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**PRIME MINISTER'S INTERVIEW WITH FOX NEWS**

UNIDENTIFIED: Five, four, three...

CHRIS WALLACE (Host): This week world leaders gather in London for the G20 summit, discussing how best to fight the global financial crisis. Joining us now is one of those leaders, the Prime Minister of Canada, Stephen Harper. And Prime Minister, welcome to Fox News Sunday.

RT. HON. STEPHEN HARPER (Prime Minister of Canada): Thanks for having me, Chris.

CHRIS WALLACE: Before we get to the G20, let's discuss Afghanistan. Canada, which has 2800 troops there and has unfortunately lost more than a hundred, plans to wrap up its combat mission by the end of 2011. Now, you said recently that if President Obama had a clear strategy for success and for departure, you might rethink that. You've heard the President's plan. Might you consider keeping Canadian troops in Afghanistan?

RT. HON. STEPHEN HARPER: Well, I don't think that's quite what I said. We're operating on a Parliamentary resolution. We got consensus of the two major parties to pass that resolution. We're very clear in our objectives. We're in Kandahar, the most difficult province. Our objective now is to train the Afghan forces so they can take over day-to-day responsibility for their security by the end of 2011. That's what we're working on. We are, as Secretary Gates said, we are in Canada ramping up our civilian

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presence and our civilian commitments in Afghanistan in preparation for the end of the military mission, but we're going to continue to be there and continue to assist with governance and development challenges.

CHRIS WALLACE: But you did not hear anything from President Obama that would make you change your mind and say, "You know what, we should keep Canadian troops, combat troops in Afghanistan longer."

RT. HON. STEPHEN HARPER: We're not planning to do that. In fairness, when I met with President Obama he didn't make that request. President Obama did recognize the significant, very large and significant and robust contribution that Canada has been making in Afghanistan, in Kandahar in particular.

CHRIS WALLACE: You said recently that Afghanistan has had an insurgency for most of its history, and then you added this: "Quite frankly, we are not going to ever defeat the insurgency." Prime Minister, does that mean that we're going to have to learn to live with Al-Qaeda and the Taliban in that part of the world?

RT. HON. STEPHEN HARPER: No, I wouldn't put it that way. I think what Secretary Gates said is correct, that first of all, we absolutely have to see the elimination of any kind of threat to the wider world, to North America. Obviously the Al-Qaeda insurgency and the Al-Qaeda element of this has to be eliminated. I think we agree with that. In terms of the rest of it, you know, I don't think it's a case that we've got to see progress on the insurgency. We've got to see a state where the Afghan government can handle its own day-to-day security. I just think it would be unrealistic to suggest we're going to eliminate every last domestic insurgent in Afghanistan.

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Certainly the history of the country would indicate that's not a very realistic objective, and I think we have to have realistic objectives.

CHRIS WALLACE: But, but forgive me, sir, your statement was a little broader than that. You said, "We're not going to ever defeat the insurgency," not eliminate every single bad guy out there. That seems to indicate you think that we're not going to be able to defeat Al-Qaeda.

RT. HON. STEPHEN HARPER: Well, I think if you actually look at my comments in context, this is what I was saying. I do believe you'll see some kind of insurgency in Afghanistan for some time to come. It's been the nature of that country unfortunately. But we certainly want to see a situation where the Afghan government can handle that security situation on a day-to-day basis where they can take care of their own responsibility and obviously where the insurgency is of a nature that it doesn't threaten the wider global community.

CHRIS WALLACE: Let's turn to the world's economic situation, starting with Canada. You were the last industrial nation to go into recession, and one of the great joys of this job is you study up on things, and I learned that in fact in 2007 you started cutting taxes and your corporate tax rate is ten points lower than it is here in the US. Am I correct in that, sir?

RT. HON. STEPHEN HARPER: I forget what the relevant American rate is, but I can tell you that our goal is to have a combined federal-provincial corporate tax rate of no more than 25 percent. We're on target to do that by 2012. We will have significantly...by a significant margin the lowest corporate tax rates in the G7, and that's our government's objective.

CHRIS WALLACE: You believe that's better for the economy than President Obama's plan to raise taxes on the wealthy and

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(inaudible) businesses?

RT. HON. STEPHEN HARPER: Well, I'm not going to be drawn in, Chris, as you can imagine, to commenting on American domestic policy. Let me just say that the United States has a significantly different problem than Canada, which is even before this recession, the United States was running a significant budgetary deficit. Canada is in budgetary deficit now only because of the recession, only because of stimulus measures, and we will come out of it, we will go back into surplus position when the economy recovers, so there is no need in Canada to raise taxes. I'm...as a Conservative, I tend to oppose raising taxes at the best of times, but we have not got the structural budgetary deficit that exists in the United States. It obviously limits the administration's options.

CHRIS WALLACE: Canada is also the only western nation that has had no bank bailouts. Your banks tend to hold on to mortgages. They don't then send them, sell them to other investors. You have strong activist regulation. Is the Obama administration, do you think, right now to get more involved in policing the financial market?

RT. HON. STEPHEN HARPER: Well, without getting into detail, I think that the...what I've read of the Obama administration's moves certainly parallel the kind of recommendations we're making at the G20. Canada, along with India, is co-chairing the G20's working group on reform of financial regulations. And broadly speaking, what we are suggesting certainly is in line with where the American administration is going. This is a problem that absolutely has to be fixed. We have to fix the mess in the American and global financial sector. We cannot have a recovery until we fix that, and we've got to have good systems of national regulation with some kind

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of...with some kind of international peer review in the long term. That's our judgement. I think it's moving in the right direction, but obviously that's a domestic debate.

CHRIS WALLACE: Now, you're a Conservative. A lot of conservatives in this country say if you get the government too involved, you squeeze out all the innovation, all of the risk-taking that is so important to a free market system.

RT. HON. STEPHEN HARPER: Well, and that's a risk, and you know, I think we have got a pretty decent balance in Canada where we have good macrocredential regulation, but we don't try and micromanage financial systems. But I would say this as a Conservative, if I can be frank. It's great to say let's have less regulation in principle and less intervention in the marketplace, but where has that led us, Chris, in many countries? It's led us to a situation where the government is in fact intervening massively as a consequence of underregulation, and where we now have effectively in many countries nationalization of the financial system. I know in Canada there's been some criticisms in the past that we were perhaps too activist, intervened too much, but we're emerging from this with probably the only truly free-market financial system in the world, so I think, you know, a happy medium of regulation is the way to go.

CHRIS WALLACE: As you head to the G20 summit this week, there has been quite a dispute with President Obama urging some of our European allies – and they're disagreeing, especially France and Germany, to pass big stimulus packages of their own. Canada has passed a stimulus package, but for our European allies to pass those kinds of packages, to help

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draw the entire world economy out of recession, what do you expect for the G20 on that front?

RT. HON. STEPHEN HARPER: Well, look, I'm hoping very strongly that first of all, the G20 meetings will be focused on fixing today's financial problems. I think that's really important. We don't get distracted by a whole lot of other issues. And I also hope there'll be some consensus. Now, my negotiators, the people working on these various summit declarations tell me there's a lot less difference of opinion than you would understand in the media, that everybody understands. We have got to fix the financial system if we're going to turn the corner on the global economy, and I do hope also that all countries will understand the necessity of doing at least what the IMF has said, which is two percent fiscal stimulus, and not just for our own economies. You have to remember, we're in a global economy. The purpose of fiscal stimulus is not simply to sustain activity in our national economies, but to help the global economy as well, and that's why it's so critical that measures in those packages avoid anything that smacks of protectionism.

CHRIS WALLACE: I've got a couple of minutes left, I have two questions I want to ask you. First of all, on autos: President Obama will announce plans tomorrow to give more money to GM and Chrysler, but along with strict deadlines on concessions from both the auto workers and also the bondholders. You've given bailouts to GM and Chrysler in Canada. How confident are you that these...that one, we can, and two, we should keep these two countries out of bankruptcy?

RT. HON. STEPHEN HARPER: Well, let me be clear that we're engaged in this exercise because the United States is. If we're not...

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it's an integrated industry. If we don't do our share north of the border, the industry will simply shift out of Canada, and it's too important an industry to have collapse in Canada, as it is in the United States. Our...we're working very closely with the Obama administration on this. Everything I have seen indicates that the Obama administration is determined to impose the tough conditions necessary to make this bailout work; in other words, to make sure that at the end of it, we have viable companies. The last thing we want to do in Canada, and I'm sure the last thing the United States wants to do is do a bailout that fails in any case. If we're going to put taxpayer money in this, we have to make sure it works, and I think given the scope, the size of this industry we have no choice.

CHRIS WALLACE: Finally, briefly, if I may, sir, Candidate Obama talked a lot last year about reopening NAFTA, renegotiating our trade agreements. Now that he is President Obama, has there been any serious move in that direction?

RT. HON. STEPHEN HARPER: Well, what President Obama said to me is he's concerned about the labour and environmental aspects. Those were side agreements in the original NAFTA agreements. He'd like to see ways that those are more...more comprehensively incorporated into the main body of NAFTA. We're not closed to doing that, provided we don't open the whole package, because I think it would be hard to ever put...ever get the cat back in the bag if we tried to renegotiate with them.

CHRIS WALLACE: Prime Minister Harper, thank you, thank you for coming in and talking with us, and safe travel, sir, for the G20 summit.

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RT. HON. STEPHEN HARPER: Thanks for having me, Chris.

CHRIS WALLACE: Coming up, our Sunday group weighs in on a very busy week for embattled Treasury Secretary Timothy Geithner. Back in a moment. Thank you.

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