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SOURCE: CLIENT

DATE: MARCH 30, 2009

REFERENCE/ RÉFÉRENCE:3003doc2

LOCATION/LIEU: CNN, NEW YORK

TIME/ HEURE: 14:30 PM

LENGTH/DURÉE: 25:11 MINS

PM INTERVIEW WITH CNN

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CNN: Prime Minister, thank you for joining us.

STEPHEN HARPER (Prime Minister): Thanks for having me.

CNN: You're on your way to G20 where really the world is breaking down into how people approach this global crisis. Where do you fall in the whole discussion?

HARPER: Well I'll be interested to see how it breaks down when I get there. So far the indications we've had is the divisions of opinion may be a bit exaggerated in the media, but we'll see. You know in terms of the debate, stimulus or fixing the financial sector, I guess we come pretty squarely down on the view that both have to be done. There is no doubt we cannot have a true re-launching or turnaround on the global recession until we fix the American and global financial systems. It is the fundamental root cause and it does have to be fixed. Obviously we don't have it in Canada, but it does have to be fixed globally. In the meantime we do need, you know, with interest rates so low, activity plummeting, we do need governments to go out there and borrow some of those funds and make sure they are put to work to sustain economic activity in the meantime. We have... We have a pretty vigorous stimulus package in Canada, as you know, bigger than the IMF suggested and so we'll be pushing others to pull their weight as well.

CNN: Well let's talk about regulation. That's one of the things that's going to be discussed at G20. What has to happen? What could possibly happen at G20 that could be a benefit to American viewers or to people around the world in terms of regulations? Can any changes come of this?

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HARPER: Well, actually Canada is co-chairing the G20's working group on financial regulatory reform; we are co-chairing it with India. I think we have a good report that will gain a broad consensus. If you look at the broad principles that are laid out in that report they are not unlike some of the things Secretary Geithner has been saying here. They involve fundamentally a reliance on more transparency, on more comprehensive, inclusive regulatory framework for a national system, strong national regulations. We believe in Canada that good national regulations, good regulation begins at home. As you know, our banks have been well regulated. We haven't had any bailouts or collapses in the financial sector, so it can be done. What we're suggesting we add to a strong and enhanced system of regulation is international peer review. Not international regulation, but the ability of organizations like the IMF to come and do a transparent assessment and provide advice. We submit our own regulatory systems to such assessments. They have been very useful to Canada. And I think that does what needs to be achieved. I don't think we need systems of international regulation, but I think with globally-traded securities and products we need some sense that there is transparency around the world in terms of the national systems.

CNN: Back in Canada you are seen as a conservative, and yet your support of some of these regulations fly in the face of what conservatives in the US tend to think about regulation.

HARPER: Well, let me... And we've addressed that a couple of times on this trip, but let me just clarify that. I also happen to be right now the government overseeing the most free enterprise financial sector in the world. Because, you know, I know that markets are to some degree a

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spontaneous order, but markets also do require systems of transparency, of information, of, you know, basically of sound macro prudential regulation – not micromanagement, but macro regulation – to ensure that there is sustainability in the market activities. So, yeah, a few years ago Canada was being criticized. We didn't deregulate as much as some others, but right now the government is not running all or part of our financial sector as is the case with so many... so many other systems. So I... I always remind my conservative friends that, of course, in the long term, of course in the long-term global growth will be driven by the market. But government does have a role to play to ensure the good information and the correct functioning and stability of those markets. And if it does that the markets will do their jobs. But, you know, just leaving the markets to self-regulation, especially in financial services, we've known from history that that can be an error and one we didn't make in Canada.

CNN: A lot of Americans look to Canada and they see a country that looks very much like their own and yet you have a banking system – you alluded to this – that is judged by some, including the world economic forum, as the strongest in the world. Tell us a bit about how the government achieved that and what Americans can learn from that.

HARPER: Well there was... there was a strong system of regulation, and as I said it's not a perfect system. We have our own gaps and are making our own adjustments, but it was a strong system of regulation and not just, you know, requiring basic capitalization ratios and things like that. It was also an activist regulation. Our various financial institutions, public financial institutions, the Superintendent of Financial Institutions, the Bank of Canada, Department of Finance, they meet with major banks and financial

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institutions, they meet with each other, keep an eye on the system. Not trying to micromanage the system, but make sure there is a good form of regulation. That led in turn to a prudential culture within the financial institutions themselves. Our banks were actually, for the most part, under-leveraged in terms of their maximum allowable ratios when this crisis began. And now we have, you know, as you may know, four of the top 10 banks in North America are now Canadian. Five of the... five of the top 50 in the world are now Canadian banks. So, you know, the challenge for us now would be to see how we can build upon that strength.

CNN: And can the US copy some of that?

HARPER: I... I think through the G20 working paper we are providing, I actually think you will see a strong copying of the model we are putting forward across the world. That said, obviously the United States has... you know, there are things about the American system is different. It is much more diffuse. We have six major banks, three major insurance companies. It's a much more diffuse system and also the structural problems are now very deep and those are going to require immediate short-term actions that are very different than... you know, than the situation we are in because we don't have to... we don't have to face those challenges. We occasionally do have to act to make sure that interventions that are done elsewhere are not putting our own institutions at a competitive disadvantage.

CNN: You know, while you're not suffering the same financial crisis, the bottom line is the world is suffering this recession, one that started here in the United States, and that is affecting Canada in one very particular way with respect to the auto industry.

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HARPER: Yeah. We're being affected in two or three different ways. We're starting to see a significant increase in unemployment. We had actually growth in employment for the first year of the recession, but that is changing very quickly. On the auto sector, we have a completely integrated sector. As I've told many people it isn't just that we have the same car companies serving the same markets, but in fact an automobile or a truck or a vehicle can cross the border up to seven times in the process of assembly. That's how integrated our industries are. And so we're working very closely with the Obama administration. We were working very closely with the Bush administration before on the so-called rescue package. And we are... the Government of Canada, my minister, Minister Clement, said today that we are in very strong agreement with the action both... in fact we are both taking. That while we continue to have short-term financing on the table, continue to be willing to help as part of a long-term restructuring, that these companies are going to have to make the very difficult decisions necessary to remain viable, to be viable in the long term... not to remain viable, to become viable. And there is just no way that taxpayers dollars can go into these companies unless and until we are certain that there is a willingness of all the stakeholders in the chain to accept the bitter pills that are going to have to be swallowed because we do not want to bail out a big car company and have that fail or have them back to us in six months or 12 months or a year and a half.

CNN: You know, a lot of people would be surprised to know that in Ontario, the sort of heart of auto manufacturing in Canada, more cars are made there than in Michigan.

HARPER: Yeah. No. In fact we have a... We have a disproportionate share of the North American marketplace. We actually have

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20 percent of the Big Three manufacturing activity in Canada, that's why we said first to the Bush and then to the Obama administration, whatever we are doing here we want to work on jointly and we'll put our 20 percent of skin in the game. We want to make sure obviously the industry is not restructured out of the country, but we have to do our part. But as I said the big message today I think from President Obama, also from our government, and from the Government of Ontario is that... is that these companies are going to have to make all the difficult decisions. We cannot get this one wrong.

CNN: A lot of people are newly curious about the cost of making a car in Canada. What's your competitive advantage over the United States?

HARPER: Well, historically competitive advantage was of course the fact that we have a public system of universal health insurance so of course there would be supplementary health benefits in a Canadian car company but basic health care costs are covered by the state as opposed to the carmakers in the United States. Now as you know that changed in the last couple of years with some of the agreements in the United States, so we lost that competitive advantage. We... We've now I guess regained for a time our advantage on the dollar. We had lost that as well briefly. But look, we face similar problems in the Detroit Three that the United States faces, and that is fundamentally the range of costs are too high compared to competitors, and there is – and this is something that, you know, it's going to be very difficult for us to all come to terms with – there is simply overcapacity in the market right now, particularly compared to the kind of auto sales we are seeing in North America.

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CNN: You know, the... NAFTA and Free Trade before that really had its roots in this relationship that you just described about a car being able to be built in the United States or Canada, go back and forth, be sold in either country.

HARPER: Yeah. We had an Auto Pact that predated the free-trade agreement. It was probably in a sense the prototype for the bigger agreement.

CNN: Well in tough times like this it becomes instinctive for some people to want greater protections of their own domestic industries. You're going to G20 and I suspect you're going to have something to say about that.

HARPER: I will be very vocal about that. There is... You know, I can't emphasize that enough. There is nothing that could endanger our future prospects like protectionism. You know if you look at the Great Depression of the 1930s, how did a stock market crash turn into a decade-long depression? We had contraction of the banking sector, contraction in monetary policy, contraction in fiscal policy. Governments are doing their best now, not necessarily perfectly, but to guard against those things. But we had contraction in trade policy. We had a terrible unwinding of global economic activity. We are now in a globalized economy. It has been the globalization on that economy that has brought most of the growth of the past generation. If we as leaders or as governments in response to very legitimate concerns from our population, help us out here it's this industry, we've got to save it, we've got to make sure that, you know, foreigners are not coming in and getting share of the market. It's all very appealing on a small level, but if all governments do that, what we will do is we will unwind the global

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economy. We're already seeing... you know we already are going to have to face great deleveraging in financial markets. If we'd deleverage the real economy through a deleveraging of world trade, we will have a vast and deep depression and that has to be avoided at all costs. I know leaders have said they would do that at the G20, by and large honouring those commitments, but there are some worrisome signs. And those pressures will continue on all of our governments as unemployment worsens. Fortunately in Canada, you know, we do speak here from a little bit of a better position than Canadians, for various reasons, including the nature of the Canadian economy in the world, do have I think a better and more fundamental understanding of the vital importance of trade. But all leaders must understand it or we will not get out of this recession. I should just add to you, that in our recent budget we in fact went the opposite direction from protectionism. We removed a bunch of tariffs on imported machinery and equipment to help, in our own interests, but also to help promote trade liberalization. We have a number of three... I think three trade agreements we've signed in the recent past, before Parliament right now. We're about to start a negotiation with the European Union. So we're doing our bit to push ahead with trade liberalization.

CNN: How do you deal with that with President Obama, because he certainly is under some pressure, particularly from the Democratic Congress, to put a few more limitations on trade.

HARPER: Well, look, it's always... it's always the case. My observation on the American system of government it's always the case that Congress is the voice for protectionist sentiment and the administration is usually the bulwark of trade liberalization, at least it's been that way almost continuously, in my observation, since the Second World War. When I had

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my meetings with President Obama, and I hope to be speaking to him a little bit later today, certainly he was very clear on his understanding of the importance of global trade and the importance of NAFTA. You know, the real test will be for all leaders though, the degree to which, you know, we are prepared to stand up to protectionist sentiment and to make sure that what we do assists not only our national economies but the global economy. It is the global economy as a whole we've got to turn around. We've got a global problem and to resolve it as leaders we have got to think globally about the problem.

CNN: Let's talk about something that's very interesting, a big difference between the United States and Canada. In Canada there's no particular incentive to purchase a home if you are not ready to do so in terms of credit or income. And here it's an encouraged practice. There are incentives because of ... of tax... preferential tax treatment to buying a home.

HARPER: Well another thing we've managed to avoid in Canada is... Of course we have a cyclical downturn in our housing sector. Prices are falling. Construction is falling. But we don't have a crash. We didn't have the housing bubble you have in the United States. There are a number of reasons for that. We have a system of... through our Canada Mortgage and Housing Corporation, a public company, we have a system of mortgage insurance which requires minimum down payments, maximum terms, things like that which obviously discourage unwise mortgages. In our financial sectors we're integrated so financial institutions have less of an incentive to trade mortgages. If they sign mortgages they tend to hold them. So obviously you didn't get the proliferation of derived products from the mortgages that caused so much trouble here. We also have... In our tax

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system, we have really unlimited capital gains exemption for principal residence, but we do not have mortgage interest deductibility. I know a very popular policy here and very popular with many of your viewers, but it is an incentive to carry debt rather than equity and we don't have that in our tax system.

CNN: Let's talk about another major issue. Certainly it was a very, very big issue last year when we saw oil hit nearly \$150 a barrel. Again, another reason why many people came to learn something about Canada and that is that it is the largest producer of energy that the US buys from other countries.

HARPER: That's correct. We are the number one supplier of energy... of energy sources of all types, including petroleum products. We have the second largest oil reserves in the world after Saudi Arabia. A lot of those, as you know, are based on the oil sands in northern Alberta. We are – and I can never remind Americans enough of this – we are the United States' only secure, market-oriented, and growing source of energy. All the other sources for the US are either shrinking, they are... are state controlled that operate on nonmarket principles, or they are insecure for other reasons. So Canada is vital to North American energy security. When President Obama came to Canada we agreed that we would work together – we're already setting up some working groups on what we are calling essentially the clean energy dialogue – how we can move forward in advancing our shared goals on climate change and on environmental matters while ensuring that ... that there is secure energy sources of supply and at reasonable prices in the North American marketplace.

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CNN: Is that part of the relationship going to be deemphasized as this administration continues to talk about cleaner sources of energy? Obviously if we are moving toward more solar and more wind and more nuclear, that's going to reduce the dependence the United States has on Canada for energy.

HARPER: Well I wouldn't say that. First of all whatever... As I said one time to President Bush, whatever source of energy you'll be using in the future, Canada will be your major provider, because as whether it's oil and gas or hydroelectric or nuclear through uranium, Canada is one of the major producers and certainly the major producer in the Western Hemisphere. Look, we understand. What I've said is this, you know, many people raise the oil sands say... point out the high emissions that production of that generates and says the Americans are going to become less dependent on that. I'm afraid to say that that is not true. If you look at the trajectory of the demand and supply for energy products, the United States will require as much oil as Canada can produce in the future. But what we want to do is work with the United States to ensure that we also make progress on shared goals on climate change. As you know the United States has a big problem in the coal-fired electricity. We're looking at ways like carbon capture and storage to deal with that. But be under no illusion, the nature of demand and supply will... and the nature of the relative security of Canadian supply will require the United States to be our best country for the foreseeable future, long after I'm gone.

CNN: Traditionally Canada and the United States have enjoyed the best of relationships and have a very large trading relationship. You're heading into G20 where there is some sense that there might... we

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might really break down into people who are prepared to blame the United States for the mess that we're in, and others that might stand by the United States. Where you going to stand on that?

HARPER: Well, you know, I've... I've always been clear with people in Canada and with the American administrations that I've dealt with, and that is that of course, as Canadians and a proud and independent nation we have our own interests and values that we have to defend and the Government of Canada has to advance. That said, in terms of the big picture in the world, there is not just no closer neighbour but no better friend and ally to Canada than the United States of America. And there is no better prospect for world leadership than American leadership. I will certainly encourage our friends, who have been asking... You know our friends have been asking around the world, have been saying we want to see an American president who's got a more consensual, more multilateral style, who will listen to us, take our ideas into account. They've asked for that. I think President Obama is making clear he will deliver on that. But then when America delivers that kind of leadership, I believe that America needs to see a willingness to join with that leadership and act together. And only the United States can provide that leadership, so I don't think it's good enough in international forums and, you know I can be critical of the United States and its policies from time to time as well, but when it comes to big global decisions, you know, we need to give the United States the benefit of the doubt and act together when the Americans are prepared to exercise global leadership, as I think President Obama is. So certainly I will be... I will be encouraging President Obama to listen. It seems to me he's a good listener. And then I'll be certainly encouraging others to work constructively with American leadership because

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as I say, notwithstanding the problems and notwithstanding the significant source of this crisis is in the United States, the only solution is a solution led by the United States.

CNN: Do you... How do you think this administration is doing in its first couple of months compared to the previous administration?

HARPER: Well, there's no way you're going to get me to answer a question like that. You know the one thing I have to avoid Ali is getting involved in any kind of domestic politics in the United States. We have... We have, with both administrations, our agreements and our differences. There are things we are doing differently in Canada than the Obama administration is doing in the United States. The Obama administration may be right or wrong, they face different circumstances. You know, I know for example that, you know, there's some criticism of some of the monetary policy actions. We're not... You know, we haven't been yet doing the kind of increases of money supply we're seeing in the United States. People say, well this is a... this is a terrible thing that will lead to inflation down the road. All I've said to people who say that it is, you know, that's like a fireman showing up at your house, he's watering down the house, and you're saying, aren't you going to flood the basement? The first priority has to be put the fire out. So President Obama and his administration are doing things within the realities they face to try and address a problem today. Whether they're right or wrong, that's an American debate. We're here as allies to be helpful, and obviously we will speak up when our own vital interests are in question, as they were for example when Congress started to put Buy America measures in which would not only harm Canada, but quite frankly be a very bad example for the world. So we'll speak up on those things, but by and

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large, whether it's President Bush or President Obama, whether it's Republican or Democrat, it's my strong view a Canadian Prime Minister has a responsibility to find common ground where that's possible, and work and be... will work to be helpful to American global leadership.

CNN: Tell me again about why the Buy American provisions are so problematic.

HARPER: Well they're problematic for two reasons. They are... They are first of all protectionist which, you know, automatically means of course that getting a good price... instead political criteria rather than good price is becoming the credential of an economic decision. But more importantly that was a very dangerous signpost down the road of protectionism. If, you know as I say global leadership... American global leadership is indispensable. If, rightly or wrongly, the United States becomes seen as a leader in protectionist action, that will be extremely damaging around the globe because others will respond. We have a global economic recession. If we all try and assist our own economies at the expense of the global economy then we will make the recession worse. We must find ways of assisting our national economy in a way that actually encourages global economic activity.

CNN: Many Americans look north to Canada and they see a health care system very different from the one here. Some describe it as a panacea, others call it socialist. Now you're... you're pretty far from a socialist despite the impression that some people have of, the sort of Canadian healthcare systems. What can America learn from Canadians in terms of health care?

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HARPER: I am... That's another debate I avoid very studiously here. We have a very different healthcare system in Canada, as you know. We have a universal system of public health insurance. Core healthcare services are insured by the government through an interlinked system of provincial plans, and the government is the single payer for those services. That system is not without its problems, as the American system has its own set of problems. But there is a widespread political consensus in Canada that we would prefer that system to the American system. So, you know, I... I wish the Americans good luck with that debate. It's a very difficult debate. I will just say this, that if you look around the world and you look at challenges of medical systems, many of them are remarkably similar. I'm actually amazed how... how similar the challenges are in spite of the fact that the systems are so different. The underlying reason is because we have the technology today to do just about anything to improve human health, but at prices and availability that can't be universal, and so those are the difficult decisions that various healthcare systems have to make.

CNN: Mr. Prime Minister, thank you for joining us today.

HARPER: Thank you for having me.

CNN: Have a good time at G20 and I hope you all succeed in your deliberations.

HARPER: I do too. Thank you for having me.

CNN: All right. Very good.

Let's just make sure we were rolling on that. (laughs)

UNIDENTIFIED: (inaudible) we'll do it all over.

CNN: That was just for... That was just to get you relaxed. (laughs) That was just for fun. I think we should be fine on it.

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You've got your... have you got your work cut out for you there.

HARPER: We... Everybody in leadership right now has their work cut out [end]