposition to immigration on any part of the spectrum. There's a recognition that we will need greater immigration. The shift that I don't think the country has come to terms with is that the nature of our immigration policy is going to have to change. With other countries increasingly accepting immigrants and with growth in developing economies, it will not be sufficient for Canada as we go forward to run what is essentially a passive immigration policy, where essentially people apply. We are going to have to adopt a policy that is driven by recruitment efforts, active recruitment efforts by the government of Canada. Now, we have started to shift in that direction. We've put much more emphasis on the recruitment of skilled workers, on using...on transforming temporary worker flows or student flows into longer term immigration flows, so we are putting more emphasis on that. But nevertheless, on balance, the system remains essentially an applicant process, and it's going to have to become a recruitment process. That is going to have to change. It's going to take vast amounts of resources, and unfortunately since our government does recognize you can only have so many priorities at a time, my major priority right now is not transformation of the immigration system, but stabilization of employment and growth.

REPORTER: It is a growth issue.

RT. HON. STEPHEN HARPER: It is a growth issue, but it's not a recession issue. Yeah, one thing is very different though. We have no plans in Canada, nor are we under any pressure to reduce immigration flows in any way during the recession. In the last two recessions, especially in the '80s, but also in the '90s, the then government...it didn't eliminate, but it

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did significantly curtail immigration intake. We're not doing that this time, because as I say, that would become a problem very quickly if we did that.

REPORTER: Ok.

RT. HON. STEPHEN HARPER: We've covered everything?

REPORTER: Yeah, I think so.

RT. HON. STEPHEN HARPER: I'm sorry about the water.

REPORTER: It's ok.

RT. HON. STEPHEN HARPER: And in the end there was no damage.

REPORTER: There was no damage...

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