



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

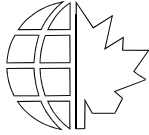
---

Thank you for inviting me to join you today at what is clearly a challenging time for us all. The member companies of the *Canadian Council of Chief Executives* (CCCE) span every major industry in this country. All of us are being affected in one way or another by the economic downturn triggered by last year's crisis in financial markets. And I would like to talk to you this morning both about what is happening now and about the risks and opportunities that today's events are creating for Canadians.

We have a few member companies involved directly in your business: Bombardier makes jets, for instance, while CAE builds simulators and provides training. But our members across all sectors are major users of the services you provide.

One of our members once boiled down the job of a CEO to just three core tasks: manage employees, build relationships with customers and sell stock. Any billion-dollar company today is likely to have operations, supply chains and investors spread across the continent and perhaps around the world. That means CEOs and other top executives need to travel a lot. And the efficient use of their time in many cases means turning to private aviation, whether the company chooses to own or charter.

Tough times, of course, put all major expenses under the microscope and travel costs are no exception. High-profile spending such as the use of executive jets can be especially problematic when shareholders are taking a beating and when media and political fingers are pointing at corporate excess as an alleged cause of broader public misery.



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

What happened to the heads of the American auto makers as they flew private jets to a public meeting to ask Congressional representatives for a bailout is a recent and harsh example of what can go wrong. When people are suffering, it is not enough to satisfy shareholders by *being* thrifty -- the appearance of thrift also matters.

This shift in public attitudes reflects both the surprising severity of the economic crisis and its origins in financial markets. The sudden collapse of major financial institutions and the abrupt worldwide squeeze on credit created a sense of panic. As we saw last autumn in Canada, any politician who tried to project a sense of relative optimism was ridiculed as being out of touch; only those who called for drastic action were seen as credible.

Our members have not underestimated the degree of the challenge. Last autumn we held a frank roundtable discussion about what members saw coming, sharing those insights both with each other and with Finance Minister Jim Flaherty and Bank of Canada Governor Mark Carney. But by the same token, we recognize that, as in every other downturn, the sun will come up in the morning; there will be a bottom and at some point the economy will improve again.

While keeping a balanced perspective amidst the global panic has not been easy, the fact remains that Canada brings some impressive strengths into this crisis.

Yes, we are being badly hurt, especially in the manufacturing sector. Resource prices have been hammered too, causing companies to pull



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

back on investment plans, but that was from an overheated state. The unemployment rate has risen sharply, but from its lowest level in 30 years. Governments are dropping into deficit, but after 15 years of surpluses, the federal debt level is at just 29 percent of GDP, by far the best among the G8 nations. Real estate prices are down, but we are not seeing a U. S.-style rash of foreclosures. Plunging stock markets have hammered the value of Canadians' retirement savings, but our financial system is now seen as perhaps the best managed and best regulated in the world.

What's more, Canada is not alone in tackling the crisis. Its very suddenness and severity triggered unprecedented cooperation among governments and central banks. We have seen interest rates slashed, toxic assets purged, banks effectively nationalized, money being printed at a staggering rate. Here in Canada, the most important part of the 2009 federal budget was not the new spending on infrastructure, but rather the \$200 billion *Extraordinary Financing Framework*: a package of measures aimed at easing business and consumer access to financing in ways that did not add a penny to the deficit.

In Canada and around the world, this extensive use of monetary policy is clearly having an impact. Credit spreads have improved for businesses and consumers alike, companies are floating major bond issues, stock markets have rebounded sharply and consumers are starting to see the benefits of record-low interest rates.

So is that it? Is the worst over? I have to admit that I am doubtful. We have done a lot to deal with the immediate financial crisis and credit



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

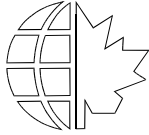
---

crunch, but the economic impact continues to spread. The downward trend appears to be leveling off, but it is not yet reversing. Companies are still shedding jobs, and that will continue to put a damper on consumer spending and real estate prices. The global economy as a whole is certainly not out of the woods yet, and Canada faces additional danger from the south on three fronts: fiscal policy, trade protectionism and border management.

In my view, fiscal policy in the United States poses a serious medium-term risk to Canadians. With budget deficits there hitting 12 percent of GDP, the United States is effectively racking up as much new debt each year as the entire output of the Canadian economy.

Canadians went a long way down deficit road in the 1980s and early 1990s. We know that it leads to a very unhappy place. We did not dig ourselves nearly as deep a debt hole as the United States is now doing, and we still nearly hit the wall. The result for us was a nasty recession driven by rising interest rates followed by long years of rising taxes and harsh cuts to public services.

Canada still has its challenges today, but we spent 15 years paying down our accumulated public debt and put our public pensions onto a sustainable footing at the same time. The United States has done neither. It has been able to get away with such fiscal folly for so long simply because it is a large and dynamic economy and its dollar remains the world's main reserve currency. But even the United States faces limits, and there will be consequences.



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

In my personal view, it is only a matter of time before we see the United States dollar plunge and American interest rates forced back up. We may see the first warning signs in the days ahead, as the American government tries to sell the first major batch of long-term bonds needed to finance its stimulus package. I am hoping that major pressure on the American currency does not come until its economy has turned back up, but even so, I would not want to be an American taxpayer five years from now.

The medium-term impact of American fiscal stimulus cannot help but affect Canada's economy. We have seen in recent years how quickly a falling American dollar can affect the competitiveness of our manufacturing and services sectors alike. I am worried that the fiscal gap between our countries could lead to a sustained and severe currency shift, with the Canadian dollar back above par. That in turn could unwind much of the progress we have made since the Canada-United States Free Trade Agreement in the 1980s in building the highly integrated network of supply chains through which we compete globally.

This could be compounded by the convergence of two other trends. One is the inevitable impulse toward protectionism that accompanies hard times in any democracy. The other is the unrelenting United States focus on security and the continued thickening of the Canada-United States border.

Political leaders everywhere recognize intellectually at least that protectionism is self-defeating. The tariff walls created by the Smoot-



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

Hawley Act made the Great Depression infinitely worse, and yet we cannot seem to prevent history repeating itself. The G20 Leaders pledged to avoid imposing any new protectionist measures when they met in November 2008. Within four months, 17 out of the 20 had fallen off the wagon. Their London Summit in April of this year brought a renewed pledge and greater transparency, yet every new bill passing through the United States Congress seems to include some form of Buy American provision.

Those provisions already are choking off sales and threatening jobs at Canadian exporters, and they are triggering the predictable retaliation, with Canadian municipalities are starting to call for mirror-image policies to shut out American imports. Given that in an infrastructure sector such as water treatment, Canada buys a billion dollars a year more from the United States than it sells in return, the result is destined to be fiscal stimulus that destroys jobs -- on both sides of the border. But the political momentum seems unstoppable.

On the security side, meanwhile, there was hope that the election of President Barack Obama might lead to an easing of the Bush-era intensity at the border. But recent comments, first by Homeland Security Secretary Janet Napolitano and then by Secretary of State Hillary Clinton, suggest that there will be no backing down. Even though Canada clearly represents a far lower risk than Mexico in terms of illegal cross-border movements of people, drugs or arms, there seems to be a political need in the United States to treat its northern and southern borders equally.



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

The *Western Hemisphere Travel Initiative* will proceed, requiring the use of passports or equivalents even for land border crossings starting next week. In the meantime, Canadians looking at the border see a vast increase in the number of American guards, backed up by a wide array of new technology, from surveillance towers to Predator drones. You are seeing the consequences in your business, with ever-increasing demands for tighter security screening and customs procedures even for private aircraft.

Let me close, therefore, by talking about what we are doing, as an organization of Canadian business leaders, to tackle these issues.

The battle against protectionism is frustrating, but we are not alone. In particular, the United States business community understands very clearly that the Buy American policy is counter-productive. It has been vocal in its opposition to every such measure that appears in a congressional bill. During the debate over the stimulus bill, fifty U.S. business associations banded together to plead with Congress to drop the Buy American provision, arguing that it would put millions of American jobs at risk.

In Canada, business groups like ours have been working closely with our government to press the Canadian case in Washington. We are doing so directly and in collaboration with our American business counterparts.

In March, for instance, we took more than 50 of our CEOs to Washington, where we held meetings with, among others, Larry



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

Summers, the Assistant to the President for Economic Policy and effectively the architect of President Obama's recovery strategy, and United States Trade Representative Ron Kirk, who as a former mayor of Dallas is a major free-trade booster within the Obama Administration. We also held a joint strategy session with the heads of the United States Chamber of Commerce, the CEO-based Business Roundtable and the National Association of Manufacturers.

As we move forward, our Council is also staying on top of issues that could trigger new forms of protectionism. I am thinking here especially of global climate change, where the United States is at last moving toward meaningful action to reduce greenhouse gas emissions. The likely vehicle is a cap-and-trade system, and legislation to put such a system into place is moving through Congress.

It is inevitable, however, that any such legislation will include, at the end of the day, some provision for "border adjustments" -- essentially some form of duty, tax or restriction on imports from countries whose efforts to fight climate change are deemed not to be as rigorous as whatever is adopted by the United States.

The main target of such measures is likely to be developing countries such as China and India, especially if they refuse to sign on to national targets for reducing emissions. However, Canada is not immune from being targeted on the basis of differences in regulation, as we have learned from bitter experience in areas like softwood lumber.



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

However, President Obama and Prime Minister Harper did agree in February to establish a Clean Energy Dialogue. This process includes a series of bilateral advisory groups made up of business leaders and experts, and we have put our resources at the disposal of Canada's business representatives in this process. Canada and the United States will not necessarily pursue a joint emissions trading system, but it is vital to ensure that whatever approaches we pursue are compatible and mutually recognized as equivalent.

The issue of border security remains much more difficult. The bureaucratic attitudes established by the Department of Homeland Security are now deeply entrenched, and the risk of further terrorist attacks on the United States remains undeniable.

In recent years, our work as an organization has been concentrated at the trilateral level through the 2005 *Security and Prosperity Partnership of North America*. A year later, the Leaders of Canada, the United States and Mexico established a private-sector advisory body called the *North American Competitiveness Council*. This is composed of ten business leaders from each country, and the CCCE acts as its Canadian Secretariat.

The NACC has been vigorous in proposing detailed measures to make borders within North America more efficient as well as more secure, and has provided a means for our three business communities to speak to political leaders with a united voice. We also have collaborated across borders to oppose new measures that have added to delays and costs without contributing to security, and in encouraging the



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

elimination of unnecessary differences in cross-border regulation, much of which gets enforced at border points.

Ultimately, though, the only way to recreate a more efficient and open Canada-United States border will be to do for border security what the *North American Aerospace Defence Command* (NORAD) did for protection against Russian bombers. Our two countries have to work together, and work toward some form of binational command structure, one that will provide joint protection of our external perimeter. This is a concept that our Council has promoted both directly in a 2004 discussion paper called *New Frontiers* and indirectly through our support for initiatives such as the 2005 *Independent Task Force on the Future of North America* organized by the Council on Foreign Relations.

We have seen modest steps in the right direction since the earliest days of the post-9/11 Smart Border Accord, such as the groundbreaking agreement for the joint inspection of inbound containers while at overseas ports. We have seen further modest steps this week as Secretary Napolitano met with Public Safety Minister Peter Van Loan in Ottawa. For instance, the pilot program that put officers from both countries onto ships and boats patrolling border lakes and rivers was made permanent. But we have to go much further if we want the United States to accept fully the statement that Prime Minister Harper made to President Obama in February: "There is no such thing as a threat to the national security of the United States which does not represent a direct threat to this country."



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

Both protectionism and a sticky border are bad for Canada because they create incentives for companies doing business across the continent to set up shop in the bigger market. We will never eliminate trade or border risks, and to offset what we cannot prevent, Canada has to offer different incentives. That is precisely what our country has been doing.

In particular, Canadian governments have moved aggressively over the past decade to cut tax rates, especially those affecting business investment. Corporate income tax rates have come down dramatically, at both the federal and provincial levels. Capital taxes are on their way to oblivion. And just this spring, Ontario ended years of resistance and joined the ranks of provinces replacing their retail sales taxes with value-added taxes compatible with the GST.

The new Administration in the United States seems determined to make our job even easier on the tax front. President Obama has announced a series of measures in recent weeks that would dramatically increase the tax burden on companies based in the United States, a burden that already is the highest in the industrialized world. He also wants to raise taxes on high-income individuals.

As a CEO-based organization, we have paid particular attention to the issue of head-office jobs and what drives corporate decisions about where to set up shop. I can tell you that corporate tax rates are a major factor, and if the United States decides to widen the tax gap even further, there is a real opportunity here for Canada to capture a much bigger share of North American head-office activity. That, of course,



**BEYOND THE FINANCIAL CRISIS:  
RISKS AND OPPORTUNITIES FOR CANADA**

**NOTES FOR REMARKS BY DAVID STEWART-PATTERSON  
EXECUTIVE VICE PRESIDENT  
TO THE CANADIAN BUSINESS AVIATION ASSOCIATION  
MONTREAL, MAY 28, 2009**

---

---

would represent a huge opportunity for all of you given the travel intensity of senior executives.

To come back to the present, I cannot tell you with confidence that the worst is over, but neither is the world about to end. We will have to work hard to prevent some potentially ugly outcomes, both through smart domestic policy choices and firm negotiations with our major partners, especially the United States. But however daunting the risks might seem, today's uncertainty also holds the seeds of some important competitive opportunities, and we all should be looking for ways to help those seeds sprout and grow in the years ahead.