



***NATIONAL PRIORITIES AND  
POLITICAL REALITIES  
THE CHALLENGE FOR CANADIAN  
BUSINESS LEADERS IN 2004***

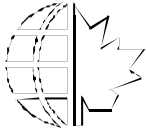
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***NOTES FOR REMARKS BY  
THOMAS D'AQUINO  
PRESIDENT AND CHIEF EXECUTIVE  
CANADIAN COUNCIL OF CHIEF EXECUTIVES***

***TO THE COUNCIL'S NEW YEAR MEMBERS' DINNER***

***TORONTO***

***JANUARY 15, 2004***



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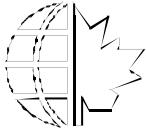
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In 2003, Canada experienced a year of transition. In the economy, it was a transition from rapid acceleration to slamming on the brakes. Several years of superb growth in jobs and incomes ran smack into a series of unexpected disasters, from SARS and BSE to forest fires, floods, a major blackout and a hurricane. Compounding the difficulty for many exporters was the incredibly rapid rise in the value of the Canadian dollar against that of our largest market, the United States.

In politics, it was a year of transition for parties and leaders. Most provinces held elections, and in several cases tossed out the incumbents in favour of new ideas and new leadership. Federally, Canada's two conservative parties agreed to merge and the governing Liberal party completed a prolonged succession process.

In 2004, both the private and public sectors face new challenges. To remain competitive, Canadian enterprises, especially in the manufacturing sector, need to accelerate investment even as profits are squeezed in order to fight the effects of the rising dollar with new technologies and higher productivity. Governments, for their part, face significant new demands in areas ranging from health care to defence as slower economic growth limits the flow of tax revenue.

The news is not all bad. Canada's economic and fiscal fundamentals remain far stronger than they were a decade ago. The resulting strength of the dollar, for instance, makes possible a shift from fiscal policy to monetary policy as the primary means of providing stimulus to counter economic weakness. The degree of confidence international investors now have in our currency and fiscal management means that the Bank of Canada has room to reduce the gap between Canadian



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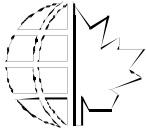
and American interest rates, and the falling price of imports means that it can do so without running the risk of higher inflation. Monetary policy, however, will continue to be driven by the state of the economy. Political debates in the year ahead, on the other hand, will remain focused on fiscal policy, on how governments should tax and spend.

***Political transition in Ottawa***

When it comes to federal politics, the dynamics in Ottawa have changed dramatically, both within the federal Liberal party and between parties.

On the one hand, new Prime Minister Paul Martin has made a fundamental commitment to addressing what he calls "the democratic deficit". Already he has taken steps to give more power to members of Parliament and to parliamentary committees, allow more free votes in the House of Commons and enable public scrutiny of key government appointments. Together with these efforts at making Parliament work better comes a commitment to improving governance, through the legislation to create an ethics commissioner as an officer of Parliament instead of an advisor to the prime minister, and new and tougher rules on ethics and conflict of interest for members of Parliament and senators.

Taken together, the measures that Prime Minister Martin has announced or proposed have the potential to open up the decision-making process considerably. For organizations like ours and for anyone interested in influencing public policy, the new structures and practices will provide more opportunities for input. However, they also



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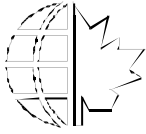
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will require more extensive efforts to work with a broader range of elected representatives and government officials.

This need to introduce ourselves and our work to a broader audience is why, for the first time, we have assembled all of our positions as a Council across the full range of public policy issues into a single document. The resulting policy platform was sent to you earlier this week, and it also provides the architecture for a completely redesigned Council website. The new site, launched yesterday, makes it faster and easier than ever to find out where Canada's business leaders stand, and provides an important foundation for the expanded advocacy that will be an essential element in promoting smart policy choices in a more open and vibrant political environment.

I have no doubt that Prime Minister Martin's commitment to greater transparency and broader engagement in decision-making is sincere. I have to add, however, that it is not yet clear to what extent the measures he has announced will really create a more freewheeling dynamic in Parliament and in the public service. Since the first mandate of the Trudeau government when I served in the prime minister's office, I have watched prime ministerial power grow and become increasingly entrenched. It will be difficult to reverse the trend. Of one thing I am sure -- only a determined prime minister can make it happen. We all should wish Prime Minister Martin every success in this noble enterprise.

With the lengthy transition now over, the major factional battles within the Liberal party have receded and the new prime minister is firmly in charge. The organizers who took control of the party machinery during



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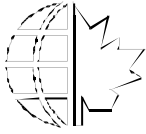
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the leadership campaign are now installed in the prime minister's office and in other positions of influence. Prime Minister Martin has reorganized the cabinet committee structure, ambitiously taking personal charge of its most important four committees as well as of the cabinet as a whole. A significant number of new ministers have been appointed to cabinet, with many of former Prime Minister Jean Chrétien's loyalists banished to the backbenches. For those out of favour, even re-election is at risk as Prime Minister Martin allows his party faithful to challenge incumbent members of Parliament for nomination as Liberal candidates. And while the decision to appoint parliamentary secretaries as members of the Privy Council suggests that they will have more influence, it also requires them to respect cabinet secrecy and solidarity. At the very least, the desire to make Parliament more democratic faces some real tensions with the tendency toward centralization and control of power that has come to characterize prime ministerial government in Canada.

In addition, every single policy debate in the short-term will be dominated by the looming federal election campaign. Regardless of the theoretical or practical merits of any policy idea, everything the government says and does over the next few months will be influenced by its impact on the contest for votes. This highly charged atmosphere has important tactical implications for organizations like ours. It will not affect the policies that we recommend, but it will have an impact on how we advance our positions publicly.

In this context, it is important to consider the evolution of the opposition parties both to the right and to the left. Shortly before Christmas, the Canadian Alliance and the Progressive Conservative Party of Canada



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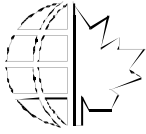
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at last agreed to merge, forming a single Conservative Party of Canada. The contest to lead this new party is now underway, and will barely have concluded before the Liberal government is expected to call the election. The frontrunner appears to be the former leader of the Alliance, Stephen Harper. This in turn has contributed to a perception among some former Progressive Conservatives that the merger amounts to a takeover. A handful of Progressive Conservative members of Parliament have declined to sit with the new Conservative caucus. One, Scott Brison, went further and has joined the Liberal party as Prime Minister Martin's new parliamentary secretary for Canada-United States issues. This week, Keith Martin, previously an Alliance member of Parliament from British Columbia, added to the exodus, announcing that he too was quitting the Conservative party to run in the next election as a Liberal.

The critical test for the new Conservative party and its leader will be whether it can build the kind of broad coalition that is necessary for electoral victory in this diverse country of ours, one that can bring together many views under a single tent as former prime minister Brian Mulroney did in the 1980s. For now, as the pollsters suggested for years prior to the merger, many former Progressive Conservative voters appear to be looking to the Liberals rather than to what they see as an Alliance-dominated Conservative party as their second choice.

Prime Minister Martin's early moves -- the sweeping spending review, the freeze on big new projects and the cap on the size of the public service -- have a dual purpose in this context. First, of course, emphasizing how little money remains in the kitty after the spending binge of recent years is a way to help reduce the massive expectations



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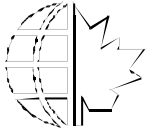
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built up during his own leadership race. But second, this reinforcement of his reputation as a prudent fiscal manager is designed to make the Liberal party look like a more attractive home than the new Conservative party to many of the fiscally conservative but socially liberal members of the old Progressive Conservative party.

I am convinced that the commitment to fiscal prudence, which the Council has consistently and strongly supported, will not disappear. Do not, however, expect the prime ministerial rhetoric to stay in finance-minister mode as the election draws closer. Fiscal constraints may provide an excuse for not moving as quickly as some would like to expand various spending programs. But the Liberal election platform inevitably will emphasize a grand social vision, as Prime Minister Martin made clear in his "politics of achievement" speech at the leadership convention, and the tone of the campaign is likely to tilt distinctly to the left.

The language in the speech from the throne scheduled for February 2 and in the budget planned for about a month later may go well beyond the usual appeal to liberal values. Having absorbed as much support as possible dislodged from the right through the Conservative party merger process, the Liberal party will face off squarely against an increasingly strident New Democratic Party. Already, the Liberal party has added a new section to its website to attack directly anything it sees as a misleading or incorrect statement by New Democratic Party Leader Jack Layton. This tactic, reminiscent of the hardball style used against separatists in the days of the Clarity Act, points to an election campaign high on negative and emotional content and possibly even lower than usual on serious policy debate.



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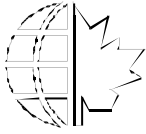
In summary, I think we all have to remind ourselves that while Paul Martin may be a good friend and a former member of our Council, he is now the Prime Minister of Canada and his business is politics. As he addresses the political challenges of 2004, he will do what he believes is right for his party and for the country, and it is inevitable that we will not always agree. We certainly should not rest on our laurels and assume that our ideas will get any preferential treatment from the new prime minister and his team.

***Economic and fiscal policy***

The coming political battles have important consequences for the economic and fiscal outlook. Economically, Canada seems poised to rebound from the reverses of last year, while the strength of our currency provides room for the Bank of Canada to use monetary policy for economic stimulus, and in particular to offset the drag created by the dollar's rapid rise. The political battleground, however, will be government spending.

Despite the 36 percent increase in federal spending over the past four years, the pressure for even more spending is everywhere. Provincial governments are unceasing in their demands for more and more federal money for health care. Municipal governments are demanding a "new deal" involving billions more in infrastructure grants and gas-tax revenue. It is increasingly obvious that Canada's armed forces will need a major infusion both to protect our own territory and to make a meaningful contribution to continental and global security.





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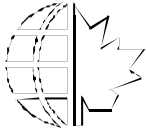
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As our Council said to the House of Commons Standing Committee on Finance in October 2003, slower growth means that new tax revenue will not be rolling in to the same extent it has in recent years. Finance Minister Ralph Goodale, for his part, has made it clear that the government will stick to the policies of fiscal prudence established by Prime Minister Martin during his tenure at Finance and will continue to reduce the public debt toward a level of 25 percent of Gross Domestic Product, the target recommended by the Council last year.

The combination of slower growth in tax revenues and continued fiscal prudence means that whether one is arguing for new tax cuts, new federal spending or increased transfers to provincial or municipal governments, the funding for significant new initiatives must come largely from existing programs.

This is why we suggested an ambitious target for the continuing review and reallocation of federal spending. We said senior officials and ministers should be required to identify each year the least effective five percent of the spending under their direction. Even if limited to direct program spending, excluding pensions, Employment Insurance payments and transfers to the provinces, this process would create a reallocation pool of more than \$3 billion a year.

Prime Minister Martin has yet to put a number on his target for spending review, but clearly the \$1 billion annual target announced in last year's budget is seen as inadequate to fund the major initiatives that the government has in mind and that many of the prime minister's supporters are expecting.



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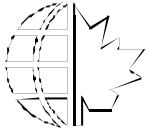
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The fiscal squeeze has important implications for us on several fronts. First, any major proposals that we or anyone else put on the table -- whether for tax cuts, spending or transfers -- will have to be staged over a number of years. Second, any proposal for a new initiative will have to identify potential sources of funding within the government's existing resources. As finance minister, Prime Minister Martin was famous for challenging those with requests to "tell me where to cut". You will hear this refrain again in 2004.

As a Council, we will continue to push for more competitive tax rates, but as in the past, we also will put forward suggestions for covering the fiscal impact. If we want to push hard for further significant cuts in corporate income tax rates, for instance, we should think hard about what business subsidies we would be willing to see cut as appropriate tradeoffs.

There is of course another potential source of funds for those who do not want to cut existing spending, and that is higher taxes. We know that what Canada needs is lower taxes, not higher ones. We understand that higher taxes raise additional revenue in the short term only at the expense of incomes, jobs and economic growth in future. But already, we have seen the new Liberal government of Ontario roll back corporate tax cuts. The New Democratic Party's Jack Layton recently castigated Prime Minister Martin for not doing the same federally. Ideas for higher taxes are being raised in other quarters as well. The Conference Board of Canada's President and Chief Executive Officer Anne Golden, for instance, has suggested that Canada consider raising the Goods and Services Tax by a percentage



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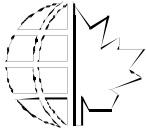
point or two as a means of paying for important new spending initiatives.

I am confident that Prime Minister Martin understands the importance of tax competitiveness to the jobs and incomes of Canadians and to sustaining social programs such as health care in the years ahead. I also am certain that Canadians will not be willing to pay more taxes unless they first can be convinced that not a penny of their current taxes is being wasted. And I think it will take a rigorous and effective spending review indeed to convince people on this point.

That said, advocates of lower taxes may spend more time on defence than offence in the months ahead. While there may be room in the next budget for a few targeted measures such as the acceleration of capital tax cuts, better tax treatment of dividends or faster writeoffs for investment in new technology, proposals for major new measures will only be seen as credible if they are accompanied by suggestions for appropriate tradeoffs, either on the spending side or within the tax system.

***Provincial and municipal issues***

This brings me to another important shift in the political landscape, the increasing attention that needs to be paid to policy at the provincial, municipal and intergovernmental level. Federal transfers to provincial governments for health care and social services always have been a significant fiscal issue. Now, though, Canada is facing a broader challenge, one that some refer to as the "fiscal imbalance" between



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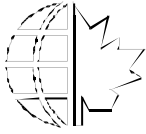
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different levels of government with respect to their responsibilities for spending and their capacity to tax.

The federal government in recent years has been able to run healthy surpluses, reduce debt, cut tax rates and still increase spending to record levels. At the provincial level, however, health care budgets continue to gobble up a larger and larger share of tax revenue, while municipalities increasingly find their property tax base inadequate to handle all of the responsibilities generated by their growth. The cash crunch today at the federal level is a pale shadow of that facing provincial and municipal governments. All provinces except Alberta once again are running deficits, and the net collective deficit at the provincial level this year is expected to reach almost \$8 billion.

The traditional role of the federal government has been to redistribute resources, from richer to poorer individuals and from richer to poorer regions. In the past, this redistribution has effectively drawn on the resources of people living in large urban regions to fund transfers and programs for people in rural areas and smaller communities. But as large urban centres have become the engines of Canada's economic growth, this growth has created costs of its own, from a shortage of transportation infrastructure and environmental degradation to the homelessness that is made worse by the rising housing costs that flow from growth.

A "new deal" that would see a greater share of federal spending flow to urban rather than rural regions would be positive for Canada's growth, but would challenge the traditional federal role of redistribution within the federation. We will hear more on this important issue tomorrow



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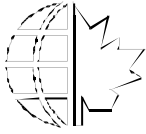
from the mayors of Montreal, Toronto and Winnipeg and from John Godfrey, the new parliamentary secretary to the prime minister with special emphasis on cities.

Prime Minister Martin has signaled a strong desire for better and more productive relationships with provincial, territorial and First Nations as well as municipal governments. Some significant electoral changes at the provincial level, especially in Quebec, Ontario and British Columbia, have eliminated earlier partisan squabbling if not all of the underlying tensions. Provincial premiers, for their part, have stated a desire for more influence on the national stage through their new Council of the Federation. There is clearly good potential for more positive intergovernmental relations in the months ahead.

It is critical, however, for talks between governments to move beyond a tug of war over money and power. The same taxpayer funds all levels of government, and political leaders therefore have a joint responsibility to see that each tax dollar is spent as effectively as possible in meeting the real needs of Canadians.

Sometimes this joint responsibility will require a willingness to make difficult decisions. Perhaps the federal government needs to give up some tax room to enable other levels to do their jobs properly. But by the same token, maybe provincial governments should hand off some of their responsibilities in order to serve Canadians better.

A case in point of urgent concern to our Council is the current system of securities regulation. As pointed out by the recent report of the Wise Persons' Committee to Review the Structure of Securities Regulation



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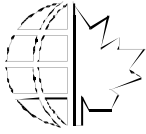
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in Canada, the case for a single Canadian regulator is overwhelming. Legal opinions prepared for the committee went so far as to say that the federal government has every right to act pre-emptively in this sphere despite the current presumption of exclusive provincial jurisdiction. Finance Minister Ralph Goodale this week expressed strong support for a single Canadian regulator, but I think Prime Minister Martin will be reluctant to take pre-emptive action at a time when he is trying to build more positive relationships with provincial governments.

Hence, I believe that it is up to us, as business leaders, to make the case to provincial and territorial governments. We must persuade them that it is in each of their interests to improve investor protection, to give all Canadians better access to investment opportunities and to help Canadian companies grow and create jobs. And we must encourage them to do so by working together to end a degree of fragmentation in securities regulation that Canada now shares only with Bosnia-Herzegovina.

More broadly, it is time for provincial and territorial leaders to show that they are both able and willing to do what is right for Canada as a whole. The Council of the Federation may indeed become an important vehicle for progress, but only if it is used to forge bold pan-Canadian policies, not just act as a trade union for premiers seeking a pay raise from the federal boss.

The securities regulation issue also illustrates a new challenge for an organization like ours. Two years ago, when we changed our name to drop the reference to "national issues", our primary reasoning was



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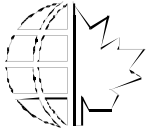
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linked to our growing engagement beyond Canada's borders. But it also reflected the reality that today, many of the most critical national issues lie in whole or in part within provincial jurisdiction. Taxation and fiscal policy, innovation and competitiveness, the cities agenda and global climate change, energy and the environment, health care and education, regulatory reform and corporate and public governance are notable examples. Just as parliamentary reform at the federal level will require us to engage a broader range of parliamentarians and officials, our work as a Council on national issues increasingly will require us to engage provincial and municipal leaders as well as those in Ottawa.

***North American strategy***

The trend toward more broadly based engagement will be equally evident beyond Canada's borders. This will be especially true as the Council moves forward with our *North American Security and Prosperity Initiative* in 2004.

At a time when security alerts continue to cause costly delays at the border, the evolution of the Canada-United States relationship remains one of our core priorities as an organization and will absorb a huge amount of our collective energies in the year ahead. As we said in launching our North American initiative a year ago, economic integration may be irreversible, but economic security and physical security have become indivisible. The future of Canada's economy and of Canadian-based enterprises depends on our ability to manage our North American relationships and in particular on our ability to keep borders open and people and goods moving at all times.



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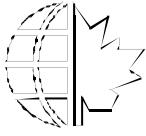
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In launching our North American initiative, we suggested that Canada's strategy should include five pillars: *reinvention of borders; regulatory efficiency; resource security; a reinvigorated defence alliance; and development of new institutions.* As detailed in the draft discussion paper sent to you last week, the past year has seen an explosion of research and discussion on these issues, in Canada and to a lesser extent in the United States and Mexico, in government and academic as well as business circles. The paper builds on the five pillars and puts forward 16 specific recommendations for your consideration. By April, based on your feedback, we need to have a clear consensus on our own goals and objectives in preparation for our next meeting in Washington, D.C., on April 19 and 20.

Last year's meeting, coming as it did in the midst of the military campaign in Iraq and in the wake of Canada's decision not to participate, was welcomed by Republicans and Democrats alike. The visit by so many of Canada's business leaders to the American capital sent an important positive signal about the many interests and values shared by Canadians and Americans that should never be forgotten.

The environment at this year's meeting will be different on a number of counts. On one hand, election campaigns will effectively be underway in both countries, necessarily colouring any statements by political leaders. On the other hand, the atmosphere is likely to be more positive, driven both by Prime Minister Martin's determination to restore a more productive tone at the top and the important structural steps he already has taken. These positive steps include the creation of a cabinet committee on the Canada-United States relationship, the formation of the new Department of Public Safety and Emergency





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TORONTO, JANUARY 15, 2004**

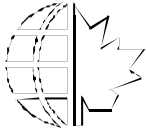
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Preparedness and of the new Canada Border Services Agency, the appointment of a Parliamentary Secretary for Canada-United States relations and a National Security Advisor, and most recently the decision to proceed with formal discussion of Canadian participation in ballistic missile defence. The cordial tone at Prime Minister Martin's first meeting with President George W. Bush this week was matched by concrete progress in addressing two issues, respect for the Canadian passport and Canadian participation in the reconstruction of Iraq.

It is more important than ever for our two countries to make progress during 2004, despite the constraints of electoral politics. Both economic and security risks remain high. Our countries need to maintain a strong economic partnership, but also to build a much stronger security and defence partnership to ensure that we do not get caught in any repeat of the disruptions seen in the aftermath of the terrorist attacks of September 11, 2001.

New United States measures to boost security, notably the photography and fingerprinting of most visitors and pre-notification requirements for incoming shipments, together with repeated security alerts and a continuing need for better border infrastructure, have added to perceptions that crossing the 49<sup>th</sup> parallel can be unpredictably time-consuming. Such perceptions in turn have a direct impact on Canada's ability to attract new investment in operations that must serve all of North America and may over time affect our country's ability to maintain many of the Canadian jobs that now depend on efficient border flows of people and goods.



**NATIONAL PRIORITIES AND POLITICAL REALITIES  
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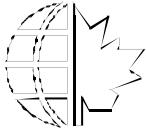
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In the meantime, there is growing recognition of the importance of forging public policies that recognize the highly integrated nature of the Canadian and United States economies. Minister of Natural Resources John Efford, for instance, recently called for a Canadian energy strategy that would focus explicitly on the United States. A wide range of energy issues needs to be addressed as part of any strategy that can assure reliable, affordable energy supplies within Canada and North America. The key issues include: the rate of growth of energy demand; energy demand in the face of multiple environmental objectives; constraints on the introduction of new energy infrastructure because of uncertain and less than timely regulatory processes; jurisdictional overlap; growing consumer resistance to higher energy costs; and the links between energy matters and other important policy areas.

In meeting the twin challenge of economic and physical security, I want to emphasize the extent to which Canada's strategy must be trilateral rather than bilateral. As Prime Minister Martin and Mexican President Vicente Fox emphasized in their first meeting in Monterrey a few days ago, the free flow of people and goods across our respective borders with the United States is critical to both of our countries. What is more, the flows across both borders matter greatly to United States businesses engaged in trade.

Some initiatives such as the 30-point Smart Border action plan agreed between Canada and the United States will necessarily proceed on a bilateral basis initially. But experiments that are tried first along the 49<sup>th</sup> parallel may well prove applicable along the Rio Grande as well. This prospect of broader application to Mexican as well as Canadian trade



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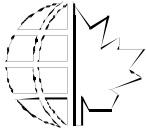
may in turn prove important for Canada in building private sector support for our North American strategy within the business community in the United States as well as with the millions of American voters of Mexican descent.

***Canada in the world***

While our North American strategy will dominate the Council's international work in 2004, we remain deeply committed to improving Canada's global relationships and to supporting multilateral processes and institutions.

In 2003, we devoted considerable attention to multilateral trade and investment liberalization. In May, we released a major statement setting out an ambitious 12-point Canadian agenda for talks under the Doha Development Round of the World Trade Organization. We went on to work with our counterpart business organizations in the United States, Japan and Europe to craft a joint letter to the G-8 leaders ahead of their meeting in June in Evian, France. We continued to support the multilateral process on a number of levels in the months leading up to the September ministerial meeting of the WTO at Cancun, Mexico.

The failure of ministers to agree on a negotiating agenda and timetable at that meeting was disappointing, but the process is continuing. Just this week, United States Trade Representative Robert Zoellick sent a welcome wake-up call to WTO members, saying that his country is committed to trying to make progress this year. We certainly will have



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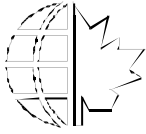
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to do our part and seize every possible opportunity in 2004 to help governments get the WTO process back on track.

As we suggested in our agenda for action last year, only a multilateral rules-based system can provide the predictability and security that Canadian businesses need in order to flourish both at home and in the global economy. In addition, the very extent of Canada's economic relationship with the United States provides a powerful incentive both to promote strong multilateral rules and to make real efforts to diversify Canada's relationships globally.

The lack of progress at the level of the WTO has given new energy to bilateral and regional relationships. Regionally, our Council continues to support initiatives such as a hemispheric Free Trade Area of the Americas and the Asia Pacific Economic Co-operation forum. Bilaterally, we have engaged in extensive work with our friends at the Japan Keidanren on the potential for Canada-Japan negotiations on a number of fronts. In 2004, which marks the centenary of diplomatic relations between our countries, we hope either to lead a Canadian mission to Japan or to welcome Japanese business leaders should Prime Minister Koichiro Koizumi decide to visit Canada after the G-8 meeting in the United States this June. We maintain strong relationships with business organizations in China and India as well as other important trading partners. More recently, there have been signs that the European Union may at last be interested in bilateral discussions with Canada on trade and investment issues.

Our global activities are not limited to trade and investment. As you know, we have been involved extensively on global climate change,



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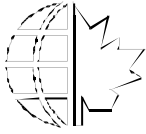
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and in particular, the negotiation and implementation of the Kyoto Protocol. We argued vigorously in 2002 against Canadian ratification of the Protocol without a comprehensive and realistic plan for achieving Canada's target for reducing emissions. As Prime Minister Martin acknowledged recently, that plan has yet to come together more than a year after ratification.

There is still a very real possibility that Russia may decide not to ratify the Kyoto Protocol, given its improving economic growth and resulting increases in current and projected emissions. If Russia does not ratify, the Protocol will not come into force. Even if it does come into force, Canada is far from alone among the signatories in looking unlikely to meet its target by the commitment period of 2008-2012.

Whether or not the Kyoto Protocol ultimately takes effect, we at the Council will remain engaged on this issue on two fronts. At home, it is clear that Canada will continue efforts to improve energy efficiency and reduce emissions of greenhouse gases even in the absence of international commitments. We will have to come up either with a plan for meeting its Kyoto target or with a Canadian alternative that is better suited to Canada's role as a leading supplier of energy and resource-based products. Internationally, it is equally clear that the negotiating process will continue, whether for the second round of Kyoto commitments or for a new agreement to replace the Protocol. While we have expressed serious reservations about the extent of the commitment Canada made in Kyoto, the Council always has seen environmental leadership as an important contributor to the country's global brand and the competitiveness of Canadian enterprises. We therefore will remain active on this file at home and abroad.



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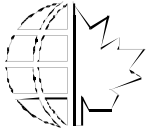
***Good governance and public trust***

Add it all up and you can see that as Canada's leading business organization, the Council faces no shortage of policy challenges in 2004. Let me conclude, however, by suggesting that the biggest challenge we face as business leaders is not one of policy, but of credibility.

The corporate scandals that touched off the crisis in confidence -- Enron, WorldCom and others -- are now working through the courts. It will be healthy to see justice done and malefactors punished, but in the short term, it means that the record of wrongdoing will be repeated endlessly. The intense public scrutiny of corporate and executive behaviour and vigorous enforcement of the rules is essential to rebuilding trust over time, but in the short term, it also inevitably is uncovering further questionable activities.

The improvements that have been made in regulation and corporate governance are working, but they have not yet worked well enough or long enough to restore public trust in business leadership. Individually and collectively, we are going to have to earn that trust back, and it will take time.

In the meantime, in addition to doing everything we can within our individual companies, it remains important for us to work together as a CEO community. The political and economic environments both hold plenty of challenges for us in 2004. With your leadership and support, the Council will continue to bring to bear on these challenges the energy, creativity and commitment that has made our organization so



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successful. As we have done now for more than a quarter century, we will show that Canada's chief executives can make a real contribution to building a better Canada, both through good public and corporate governance, and through sound public policy.