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SECRET



VISIT TO KENNEBUNKPORT

OF

MICROFILMED
MICROFILMÉ

RIGHT HONOURABLE BRIAN MULRONEY
PRIME MINISTER OF CANADA

AUGUST 25 AND 26, 1991

VISITE À KENNEBUNKPORT

DU

TRÈS HONORABLE BRIAN MULRONEY
PREMIER MINISTRE DU CANADA

25 ET 26 AOÛT 1991

Affaires extérieures et
Commerce extérieur Canada

External Affairs and
International Trade Canada

Canada

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SECRET

VISIT TO KENNEBUNKPORT
OF THE RIGHT HONOURABLE BRIAN MULRONEY
PRIME MINISTER OF CANADA
AUGUST 25 and 26, 1991

Tab. No.

Title

1.

SCENARIO AND MAJOR MESSAGES

2.

THE VIEW FROM WASHINGTON

BRIEFS

3.

MIDDLE EAST: PEACE PROCESS

4.

IRAQ

5.

YUGOSLAVIA

6.

SOUTH AFRICA: SANCTIONS

7.

CYPRUS: U.S. INITIATIVE

8.

SOFTWOOD LUMBER

9.

NORTH AMERICAN FREE TRADE
NEGOTIATIONS (NAFTA)

10.

RESTRICTIONS TO ENTRY OF CANADIAN
ATHLETES AND ARTISTS UNDER NEW
U.S. IMMIGRATION ACT

11.

DIXON ENTRANCE: MARITIME BOUNDARY

12.

KEY ECONOMIC INDICATORS

13.

CANADIAN FORCES IN EUROPE
(Responsive)

CONFIDENTIAL

SCENARIO

Events in the USSR have overshadowed all else during the past 6 days. They will be central in your discussions with President Bush.

President Bush has been given high marks at home and abroad for his handling of the crisis: strong personal support for Gorbachev and his wife; a calm but tough approach to those who would derail reform.

You will be the first foreign leader to have met the President since the restoration of President Gorbachev (it is proposed that John Major will visit August 28).

The victory of unprecedented proportions for democrats and reformers within the USSR is likely to force the pace of further economic and political reform. The Communist right wing is an absolute loser, perhaps irrevocably; the future of the party itself is in doubt, depending in part on how strongly President Gorbachev clings to his belief in communism. Yeltsin is a clear winner; the move towards a more decentralized union appears irreversible. Gorbachev's position is stronger vis-à-vis the right but weaker vis-à-vis Yeltsin and other republic leaders. This morning, they have taken the remarkable step of forming a coalition government for the U.S.S.R.

Events are proceeding so quickly it is very difficult even to keep our analyses up to date, let alone to advise on what should be done.

President Bush will almost certainly wish to discuss what steps the West should take now. The costs of recovery and reform in the USSR have not diminished. However, expectations will have increased substantially. The West will certainly be faced with renewed pleas for urgent assistance.

Any new policy departures will require time to develop in detail. This is the mission the G-7 assigned to Prime Minister Major in the first instance. He has written to you proposing a G-7 sherpa meeting in the near future. It is important that the West not fall behind the political curve but at this stage process is as important as substance. You will wish to discuss this with the President.

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On substance, some possible immediate steps might include: a commitment to the acceleration of political linkages among all the countries of the CSCE, a commitment to look at accelerating and increasing our assistance (a "New Deal" in exchange for accelerated reform made possible by the demise of the old guard), possibly a G-7 experts mission to demonstrate a consolidated and active engagement and perhaps G-7/USSR meetings at ministerial level.

There are other problems ahead. The Baltic States are accelerating their drive to independence. The Union Treaty -- already leaning towards confederalism -- is back on the table for renegotiation which can only lead further away from federalism. In many republics there may be widespread food shortages this winter -- covered graphically by western news media. Emigration on a large scale is already of concern to the EC - the first destination of migrants.

Events in Yugoslavia are not directly linked with those in the USSR. However, they also flow from the desire of regions to free themselves from the yoke of an oppressive system. They add to the scale of the huge problems facing Eastern Europe. You could indicate to the President that Canada is ready to participate in an expanded EC monitoring mission, but only with agreement of all sides.

The impact of the coup on Soviet involvement in world affairs is not yet clear. Gorbachev will support the Middle East peace process. Iraq, Libya and the PLO have further weakened themselves by supporting the coup leaders.

Whatever the impact of developments in the USSR on the Middle East, you might underline to the President Canada's support for Secretary Baker's patient efforts to get the parties to the same table. Similarly, his initiative on Cyprus is of direct and welcome interest to Canada due to the longstanding peacekeeping commitment of Canadian troops.

The state of the bilateral relationship can be characterized as positive and relatively irritant-free. You could mention that we are pleased with the progress to date of the NAFTA negotiations. We are still burdened with the softwood lumber issue. Norman Spector met with General Scowcroft as agreed at Toronto. It was agreed that the President would give his response directly to you. What we need is a clear signal that the Administration would not respond to termination of the MOU with retaliation under section 301; we could live with a countervailing duty action undertaken by the U.S. lumber industry. Further study would only exacerbate the situation and complicate it as U.S. Presidential and Congressional (Packwood) elections approach.

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Another transboundary problem is the restrictions to be imposed on foreign entertainers and athletes entering the U.S. We are hopeful that these measures will not come into force. We have no similar restrictions.

Finally, there is the question of the Canada-USA boundary disagreement in B.C.'s Dixon Entrance. This is a delicate issue, much laden with historical baggage. The USA should urge restraint on their Coast Guard; we have done the same with our fishermen.

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MAJOR MESSAGES

1. CONCERTED WESTERN RESPONSE TO THE USSR: POINTS TO REGISTER

THE COSTS TO THE WORLD OF A SUCCESSFUL COUP - IN SECURITY, POLITICAL AND ECONOMIC TERMS - WOULD HAVE BEEN ENORMOUS.

THE FAILED COUP APPEARS TO HAVE CREATED A NEW OPPORTUNITY TO MOVE FORWARD IN CONSOLIDATING DEMOCRACY, HUMAN RIGHTS AND THE RULE OF LAW, AND TO MOVE MORE RAPIDLY ON THE ECONOMIC REFORM AGENDA.

THE ROAD AHEAD IS STILL STREWN WITH OBSTACLES. THE SHORT-TERM ECONOMIC PROBLEMS ARE DAUNTING. STORE SHELVES ARE STILL EMPTY. THE BALTIC ISSUE IS NOW HIGHER ON THE AGENDA.

THE WESTERN POLICY FRAMEWORK DEVELOPED AT THE LONDON SUMMIT IS SOUND; MEANINGFUL ECONOMIC AND POLITICAL REFORMS MUST BE AGGRESSIVELY PURSUED IF ASSISTANCE IS TO BE PROVIDED.

BUT THE DYNAMICS SINCE LONDON HAVE CHANGED. AMONG OTHER DEVELOPMENTS ARE THE CHANGING CENTRE-REPUBLIC RELATIONS. YELTSIN IS ON THE ASCENT. THE BALTICS MAY MOVE FAST TOWARDS INDEPENDENCE. A WESTERN MESSAGE OF ACCELERATING COOPERATION MAY BE IMPORTANT BOTH WITHIN THE SOVIET UNION AND WITHIN OUR OWN COUNTRIES.

PRIME MINISTER MAJOR HAS THE RESPONSIBILITY IN THE FIRST INSTANCE, FOR CONTACTING PRESIDENT GORBACHEV ON THIS ISSUE.

HE IS PREPARED TO MOVE QUICKLY BUT HE HAS ALSO SAID WE SHOULD AVOID PRECIPITATE ACTION. HE HAS WRITTEN TO US TO PROPOSE AN EARLY G-7 SHERPAS MEETING. WE ARE READY TO ATTEND.

WE BELIEVE THAT WE COULD ACCELERATE OUR ASSISTANCE IN RETURN FOR ACCELERATED REFORM.

AN ACCELERATED ECONOMIC PROGRAM COULD DEAL WITH IMMEDIATE SOVIET ECONOMIC NEEDS - THERE WILL BE TREMENDOUS PRESSURE TO FILL THE SHELVES - AND TO SPEED UP AND POSSIBLY ENHANCE THE PROCESS WE AGREED ON IN LONDON.

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IT SEEMS IMPORTANT THAT WE DO THIS TOGETHER AND DO IT QUICKLY. JOHN MAJOR'S CALL FOR A MEETING OF OUR G-7 SHERPA TEAMS FOR NEXT WEEK OR THE WEEK AFTER IS VERY SENSIBLE. A VISIBLE AND CONSOLIDATED G-7 APPROACH (PERHAPS A COMBINED G-7 EXPERTS MISSION) WILL BE IMPORTANT.

WE SHOULD ALSO ASK OUR SHERPAS TO THINK ABOUT AN ONGOING PROCESS OF G-7/SOVIET DIALOGUE, POSSIBLY IN NEW YORK AMONG FOREIGN MINISTERS AT THE U.N., OR THROUGH OUR FINANCE MINISTERS WHEN THEY MEET IN BANGKOK IN OCTOBER.

WE MUST ALSO RESPOND TO THE CONCERNS OF THE EASTERN AND CENTRAL EUROPEAN COUNTRIES, WHOSE ANXIETIES OVER SECURITY, ECONOMIC VULNERABILITY AND POLITICAL ISOLATION HAVE BEEN HEIGHTENED BY THE CRISIS.

THE INTERNAL POLITICAL DYNAMICS OF THE USSR HAVE NOW SHIFTED TOWARDS YELTSIN, REFORM AND FURTHER DECENTRALIZATION. GORBACHEV AND YELTSIN WILL NEED TO REACH A NEW POLITICAL ACCOMMODATION.

A CSCE MEETING OF FOREIGN MINISTERS IN MOSCOW ON SEPTEMBER 10 IS TO HAVE HUMAN RIGHTS AS ITS MAIN FOCUS. BOTH OUR COUNTRIES SHOULD MAKE AN EFFORT AT THIS MEETING TO HELP EUROPE CONSOLIDATE HARD WON FREEDOMS.

2. BILATERAL ISSUES

SEEK THE PRESIDENT'S REACTION TO YOUR REQUEST FOR HIS ASSISTANCE IN MANAGING THE TERMINATION OF THE **SOFTWOOD LUMBER** MOU, I.E. OBTAIN A SIGNAL THAT THE U.S. WILL NOT RETALIATE.

RAISE CONCERNS ABOUT **U.S. VISA RESTRICTIONS** ON CANADIAN ARTISTS AND ATHLETES TO THE U.S. ENTERTAINMENT MARKET.

EXPRESS THE NEED FOR THE U.S. COAST GUARD TO EXERCISE RESTRAINT IN THE **DIXON ENTRANCE** AREA.

REITERATE COMMITMENT TO ACHIEVING A COMPREHENSIVE **NAFTA**.

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3. MIDDLE EAST

INDICATE STRONG SUPPORT FOR U.S. EFFORTS TO MOVE THE MIDDLE EAST PEACE PROCESS FORWARD AND EXPRESS CANADA'S SUPPORT OF EFFORTS DEDICATED TO BRING ALL PARTIES TO THE TABLE LATER THIS YEAR.

(SADDAM HUSSEIN, GADAFI AND ARAFAT IN SUPPORTING THE COUP IN THE USSR HAVE, ONCE AGAIN, BET ON THE WRONG HORSE. SYRIA'S BEHAVIOUR HAS BEEN MORE ENCOURAGING.)

EXPRESS CONCERN ABOUT IRAQ'S ATTEMPTS TO ACQUIRE A NUCLEAR WEAPONS CAPABILITY. EXPRESS SUPPORT FOR U.S. ACTION IN THE U.N. REGARDING THE ELIMINATION OF IRAQ'S RESIDUAL NUCLEAR CAPABILITY.

4. REGIONAL ISSUES

THE YUGOSLAVS MUST BE PERSUADED TO BEGIN GENUINE NEGOTIATIONS FOR A PEACEFUL SOLUTION. AN END TO VIOLENCE IS NECESSARY FOR THESE NEGOTIATIONS TO START. CANADA HAS ALREADY EXPRESSED ITS WILLINGNESS TO HELP THROUGH THE CSCE.

EMPHASIZE CANADA'S COMMITMENT TO SUPPORTING THE PROCESS OF PEACEFUL TRANSITION TO A NON-RACIAL, DEMOCRATIC SOUTH AFRICA. WHILE SIGNIFICANT PROGRESS IS MADE ON THE ELIMINATION OF APARTHEID, CANADA WILL MOVE TOWARDS THE LIFTING OF SANCTIONS IN CONCERT WITH OUR COMMONWEALTH PARTNERS.

EXPRESS SUPPORT FOR THE RECENT U.S. INITIATIVE FOR A CONFERENCE ON CYPRUS TO HELP BREAK THE DEADLOCK. CANADA HAS A LONG-STANDING AND SIZEABLE COMMITMENT THROUGH OUR U.N. PEACEKEEPING ROLE.

5. NATIONAL UNITY

INDICATE APPRECIATION TO THE PRESIDENT FOR THE CAREFUL MANNER IN WHICH HE AND HIS ADMINISTRATION HAVE HANDLED THE QUESTION OF CANADIAN UNITY. BRIEF THE PRESIDENT ON LATEST DEVELOPMENTS AND INITIATIVES YOU WILL BE TAKING IN THE MONTHS AHEAD.

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6. CANADIAN FORCES IN EUROPE (RESPONSIVE)

INDICATE THAT CANADA WILL CONTINUE TO STATION FORCES IN EUROPE AS LONG AS THERE IS A RESIDUAL THREAT. IN COMMON WITH ALL ALLIES WHICH HAVE TROOPS IN GERMANY, THE CANADIAN PRESENCE WILL BE REDUCED AND RESTRUCTURED.

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THE VIEW FROM WASHINGTON

The November 1992 election is receiving increasing attention. President Bush has met with campaign strategists to start the task of putting together a re-election organization and to develop the themes of the campaign. Viewed as a referendum on the performance of the current Administration, the electorate should handily return George Bush to office. The Democrats wait for a solid contender to come forward, without whom there is little likelihood of a competitive race.

The military victory in the Gulf war confirmed in the minds of the American people the President's prowess in foreign policy. It effectively stifled for the time being the ability of the Democratic opposition to criticize him on foreign policy issues. The Middle East peace conference in October could cap the Gulf victory. On the downside, it might also lead the President and his Administration into a drawn-out and domestically contentious quest for peace between Jew and Arab. A final resolution of the hostage issue could also redound to the President's credit as the author of the changed political environment in the Middle East.

American influence in the post cold war era has enhanced the President's ability to influence constructively other foreign policy issues, even if their impact on the next American election will likely be minimal. His recent trip to Greece and Turkey stimulated a vigorous effort to mediate the Cyprus dispute. He has also lifted economic sanctions against South Africa while continuing through personal contacts with de Klerk and Mandela to move the parties towards negotiations. As well, he managed to prevail over Congress in keeping China's MFN status.

Relations with the Soviet Union will dominate the President's foreign policy agenda over the coming weeks but in ways which are more dramatic and more unpredictable than envisaged at the London Summit. Obviously, recent events in the Soviet Union will be a principal focus of your Kennebunkport meeting.

The President's activism in the foreign policy arena opens him to his opponents' charge that he has neglected domestic issues. This may not matter if the economic recovery is reasonably robust, but the poor health of the financial institutions is so far contributing to an anaemic

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recovery. Voters worried about job security and a stagnating if not declining standard of living could be ready to respond to a more populist message of a Democratic presidential challenger, such as Tom Harkin.

Democrats, without a nominee for President for some months to come, see that their best campaign tactics are to charge the President with not having a domestic policy and to use Congress as their main platform to attack the President. For his part, the President has responded that he has domestic policies, but that the Democratic Congress should be blamed for not passing his proposed legislation. We will, of course, see a more contentious and partisan Congress in September, than in the past two years.

Only the annual appropriations bills and emergency funding for bank deposit insurance and for the savings and loan bailout must pass Congress this fall, but a protracted session is still expected. Both the President and Congress want to push banking reform and a national energy strategy although there is some disagreement over content. Likely to be completed are highway and crime legislation, the latter of which will probably include the Brady bill to establish a waiting period for handgun purchases. Despite unrelenting Presidential opposition so far, the deadlock on new civil rights legislation on employment discrimination could be overcome. Discussion will also continue on such areas as health care and middle-class tax relief, but these measures will not generate enough consensus to become law.

Of most immediate concern to the President will be the Senate consideration in September of his two politically sensitive nominees: Judge Clarence Thomas to the Supreme Court and Robert Gates as Director of Central Intelligence.

It is an eloquent statement of your relationship with the President and the state of the Canada/United States relationship that other than Prime Minister Major, you are the only foreign leader visiting Kennebunkport this year. While there are no major bilateral irritants between us, we are concerned about the proposed heavy restrictions on sports and artistic visas and also about the scope for trade problems, such as plywood and lumber, to impinge on our overall positive relations. We need, therefore, to encourage the Administration, in the spirit of the FTA, to help us defend our interests in Congress. In the coming year, we see our relations with the United States continuing to expand as we negotiate an air agreement, pursue NAFTA with the Mexicans, and work alongside American colleagues in support of the new world order.

The Canadian Embassy
August, 1991

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MIDDLE EAST: PEACE PROCESS

MAJOR MESSAGE

WE STRONGLY SUPPORT YOUR EFFORTS TO MOVE THE MIDDLE EAST PEACE PROCESS FORWARD AND WILL CONTINUE TO SUPPORT DEDICATED EFFORTS TO BRING ALL THE PARTIES TO THE TABLE LATER THIS YEAR.

POINTS TO REGISTER

- WE ALL REALIZE THAT THIS CONFERENCE WILL BE THE FIRST STEP IN A LONG AND ARDUOUS PROCESS. POLITICAL WILL AND DETERMINATION WILL BE NEEDED ON ALL SIDES.
- IT IS IMPORTANT THAT ALL PARTIES DIRECTLY INVOLVED SHOW MAXIMUM FLEXIBILITY.
- IN THAT CONTEXT, AT THE RECENT G-7 SUMMIT IN LONDON, WE SUGGESTED THAT RECIPROCAL CONFIDENCE BUILDING MEASURES BE ADOPTED, (E.G. SUSPENSION OF THE ARAB BOYCOTT, ISRAELI SETTLEMENTS IN THE OCCUPIED TERRITORIES).
- CANADA BELIEVES THAT THE PALESTINIAN PEOPLE MUST CHOOSE THEIR OWN REPRESENTATIVES AND BE DIRECTLY INVOLVED IN THE DISCUSSIONS AFFECTING THEIR FUTURE.
- ANY JUST AND LASTING PEACE SETTLEMENT MUST ACCOMMODATE THE LEGITIMATE RIGHTS OF THE PALESTINIANS, AND BRING SECURITY TO ISRAEL.

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IRAQ

MAJOR MESSAGE

IRAQ'S ATTEMPTS TO ACQUIRE A NUCLEAR WEAPONS
CAPABILITY REMAIN TRULY WORRYING.

WE SUPPORT YOUR ACTION IN THE U.N. REGARDING THE
ELIMINATION OF IRAQ'S RESIDUAL NUCLEAR CAPABILITY.

POINTS TO REGISTER

- UNSC RESOLUTION 706 ALLOWING IRAQI OIL SALES OF \$1.6
BILLION TO FUND CIVILIAN SUPPLIES, REPARATION AND
IMPLEMENTING COSTS OF CEASE-FIRE PLACES THE BALL
SQUARELY IN IRAQ'S COURT.
- SADDAM HUSSEIN REMAINS WILLING TO USE THE SUFFERING OF
HIS PEOPLE IN HIS ATTEMPTS TO MANIPULATE WORLD
OPINION.
- ANY CANADIAN WHEAT SALE TO IRAQ WILL BE IN ACCORDANCE
WITH SECURITY COUNCIL DIRECTIVES.
- SADDAM'S CONTINUED THREAT TO IRAQ'S MINORITIES LEAVE
SERIOUS DOUBTS ABOUT HIS INTENTIONS.

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YUGOSLAVIA

MAJOR MESSAGE

THE YUGOSLAVS MUST BE PERSUADED TO BEGIN GENUINE NEGOTIATIONS FOR A PEACEFUL SOLUTION. AN END TO VIOLENCE IS NECESSARY FOR THESE NEGOTIATIONS TO START. CANADA HAS ALREADY EXPRESSED ITS WILLINGNESS TO HELP THROUGH THE CSCE.

POINTS TO REGISTER

- WE FIRMLY SUPPORT AN EMBARGO ON ARMS SALES TO YUGOSLAVIA IN THE PRESENT CIRCUMSTANCES. NO EXPORT PERMITS FOR MILITARY GOODS WILL BE ISSUED BY MY GOVERNMENT AS LONG AS THE CRISIS CONTINUES.
- I HAVE PUBLICLY EMPHASIZED THAT A SOLUTION CAN BE REACHED ONLY BY THE YUGOSLAVS THEMSELVES, THROUGH NEGOTIATION AND UNDER PEACEFUL CONDITIONS.
- THE CEASE-FIRE IN CROATIA IS A STEP IN THE RIGHT DIRECTION, BUT THE NUMEROUS VIOLATIONS CONFIRM THE FRAGILITY OF THE TRUCE.
- WE ARE WILLING TO PARTICIPATE IN AN EXPANDED EC MONITORING MISSION. BUT AN AGREEMENT OF THE VARIOUS SIDES IN YUGOSLAVIA MUST BE SECURED FOR SUCH A MISSION TO TAKE PLACE.
- WE FULLY SUPPORT THE EC'S EFFORTS, BUT WE ALSO BELIEVE THAT THE CSCE HAS AN IMPORTANT ROLE TO PLAY IN THIS KIND OF SITUATION.
- WE HOPE YUGOSLAVIA WILL ACCEPT THE OFFER MADE BY THE CSCE TO PROVIDE A GOOD OFFICES MISSION TO FACILITATE DIALOGUE AND NEGOTIATIONS ON THE FUTURE OF YUGOSLAVIA.
- WE ARE CONCERNED BY THE FACT THAT ALL SIDES SEEM FAR FROM READY TO START REAL NEGOTIATIONS.

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SOUTH AFRICA: SANCTIONS

MAJOR MESSAGE

WE REMAIN COMMITTED TO SUPPORTING THE PROCESS OF PEACEFUL TRANSITION TO A NON-RACIAL, DEMOCRATIC SOUTH AFRICA.

WHILE SIGNIFICANT PROGRESS IS BEING MADE ON THE ELIMINATION OF APARTHEID, EMPHASIZE THAT CANADA WILL MOVE TOWARDS THE LIFTING OF SANCTIONS IN CONCERT WITH ITS COMMONWEALTH PARTNERS.

POINTS TO REGISTER

- CANADA HAS ACTIVELY AND CONSISTENTLY SUPPORTED DIALOGUE AND RECONCILIATION IN SOUTH AFRICA AND PREPARATIONS FOR CONSTITUTIONAL NEGOTIATIONS. WE REMAIN COMMITTED TO SUPPORT THESE NEGOTIATIONS IN ANY WAY POSSIBLE.
- WE ARE ENCOURAGED BY RECENT INITIATIVES IN SOUTH AFRICA AIMED AT RESOLVING THE REMAINING ISSUES, INCLUDING THE TRAGIC SITUATION OF VIOLENCE. WE HOPE THAT FORMAL CONSTITUTIONAL NEGOTIATIONS CAN BEGIN SOON.
- THE SUCCESS OF THE NATIONAL PEACE INITIATIVE WHICH BROUGHT TOGETHER THE GOVERNMENT, THE ANC AND INKATHA, AUGURS WELL FOR THE REDUCTION OF VIOLENCE AND THE ULTIMATE CONVENING OF ALL-PARTY NEGOTIATIONS. WE ARE LOOKING FORWARD TO THE RATIFICATION OF A COMPREHENSIVE AGREEMENT ON SEPTEMBER 14.
- OUR SANCTIONS IN CANADA ARE COMMONWEALTH-WIDE MEASURES. WE WILL TAKE ACTION IN CONCERT WITH THE COMMONWEALTH COUNTRIES.
- THE COMMONWEALTH FOREIGN MINISTERS WILL MEET IN DELHI, SEPTEMBER 13-14. WE ARE HOPEFUL THAT BY THAT TIME ALL THE PRECONDITIONS SET BY THE COMMONWEALTH FOREIGN MINISTERS FOR THE REMOVAL OF SANCTIONS ON PEOPLE (VISA RESTRICTIONS, AIR LINKS, OFFICIAL CONTACTS, ETC.) WILL HAVE BEEN MET.

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CYPRUS: U.S. INITIATIVE

MAJOR MESSAGE

WE SUPPORT YOUR RECENT INITIATIVE FOR A CONFERENCE ON CYPRUS TO HELP BREAK THE DEADLOCK.

POINTS TO REGISTER

- I WELCOME YOUR PERSONAL AND ACTIVE INVOLVEMENT IN BRINGING THE MAIN PARTIES TOGETHER TO RESOLVE THIS LONG STANDING DISPUTE. THE POST-GULF WAR SITUATION PROVIDES AN OPPORTUNITY TO PRESS FOR PROGRESS.
- AS YOU KNOW, CANADA HAS A LONG-STANDING AND SIZEABLE COMMITMENT IN CYPRUS THROUGH OUR U.N. PEACEKEEPING ROLE (UNFICYP).
- CANADA REMAINS SUPPORTIVE OF ONGOING EFFORTS BY THE U.N. SECRETARY-GENERAL TO NARROW THE GAPS BETWEEN PARTIES. THE U.N.'S ROLE MUST BE REINFORCED IN OUR SEARCH FOR A SOLUTION, AND ITS IMPLEMENTATION.
- FOLLOWING YOUR RECENT VISIT TO THE REGION (TO GREECE AND TURKEY ON 18-21 JULY), WHAT IS YOUR ASSESSMENT OF THE CHANCES FOR A SUCCESSFUL CONFERENCE STARTING IN MID-SEPTEMBER?
- THE U.K. CONTINUES TO BE A KEY PLAYER ON CYPRUS. WE INTEND TO RAISE THE ISSUE WITH U.K. FOREIGN MINISTER DOUGLAS HURD WHEN HE VISITS OTTAWA (SEPTEMBER 18-21). ARE THERE ANY ASPECTS ON WHICH WE CAN BE OF SOME HELP?

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SOFTWOOD LUMBER

MAJOR MESSAGE

TO SEEK THE PRESIDENT'S REACTION TO YOUR REQUEST FOR HIS ASSISTANCE IN MANAGING THE TERMINATION OF THE SOFTWOOD LUMBER MEMORANDUM OF UNDERSTANDING (MOU).

POINTS TO REGISTER

- AT OUR MEETING IN TORONTO, I ASKED FOR YOUR HELP IN DEALING WITH THE SOFTWOOD LUMBER ISSUE AND PROPOSED THAT YOU DESIGNATE AN EMISSARY TO MEET WITH MY CHIEF OF STAFF ON THIS MATTER.
- NORM SPECTOR MET WITH BRENT ON AUGUST 5 TO INDICATE WHY WE NEED TO TERMINATE THE MOU AND WHAT WE NEED TO MANAGE THIS SMOOTHLY. IT WAS AGREED THAT YOU AND I WOULD DISCUSS THIS.
- HE STRESSED OUR NEED FOR A CLEAR SIGNAL FROM YOU THAT THE ADMINISTRATION WOULD NOT RESPOND TO TERMINATION OF THE MOU WITH A SECTION 301 ACTION.
- WHILE WE COULD LIVE WITH A COUNTERVAILING DUTY ACTION INITIATED BY THE U.S. LUMBER INDUSTRY, RETALIATION BY THE ADMINISTRATION UNDER SECTION 301 WOULD BE CONTRARY TO THE GATT AND THE FTA. IT WOULD PUT UNBEARABLE PRESSURE ON THE FTA IN CANADA, IT WOULD BE POLITICALLY DAMAGING FOR MY GOVERNMENT, AND IT COULD DAMAGE NATIONAL UNITY BY EXPOSING SERIOUS REGIONAL TENSIONS AMONG PROVINCES WHO OWN THE FOREST RESOURCE (I.E. B.C. VERSUS QUEBEC).
- CIRCUMSTANCES HAVE CHANGED SINCE THE MOU WAS CONCLUDED IN 1986. THERE IS NO SUBSIDY OF CANADIAN SOFTWOOD LUMBER. THE MOU HAS SERVED ITS PURPOSE AND HAS BECOME A POLITICAL LIABILITY. IT MUST BE TERMINATED.

RESPONSIVE (If the President proposes consultations)

- CANADA MUST TERMINATE THE MOU. THE POLITICAL BURDEN HAS BECOME INTOLERABLE.
- THIS ISSUE MUST BE MANAGED BY THE WHITE HOUSE BECAUSE ONLY THE WHITE HOUSE CAN ENSURE THAT WE AVOID CONFRONTATION AND ESCALATION.

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- NORMAN SPECTOR HAS OUTLINED CANADA'S CASE FOR TERMINATION FOR GENERAL SCOWCROFT AND WE ARE, OF COURSE, PREPARED TO PROVIDE FURTHER EXPLANATIONS IF NECESSARY.
- IF THE U.S. INDUSTRY MAINTAINS THERE IS STILL A SUBSIDY, THEN THE BETTER COURSE IS FOR THEM TO AVAIL THEMSELVES OF THE QUASI-JUDICIAL PROCESS UNDER U.S. COUNTERVAILING DUTY LAW.
- FURTHER CONSULTATIONS, HOWEVER, ARE UNLIKELY TO SATISFY THE U.S. INDUSTRY.

RESPONSIVE to study idea

- WOULD ONLY EXACERBATE THE SITUATION BY BRINGING IT CLOSER TO U.S. NOV 1992 PRESIDENTIAL AND CONGRESSIONAL ELECTION (E.G. PACKWOOD) AND MY ELECTIONS, ETC.

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NORTH AMERICAN FREE TRADE NEGOTIATIONS (NAFTA)

MAJOR MESSAGE

CANADA IS COMMITTED TO ACHIEVING A COMPREHENSIVE NAFTA. IT FORMS PART OF MY GOVERNMENT'S DOMESTIC ECONOMIC POLICY REFORM PROGRAM, THE GOAL OF WHICH IS TO INCREASE CANADA'S COMPETITIVENESS.

POINTS TO REGISTER

- WE MUST ACHIEVE A BALANCED AGREEMENT WHICH WILL BENEFIT ALL THREE COUNTRIES.
- EACH OF US HAS CERTAIN KEY SENSITIVE INTERESTS WHICH WE CANNOT ABANDON IN THESE NEGOTIATIONS. FOR MEXICO, THIS WOULD APPEAR TO BE MUCH OF THEIR ENERGY SECTOR; FOR THE U.S. IT MAY BE ASPECTS OF MARINE TRANSPORT, AND SMALL BUSINESS SET-ASIDES FOR GOVERNMENT PROCUREMENT.
- FOR CANADA, WE NEED TO RETAIN THE CAPACITY TO SUPPORT OUR CULTURAL INDUSTRIES. AT THIS PARTICULAR POINT IN OUR HISTORY, WE WOULD HOPE THAT OUR AMERICAN FRIENDS WOULD BE SENSITIVE IN THEIR HANDLING OF THIS ISSUE.
- WE WILL WORK AS HARD AS NECESSARY TO ACHIEVE A BALANCED AGREEMENT BY EARLY 1992. I WOULD PREFER TO SEE THE NEW AGREEMENT COMPLETED BEFORE THE NEXT CANADIAN GENERAL ELECTION. WHAT ARE YOUR PREFERENCES WITH REGARD TO THE NOVEMBER 1992 ELECTIONS IN THE U.S.?

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RESTRICTIONS TO ENTRY OF CANADIAN ATHLETES AND ARTISTS
UNDER NEW U.S. IMMIGRATION ACT

MAJOR MESSAGE

CANADIANS ARE CONCERNED THAT THEY, ALONG WITH ALL FOREIGN PERFORMERS, WILL HAVE LIMITED ACCESS TO THE U.S. ENTERTAINMENT MARKET. WE BELIEVE IN FAIR AND OPEN CULTURAL EXCHANGE.

POINTS TO REGISTER

- THE ACT IMPOSES A QUOTA ON ENTRY OF FOREIGN ARTISTS AND ATHLETES. CANADA, ALONG WITH OTHER COUNTRIES AND A BROAD SEGMENT OF THE AMERICAN CULTURAL COMMUNITY, HAS REGISTERED OUR OBJECTION TO THIS AND OTHER ELEMENTS OF THE ACT THROUGH A VARIETY OF FORMAL AND INFORMAL CHANNELS.
- THERE ARE A NUMBER OF CONGRESSIONAL INITIATIVES INTRODUCED AS A RESULT OF THE NATIONAL AND INTERNATIONAL PROTEST, WHICH COULD DELAY IMPLEMENTATION OF THE ACT OR AMEND OFFENSIVE PASSAGES. WE URGE ADMINISTRATION SUPPORT OF THESE BILLS.
- PUBLIC CONCERN IS SUFFICIENTLY HIGH IN CANADA TO HAVE GENERATED A CALL FOR RECIPROCAL IMMIGRATION RESTRICTIONS. WE ARE RELUCTANT TO CONSIDER THIS ALTERNATIVE AND WOULD WELCOME YOUR ASSURANCE THAT YOU WILL ENCOURAGE RESOLUTION OF OUR CONCERNS.

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DIXON ENTRANCE: MARITIME BOUNDARY

MAJOR MESSAGE

EMPHASIZE THE NEED FOR THE U.S. COAST GUARD TO EXERCISE RESTRAINT IN THE DIXON ENTRANCE AREA.

POINTS TO REGISTER

- THE RECENT ARREST OF CANADIAN FISHING VESSELS BY THE U.S. COAST GUARD IN CANADIAN INTERNAL WATERS WAS UNACCEPTABLE AND HAS BEEN PROTESTED THROUGH DIPLOMATIC CHANNELS. WE APPRECIATE THE U.S. REASONABLE RESPONSE IN RELEASING TWO CANADIAN VESSELS WITHOUT LAYING CHARGES.
- IT IS IMPORTANT FOR THE U.S. TO EXERCISE MAXIMUM RESTRAINT AND AVOID INCIDENTS AT THIS PARTICULAR TIME IN VIEW OF THE IMPENDING ANNOUNCEMENT THAT CANADA CONSENTS TO THE TRANSIT OF U.S. NUCLEAR SUBMARINES IN DIXON ENTRANCE.
- IN VIEW OF THE SENSITIVITIES IN BRITISH COLUMBIA AND OUR POSITION THAT THIS ISSUE WAS DEFINITELY RESOLVED BY THE 1903 BOUNDARY AWARD, WE ARE NOT IN A POSITION TO ENTER INTO NEGOTIATIONS WITH RESPECT TO THE LOCATION OF THE BOUNDARY IN DIXON ENTRANCE.

PROTECTED

KEY ECONOMIC INDICATORS

		<u>Canada</u>	<u>U.S.</u>
GNP/GDP (percentage change)	1990	0.9	1.0
	1991	-1.1	0.2
Unemployment rate	1990	8.1	5.5
CPI Inflation (per cent)	1990	4.8	5.3
	1991	5.6	4.9
Interest rates	1990	14.1	10.0
	1991	11.4	9.1
GDP per capita	1990	\$26,073	\$21,861
	1991	\$25,923	\$22,249
Current account balance (U.S. dollars)	1990	-13.7 B	-99.3 B
	1991	-10.2 B	-37.8 B

Canadian trade with U.S.

Merchandise Exports	1991	110.44 B	
Services Exports	1991	<u>18.75 B</u>	
Total Exports	1991	129.19 B	(75% of Cdn Exports)
Merchandise Imports	1991	92.92 B	
Services Imports	1991	<u>36.68 B</u>	
Total Imports	1991	129.60 B	(21% of U.S. Exports)
Merchandise Trade Balance	1991	+17.52 B	
Services Trade Balance	1991	<u>-17.93 B</u>	
Overall CDA/U.S. Trade Balance	1991	- 0.41 B	

Note: a) If not specified, figures are in Canadian dollars.
b) CPI: Consumer Price Index

CONFIDENTIAL

CANADIAN FORCES IN EUROPE

RESPONSIVE

MAJOR MESSAGE

CANADA WILL CONTINUE TO STATION FORCES IN EUROPE AS PART OF OUR COMMITMENT TO NATO.

IN COMMON WITH ALL ALLIES WHICH HAVE STATIONED FORCES IN GERMANY, THE CANADIAN PRESENCE WILL BE REDUCED AND RESTRUCTURED.

POINTS TO REGISTER

- THE EXACT DETAILS OF THE DEFENCE REVIEW HAVE YET TO BE DECIDED BY THE GOVERNMENT.
- WHEN THE DEFENCE REVIEW IS COMPLETED, CANADA WILL CONSULT WITH ITS ALLIES AND WITH THE NATO MILITARY AUTHORITIES REGARDING THE PRECISE DETAILS OF THE FUTURE CANADIAN MILITARY PRESENCE IN EUROPE.