

The Economic Club of New York

98th Year

384th Meeting

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New York**

Program

GUEST OF HONOR

THE RIGHT HONORABLE PAUL MARTIN

Prime Minister of Canada

PRESIDING OFFICER

BARBARA HACKMAN FRANKLIN

Chairman of the Club

QUESTIONERS

H. RODGIN COHEN

Chairman, Sullivan & Cromwell

ROBERT D. HORMATS

Vice Chairman of Goldman Sachs (International)

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Barbara Hackman Franklin – Presiding Officer:

Good evening everyone. I am Barbara Hackman Franklin, Chairman of the Economic Club of New York. It is my great pleasure to welcome each and every one of you, our members and our guests to this, the 384th meeting in the 98th year of this esteemed club.

We are deeply honored tonight to have with us, the Right Honorable Paul Martin, Prime Minister of Canada. And I want to extend a special welcome to our many Canadian friends who are in this audience (applause) and especially to the Canadian Association of New York, for your great support of this event. And I want to particularly acknowledge your Consul General, Pamela Wallin who is a member of this Club and who does such a wonderful job of representing Canada right here.

Tonight, for our program we thought we would shift things around a little bit, and we are going to have our speaking program first, followed by our question and answer period and then your dinner will be served. I am so pleased and delighted that the Prime Minister is going to stay with us for the entire evening. So we will turn right to the program.

Our two countries, Canada and the United States, have much in common. We are nations of immigrants with similar heritage and entrepreneurial spirit and a shared border. We are the closest of friends, and the friendliest of competitors. We share the most expensive bilateral relationship in the world and that includes the world's largest trading relationship.

President Kennedy once said of this relationship, "Geography has made us neighbors, history has made us friends, economics has made us partners, and necessity has made us allies". And that remains very true today.

So tonight, we welcome our friend, Prime Minister Paul Martin. He is a man of ideas, a man with restless intellectual curiosity. He has brought a visionary approach to the Prime Minister's office. And I am sure we will know far more about that after this evening is over.

His public service perspective has deep roots. His father was a distinguished parliamentarian for nearly a quarter of a century and he addressed the New York Economic Club in 1954, when he was Minister for Health and Welfare. Prime Minister, before turning to public service, studied philosophy and law. He had a very successful career in the private sector and is the former Chairman and CEO of Canada Steamship Lines. He won his first election to the Parliament in 1988 and two years later ran for the leadership of the Liberal Party. He coauthored the Liberal Party's platform in 1993 and the Liberals were returned to power later that year. Prime Minister made his mark as Finance Minister in the Chretien government. His record is most impressive and you have many friends here who remember you fondly from that era. He led Canada through the most dramatic fiscal turnaround of any industrial democracy, by eliminating a multi-billion dollar deficit. He brought in five consecutive budget surpluses, while ushering in the largest tax cuts in the history of Canada. It is no wonder that he was known as the "deficit slayer". Prime Minister moved to the international stage in 1999 when he was named the first chair of the L-20. An international group of both G-7 countries and emerging market nations. He co-chaired the U.N. Commission on the Private Sector and Development, and is still actively working to make sure those recommendations are implemented. Prime Minister has a distinguished record of leadership and accomplishment. And he has many friends from both our countries in this room tonight.

So ladies and gentlemen, it is a great honor to welcome to this podium the 21st Prime Minister of Canada, the Right Honorable Paul Martin.

The Right Honorable Paul Martin:

Members of the Head Table, ladies and gentlemen. First of all, Barbara, thank you very much for that introduction. It is quite clear that when you're a politician, the introductions outside of your country are a lot more glowing than the ones in your country. It is a great pleasure for me to be here tonight. I must say, the comment I made about the quality of the introduction, there is

no doubt that the people at home, obviously don't appreciate the full depth and wonderfulness of the Prime Minister, the way that you do Barbara. (Laughter) When I was coming in here with Pamela Wallin, who was just introduced as the COUNSUL General, she said to me, "now you are going to be speaking before dinner". And I say, "why". She said, "Well the food is very good, and they want everybody to leave on a high". So let me say, just before beginning that I am delighted to see so many of you here. Members of the Head Table, members in the audience, really old friends, I spent a lot of time in New York, through my business career and through my political career, and to see so many of you here, is a great thing. I also understand that there was a bit of an incident tonight and I want to say to all of you who have come, it just goes to show I think, how important the relationship between our countries is. And the fact that we must stand together.

Barbara mentioned that I am actually the second Paul Martin who has had the pleasure. My father in 1954 was also both Minister of Health and Vice Chairman of Canada's delegation to the United Nations. If you will go back to 1954, those of you who can. That year, was a time of new configurations of power. Power around the globe. It was a time of arising threat. Communism. And of the emergence, it was the year for instance, that in fact, the "domino theory" came into the lexicon of international scholars and practitioners. It was also the time of emergence into prominence of new economies such as Japan's. And I am sure, however, that we would all agree that today we face opportunities and challenges that are equally great, with those, that would have been discussed here at the Economic Club in 1954.

In the face of these global trends, now as then, the United States and Canada share an uncommon bond. It's an alliance, not only of strategic interest, but as Barbara has just said, of deep and abiding friendship. We've had ample demonstration of this in recent weeks: the outpouring of sympathy and support across Canada in the wake of the hurricanes Rita and Katrina. So it seems natural for me to talk to you tonight about a stronger North America, about our mutual security, and our common prosperity. The Canada of the 21st century is a confident country, with a record of success; we are the only nation in the G7 not in deficit. Our public pension scheme is actuarially sound for generations to come. We have an extraordinary resource endowment in mining, forestry, and in energy. Our population is well educated, we have unique strengths in

research and manufacturing, and any of you who own a BlackBerry know what I mean. In fact I can see a number of you playing on it right now. (Laughter) The OECD ranks our regulatory regime as one of the world's most efficient and effective. I was about to talk about our tax cuts, but you did that very well. Smart regulation is a priority for our government. It's a key target of ours. The key target of ours, is the so-called tyranny of small differences which is the differences between the regulatory regimes and our two countries. We aim to decrease the cost of doing business, while enhancing health, safety and security. In short, our house is in order, and we're going to keep it that way. In eight years we have brought our debt to GDP ratio down from 70 percent to where it is now below 38 percent, and with another eight years we intend to get it down to 25 percent. At the same time we've decreased the percentage of our debt in foreign hands. When I became Finance Minister, we had a...we were as high as 40 percent of our debt was held by foreigners, today, a little less than ten years ago, it's less than 15 percent. Now this is not all good news. When I was the Finance Minister, we were borrowing so much money that every time I came to New York, every investment dealer in Wall Street wanted to take me out for dinner, but now that we're paying off debt and now that we're no longer a client, this is the first time I've got to tell you, in five years that anybody in New York has given me a free meal. (Applause) I'm telling you this to emphasize, as many of you in the business community already understand, that Canada is a good place for business and that Canadians and Americans are good business partners. And all of this is significant. All of this is worth emphasizing because quite frankly, there have been few times in our history when it's been more important that we stand together.

The first reason for this is the threat to our security; the rise of global terrorism which was brought home to you, was brought home to us, and to the world with 9/11, followed by the bombings last summer in London, and just days ago, once again, in Bali. The threat is grave and it is ongoing, and we all understand that. It has changed the calculus of national and international security. And is a challenger that is testing on the one hand, but on the other hand I believe strengthening our bond in North American.

Canada is spending heavily to enhance the security of our borders, with emphasis on the highest volume crossings such as at Windsor-Detroit, which is in fact the busiest border crossing in the

world. Right across the Hudson River, I don't know exactly where the Hudson is, is it there or there, Barbara? Alright, well we know it's close... right across the Hudson River in Newark, we're establishing a partnership with the Department of Homeland Security, joint teams of customs officials to monitor containers that are bound for Canada, and we're doing the same thing for US-bound containers in the ports of Halifax, Montréal, and Vancouver. Our Smart Borders initiative represents an investment in manpower, infrastructure, and modern technology to help ensure the free flow of trade while we focus our resources on outside threats. We also define our threats to our national security in the widest possible way. We are the first country in the world to plan for secure, pandemic vaccine supply through the contracting of a domestic supplier. And at the end of this month, we're convening in Ottawa, a meeting of Health Ministers from some 20 to 30 developing and developed countries to work on global preparedness for the threat of pandemic influenza.

Now, we in Canada also recognize that stability and peace in the world isn't somebody else's responsibility. We have set in motion the largest investments in our armed forces in some two and a half decades. Today, Canada's military is training for modern conflicts in fragile states, theatres of war, which requires the tools combat, stabilization, and relief. For example, Canada is in Afghanistan and will soon take command of a multi-national brigade in Kandahar, confronting terrorism in one of its prime breeding grounds. And in this state, as in others, such as Darfur, and in Haiti, we are supporting with expertise and aid, _____ democracy or governments as they find their footing. These actions represent Canada's response to a world that has changed fundamentally, a world in which Canada's traditional conception of itself, that of a middle power, that of a traditional mediator, the kind of concept that we had in fact when my father spoke here in 1954 has had to adapt, and has adapted to new realities.

Now the second reason why it's important for Canada and the United States to stand together is the rise of China and India. The rise of China, India, Brazil: a number of emerging market powers, but clearly the emphasis being on the first two. Today, just as fifty years ago, we're in the infancy of a fundamental reordering of the world's economy. A brand new consumer society, at least two billion strong, is in coming into being a historical equivalent of the snap of the fingers. The emergence of these new powers is a double-edged sword of promise on the one

hand, and predicament on the other. And for Canada, as for you, as for most industrialized countries, the competitive challenge is real. But given our small domestic market, 32 million people, our significant export capacity, and our wealth of resources, both human and natural, the changing world, we believe, places within our grasp tremendous potential. If you're going to look to China and Japan for instance, the closest major deep water ports, the closest major international airport, are all located in British Columbia. Our West Coast is in the process of becoming a key nexus in trans-pacific trade, North America's gateway to Asia. Countless dollars right now are being invested from the private and the public sectors in new infrastructure, in rail lines, and important port capacity. For us there is no doubt that China and India represent a huge and exciting new opportunity and we intend to take advantage of it. Now your economy, in the States is responding in similar ways.

The point that I am going to be making today is that if we are going to take full advantage of the sovereign countries of these emerging markets, we should recognize that we are so much stronger when we can work together within North America. And that's why we really have to make the partnership work. A strong North America is not a geo-political agenda, it is a peoples' agenda. And that was the rationale behind the Security and the Prosperity Partnership that was signed last March in Texas between President Bush, President Fox of Mexico, and myself. The agreement recognizes that the stronger North America is, the stronger each of our countries will be. It was in every single way an affirmation of the abiding value of NAFTA. NAFTA represents nearly one-third of the world's gross domestic product. North America has become the largest trading block on the planet. At last count, Canada was the number one export destination for some 39 of your states. Last year's trade between Canada and the state of New York alone was worth more than \$30 billion. Canada is the number one export market for states as far south as Georgia and Alabama, and that's why so many US governors really do understand the nature of our trading arrangements. NAFTA has enabled our two countries to integrate our economies with uncommon precision. Our North-South trade corridors are reliable and they are secure. They've created opportunities for growth in virtually every region of your country and mine, and in virtually every sector of our economies. In short, our partnership has presented us with enormous opportunities. But speaking frankly, it has also presented us with challenges. Over the years we

have met these challenges with an open and a constructive dialogue. That's how friends talk to each other.

So as well as talking to you as I just have about the ways in which our partnership is working, I would now like to outline, highlight a couple of concerns that we as Canadians have. First, the softwood lumber dispute. What it symbolizes about NAFTA, and what it says about our respect for the dispute settlement mechanism that we have put in place to protect the integrity of NAFTA.

The softwood lumber issue, for those of you who are not as aware of it as some of us in Canada might be, is basically a disagreement between special interests in the United States and your national interest. Canada provides about one-third of your softwood lumber supply. We trade this commodity fairly and within the agreed rules of NAFTA. In the last several years however, our firms, Canadian firms, have been charged a total of \$5 billion in tariffs. Now this is in spite of the fact that Canada has won panel decision after panel decision under NAFTA's process for the settlement of disputes. Now recently we won at a unanimous decision, which confirmed these findings, this in NAFTA's final court of appeal, which included a majority of US judges. Now the problem, and this is why I raise it, obviously softwood is very important to us, it's a major export, but the real importance is what it says about the strength of NAFTA. Because the problem is that instead of honoring the decision by the final court of appeals, that was set up, an extraordinary challenge committee, the United States has decided to ignore it. Now just forgive my sudden language from the, my sudden departure from the safe language of diplomacy, I see many ambassadors, ex-ambassadors out here, are going to be having cardiac arrest. (Laughter) But just let me tell you, ignoring a decision by a dispute settlement mechanism that was negotiated by two countries fifteen years ago, this is nonsense, more than that it is a breach of faith. Countries must live up to their agreements. The duties must be refunded. Free trade must be fair trade. Le refus des États-Unis de respecter la décision sur le bois d'oeuvre est un non-sens. Je dirais même que c'est un bris de confiance. Les accords doivent être respectés par les pays qui les signent. Les droits prélevés devront être remboursés. Le commerce libre doit être aussi un commerce juste. When Canadians get mad we speak in French. (Laughter)

But understand, this in my country, the Canadians will...this in my country is really a very a serious matter because it is bringing into doubt the fundamental agreement by which we in good faith have proceeded, to work on the joint partnership between us. In any business relationship you're going to have differences of opinion, but you establish a mechanism to settle these differences, you accept the verdict, if it's against you or whether it's for you, and then you move on. NAFTA established such a mechanism and ignoring it hurts, not just Canadians but Americans. Supporting the integrity of NAFTA is in the United States' self interest. According to numbers that were cited by the *Wall Street Journal*, removing the tariffs on Canadian lumber would lower the cost of each new American home by about a \$1,000 on average, would make about 300,000 more moderate income Americans eligible for mortgages. Let me just quote from the *Wall Street Journal*: "This whole inane scheme may very well lead to a net reduction in employment in the United States, because for every lumber and sawmill job there are about 25 Americans working in industries that depend on low priced Canadian lumber." In short, these tariffs make your lumber companies happy; American consumers and workers... not so happy. When we ignore the rules, our economies suffer, and I hope that is well understood, and by Congress in particular.

Let me give you another example, one that is probably far away from Wall Street but nonetheless does indicate the nature of the problem that we are trying to address, and that's the border closures prompted by mad cow when BSE occurred. For many years we have profited, both of us, by a highly integrated North American cattle market, extending from feed manufacturers to processors to ranchers. When BSE was discovered in a Canadian cow, it was a Canadian problem. But long after scientific evidence demonstrated unequivocally that Canadian beef was safe, some very loud and persistent American ranchers succeeded in keeping the border closed. And this is when the problem became a crisis, not just for Canadians, but for the continental industry. The President himself spoke out emphatically for the resumption of trade, and I appreciated President Bush's leadership, and the situation has improved substantially since then. But the effect of the lengthy closing has led to the restructuring in the Canadian industry, and this to the detriment of its US counterpart. Why? Because whereas at one time Canadian beef was shipped for processing into the United States, our industry has now had to adapt and has adapted, ramping up its own processing capacity to compete with yours. And furthermore rather

than looking now only to US markets, we're going to be your direct competitors in China, Korea and Japan, and that's the law of unintended consequences at work.

Now to get back to lumber. I'm not going to let it go. (Laughter) It is clear that the US approach to softwood brings into question the integrity of NAFTA in general and the efficacy of the dispute settlement mechanism in particular. In the North American context we have to recognize that NAFTA is the framework not just for the trade of commodities, but for the trade of most all goods, and services, investments, and energy. And for this to operate smoothly we have to be able to rely on the dispute settlement mechanism. Now Canada will continue to enforce its legal rights under NAFTA and before the US courts. We'll also take our case to the court of public opinion, in congress, to the business community, which is what I want to do tonight, and to the American consumer, as well as to the administration. But we shouldn't have to do this. There's already a mechanism in place and we have a final decision, and that decision should be accepted, that mechanism should be respected. If anything it should be strengthened to provide greater certainty and finality. The integrity of this process is imperative. Indeed this, really the test of our commitment to NAFTA, isn't taken in those many instances when we agree, it's taken in those few cases when we don't agree.

The second concern I want to discuss tonight addresses another dimension of our partnership, that of the joint stewardship of the North American environment. And let me put this in, into context, we share a trading relationship, it's very important. We also share huge emotional ties. There are a number of Canadians in this room tonight, most Canadians have cousins, I certainly do, who live throughout the United States. The friendship is very, very close, and vice versa. In this context, the US interest in drilling in the Arctic National Wildlife Refuge, ANWR, gives rise to great reservations on the part of Canadians. Now you're going to ask "Wait a minute here, I hear you on softwood, I, I understand this, but what business is it of the Canadian Prime Minister to question what the United States can do on its own territory." And that's fair enough. The answer however is that Canada and the United States have a mutual obligation to the fragile ecosystem of the North. The fact is we have an obligation to the ecosystem of North America. It must be protected, it has to be nurtured, it cannot be despoiled. Le Canada et les États-Unis ont une responsabilité partagée face à l'écosystème fragile du Nord. Nous devons le protéger non pas

l'endomager. Drilling in ANWR puts both wildlife and the culture of the Gwich'in people who live there at risk, and it is our mutual responsibility to ensure that they're not. This is a long-standing obligation. Some twenty years ago, we jointly agreed to protect the Porcupine River caribou herd, which each year migrates from the Yukon in Canada to the Refuge Coastal Plain. Now we can argue among ourselves about the limits of that agreement, but surely the underlying principal, which is the one that I would really make, is that of shared stewardship, and that is one that we should recognize. Now this is not to say that we do not understand the impulse to ensure a secure supply of oil for American consumers, but even by optimistic estimates there is only enough oil under the Refuge to meet America's energy needs for 200 days. If you're looking for a long-term solution this is not it, and in Canada's view it is simply not worth the risk of a permanent environmental damage. So now you may well say to me "Well that's fine but we need the oil, our alternative sources around the world are too risky." But let's look at the reality, our nation is already your number one supplier of imported energy, nearly all of the electricity that's imported in the United States comes from Canada. Nearly 85 percent of the natural gas imported in the United States comes from Canada, about 16 percent of the refined oil and crude that you import comes from Canada. Now you add this to the Alberta oil sands with at least 175 billion barrels of recoverable supply that represents more than two-thirds of Saudi Arabia's equivalent reserves. And we're quite confident that when it's all totaled up, in fact it will be more than Saudi Arabia's. And then you add to that our vast unexploited hydro-electric resources, and there is no reason why as joint stewards of the environment we can't cover whatever potential output would have come from ANWR.

Well, let me just summarize by the following. In terms of security, Americans and Canadians, our interests are wholly aligned. How you feel about the importance of security in the United States is how we feel about it in Canada, and we will do everything in our power, at home in North America and abroad, to ensure it, and no one in the United States should doubt this, you are our neighbors, you are our friends, in many cases you are our brothers and you are our sisters, and we are as concerned about your security as we are about our own, and we will not allow anything to get in the way of us working with you, in every way, shape, or form to ensure that North America is safe for generations to come. In terms of trade, in terms of our prosperity, clearly the opening of China and India present opportunities with both of us, as sovereign

countries will seek to exploit. We in Canada unequivocally regard these markets as attractive. That being said we also recognize the degree to which we in North America have an opportunity to benefit from working together, and that's what NAFTA and the Security and Prosperity agenda are all about.

And the point I would make here is that where rules are established and agreed upon they should be followed, both because it's in our mutual interest and because of the example we can set in the world that needs the rule of law. The fact is plain, the United States depends as much as we do, as much as any nation does, on the liberalized, global economy governed by rules that everybody can rely on. And the world is watching, and no one wants emerging economies to emulate our worst practices, they're a bounty on trade.

Now, you may think that I've been blunt, but it's because I believe in North America, in spite of our differences, our partnership on security and trade is working. The fact is that our two countries, our two countries have put it together; we share this continent, we understand the imperatives of working well, not only in North America but around the world. Our partnership is not one that is only rooted in economics or in self-interest. It is rooted in the basing values that have led to the founding of our two nations. Now I just want to say to you that what we've now got to do is to put that on a stronger footing, and I know we will: two sovereign nations strengthening a relationship for the betterment of generations to come. Thank you very much.

Barbara Hackman Franklin: Thank you Prime Minister. Those were stirring inspiring words. Appreciate your emphasis on partnership between our two countries and the solidarity of North America, as well as the opportunities and challenges that flow from all of this, and that are before us. I just must observe that I dealt with softwood lumber when I was Secretary of Commerce. That issue has been around, between us, for quite a long time. Well, let's turn to our usual question period and for those of you who may not have been here before. We have a questioner on each side of the dais. Distinguished people who are members of the Club and they will alternate in asking questions of the Prime Minister.

On this side of the dias we have Robert Hormats, vice-chairman of Goldman Sachs International

and a trustee of the Club. And on this side is Rodgin Cohen who is chairman of Sullivan & Cromwell law firm and also a trustee in the club. For the first question I'm going to go to Bob.

Robert D. Hormats: Thank you. Welcome. Bienvenue. Premier Ministre. Thank you very much for joining us. First question: You talked about the reforms that Canada has made in its public pension fund and I think in many ways you really lead the G7 in reforms that are quite successful. We, in the United States, are grappling with these kinds of issues now and haven't made very much progress. I wonder if you could help our audience...help Americans to understand just how you've accomplished these reforms and what lessons we in the United States might take away from the very successful Canadian experience.

The Right Honorable Paul Martin: Well...there are certain fundamental differences between the pension systems in our two countries. We have made numerous reforms in the way in which our private pensions operate in terms of the tax savings, the way in which one can put money aside; some similarities, but also we've made it much more easy for people, in fact, to put aside private savings. But the real difference between our two countries is in our public pension plan. Essentially, as with most other countries including the United States, we woke up to the fact that whereas at one time we had eight workers supporting every pensioner, we're about to go into a world where we've got about three-and-a-half workers supporting every pensioner and meant that the contributions that were going to have to go into our public pension plan were just simply going to skyrocket, making it virtually impossible for the next generation to save for their pension. So about 10 years ago-and, in fact, it was the first year in which I was Finance Minister, we basically took a look at all of the benefits that were there and to the extent that we could modify some of those benefits we did so and then we put our pension contributions on a steadily increasing ramp until a point where they reached then a stabilized position which is now...which we're getting close to. In other words, what we essentially did is to say that my generation was going to pay more so that my children's generation was going to pay less. The net result of that is that our pension...our National Pension Plan, is not fully funded but it is fuller funded. In other words, actuarially sound for the next 75 years. So we put it on a basis that when it arrives at equilibrium within a not too distant future, there will be no longer a requirement for our pension plan to increase...our pension contributions to increase and, in fact, by any actuarial basis the

funding will be there to pay those pensions out. And then what we have done-that money is actually going in but it's not going into General Revenues, it is going in now...it is now going into a separate fund and is, in fact, being invested the same way our private pensions are and so and it's obviously meant a huge leap of confidence in Canada.

H. Rodgin Cohen: Prime Minister, let me begin by saying that I can think of no greater testimony to the friendship between our two countries than your willingness to speak so frankly and candidly tonight to us. It really illustrates how fortunate we are to have Canada as our neighbor. My first question relates to the financial services industry. A number of countries are advocating the creation of national champions in key industries such as financial services, but this has also led to a converse concern about reciprocity. With that in mind I wanted to ask you about the prospect for change in three Canadian positions relating to the financial services industry. The first is the statutory restriction on acquisitions of more than a certain percentage of the voting stock of the Canadian banks. The second is the government's apparent policy against mergers among the five big banks and the third is what is perceived to be the government's policy against mergers between the big five banks and the insurers.

The Right Honorable Paul Martin: Well, this isall three issues are being looked at by parliamentary committees and it's quite conceivable that change could occur. I would not see a change in the voting restrictions, which essentially says that nobody can hold more than 20 percent of a Canadian bank and the reason for that is pretty straightforward. Unlike the United States where I think you have some 9,000 banks, we have five very big banks and then we do have a beginning of a second-tier system but it's very small compared to yours. As far as the bank mergers are concerned, you are probably aware that I was the Finance Minister who stopped this the last time, which is why you asked the question. (Laughter) The Minister of Finance, the current Minister of Finance, has said...has put out a paper asking for parliament to debate the issue. The position that I took was that, in fact, mergers could take place as long as that there was a parliamentary committee which approved them but that they could not take place unless one could assure that there would be not a reduction in competition. If that were to occur then parliament might well look at it but right now that has been put on hold. And in terms of banks and insurance companies coming together, right now certainly our position would be

against cross-pillar mergers. We have a number of very, very successful insurance companies who are doing very well and...I'm not sure that public policy would benefit from, in fact, a merger between an insurance company and a large bank in Canada at the present time.

Robert D. Hormats: Prime Minister, you mentioned in your speech the challenge of China. Obviously it's a competitive challenge on both sides of the border, yet on this side of the border there are lots of apprehensions. As you know, the U.S. Government, in effect, discouraged a Chinese company from buying a large American energy company. In Canada there seems to be a very significant effort by Canada to rise to this challenge, welcome this challenge, take it on. I wonder if you could describe the politics of that in Canada and the kind of responses you're getting among Canadians to this new challenge, competitor challenge?

The Right Honorable Paul Martin: Well, in the oil industry we have not been presented with exactly the same...the same option that you were. In other words, what the Chinese attempted to do in the case of the United States was to buy a well-established operating oil company. That is not what they have sought to do in Canada. What they've sought to do is to make an investment in our Oil Sands that I described to you, which are probably one of the most exciting oil plays in the world today and we have said, 'Fine'. We've said that's...we would...essentially there are a wide number of Canadian companies, foreign companies, very large, some small entrepreneurial companies who are making investment in the Oil Sands and it's just proceeding at a tremendous pace and the Chinese have said, 'Look, they would like to come in, put the money into the development...the development of a new project'. So it's a new project versus an established plan...an established company and we've essentially said, 'Look, that's fine.' We want to be able to get into China. Our oil companies want to invest in China. They want to explore in China and what we're essentially saying to the Chinese is that we want reciprocity. We understand that we have a very important resource and we're prepared to see... We're not going to let anybody come over and take over all of our resource by any mean, shape or means, but an individual investment that brings with it the reciprocity that Canadians can invest in China is something we would look at. We're very excited about the opportunities for Canada in both China and India.

H. Rodgin Cohen: Prime Minister, in the context of your remarks about our shared values on security there is also, I think, no dispute as to how essential it is to maintain civil liberties in that context. Do you see, however, a difference of views between our two countries as to whether there needs to be some limitation or restriction on civil liberties in order to protect the remainder?

The Right Honorable Paul Martin: We have the same debate in Canada that you have in the United States. We have a piece of legislation that we brought into being after 9/11 that essentially allowed the Canadian government to respond within our country to the need, to be able to protect security and obviously it has been challenged by a number of groups on the grounds of civil liberties and it is up for review next year and the debate take place and there is a balance. I guess our position is that we believe that, providing you are prepared to put the money into tracking, into intelligence and into ensuring security that you could do it without unduly jeopardizing civil liberties and we're very reluctant on the grounds of fighting terrorism and people who, in fact, would oppress civil liberties, to oppress civil liberties and so I guess that is the balance. It's one that you have to...you have to make and that we have to make. So far in Canada, this has worked out. I've got to say that the added effort, the added money, and very large effort, by the way, in terms of intelligence that we have put in, is working. There's a difference in intelligence between our two countries-you're highly technical, we're a bit more on the ground-but I must say that so far it is working and we've maintained that balance between civil liberties and... But as you know this is a huge debate now in the United Kingdom given the recent actions of the government there. I think we've pretty well got it right. I think we've got it right.

Robert Hormats: Prime Minister, your government has made important efforts, particularly recently, to encourage additional investment in the auto sector, attracting new investment, improving incentives, reducing regulatory barriers and a lot of people in this audience are interested in that sector and the manufacturing sector in Canada in general. I wonder if you could elaborate a bit on that?

The Right Honorable Paul Martin: Well, our manufacturing sector, you know, has many of

the same problems that yours does. We, in addition to that, of course, we've had a rising dollar which has caused some problems, but it's interesting, you know...when I went through the very glowing numbers that we have in Canada the one, I suppose as any Prime Minister I didn't, sort of, talk about the numbers that are less than glowing...your productivity growth is better than ours and clearly that's something that we have got to work on but our productivity in the auto industry is very high and we understand in talking to the manufacturers, really, whether it be the Big Three or the Japanese manufacturers as an example, that, in fact, we've probably got the highest productivity in North America if not in most of the major markets and that's been a huge advantage as well has been our publicly funded health care system which means that we do not have the huge health cost built into the cost of each car that exists in the United States. So...and we are fairly confident that we will be able to maintain that, we'll be able to compete. We have taken a close look at what's happening in China as an example and our view is that over the course of the next while Chinese automobile manufacturers will be hard pressed to keep up with their own demand and that... But we are very productive. So the answer is I think that we're relatively low cost despite the fact that our wage rates are similar to yours but we're very highly productive and this is one area where I think the numbers work in our favor.

H. Rodgin Cohen: Prime Minister, your comment about Canada's role as a middle power I thought was particularly intriguing, not the least because of the global respect in which Canada is held. Is there anything more that you think either Canada or the United States can do to promote the role of Canada as a middle power with all the disputes in the world... to take a more active role in settling them?

The Right Honorable Paul Martin: Well, I'm not sure it's ... I'm not sure that it is up to the United States to promote Canada. I mean, I love it! (laughter) but I certainly do believe it's up to Canada to do it. I think that there's a...there's a fundamental dichotomy here and I have discussed this with the Administration. And I remember discussing the same thing in terms of financial matters with Bill McDonough many years ago...I mean... and it's the same thing now in terms of how do you fight terrorism in all of this and that is that essentially the world asks the United States to be the world's policeman and then when the Americans are the world's policemen the world complains and the view that (applause)... My view is that...that, to be quite honest, nobody

has the military capacity, nobody has the military technology that the United States has and they're going to be asked to continue to play this role but the rest of us have got to do our share and that we've got to be prepared to take our share of the responsibility and our share of the burden and... So, for a country like Canada what we have got to do is pick our...pick our spots. So, as an example, we have said in terms of Afghanistan that we have taken on the provincial reconstruction of probably the most difficult part of Afghanistan, that where the Taliban is the most...the most rooted which is Kandahar and we've said we'll do this, we'll take over the responsibility for the multi-national brigade and we will do it. We will put 3,000 people in there, troops, relief agents and this kind of thing and we'll take that chunk and we will do it. It is the same thing in Darfor. Essentially, we have said we will provide the military advisors, we'll take the lead in providing the military equipment and we will ultimately, I think, be doing much of the same thing in Haiti and so I think what it really is ...it's up to us to take that responsibility on. If you're to say to me, what is the role of the United States in that area, it's to simply...it is to understand that what we will do is take over specific areas. We will take over the total responsibility. We don't want to go in as handmaiden to the great. We're gonna go in there and we'll take over the responsibility of an area and we will discharge that and I also think we that have the leadership within NATO...the leadership role within NATO to basically promote that concept and to be quite honest that's what we're doing.

Robert D. Hormats: Prime Minister, looking down from Ottawa to Washington you doubtlessly noticed that our government is 'fiscally challenged' shall we say, in dealing with our budget issues. You've had great success, as a Finance Minister, in addressing this problem in Canada and it's obviously important in Canada because what happens to U.S. fiscal policy and what happens to the dollar have a big impact on your economy. What thoughts do you have from your experience as to how a country in deep deficit and getting deeper into deficit, turns that around. How were you able...what kind of political formulas worked in Canada to do that as successfully as you were able to do? Not everyone has had that success so if you could share a little of the...of the magic and the insight that would be useful, perhaps in our debate as well.

The Right Honorable Paul Martin: Well, I had one thing going for me. I took...we took office-the previous government had spent 10 years saying to the Canadian people that they had

to deal with the deficit and they had not dealt with it but they had built up the public opinion that basically said, 'Look, you've got to deal with it'-and, in fact, there was a huge wave of public opinion saying to me, 'you have to deal with this' and as politician I ran ahead of the wave and led it. (laughter) So I had the advantage of...of public opinion. We made very dramatic cuts, very dramatic cuts. We cut, for the sake of discussion, we cut our public service by 18 percent. I mean, let me just explain one thing: Governments, all governments, essentially calculate a reduction in spending, a reduction in...as slowing down of the growth of spending. Well, we actually cut it. We took our spending in a four-year period from 17 percent of Gross Domestic Product to 11.5 percent of Gross Domestic Product. I mean, really very, very dramatic but we had huge public (scattered clapping) Yeah, well that's just about the amount of clapping I got when I did it! (laughter). So, that's...that's what we did and...but the timing was right and to be very honest, and I think to be fair, I...let me just simply make two comments: At the time I did it we were not fighting a war and at the time I did it we did not have massive hurricanes and natural disasters which cost a lot of money and so when I did it, the timing just happened to be right. I'll say something else to you Bob that I...that makes it a little more difficult for the United States. I mean what makes it easy is the tremendous wealth of this country. What makes it harder is, again, the responsibility that the Americans are asked to carry. At the time of the Asian crisis, which led to the L20, which we talked about it. Bob knows very well, more...almost...he knows a lot about it. At the time of the Asian crisis, we met as G7 Finance Ministers and you may remember it was described as the worst financial crisis in 50 years-I'm not sure it was but, nonetheless it had a lot of people very worried-and the G7 countries asked each other to stimulate their economies, it was the only way we were going to get out of it. The Europeans didn't stimulate. The Europeans would not cut interest rates. The Europeans sat there and essentially watched the Asian crisis take place and if Allan Greenspan had not stepped in and stimulated the U.S. economy as the consumer of last resort in the world, in fact the Asian crisis would've have been as bad as everybody said it was going to be. Now, there was a cost to that. The cost clearly was huge imports in the United States, huge trade deficit in the United States and a lot of government spending and again I'm going to come back to... One of the things that we have got to do, and this is a different topic, but let me just say that in the new world into which we're going-it's why I talk so much about the Rule of Law and the working together-in the new world in which we're going the United States 20 years from now, with a huge India and a

huge China and possibly a successful Russia and maybe even a Europe that is some semblance of getting its act together, that there is going to...there is going to be an absolute necessity for large countries to not allow the other guy to do all the heavy lifting but to assume their responsibility. And that also is a problem, I believe, that the United States has in dealing with these large deficits it is the fact that the rest of the world is not picking up its fair share of the load.

Barbara Hackman Franklin: Rodgin, last question.

H. Rodgin Cohen: Thank you. Prime Minister, as you've said even the best of neighbors have occasional disputes. In addition to the specific areas you mentioned, do you see any other areas where disputes between our countries that are sort of below this radar at this point could become... really, animosity? And, specifically, a number of countries are concerned, not just about what they perceive as U.S. military imperialism but regulatory imperialism and I wonder if that is a concern that is felt deeply in Canada?

The Right Honorable Paul Martin: No, not really. The ... I think we believe...I mean...you know, I mean in terms of regulation, the SEC is predominant. I mean, the fact is that just because this is the strength of this capital market. We certainly believe that the world has got to work to a coming together. You've got two very different philosophies in terms of competition policy between the United States and Europe, as an example, which means it's very difficult to do a deal when you've got these two different philosophies there. There are a number of major trade difficulties that are obviously making the Dohar Round very, very difficult. The position on agriculture as an example. But all of these are part-and-parcel of the ongoing. In terms of Canada and the United States, there are going to be ongoing difficulties but I will come back to it. I believe that all of these can be handled. All of these can be handled. You have the right to say to us that, 'Look, you have a responsibility in terms of the defense of the northern half of North America and we want you...we want you to play the role' and we will do that. You have the right to say to us that, you know, that these are the responsibilities that we have in the world and we need your help' and we will live up to that. I believe that if we're able to settle this dispute settlement mechanism, I just cannot put more emphasis on it. I just want to go back to what I

said. We're integrating our economies-that is a fact, the three countries-and when President Fox of Mexico was in Vancouver last week he spoke about this as strongly as I do-you cannot ask Canada to integrate into the United States economy in a way that's going to make North America stronger and then turn around and say that the rules of the game will be changed at the whim of commerce. You cannot do that. It is going to be impossible to build a strong kind of partnership that we want but my belief is, and it's why I said and I used very strong words, but the agreement was negotiated-there are people in this room who were part of that negotiation-and when that negotiation took place the single biggest stumbling block was, 'That's fine, we're prepared to do this' but Canada said, 'We don't want to be subject to political whim at the time of a dispute. We want to be able to settle those disputes with finality and certainty' and this mechanism was set up and the mechanism has now worked, and it worked against an American interest, in other instances it worked for American interests. It worked against an American interest and the Americans simply said, 'We're going to ignore that'. Well, you can't do that. So we need a better dispute settlement mechanism. I believe if we had that then, in fact, I don't think there are.. I mean there's going to be problems but there are mechanisms in terms of dealing with it. And on that...if that is the last question let me just say that you have been incredibly patient and I know that you wanted to eat and I'm sure that some of you are saying, 'When do we get a dispute settlement mechanism that will allow him to sit down and he'll let us eat?!' (Laughter) So let me just say thank you very, very much.

Barbara Hackman Franklin: Prime Minister, we are honored by your presence. We hear your messages. We appreciate your world view, your candor, and your emphasis on our partnership, and we wish you the very best as you lead our esteemed neighbor, Canada. Thank you very much. And a round of applause for our two fine questioners, Bob and Rod.

Now this concludes our formal program. Your dinner is about to be served. Please enjoy your dinner and your table companions and thank you for coming.

END OF PROGRAM