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**PM HARPER INTERVIEW WITH LARRY LUDLOW, CNBC**

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LARRY LUDLOW (Reporter): Welcome Canadian Prime Minister Stephen Harper to the program. Mr. Prime Minister, thank you very much.

PM STEPHEN HARPER: It's nice to be here Larry.

LUDLOW: Let me begin with an interesting subject here, banking, everybody's talking about banking. The Canadian banks appear to be in much better shape than the American banks. They have fewer toxic assets, their losses aren't nearly as bad, no one's talking about bankruptcy up there. I want to learn from our northern cousins, what can you tell us? Why are Canadian banks looking better than our banks?

HARPER: Well first of all I should tell you it's true. We have, I think, the only banks in the Western world where we are not looking at bailouts or anything like that.

LUDLOW: No TARP money sir? If I'm not mis...

HARPER: We haven't got any...

LUDLOW: No TARP money.

HARPER: We haven't got any TARP money. We've gone in and done some market transactions with our banks to improve liquidity, but I think the rules... the reasons are really complex, Larry. First of all, our banks are private. We don't have a Fannie Mae or Freddie Mac equivalent mucking around in the system.

LUDLOW: Is that a lesson right there Prime Minister?

HARPER: Well I think... I think my... My observation is those are institutions with a difficult private-public mix. And sometimes private-public mixes have benefits and sometimes they have the worst of both worlds. We don't have anything like that. We do have though, a strong

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system of regulation, and activist regulators who go and meet with the sector. But they're macro, prudential kind of regulations. They don't try and micromanage bank's decisions. We try and establish good oversight and transparency.

LUDLOW: Do you have leverage and borrowing ratios that might have been enforced, because that's clearly one of the breakdowns here in the States.

HARPER: Well we do have leverage ratios. What's ironic is that our own banks had not actually achieved those ratios. They were actually working under them. Part of what we've...

LUDLOW: They were under-leveraged?

HARPER: They were under-leveraged.

LUDLOW: Wait... Can I just... Canadian banks were under-leveraged?

HARPER: Under what they could have been.

LUDLOW: I didn't know there was such a thing on this entire planet Earth.

HARPER: Well, I think part of what we've done is through the system of regulation we've had we've actually encouraged a fairly cautious culture in the banks. For example, our banks, when they sign mortgages, largely hold those mortgages rather than trading them, so they have a lot more interest in the underlying quality of those mortgages and we avoided the subprime kind of problem.

LUDLOW: Um, did I hear you at your final news conference with President Obama last week... You turned down, or your government, or the regulators turned down a merger from one of the large

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Canadian banks? Is too big to fail solved in part by not letting them get so big? Is that a model that needs to be more regulated?

HARPER: Well I think the truth is we already have a highly concentrated sector. We have only six major banks that have most of the market. We have only three major insurance firms. And the banks also generally control the major brokerages. So obviously to go any farther in terms of concentration without opening up the Canadian market itself, would be a highly controversial decision.

LUDLOW: I want to ask another economic question. You're in a recession, but really it just began. Your unemployment rate is a little bit less than the United States. Your stock market has been hit as bad... as hard as our stock market so it's been very poor. However, from a little bit of research, the federal... the top federal personal tax rate in Canada, if I have this right, is 29 percent. Ours is 35. Mr. Obama said he's going to push it up to 40 back pre-Bush. Is that true? 29 percent?

HARPER: Well, in fairness, it's 29 percent, but there is a provincial tax put on top of that.

LUDLOW: Well we have that too.

HARPER: Yeah. I think our combined income tax rate is still higher than yours at the...

LUDLOW: Really? How high are the provincials?

HARPER: And the highest... And the highest... They're about half... my recollection, about half of what the federal would be. On top of that, they kick in at a much lower level of income. Ours kick in about 130,000. Obviously, looking into the future when we have a bit more fiscal

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room, that's something we'd like to tackle. We're bringing corporate rate down... rates down. Our corporate tax rates...

LUDLOW: Right.

HARPER:... will be the lowest in the G-7 in the next few years.

LUDLOW: 19 percent. Is that correct? 19 percent.

HARPER: They're... I think it's down to 18 ½ or 18.

LUDLOW: Wow. We're at 35.

HARPER: It will be at 15 in 2012. So we'll have the lowest in the G-7.

LUDLOW: Looking ahead to try to get through this banking mess and try to get out of this most difficult recession, given the fact that Canadian banks have had a good performance, given the fact that your tax rates are... what... what advice would you give the United States from your perch?

HARPER: (laughs) You know Larry, I've been asked that several times today and unfortunately a lot of my advice would be don't get into this mess in the first place. These are not easy things to deal with. You know, we've got... obviously we've got a drop in activity like you've got here, that's why we've got a stimulus package. We don't have a banking mess. We don't have a mortgage mess. Truth of the matter is the President's administration is going to look at a lot of policies, I know a lot of policies you don't like because a lot of them do have very serious long-run dangers. But the fact of the matter is they've got to do some things now to stop the continuing drop in economic activity, and the short-term is going to drive a lot of decisions, for better or worse.

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LUDLOW: Well if Canada is a lowering its tax burdens, wouldn't that be a reasonable example to your friends in the South?

HARPER: Well, let me be clear though. When we lowered our tax burdens – and we did this in our first stimulus package over a year ago – we did that knowing we could lower our tax burdens while keeping our structural budget surplus in the long-term. We could afford those tax cuts without going into deficit, immediately or in the long-term. We've now done a second stimulus that's spending. It is short term. We'll come out of it; we'll go back into surplus. But we... we believe strongly in Canada, there's a strong consensus, that we should keep our budget in a surplus position structurally in the long term. So we will only cut taxes if we are sure that's affordable.

LUDLOW: All right. And these tax rates... particularly the business tax rate, that's law.

HARPER: That's law.

LUDLOW: The 19 percent or the 18 percent. That's done.

HARPER: Those are all... Those are all legislated, and they'll come in.

LUDLOW: All right. Let me move on quickly. Energy and climate change. The Canadian oil sands. We've had all the major CEOs on this program several times. Canada is our biggest importer... our biggest source. Now, problem. The Obama administration, Carol Browner, his top energy person who was up at the conference you just completed, they are against the Canadian oil sands because of the carbon emissions issue. Some states like California may actually try to stop the importation of energy and oil from the Canadian sands. What can you tell us? How is this going to be resolved?

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HARPER: First of all let me be clear about the importation of oil sands oil. Regardless of what any legislature does, the United States will be importing this oil because there is absolutely no doubt if you look at the supply and demand pattern into the future, the United States is going to need Canadian oil. It is the one secure, growing market-based source of energy that the United States has. So there will be no choice but to import oil sands oil. We... We are...

LUDLOW: You say that. That's an economic decision. But what about the political legislative route? Did you talk to President Obama about that? His whole campaign, and as I said he's got Carol Browner running this from the White House, he's got people all over his administration totally hostile to the oil sands because of the carbon problem.

HARPER: Well, and look, we believe there is also... there is a carbon problem there, Larry, and we are prepared to work to reduce the carbon footprint of the oil sands. But as President Obama himself said, when he talked about the oil sands he also talked about coal-fired electricity in the United States. Carbon emissions from coal-fired electricity in the United States are 40 times the emissions of the oil sands. So, we'll take care, we'll work on that problem just as we expect the United States to be working on the problem of coal-fired electricity.

LUDLOW: But you don't think the flow of your exports of the oil sands will be stopped. You don't think that flow will be stopped because of these environmental climate change considerations?

HARPER: I think... I think that policy... any policy like that is completely unrealistic if you look at American needs for energy and where Americans can get the supply at a reasonable price. Completely

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unrealistic. But it doesn't mean that we will shirk our environmental responsibilities. We are making significant investments, carbon capture and storage, and other things your government is also doing, and we will do what we can to reduce the carbon footprint. But there should be no illusion that economic reality will hit those environmental policies pretty hard when one goes to implement them.

LUDLOW: One can only hope on that point. As I understand it, your latest fiscal package actually lowered import barriers in a number of places,....

HARPER: That's right.

LUDLOW:... which you believe helps Canada and helps the rest of the world. Now the United States stimulus package raises import barriers with a Buy America provision for iron and steel and other infrastructure materials. Did you talk to President Obama? How is this going to be resolved?

HARPER: Well it's ....

LUDLOW: You're going one way they're going another.

HARPER: Look, we certainly raised our concerns. And as you know that provision was modified in the Senate to ensure that they would conform with all existing trade obligations. There are... There are trade provisions that allow you to have preferences in government procurement, but we think it's very important if we are going to kickstart this global economy, that administrations around the world avoid turning stimulus packages into protectionism because if you try and stimulate a national economy, or a national economy at the expense of the global economy, a national economy alone, we're going to make the whole situation worse around the world. I

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think... My conversation with the President, I'm quite convinced he understands that. He understands how serious it is to avoid a protectionist drift in this present economic climate.

LUDLOW: All right. Last one Prime Minister.

HARPER: Yeah.

LUDLOW: You have up in Canada, if I'm not mistaken, about a fifth of the General Motors UAW workforce.

HARPER: That's right.

LUDLOW: You have given them some money, as we have. How much money are you going to be prepared to give? They're going to come back for much more in the next tranche, I guess at the end of March. How much money will you and the taxpayers of Canada be prepared to give?

HARPER: Well, Larry, we haven't decided that. We are doing due diligence on these guys. They've submitted our plans. We're going to watch what's being done in the United States. I think we're under no illusion about why we're doing this. The United States is engaged in a politically-directed restructuring of the industry. We came to the conclusion, whether one is for it or against it, that we have to put our skin in the game...

LUDLOW: If I may... politically-directed as opposed to, let's say, bankruptcy-directed?

HARPER: Right. Right. Absolutely. We came to the conclusion that if we don't put our 20 percent skin in the game, we're going to end up with an industry that's restructured out of Canada entirely. We know it's going to be a smaller industry in the future. There's some very difficult decisions are going to have to be made. I hope both of our governments are

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willing to impose those decisions on all of the participants, on all of the players, because that's the only way we're going to make sure that this...

LUDLOW: So you're kind of stuck... You're kind of stuck. If we throw money at them you're going to have to throw more money at them. Is that what you're saying?

HARPER: If... If... I think if we are not in the game, the industry will be restructured out of Canada. And it's frankly too important an industry to Canada. It's probably... probably close to 10 percent of our GDP depends on that industry. A huge percentage in the Province of Ontario, our industrial heartland. But we, as governments – both Canadian and American governments – we have to make the industry, all of the players in the industry, make the difficult decisions necessary to make those sustainable companies.

LUDLOW: All right. Prime Minister, thank you very much sir.

HARPER: Thank you Larry.

LUDLOW: I really appreciate it. You're terrific to come on.

HARPER: Appreciate it.

LUDLOW: All right. Canadian Prime Minister Stephen Harper.