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20-1-2-USA

BILATERAL MEETING BETWEEN THE SECRETARY OF STATE
FOR EXTERNAL AFFAIRS, THE HONOURABLE A. ALLAN
MACEACHEN AND THE SECRETARY OF STATE OF THE
UNITED STATES GOVERNMENT , GEORGE SHULTZ, HALIFAX -
FINAL REPORT BOOK, OCTOBER 17, 1983

20-1-2-USA

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DPM/SSEA-U.S. SECRETARY OF STATE SHULTZ BILATERAL MEETING
16-17
HALIFAX, OCTOBER 1983

FINAL REPORT BOOK

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MEMORANDUM FOR THE DEPUTY PRIME MINISTER AND
SECRETARY OF STATE FOR EXTERNAL AFFAIRS

SUBJECT: Bilateral Meeting with Secretary of State
Shultz, October 16-17.

Purpose To seek your views on a proposed programme scenario for your fifth bilateral meeting with Secretary Shultz. A separate memorandum on the agenda reflecting current priorities and inter-departmental consultations is being prepared for your consideration next week.

Secretary Shultz is arriving at Shearwater Canadian Forces Base about 15:00 hours (the exact time remains to be pinned down) Sunday October 16. We understand you wish to meet the Secretary upon arrival and that we should have full military honours accorded to him (including a band). Protocol advises that we have never done this for any visiting Foreign Minister and that this would set an important precedent. Do you wish us to pursue? We are furthermore making provision for a short welcoming statement by you (and a reply by Shultz) at the Base in front of the press.

We have been told by the Americans that Mrs. Shultz will not likely accompany the Secretary although it has been made clear to U.S. officials that she would be most welcome and that Mrs. Regan had already volunteered to act as a hostess for her.

We have had indications from you that the Nova Scotian hotel is acceptable as a venue. After you have proceeded to the hotel with Shultz (arrival about 15:30), we suggest Shultz be given time to freshen up and that the first meeting would convene at 1600 hours.

In light of the tightness of this schedule and the comprehensive agenda to be covered we would favour the Nova Scotian as the venue for all meetings. Protocol has identified the Bedford/Fundy Room as the meeting place. If more time could be chiselled out of the early afternoon depending on whether Secretary Shultz can arrive sooner we could explore a meeting venue outside of the hotel such as the Thornvale Department of Public Works Conference Centre (10 minutes from the hotel) which is about to be taken over by the RCMP. Protocol is checking on this and has already reported that the local RCMP Commandant is not in favour of this suggestion because it would delay the RCMP taking possession of the property. Also the indications we have from the

Americans at this stage are that they would prefer to have the meetings in the hotel for convenience's sake. Would you find the hotel acceptable as a meeting place if dinner and lunch were scheduled to take place elsewhere?

Since the meeting will take place in Minister Regan's riding we assume of course that you wish him to be involved in the activities, e.g. meeting the Secretary at the Base and attending dinner and lunch. Do you wish him as well to take part in the trade and energy discussions Sunday afternoon and Monday morning?

With respect to the official delegation, de Montigny Marchand would expect to be accompanied by Derek Burney to all the meetings as well as by a note-taker from the USA Branch. On the other hand if you wish to keep the official delegation smaller Burney could also be designated as the note-taker. In addition to representation from your staff Ambassador Gotlieb would be invited to sit in on your meetings (together with Ambassador Robinson from the USA side). From Environment Canada, we have had indications that Deputy Minister Jacques Guerin would like to be present with his Minister during the acid rain discussions. We believe it is important that Assistant Deputy Minister R.W. Slater who participated in the April bilateral meeting in Washington attend. Do you agree to have both Environment officials in the meeting?

The Sunday meeting with Secretary Shultz would be scheduled between 1600 and 1800 hours. We suggest that the first 45 minutes of the session should be devoted to the consideration of environmental issues (including Garrison).

Since the USA position may have moved beyond questioning the scientific uncertainties regarding acid rain abatement measures, Ambassador Gotlieb has suggested that there may be no need to include the USA and Canadian Scientific Peer Group Chairmen. We know that the Canadian Chairman, Dr. Hare, shares this view and we have been attempting to determine discreetly whether it would be possible to take a similar approach with Dr. Hare's USA counterpart, without raising undue sensibilities. If you agree and if the USA side sees no serious obstacles, we would propose that Peer Group Chairmen not be invited to Halifax.

At the conclusion of this portion of the talks Minister Caccia and Mr. Ruckelshaus could retire for some more detailed discussions. At 18:00 a fourway press conference (you, Secretary Shultz, Caccia and Ruckelshaus) could be scheduled. The advantage of this would be to ensure a focussed treatment of the acid rain problem in the Monday press. Do you agree?

This will of course depend on whether, by October 16, the USA Administration has taken a definite position on acid

rain, something which at this point is not certain.

Following the environmental discussions you could then take up other bilateral issues for an hour and fifteen minutes.

On the way out from the meeting you could expect separate press scrums for you and Secretary Shultz.

We suggest that the evening activities could be scheduled as follows: at 1915 you could proceed with Secretary Shultz to take the ferry to Dartmouth to the Clipper Two restaurant. A half hour reception would be followed by dinner at 2000 hours. Dress would be informal. There would be a press presence/photo opportunity at the beginning of dinner as well as during the presentation of brief formal toasts. (5-6 minutes.) A list of possible invitees for this dinner is being prepared now for review by Kenzie MacKinnon. We anticipate up to 150 people including Messrs. Caccia, Ruckelshaus, Regan, a few officials from both sides, the two Ambassadors, plus the most sizeable representation of prominent individuals from Nova Scotia and perhaps the other Eastern provinces. We also have invited the USA side to submit names of guests Secretary Shultz would like to attend. Possible entertainment at the dinner is being explored.

On Monday October 17 we understand that you would be receptive to a possibility of having a private breakfast with Mr. Shultz. (Plus the Ambassador and one official on each side?) This could be scheduled between 8:00 and 9:00 hours subject to the schedule of Secretary Shultz, who we are told by the Americans might need the early morning to attend to State Department business. If the breakfast takes place we would recommend that the plenary talks resume at 1000 hours. If there is no breakfast then we would propose scheduling resumption of the meeting at 9:30. The morning session would be devoted to remaining bilateral issues as required and the multilateral subjects.

The morning session could be followed by a working lunch 12:30 for 1300 hours at the Privateers Wharf Restaurant. Facilities are available there for a larger lunch e.g. 25 - 30 people. We are soliciting your views whether you would prefer a tight working lunch which should not include more than 14 people at one table or 25 - 40 guests which would spread out over several tables. We would work out a guest list in accordance with your preferences. We are not yet sure at

this stage whether Mr. Ruckelshaus and Minister Caccia would still plan to be in Halifax at Monday noon.

At 15:30 a press conference would be scheduled back in the Nova Scotian hotel. Do you wish this to be a consecutive or a joint event? The Americans have already indicated to us that they prefer a joint press conference particularly in order to symbolize allied unity on East-West relations and the deployment of Cruise and Pershing missiles in Europe. It is their view that a consecutive press conference might detract from this unity and create the perception of differences both on bilateral and multilateral issues.

After the press conference approximately at 16:30 it remains for consideration whether a tourism event for Secretary Shultz should be planned. We understand that you have suggested a sailing excursion on the Bluenose. In this respect we are exploring whether the Bluenose would in principle be available on October 17 because its regular season ends on October 15. This event would have appeal for the Americans subject to their scheduling restrictions. At this stage we have not been able to ascertain precisely when Secretary Shultz must leave Halifax. Preliminary indications are late afternoon Monday.

Conclusion

Could we have your reaction to the programme as proposed?

D. H. BURNET

D.H. Burney
Assistant Deputy Minister
United States Branch

for Michael Shenstone

de Montigny Marchand
Deputy Minister
Foreign Policy

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FROM VON NOSTITZ

---PROGRAMME SCENARIO FOR SHULTZ VISIT

GRATEFUL YOU BRING TO ATTENTION OF DPM/SSEA ~~MEMO COPIED BELOW~~ ON PROGRAMME SCENARIO FOR SCHULTZ VISIT OCT 16-17. IT WOULD BE MUCH APPRECIATED IF WE COULD HAVE DPM/SSEA FEEDBACK BEFORE WEEKEND SINCE WE ARE HAVING DISCUSSIONS WITH AMERICANS ON OCT3/3.

2. MEMORANDUM FOR THE DEPUTY PRIME MINISTER AND SECRETARY OF STATE FOR EXTERNAL AFFAIRS. SUBJECT: BILATERAL MEETING WITH SECRETARY OF STATE SHULTZ, OCTOBER 16-17.

PURPOSE TO SEEK YOUR VIEWSON A PROPOSED PROGRAMME SCENARIO FOR YOUR FIFTH BILATERAL MEETING WITH SECRETARY SHULTZ. A SEPARATE MEMOORANDUM ON THE AGENDA REFLECTING CURRENT PRIORITIES AND INTER-DEPARTMENTAL CONSULTATIONS IS BEING PREPARED FOR YOUR CONSIDERATION NEXT WEEK. SECRETARY SHULTZ IS ARRIVING AT SHEARWATER CANADIAN FORCES BASE ABOUT 1500 (THE EXACT TIME REMAINS TO BE PINNED DOWN) SUNDAY OCT. 16. WE UNDERSTAND YOU WISH TO MEET THE SECRETARY UPON ARRIVAL AND THAT WE SHOULD HAVE FULL MILITARY HONOURS ACCORDED TO HIM (INCLUDING BAND). PROTOCOL ADVISES THAT WE HAVE NEVER DONE THIS FOR ANY VISITING FOREIGN MINISTER AND THIS WOULD SET AN IMPORTANT PRECEDENT. DO YOU WISH US TO PURSUE? WE ARE FURTHERMORE MAKING PROVISION FOR A SHORT WELCOMING STATEMENT BY YOU (AND REPLY BY SHULTZ) AT THE BASE IN FRONT OF THE PRESS.

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WE HAVE BEEN TOLD BY THE AMERICANS THAT MRS SHULTZ WILL NOT LIKELY ACCOMPANY THE SECRETARY ALTHOUGH IT HAS BEEN MADE CLEAR TO USA OFFICIALS THAT SHE WOULD BE MOSE WELCOME AND THAT MRS REGAN HAD ALREADY VOLUNTEERED TO ACT AS A HOSTESS FOR HER.

WE HAVE HAD INDICATIONS FROM YOU THAT THE NOVA SCOTIAN HOTEL IS ACCEPTABLE AS A VENUE. AFTER YOU HAVE PROCEEDED TO THE HOTEL WITH SHULTZ (ARRIVAL ABOUT 1530) WE SUGGEST SHULTZ BE GIVEN TIME TO FRESHEN UP AND THAT THE FIRST MEETING WOULD CONVENE AT 1600.

IN LIGHT OF THE TIGHTNESS OF THIS SCHEDULE AND THE COMPREHENSIVE AGENDA TO BE COVERED WE WOULD FAVOUR THE NOVA SCOTIAN AS THE VENUE FOR ALL MEETINGS. PROTOCOL HAS IDENTIFIED THE BEDFORD/FUNDY ROOM AS THE MEETING PLACE. IF MORE TIME COULD BE CHISELLED OUT OF THE EARLY AFTERNOON DEPENDING ON WHETHER SECRETARY SHULTZ CAN ARRIVE SOONER WE COULD EXPLORE A MEETING VENUE OUTSIDE OF THE HOTEL SUCH AS THORNTON DEPARTMENT OF PUBLIC WORKS CONFERENCE CENTRE (10 MIN FROM THE HOTEL) WHICH IS ABOUT TO BE TAKEN OVER BY THE RCMP. PROTOCOL IS CHECKING ON THIS AND HAS ALREADY REPORTED THAT THE LOCAL RCMP COMMANDANT IS NOT IN FAVOUR OF THIS SUGGESTION BECAUSE IT WOULD DELAY THE RCMP TAKING POSSESSION OF THE PROPERTY; ALSO THE INDICATION WE HAVE FROM THE AMERICANS AT THIS STAGE ARE THAT THEY WOULD PREFER TO HAVE THE MEETINGS IN THE HOTEL FOR CONVENIENCE S SAKE. WOULD YOU FIND THE HOTEL ACCEPTABLE AS A MEETING PLACE IF DINNER AND LUNCH WERE SCHEDULED TO TAKE PLACE ELSEWHERE?

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SINCE THE MEETING WILL TAKE PLACE IN MINISTER REGAN S RIDING WE ASSUME OF COURSE THAT YOU WISH HIM TO BE INVOLVED IN THE ACTIVITIES EG MEETING THE SECRETARY AT THE BASE AND ATTENDING DINNER AND LUNCH. DO YOU WISH HIM AS WELL TO TAKE PART IN THE TRADE AND ENERGY DISCUSSIONS SUNDAY AFTERNOON AND MONDAY MORNING?

WITH RESPECT TO THE OFFICIAL DELEGATION, DE MONTIGNY MARCHAND WOULD EXPECT TO BE ACCOMPANIED BY DEREK BURNEY TO ALL THE MEETINGS AS WELL AS BY A NOTE-TAKER FROM THE USA BRANCH; ON THE OTHER HAND IF YOU WISH TO KEEP THE OFFICIAL DELEGATION SMALLER BURNEY COULD ALSO BE DESIGNATED AS THE NOTE-TAKER. IN ADDITION TO REPRESENTATION FROM YOUR STAFF AMBASSADOR GOTLEIB WOULD BE INVITED TO SIT IN ON YOUR MEETINGS (TOGETHER WITH AMBASSADOR ROBINSON FROM THE USA SIDE). FROM ENVIRONMENT CANADA, WE HAVE HAD INDICATIONS THAT DEPUTY MINISTER JACQUES GUERIN WOULD LIKE TO BE PRESENT WITH HIS MINISTER DURING THE ACID RAIN DISCUSSIONS. WE BELIEVE IT IS IMPORTANT THAT ASST. DEPUTY MINISTER RW SLATER WHO PARTICIPATED IN THE APRIL BILATERAL MEETING IN WASHINGTON ATTEND, DO YOU AGREE TO HAVE BOTH ENVIRONMENT OFFICIALS IN THE MEETING?

THE SUNDAY MEETING WITH SECRETARY SHULTZ WOULD BE SCHEDULED BETWEEN 1600 AND 1800 HRS. WE SUGGEST THAT THE FIRST 45 MINUTES OF THE SESSION SHOULD BE DEVOTED TO THE CONSIDERATION OF ENVIRONMENTAL ISSUES (INCLUDING GARRISON).

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SINCE THE USA POSITION MAY HAVE MOVED BEYOND QUESTIONING THE SCIENTIFIC UNCERTAINTIES REGARDING ACID RAIN ABATEMENT MEASURES, AMBASSADOR GOTLIEB HAS SUGGESTED THAT THERE MAY BE NO NEED TO INCLUDE THE USA AND CANADIAN SCIENTIFIC PEER GROUP CHAIRMAN. WE KNOW THAT THE CANADIAN CHAIRMAN, DR HARE SHARES THIS VIEW AND WE HAVE BEEN ATTEMPTING TO DETERMINE DISCREETLY WHETHER IT WOULD BE POSSIBLE TO TAKE A SIMILAR APPROACH WITH DR HARE'S USA COUNTERPART, WITHOUT RAISING UNDUE SENSIBILITIES. IF YOU AGREE AND IF THE USA SIDE SEES NO SERIOUS OBSTACLES, WE WOULD PROPOSE THAT PEER GROUP CHAIRMAN NOT/NOT BE INVITED TO HALIFAX.

AT THE CONCLUSION OF THIS PORTION OF THE TALKS MINISTER CACCIA AND MR RUCKELSHAUS COULD RETIRE FOR SOME MORE DETAILED DISCUSSIONS. AT 1800 A FOURWAY PRESS CONFERENCE (YOU, SHULTZ, CACCIA AND RUCKELSHAUS) COULD BE SCHEDULED. THE ADVANTAGE OF THIS WOULD BE TO ENSURE A FOCUSED TREATMENT OF THE ACID RAIN PROBLEM IN THE MONDAY PRESS. DO YOU AGREE?

THIS WILL OF COURSE DEPEND ON WHETHER BY OCT 16, THE USA ADMINISTRATION HAS TAKEN A DEFINITE POSITION ON ACID RAIN, SOMETHING WHICH AT THIS POINT IS NOT CERTAIN.

FOLLOWING THE ENVIRONMENTAL DISCUSSION YOU COULD THEN TAKE UP OTHER BILATERAL ISSUES FOR AN HOUR AND FIFTEEN MINUTES.

ON THE WAY OUT FROM THE MEETING YOU COULD EXPECT SEPARATE PRESS SCRUMS FOR YOU AND SECRETARY SHULTZ.

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WE SUGGEST THAT THE EVENING ACTIVITIES COULD BE SCHEDULED AS:
AT 1915 YOU COULD PROCEED WITH SECRETARY SHULTZ TO TAKE THE FERRY
TO DARTMOUGH TO THE CLIPPER TWO RESTAURANT. A HALF HOUR RECEPTION
WOULD BE FOLLOWED BY DINNER AT 2000 HRS. DRESS WOULD BE INFORMAL.
THERE WOULD BE A PRESS PRESENCE/PHOTO OPPORTUNITY AT THE BEGINNING
OF DINNER AS WELL AS DURING THE PRESENTATION OF BRIEF FORMAL TOASTS.
(5-6 MINUTES) A LIST OF POSSIBLE INVITEES FOR THIS DINNER IS BEING
PREPARED NOW FOR REVIEW BY KENZIE MACKINNON. WE ANTICIPATE UP TO
150 PEOPLE INCLUDING MESSRS. CACCIA, RUCKELSHAUS, REGAN, A FEW OFFICIALS
FROM BOTH SIDES, THE TWO AMBASSADORS, PLUS THE MOST SIZEABLE REPRESENTATION
OF PROMINENT INDIVIDUALS FROM NOVA SCOTIA AND PERHAPS THE
OTHER EASTERN PROVINCES. WE ALSO HAVE INVITED THE USA SIDE TO SUBMIT
NAMES OF GUESTS SECRETARY SHULTZ WOULD LIKE TO ATTEND, POSSIBLE
ENTERTAINMENT AT THE DINNER IS BEING EXPLORED.
ON MONDAY OCT 17 WE UNDERSTAND THAT YOU WOULD BE RECEPTIVE TO A
POSSIBILITY OF HAVING A PRIVATE BREAKFAST WITH MR SHULTZ. (PLUS THE
AMBASSADOR AND ONE OFFICIAL ON EACH SIDE?) THIS COULD BE SCHEDULED
BETWEEN 0800-0900 SUBJECT TO THE SCHEDULE OF SECRETARY SHULTZ, WHO WE
ARE TOLD BY THE AMERICANS MIGHT NEED THE EARLY MORNING TO ATTEND TO
STATE DEPARTMENT BUSINESS. IF THE BREAKFAST TAKES PLACE WE WOULD
RECOMMEND THAT THE PLENARY TALKS RESUME AT 1000. IF THERE IS NO/NO
BREAKFAST THEN WE COULD PROPOSE SCHEDULING RESUMPTION OF THE MEETING
AT 0930.

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THE MORNING SESSION WOULD BE DEVOTED TO REMAINING BILATERAL ISSUES AS REQUIRED AND THE MULTILATERAL SUBJECTS.

THE MORNING SESSION COULD BE FOLLOWED BY A WORKING LUNCH 1230 FOR 1300 HR AT THE PRIVATEERS WHARF RESTAURANT. FACILITIES ARE AVAILABLE THERE FOR A LARGER LUNCH EG 25-30 PEOPLE. WE ARE SOLICITING YOUR VIEWS WHETHER YOU WOULD PREFER A TIGHT WORKING LUNCH WHICH SHOULD NOT/NOT INCLUDE MORE THAN 14 PEOPLE AT ONE TABLE OR 25-40 GUESTS WHICH WOULD SPREAD OUT OVER SEVERAL TABLES. WE WOULD WORK OUT A GUEST LIST IN ACCORDANCE WITH YOUR PREFERENCES. WE ARE NOT/NOT YET SURE AT THIS STAGE WHETHER MR RUCKELSHAUS AND MINISTER CACCIA WOULD STILL PLAN TO BE IN HALIFAX AT NOON MONDAY.

AT 1530 A PRESS CONFERENCE WOULD BE SCHEDULED BACK IN THE NOVA SCOTIAN HOTEL. DO YOU WISH THIS TO BE A CONSECUTIVE OR A JOINT EVENT? THE AMERICANS HAVE ALREADY INDICATED TO US THAT THEY PREFER A JOINT PRESS CONFERENCE PARTICULARLY IN ORDER TO SYMPOLIZE ALLIED UNITY ON EAST-WEST RELATIONS AND THE DEVELOPMENT OF CRUISE AND PERSHING MISSILES IN EUROPE. IT IS THEIR VIEW THAT A CONSECUTIVE PRESS CONFERENCE MIGHT DETRACT FROM THIS UNITY AND CREATE THE PERCEPTION OF DIFFERENCES BOTH ON BILATERAL AND MULTILATERAL ISSUES.

AFTER THE PRESS CONFERENCE APPROXIMATELY AT 1630 IT REMAINS FOR CONSIDERATION WHETHER A TOURISM EVENT FOR SHULTZ SHOULD BE PLANNED. WE UNDERSTAND THAT YOU HAVE SUGGESTED A SAILING EXCURSION ON THE BULENOSE. IN THIS RESPECT WE ARE EXPLORING WHETHER THE BLUENOSE WOULD

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IN PRINCIPLE BE AVAILABLE ON OCT 17 BECAUSE ITS REGULAR SEASON ENDS
ON OCT 15. THIS EVENT WOULD HAVE APPEAL FOR THE AMERICANS SUBJECT TO
THEIR SCHEDULING RESTRICTIONS. AT THIS STAGE WE HAVE NOT BEEN ABLE TO
ASCERTAIN PRECISELY WHEN SECRETARY SHULTZ MUST LEAVE HALIFAX.

PRELIMINARY INDICATIONS ARE LATE AFTERNOON MONDAY.

CONCLUSION: COULD WE HAVE YOUR REACTION TO THE PROGRAMME AS PROPOSED?

IH PURNEY ASSISTANT DEPUTY MINISTER UNITED STATES BRANCH

MICHAEL SHENSTONE FOR DE MONTIGNY MARCHAND DEPUTY MINISTER FOREIGN
POLICY UNQUOTE.

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PROGRAMME SCENARIO FOR SHULTZ VISIT

DPM/SSEA HAS REVIEWED PROPOSALS IN REFTL AND HAS FOLLOWING COMMENTS:

(1) PROTOCOLS RECOLLECTION OF TREATMENT FOR VISITING FOR MINS IS INCORRECT. SECTY KISSINGER RECD FULL HONOURS/TREATMENT IN MID 70S WHEN MR MACEACHEN WAS FIRST SSEA. IN ANY EVENT SSEA DOES NOT/NOT SEE THIS AS CREATING GENERAL PRECEDENT. PLANS SHLD PROCEED FOR FULL HONOURS TREATMENT.

2. DPM/SSEA AGREES TO USE NOVA SCOTIAN HOTEL FOR MTGS.

3. MR REGAN SHLD BE INVITED TO ATTEND DINNER AND LUNCH AS WELL AS TO TAKE PART IN TRADE AND ENERGY DISCUSSIONS.

4. NOTETAKER FROM USA BRANCH SHLD BE PRESENT IN ADDITION TO BURNBY. NOBLE/FPR WILL ALSO ATTEND. BOTH ENVIRONMENT OFFICIALS CAN ATTEND MTG WITH CACCIA.

5. AGREE THAT ENVIRONMENTAL ISSUES BE DISCUSSED FIRST AND THAT PEER GROUP CHAIRMAN NOT/NOT BE INVITED.

6. IF ENVIRONMENT MINS WISH TO HAVE PRESS CONF ON SUNDAY THEY SHLD PROCEED WITHOUT FOR MINS. WHILE NOT/NOT EXCLUDING POSSIBILITY OF SCRUMS BY FOR MINS, DPM/SSEA DOES NOT/NOT WANT PRESS CONF FOR FOR MINS HALF WAY THROUGH MTG.

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7. IDEA OF CROSSING HARBOUR TO CLIPPER II RESTAURANT IS AGREED.
DPM/SSEA WONDERS IF ALTERNATIVE EXISTS TO FERRY BOAT WHICH WOULD
PERMIT DRINKS ON BOARD AND CROSSING AT MORE LEISURELY PACE SO THAT
DINNER CLD COMMENCE ON ARRIVAL AT RESTAURANT. PERHAPS DND HAS SUITABLE
LAUNCH?

8. SECTY SHULTZ TOLD DPM/SSEA HERE IN NY THAT HE WANTS TO SEE BIT OF
HALIFAX AND NOT/NOT HAVE EVERY BIT OF TIME SCHEDULED. SSEA AGREES TO
IDEA OF BREAKFAST MTG WITH SHULTZ (OTHER PARTICIPANTS, IF ANY, TO BE
IDENTIFIED LATER).

9. MTGS COULD RESUME AT 10 AM TO GO TO 12:30 PM. DPM/SSEA ASKS THAT
VERY SERIOUS EFFORT BE MADE TO SEE IF SUITABLE LUNCH (FISH CHOWDER,
LOBSTERS ETC) COULD BE ARRANGED ON BOARD BLUENOSE DURING TWO HOUR
SAIL STARTING BEFORE 1300 HRS. WEATHER PERMITTING JOINT PRESS CONF
CLD TAKE PLACE ON BOARD BLUENOSE ON RETURN FROM CRUISE FOLLOWED
DIRECTLY BY DEPARTURE FOR AIRPORT. SUITABLE BACKUP FOR PRESS
CONFERENCE AND/OR LUNCH WOULD HAVE TO BE IDENTIFIED IN CASE OF
INCLEMENT WEATHER.

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---MTG DPM/SSEA-SHULTZ IN CDA 16-17OCT

SUMMARY: WITH ECONOMIC RECOVER TAKING PLACE, PROTECTIONIST SENTIMENT IS SEEMINGLY LOSING SOME OF ITS SUPPORT IN CONGRESS. AT SAME TIME HOWEVER THERE ARE SIGNS OF POSSIBLE EMERGING TRENDS IN USA BEHAVIOUR THAT ARE SOMEWHAT DISTURBING. ON AN INCREASING NUMBER OF ISSUES, USA OFFICIALS ARE GIVING EVIDENCE OF INSENSITIVITY TO USA PARTNERS, INCLUDING CDA, ON ECONOMIC ISSUES. THIS COULD BECOME INCREASINGLY TROUBLESOME IN MANAGEMENT OF OUR RELATIONSHIP. US ACTIONS ON EXTRATERRITORIALITY LEGISLATION, UNITARY TAX, CRIMINAL PROSECUTIONS AGAINST LEADING CDN INSTITUTIONS, ACCOMPANIED BY IMPROPER METHOD OF ISSUING SUB-POENAS, SPECIALTY STEEL ARE EXAMPLES. WHILE WE KNOW THAT USA IS QUOTE TIRED OF BEING KICKED AROUND UNQUOTE, THERE IS EVIDENCE IN SOME ADMINISTRATION QUARTERS OF A FLEXING OF MUSCLES, AND OF THE EMERGENCE OF A CERTAIN BULLYING ATTITUDE TOWARD U.S. ECONOMIC PARTNERS. SEC SHULTZ'S BACKGROUND AND EXPERIENCE MAKE HIM AN IDEAL INTERLOCUTOR TO DEAL WITH THESE MATTERS, SOME OF WHICH HE MIGHT NOT/NOT EVEN BE AWARE OF. SO 16-17OCT MTG BETWEEN DPM/SSEA

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AND SEC OF STATE PROVIDES EXCELLENT OPPORTUNITY TO ADDRESS THESE CONCERNS AND OTHER ECONOMIC ISSUES (AS WELL, OF COURSE, AS NON-ECONOMIC MATTERS).

2. REPORT: OVER LAST YEAR WE HAVE BEEN VERY PREOCCUPIED BY PROTECTIONIST SENTIMENT IN CONGRESS AND HAVE BEEN HURT BY SOME MEASURES. HOWEVER, THANKS TO ECONOMIC RECOVERY, WORST NOW APPEARS TO BE OVER AND THERE ARE ENCOURAGING SIGNS THAT SPONSORS OF PROTECTIONIST BILLS WILL FIND IT INCREASINGLY DIFFICULT TO OBTAIN NECESSARY SUPPORT. UNFAVOURABLE REPORT BY HOUSE WAYS AND MEANS CTTEE ON LOCAL CONTENT FOR AUTOMOTIVE PRODUCTS WILL MAKE PASSAGE OF BILL IN HOUSE OF REPS MORE DIFFICULT THAN LAST YEAR. SENATOR CHAFEE'S AMENDMENT TO ELIMINATE REFERENCE TO CEMENT IN BUY AMERICA COVERAGE IN FEDERALLY-FUNDED HIGHWAY PROJECTS, RESTORE DLRS 500,000 THRESHOLD EXEMPTION AND PRESERVE 10 PERCENT PREFERENCE APPLIED TO MASS TRANSIT ROLLING STOCK AND ASSOCIATED EQUIPMENT, PROVIDES INDICATION THAT RESISTANCE TO AT LEAST SOME BUY AMERICA PROVISIONS IS GROWING.

3. BUT IF PROTECTIONIST SENTIMENT IS ON WANE, THERE ARE EXAMPLES OF INSENSITIVITY WHICH ARE BEGINNING TO APPEAR WITH A CERTAIN REGULARITY. IN CONSIDERATION OF EXPORT ADMINISTRATION ACT, ADMINISTRATION DOES NOT/NOT SEEM TO FULLY UNDERSTAND CONCERNS OF OTHER COUNTRIES ON EXTRATERRITORIAL APPLICATION OF USA JURISDICTION FOR NATIONAL SECURITY REASONS. MANY SENIOR OFFICIALS EVEN ARGUE WITH CONVICTION THAT USA AS LEADER OF FREE WORLD HAS RIGHT TO EXTEND ITS JURISDICTION

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PAGE THREE UNGR4409 CONF

ON FRIENDS AND ALLIES ONCE IT HAS DETERMINED THAT IT IS IN ITS NATIONAL INTEREST TO DO SO. MANY COUNTRIES INCLUDING CDA HAVE VOICED THEIR CONCERNS BUT WITHOUT MUCH SUCCESS.

4. ON UNITARY TAX, THE PRACTICE OF SOME STATE AUTHORITIES TO APPLY TAXATION FORMULA RELATED TO THE CONSOLIDATED WORLD EARNINGS OF MULTINATIONAL CORPORATIONS IS DETRIMENTAL TO OUR INTERESTS AND MAY BECOME VERY DIFFICULT TO MANAGE IN OUR BILATERAL ECONOMIC RELATIONS. SEC TREASURY REGANS ANNOUNCEMENT OF TRIPARTITE WORKING GROUP TO STUDY ISSUE APPEARS TO BE RELATED TO LONGER TERM. HOWEVER, WE HAVE IMMEDIATE CASE WITH ALCAN AND IT IS NOT CLEAR WHETHER ADMIN WILL BE PREPARED TO FILE A MEMO AS AMICUS CURIAE IN SUPPORT OF ALCANS PETITION FOR CERTIORARI WITH USA SUPREME COURT. CONCERNS ABOUT USA STATE INTERESTS AND TAXING PRACTICES SEEM TO TAKE PRECEDENCE OVER INTL COMMUNITY AND COMMERCE. ALL THE CABINET OFFICERS CONCERNED RECOMMEND USA INTERVENE AGAINST UNITARY TAX. THE WHITE HOUSE DECLINED.

5. ON SPECIALTY STEEL, USA AUTHORITIES, INCLUDING USTR BROCK, ADMIT THAT CDA IS BEING QUOTE ROYALLY SCREWED UNQUOTE BUTY THEY CONTINUE TO MAKE OFFERS THAT ARE QUITE INADEQUATE. WHILE THEY AGREE THAT WE HAVE BEEN HURT AS MUCH AS THEY HAVE BY IMPORTS FROM NICS AND SUBSIDIZED STEEL INDUSTRIES IN EUROPE, THEY ARE TREATING US AS IF WE HAD CONTRIBUTED TO PROBLEM AND WE HAVE NOT.

6. IN REVISION OF COCOM LIST, THEY WISH TO TIGHTEN EXPORT CONTROLS ON CERTAIN ITEMS AND HAVE GENERALLY MET WITH UNDERSTANDING ATTITUDE

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FROM THEIR ALLIES. HOWEVER, WHEN SOME PEOPLE IN ADMIN, ESPECIALLY IN DEFENCE DEPT, REALIZED THAT THEY COULD NOT/NOT GET THEIR WAY ON ALL ISSUES, THEY RECOMMENDED THAT USA SHOULD PROCEED ON UNILATERAL BASIS AS WAS EXPLAINED BY DIRECTOR ROOT OF OFFICE OF EAST-WEST TRADE AT TIME OF HIS RESIGNATION.

7. AND MORE RECENTLY, BNS HAS BEEN VICTIM OF EXTRATERRITORIAL POWER PLAY BY USA TAX EVASION AUTHORITIES. THEY WERE IN EFFECT FORCED TO VIOLATE BAHAMAS LAW TO AVOID ENORMOUS PENALTIES. CED RITCHIE OF BNS TOLD ME HOW DEEPLY WORRIED HE IS ABOUT NEW USA PRACTICE OF ISSUING SUBPOENAS ON THE USA OFFICERS OF CDN BANKS FOR DOCUMENTS LOCATED IN CDA EVEN THOUGH THERE ARE AGREED PROCEDURES BETWEEN OUR TWO COUNTRIES TO DELIVER THEM INCLUDING, FOR EXAMPLE, THE FREQUENTLY USED PROVISION OF OUR TAX TREATY FOR THE EXCHANGE OF INFORMATION. USA AUTHORITIES EVIDENTLY CONSIDER THESE TO BE TOO CUMBERSOME AND WITHOUT GIVING SECOND THOUGHT TO CONCERNS OF SOVEREIGN COUNTRY THEY SEND SUBPOENAS AS IF CDA WAS EXTENSION OF USA. (ROLAND FRAZEE OF ROYAL BANK AND BILL MULHOLLAND TOLD US RECENTLY THAT THE PROBLEM EXTENDS TO THEIR BANKS AS WELL. FRAZEE TOLD ME HE AND RITCHIE ARE SEEKING EARLY APPOINTMENT TO SEE DPM/SSEA. RITCHIE SAYS HIS BANK MAY HAVE TO REASSESS THEIR ABILITY TO HANDLE USA CLIENTS IN CERTAIN COUNTRIES.

8. ABOVE INDICATES THAT WE HAVE AMPLE GROUNDS TO RAISE QUOTE INSENSITIVITY UNQUOTE, ISSUE WITH SEC STATE SHULTZ AT 1617OCT MTG. WHILE POINTING OUT IT IS QUESTION THAT USA FACES WITH ALL ITS

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WHILE POINTING OUT IT IS QUESTION THAT USA FACES WITH ALL ITS MAJOR PARTNERS AND IS NOT/NOT THEREFORE EXCLUSIVELY A CDA/USA ISSUE, IT CAN BE HIGHLIGHTED AS ONE OF MAJOR CONCERNS TO US IN OUR ECONOMIC/ COMMERCIAL RELATIONSHIP WITH USA. WE HAVE RAISED EACH ISSUE INDIVIDUALLY WITH STATE AND RELEVANT DEPTS BUT I THINK TIME HAS PROBABLY COME: (A) TO ASSOCIATE SOME OR ALL OF THEM TOGETHER; (B) RAISE THESE CONCERNS WITH SEC OF STATE SHULTZ; (C) MAKE POINT TO HIM THAT WE ARE WORRIED ABOUT POSSIBLE EMERGING TREND AND; (D) URGE HIM TO USE HIS GOOD OFFICES TO HELP SOLVE THESE PROBLEMS. AS THEY HAVE POTENTIAL OF BEING SERIOUS AND TROUBLESOME IRRITANTS IN AN OTHERWISE GOOD RELATIONSHIP.

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M.G. von Nostitz/vj 20172
U.S. GENERAL RELATIONS DIVISION

CONFIDENTIAL

October 7, 1983

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MEMORANDUM FOR THE DEPUTY PRIME MINISTER AND
SECRETARY OF STATE FOR EXTERNAL AFFAIRS
c.c. Minister of State (External Relations)
Minister of State (International Trade)

Subject: Secretary Shultz's Visit to Halifax,
October 16-17, 1983.

Purpose To review the main elements of the program and to seek your preliminary views on the objectives and subjects for discussion during this fifth bilateral meeting between you and Secretary Shultz.

Main Lines of the Program

Now definite:
15.10...
HRS

Secretary Shultz's arrival time is not yet definite. It hovers between 1430 and 1500 hours Sunday, October 16. A reception with full military honours has been organized by Protocol. A suggested welcoming statement has been attached for your consideration.

At the beginning of the first formal session of talks between 1600 and 1800 we suggest you and Secretary Shultz sign the "Supplementary Agreement Amending Annex of the Great Lakes Water Quality Agreement of 1978" which would reduce phosphorous pollution levels in the system. This would give a positive dimension to the whole meeting right at the outset. This ceremony could take place in a separate room in presence of the media in the Nova Scotian in attendance of Caccia and Ruckelshaus (who is not empowered to sign since he does not have Cabinet rank). Do you agree?

Minister Caccia expects to hold a press conference with his American counterpart Ruckelshaus Sunday afternoon. It is for consideration whether his press conference should be held after your meetings have concluded with Secretary Shultz at about 1800 hours so that you can have the opportunity if you wish to speak privately with Mr. Caccia before he addresses the acid rain issue with the media. If you agree to this scenario the environmental press conference can be scheduled to take place at 1830 hours.

Dinner at the Clipper Two restaurant in Dartmouth has been ruled out by Protocol in consultation with your office. Instead the dinner is scheduled to take place in the Chateau Halifax. The draft text of a suggested dinner toast is attached for your comments.

Breakfast with Secretary Shultz has been accepted by the Americans between 0800 and 0900 hours Monday, 17 October. The Americans have suggested that this would be the best occasion to discuss East-West relations and arms control. They are pressing anxiously to enlarge the breakfast with at least two additional American participants one of whom would be Assistant Secretary Rick Burt. May we have your views please?

The venue and format for the working lunch after the second plenary session between 1000 and 1200 hours has not yet been clarified. Protocol in accordance with your preference is still examining the possibility of finding an appropriate boat for a small affair i.e. about six participants on either side. (The rest of the Party would have lunch at the Privateers Warehouse.) American officials have made clear that, although they would of course defer to your wishes as the host they are not keen to have a boat luncheon. They maintain it would greatly complicate the role of the 15 security personnel looking after Shultz; that it would be too time consuming; and that it would leave the rest of their party stranded. We do not of course know whether or to what extent these concerns are shared by Secretary Shultz. While a decision on Secretary Shultz's departure time has not yet been made he is under pressure - at least from his officials - to leave between 1500 and 1600 hours. We have said that this departure would be too early since a press conference was scheduled for 1530. The preferred venue for this press conference is the Nova Scotian. Do you agree?

Participation

Minister Regan has been invited to attend the dinner and lunch as well as take part in the trade and energy discussions. Might it be more appropriate for Mr. Regan to participate in the full bilateral session? Minister Caccia after the environmental issues have been dealt with Sunday afternoon will not participate in other meetings. He has been invited to attend the dinner Sunday evening but not the Monday lunch since he will have left Halifax by that time. By mutual agreement the scientific peer chairmen have not been invited to Halifax.

Apart from your staff and Ambassador Gotlieb, current plans call for External Affairs officials Marchand, Burney, Noble, and note-takers von Nostitz and Stan Gooch (Director of the U.S. Transboundary Division) to cover both sets of plenary meetings. Deputy Minister Guerin and Assistant Deputy Minister Slater from Environment would of course attend only the environmental discussions.

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On the American side, Ambassador Robinson, Assistant Secretary Burt, his deputy for Canadian affairs Medas, Assistant Secretary Hughes the State Department Spokesman, as well as six additional State Department officials (including two note-takers) plan to attend the two enlarged sessions. Ruckelshaus will be accompanied by three additional officials for the environmental discussions.

Bilateral Objectives

With you and Secretary Shultz having established the joint role as primary interlocutors on Canada-USA relations, the fundamental objective for this bilateral meeting will be to reinforce the viability of this channel and to confirm its utility as a forum for a candid exchange on bilateral and multilateral topics and as focus to set the tone and the priorities for sound management of the Canada/U.S. relationship.

- (a) the dominant topic is Acid rain and our objective will be to learn about the current state of play in Washington, to underscore the importance of the issue to Canada and the firm federal/provincial consensus, to express disappointment at the pace of decision-making in Washington and to prod or stimulate a prompt and positive decision by the Administration, one which will enable us to resume negotiations for a joint abatement program. We must be careful not to over-commit to signs of progress from Washington until more tangible results can be identified;
- (b) to register concern about the impact on Canada of specific extra-territorial actions by the USA, e.g. unitary taxation, direct subpoenas to Canadian banks and the renewal of the Export Administration Act;
- (c) to address constructively bilateral trade issues/concerns and encourage timely action by each government on possible sectoral trade initiatives;
- (d) to respond to USA concerns regarding the "back in" and natural gas prices.

You could underline to Shultz the extent to which American foreign policy towards Canada becomes in effect an accumulation of issues raised in the domestic political process which have a direct bearing on Canadian interest. The Administration still tends to view many of these issues with benign detachment on the assumption that because the number of issues explicitly dividing the Administration from the

Canadian government remain relatively small, the Administration need not consider that the dynamics of the relationship require intervention at the State level or in Congress. It should be emphasized to Shultz that actions taken by State on such issues as unitary tax or Jaffe require his timely intervention in the interest of protecting the broader USA/Canada relationship.

Similarly it should be emphasized to Shultz again that Congress's arbitrary and unpredictable action on such questions as speciality steel aimed primarily at Europe and developing countries or natural gas import restrictions aimed at Algeria hurts Canada. While as a result of Canadian representation the Administration has taken helpful stands on some of these issues, this situation is symptomatic of a Congressional climate of political responses to economic conditions in an election year. Canada at this time especially needs assurances from the Administration that our overall needs for an environment as predictable as possible can depend on continued Administrative support on Congress on such issues.

Multilateral Objectives

In international affairs concordance of views on the urgency of reaching arms control agreements would be desirable along with supportive language on INF deployment which the Reagan Administration would very much want.

The principal objective from our standpoint will be to gain a clear insight into the substance and tactics of the USA position in arms control negotiations with the USSR and, more generally, on the state of East/West relations.

A second objective would be to exchange views on the Middle East, Central America and Namibia providing, where possible, our own assessment of the current situation and of the elements needed for progress.

A third objective would be to review with Secretary Shultz the international economic situation emphasizing in particular our concern about the extent to which the U.S. Administration has become isolated with its position, such as access limits for the new IMF quotas and on the replenishment of IDA. A more prompt and positive approach by the USA on these matters is vital to effective redress of the current situation and to the continuing effectiveness of the IMF/IBRD.

Probable American Objectives

In contrast to our foremost interest in bilateral

issues Shultz's main objective on behalf of the Reagan Administration will be to create an impression that this bilateral meeting on the eve of cruise and Pershing II deployment in Europe is characterized by unequivocal allied solidarity. Accordingly for the Americans the East-West relationship and arms control will be their main preoccupation. On the bilateral front the meeting will be seen as providing an opportunity for the Administration to apprise the Canadian government where the Administration stands on the issue of acid rain. They will hope that the Canadian side would seem at least moderately encouraged. In this vein they have suggested that the meeting would provide a good opportunity to sign the supplement to the Great Lakes Water Quality Agreement.

Topics for discussion

At this stage the officials on both have suggested the following scope for an agenda provided the time available allows this. What follows is a preliminary cut at a suggested agenda, subject to your views and your projected discussion with us next week.

Bilateral Issues:

Because of the USA Administration's review of acid rain policy, acid rain should continue to be the highest priority bilateral topic with your efforts directed at expressing disappointment, reiterating the strength of Canada's commitment to early effective action for a joint abatement programme and to encouraging Mr. Shultz to take a more direct supportive role in the very difficult policy debate now underway within the U.S. Administration.

Apart from acid rain you may wish once again to flag the seriousness with which Canada views the lonetree dam component of the Garrison Diversion project and seek Mr. Shultz's support to reaching an accommodation based on our recent diplomatic note. Garrison continues to be one of those examples on the Canada/USA spectrum which the Administration still views with benign detachment. Accordingly another jolt from you about the seriousness which Canada regards the possible pollution of the Manitoba water environment is necessary. As for toxic waste problems in the Niagara River system, we recommend that you make a brief reference to this in your meeting with Shultz and suggest that this issue be covered in more detail in the separate discussions to be held by Caccia and Ruckelshaus.

After the environmental discussions have been concluded and Caccia and Ruckelshaus will have left the meeting room, we recommend a discussion on energy as the next priority item. You could elect to pre-empt Shultz with an explanation and justification of the crown interest "back in" provision which he is expected to bring up again. We are informed that Shultz also plans to raise the gas pricing issue. The final scenario will provide a Canadian position on Shultz's concerns.

You may wish to introduce a discussion on the trade front by making some general references to protectionism and refer to several specific instances such as speciality steel as the most immediate item of concern to Canada. On a positive note you could also raise the trade policy review study and encourage forward movement on sectoral trade co-operation. With regard to extraterritoriality you could emphasize to Secretary Shultz the basis for Canadian concern at the application of U.S. law in Canada by focussing on unitary taxation, the renewal of the Export Administration Act and the American issuance of direct subpoenas to Canadian banks. You can expect that Shultz will wish to cover ground on FIRA again in particular the extraterritorial aspect of FIRAs review of takeovers in the USA which affect the ownership of Canadian subsidiaries. (We understand Shultz has been advised to focus on this element of FIRA in order to have some extraterritorial issue to place against your expected list of extraterritorial problems.)

Shultz can be expected to discuss with you what steps Canada plans to take following the report of the GATT panel on FIRA performance requirements and to raise American concern regarding the Canadian extension of customs jurisdiction to Canada's offshore since it would make their drilling rigs dutiable. He may also raise the proposed revision of Canadian copyright legislation and possibly border broadcasting.

Discussions of all these topics would more than fill the allocated 75 minutes Sunday afternoon and probably spill over into the Monday two hour plenary from 1000 to 1200 hours. During the Monday session, especially if East-West and arms control are largely covered during the breakfast, we expect the first hour to be taken up with some of the above issues as well as other bilateral issues such as review of the Pacific and Atlantic fishery situations and Cruise testing.

All the bilateral issues suggested for discussion so far are agenda items that have been covered by previous

meetings with Secretary Shultz. There is one issue which has become of sufficient importance to be introduced as a new bilateral discussion item. This is North American air defence modernization. The USA is now developing the technological expertise to carry out North American air defence using space-based systems without the participation of Canada. Secretary Shultz should now be apprised about the importance which Canada attaches to the joint sharing of North American defence responsibilities and that such a close partnership requires new political awareness and re-dedication at the highest levels to maintain its vitality. The industrial benefits and research and development opportunities that such a partnership offers are of great importance to Canada. That is why this area now requires high level policy attention not only because of recent Congressional pressure to bind defence contracts more exclusively to American companies, but also because the contracting procedures of the United States Air Force for the modernization of DEW System are being structured to preclude opportunities for significant Canadian industrial participation.

Multilateral Issues

The Americans have agreed that the five international issues in descending order of priority that should be discussed are East-West relations, arms control, Central America, Middle East and Namibia. We have subsequently been told that Shultz will also wish to raise Cyprus.

We have flagged with the Americans your interest in covering multilateral economic issues in the Monday plenary with a particular focus on follow-up to the Williamsburg Summit as well as third world debt and IDA replenishment since the Americans interestingly have not suggested these issues as agenda items.

Oral Briefing

We would like to meet with you for a briefing session either on Tuesday or Wednesday to discuss programme arrangements and the agenda more substantively before the briefing material is finalized and before you leave for Nova Scotia on Thursday.

D.H. Burney
Assistant Deputy Minister
United States Branch

de Montigny Marchand
Deputy Minister
Foreign Policy

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---STRATEGY FOR CIA/USA MTG IN HALIFAX

IN LOOKING TOWARD WHAT WE WISH TO SEE EMERGE FROM MTG THERE HAS TO BE DISTINCTION BETWEEN PUBLIC AND PRIVATE OBJECTIVES. PUBLICLY, THE IMPRESSION NEEDS TO COME ACROSS THAT THE MINISTERIAL BILATERAL CONSULTATIVE MECHANISM IS EXTREMELY PRODUCTIVE IN THE DIRECTION OF THE VERY SOUND BILATERAL RELATIONS WHICH HAVE BEEN ESTABLISHED BETWEEN THE TWO ADMINISTRATIONS IN THE LAST YEAR AND MORE. ON ACID RAIND, WE CAN GIVE MODERATELY ENCOURAGING SIGNS AS PROOF OF THIS BUT NOT/NOT SO ENCOURAGING IT WILL PERSUADE OPPONENTS OF RUCKELSHAUS IN USA THAT WE ARE SATISFIED. BEARING IN MIND USA WILL NO DOUBT NOT/NOT HAVE ANNOUNCED ITS OPTION BY 17OCT. WE WILL ALSO HAVE TO BE POSITIONING OURSELVES FOR PROBABLY SHORTFALL IN USA ACTION PROGRAMME IN TERMS OF DECLARED CDN OBJECTIVES.

2. OTHER PUBLIC OBJECTIVES SHOULD INCLUDE DEMONSTRABLE COMMITMENT FROM USA ON JAFFE AND ON SOME OF THE TRADE ISSUES HURTING CDA IN CONGRESS. IN INTERNATL AFFAIRS, CONCORDANCE OF VIEWS ON URGENCY OF REACHING ARMS CONTROL AGREEMENTS WILL BE DESIRABLE ALONG WITH

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SUPPORTIVE LANGUAGE ON INF DEPLOYMENT WHICH USA WILL VERY MUCH WANT.

3. PRIVATELY, DPM/SSEA COULD UNDERLINE TO SHULTZ EXTENT TO WHICH USA FOREIGN POLICY TOWARD CDA BECOMES IN EFFECT AN ACCUMULATION OF ISSUES RAISED IN DOMESTIC USA PROCESS WHICH HAVE DIRECT BEARING ON CDN INTERESTS. WE HAVE POINTED OUT IN SEPARATE TEL HOW ADMIN ITSELF TENDS TO VIEW MANY OF THESE ISSUES WITH BENIGN DETACHMENT. THERE IS ASSUMPTION THAT BECAUSE NUMBER OF ISSUES EXPLICITLY DIVIDING ADMIN FROM CDN GOVT IS RELATIVELY SMALL, ADMIN NEED NOT/NOT CONSIDER DYNAMICS OF RELATIONSHIP REQUIRE INTERVENTION ELSEWHERE IN USA PROCESS.

4. BUT FACT OF THE MATTER IS THAT USA ADMIN IS TAKING STAND TOWARDS REST OF THE WORLD WHICH IS RUBBING OFF ON CDA. DECISION TO TAKE LEGAL ROUTE ON CERTAIN FINANCIAL AND TAX ISSUES RATHER THAN MORE CONVENTIONAL DIPLOMATIC APPROACH HAS RESULTED IN SUCH ABUSES OF CDN THIRD COUNTRY RIGHTS AS REPRESENTED BY THE BANK OF NOVA SCOTIA CASE.

5. ACTIONS TAKEN AT STATE LEVEL ON SUCH ISSUES AS UNITARY TAX OF JAFFE REQUIRE INTERVENTION OF FEDERAL ADMIN IN INTERESTS OF ITS FOREIGN RELATIONSHIPS.

6. CONGRESS CONTINUES TO TAKE ARBITRARY AND UNPREDICTABLE ACTION ON FOREIGN INTERESTS ON SUCH QUESTIONS AS SPECIALTY STEELS, STAA, AND PROCUREMENT COMMITMENTS ENTERED INTO BY THE ADMIN. NOT/NOT ALL OF HARMFUL IMPULSES ARE DIRECTED AT CDA. ON SOME, SUCH AS NATURAL GAS IMPORT RESTRICTIONS AIMED AT ALGERIA AND ON DOMESTIC CONTENT LEGISLATION FOR AUTO INDUSTRY AIMED AT JAPAN, ADMIN HAS TAKEN

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HELPFUL STANDS. BUT THESE EXAMPLES ARE SYMPTOMATIC OF A CONGRES-
SIONAL CLIMATE OF POLITICAL RESPONSE TO ECONOMIC CONDITIONS IN AN
ELECTION YEAR AND WE NEED ASSURANCES FROM ADMIN OUR OVERALL NEED
FOR AN ENVIRONMENT AS PREDICTABLE AS POSSIBLE CAN DEPEND ON
CONTINUED ADMIN SUPPORT IN CONGRESS ON SUCH ISSUES.

7. ELECTION YEAR IN BOTH COUNTRIES COULD WELL PLACE RELATIONSHIP
IN POSITION OF HOSTAGE TO DOMESTIC CONCERNS AND DEBATES, AND
PARTICULAR CARE WILL BE NECESSARY TO ASSURE MUTUALLY SUPPORTIVE
PUBLIC AND PRIVATE STATEMENTS WITH RESPECT TO STATUS AND PRODUC-
TIVITY OF BILATERAL RELATIONSHIP, PARTICULARLY AS REPRESENTED BY
THOSE REGULAR MTGS BETWEEN DPM/SSEA AND SHULTZ. THERE IS CERTAINTY,
FOR EXAMPLE, THAT ACID RAIN WILL BE A MAJOR USA DOMESTIC POLITICAL
ISSUE IN 1984 AND WE DO NOT/NOT OURSELVES WISH TO DAMAGE CREDIP-
ILITY OF REAGAN ADMIN IF EFFORTS BEING MADE TO WORK TOWARD SOLU-
TIONS WHICH MEET CAN CONCERNS.

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---CLD/USA BILATERAL MTG IN HALIFAX 17-18OCT;USA VIEWS

FOLLOWING IS WHAT STATE DEPT RECOMMENDS TO SHULTZ AS SHAPE OF MTG.
 ON INTERNATL ISSUES PUBLIC IMPRESSION SHLD BE THAT MINS REAFFIRMED
 WHERE WE ARE GOING IN ALLIANCE ON ARMS CONTROL AND THAT MTG PROVIDED
 OPPORTUNITY TO EXCHANGE VIEWS ON CENTRAM AND MIDDLE EAST.ON
 BILATERAL ISSUES,MTG WILL BE SEEN AS BEING OPPORTUNITY FOR USA SIDE
 TO LET CDN GOVT KNOW WHERE THEY ARE ON ISSUE OF ACID RAIN.THOUGH
 CONTENT CANNOT BE MADE PUBLIC,THEY HOPE CDN SIDE WLL SEEM AT LEAST
 MODERATELY ENCOURAGED.MTG WILL PROVIDE OPPORTUNITY TO SIGN SUPPLE-
 MENT TO GREAT LAKES WATER QUALITY AGMT ON PHOSPHOROUS.OTHERWISE,
 MTG WILL HAVE COVERED SEVERAL BILATERAL ISSUES AS MENTIONED IN
 FOLLOWING PARAS TO DO WITH ENERGY,TRADE,TELECOMMUNICATIONS,LEGAL
 AND EXTRATERRITORIALITY ISSUES,AND DEFENSE.

2.STATE DEPT SEES SUNDAY AFTERNOON BEING DEVOTED TO ENVIRONMENTAL
 QUESTIONS BETWEEN 16:00 AND 17:00 HRS.ACID RAIN WILL TAKE ALMOST
 WHOLE OF HOUR WITH SOME MINUTES ON NIAGARA RIVER AND,IF WE WISH,
 GARRISON,THOUGH STATE DEPT DO NOT THEMSELVES SEE NEEDED TO RAISE
 LATTER.MOST TIME WILL BE SPENT IN BRIEFING BY RUCKLESHAUS.

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3. BETWEEN 17:00 AND 18:00, DISCUSSION SHLD TURN TO ENERGY FIRST, AND THEN TO TRADE. ON ENERGY, THEY SEE OPENING REF TO RECENT OTT MTG OF CONSULTATIVE MECHANISM, FOLLOWED BY DISCUSSION OF NATURAL GAS ISSUE AND CLOSING WITH ANOTHER DISCUSSION OF BACK-IN. ON TRADE, THERE WILL BE OPENING FROM SHULTZ OF ALREADY FAMILIAR REACTION TO CDN TRADE POLICY PAPER ALONG LINES OF BROCK. THEN, SPECIFIC BILATERAL ISSUES ARE EXPECTED, MOSTLY FROM CDN SIDE, AS SPECIALTY STEELS. USA SIDE THEN WISHES TO RAISE TELECOMMUNICATIONS ISSUES, SUCH AS COPYRIGHT, BUT NOT NECESSARILY BORDER BROADCASTING, AND DEFINITELY NOT QUEBEC FILM SUPPORT LEGISLATION.

4. AT MONDAY MORNING BREAKFAST, STATE DEPT SEES DISCUSSION CONCENTRATING ON EAST/WEST ISSUES AND ARMS CONTROL. AT 10:00 HRS MTG, THEY SEE CONTINUATION OF BILATERAL TOPICS FOR ABOUT AN HOUR AND RECOGNIZE THESE WILL COVER LEGAL AND TAX ISSUES, IN AREA OF EXTRATERRITORIALITY, INCL UNITARY TAX, AND BANK OF NOVA SCOTIA CASE. BILATERAL TAX TREATY STATUS IN SENATE SHLD BE MENTIONED. REST OF HOUR WLD PERMIT DISCUSSION OF OTHER BILATERAL ISSUES, INCL JAFFE, AND INFO ON ALCM TESTING PROGRAM.

5. FROM 11:00 TO 12:00, OTHER INTERNATIONAL TOPICS NOT COVERED AT BREAKFAST WILL BE COVERED, NOTABLY MID-EAST AND CENTRAM.

6. ABOVE EMPHASES HAVE BEEN PUT TO SHULTZ WHOSE RESPONSE IS NOT YET AVAILABLE. THEY ARE BASED ON OUR EARLIER COMMUNICATIONS TO STATE DEPT OF WHAT YOU WERE ANTICIPATING IN WAY OF EMPHASIS.

7. WE ARE DOING SEPARATE TEL ON POSSIBLE BROAD STRATEGIES FOR CDN SIDE FOR WHOLE EVENT.

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---CIA-USA BILATERAL MTG IN HFAX 17/18OCT:USA VIEWS-ECONOMIC
 AT REQUEST OF WATKINS(ECONOMIC DESK,CDN AFFAIRS,STATE)WE MET WITH
 HIM TODAY TO RUN OVER PRECISE ISSUES ON WHICH WE WOULD BE BRIFFING
 OUR RESPECTIVE SECRETARIES.WATKINS CLARIFIED USA CONCERN REGARDING
EXTENSION OF CUSTOMS JURISDICTION TO COVER OFFSHORE AS PERTAINING
EXCLUSIVELY TO QUESTION OF BLENDED TAPIOFF LINE FOR OFFSHORE OIL
 RIGS WHICH HE SAID WAS CREATING PROBLEMS FOR TRADE IN THIS SECTOR.
 WE RESPONDED THAT NEW RATE BEING WEIGHTED AVERAGE OF VALUE OF
 VARIOUS COMPONENTS OF OIL RIG MET REQUIREMENTS OF GATT AND WAS IN
 OUR VIEW INTEGRAL PART OF CDN OFFSHORE POLICY.SHULTZ,WILL,HOWEVER,
 LIKELY RAISE MATTER.

2.WAIKINGS SAID THAT SHULTZ WOULD WISH TO GO OVER GROUND ON FIRA
 AGAIN,IN PARTICULAR EXTRATERRITORIAL ASPECT OF FIRAS REVIEW OF
 TAKEOVERS IN USA WHICH AFFECT OWNERSHIP OF CDN SUBSIDIARIES AND NEWYT
 STEPS FOLLOWING REPORT OF GATT PANEL ON PERFORMANCE REQUIPEMENTS.
 REGARDING FORMER,IT APPEARED TO US THAT USA WAS FOCUSING ON THIS

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PRESUMED EXTRATERRITORIAL ELEMENT OF FIRA IN ORDER TO HAVE SOME EXTRATERRITORIAL ISSUE TO PLACE AGAINST LIST OF EXTRATERRITORIAL PROBLEMS.

3. WATKINS INDICATED THAT USA WOULD BE RAISING NEP, PARTICULARLY GAS PRICING.

4. WATKINS SAID THAT TELECOMMUNICATIONS SECTOR HAD BEEN RAISED INTERNALLY BOTH WITH RESPECT TO COPYRIGHT AND BORDER BROADCASTING. HE SAID THAT BORDER BROADCASTERS WERE NOT/NOT ONLY LOBBY THAT HAD BEEN SEEKING TO HAVE SHULTZ RAISE SUBJECT. IN ADDITION, BROADCAST PRODUCERS WANTED ASSURANCES REGARDING DEVELOPMENTS IN CDN COPYRIGHT POLICY. HOW SUBJECT WOULD IN FACT BE PUT TO SHULTZ FOR DISCUSSION WITH DPM/SSEA HAD NOT/NOT YET BEEN DECIDED. (YOU WILL SEE FROM REEFEL THAT OTHERS WITH WHOM WE HAVE SPOKEN ARE OF VIEW THAT COPYRIGHT WILL BE FOCUS AND NOT/NOT EB).

5. WATKINS SAID THAT CIA/USA DOUBLE TAXATION TREATY WOULD NOT/NOT BE RAISED BY USA SIDE GIVEN THAT MATTER WAS PROCEEDING ON SEPARATE TRACK AND NEGOTIATIONS CONTINUE TO BE UNDERWAY.

6. WATKINS CONFIRMED THAT SHULTZ WOULD BE PROVIDED WITH BRIEFING MATERIAL ON ANTITRUST, EXPORT ADMINISTRATION ACT, BANKING ISSUES (ESPECIALLY SUBPOENAS), UNITARY TAX, CDN TRADE POLICY PAPER, SPECIALTY STEEL AND OTHER BILATERAL TRADE ISSUES.

7. WE FLAGGED ON MULTILATERAL SIDE FOR WATKINS, DPM/SSEA INTEREST IN INTL ECONOMIC QUESTIONS INCLUDING THIRD WORLD DEBT AND IDA REPLENISHMENT.

CCC/230 052200Z UNGR3274

PROGRAMMEVISIT BY U.S. SECRETARY OF STATE SHULTZ TO HALIFAX
October 16-17, 1983Sunday, October 16

- 1500: Arrival of Secretary Shultz at Canadian Forces Base Shearwater; military honours; welcoming statement by DPM/SSEA; reply by Secretary Shultz;
- 1515: Depart Canadian Forces Base Shearwater;
- 1535: Arrival at Nova Scotian Hotel;
- 1555: Signing of Phosphorus Loading Agreement; remarks by DPM/SSEA and Secretary Shultz;
- 1600: Meeting in Bedford/Fundy Rooms - Environmental discussions with Minister Caccia and Mr. Ruckelshaus;
- 1645: Environment Ministers continue discussions in Salon Lunenberg; DPM/SSEA, Minister Regan and Secretary Shultz discuss energy, trade and other bilateral issues;
- 1800: DPM/SSEA, Minister Regan and Secretary Shultz adjourn their meeting - Press Scrum;
- 1830: Environment Ministers hold Joint Press Conference in Harbour Suite;
- 1920: DPM/SSEA and Secretary Shultz depart Nova Scotian Hotel;
- 1930 for 2000: Dinner given by DPM/SSEA at Chateau Halifax (toasts);

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Monday, October 17

- 0800 - 0900: Restricted breakfast meeting: DPM/SSEA and Secretary Shultz;
- 1000: Meeting in Bedford/Fundy Rooms (continuation of bilateral, international political and economic issues);
- 1230 for 1300: Working luncheon hosted by DPM/SSEA, Upper Deck, Privateers Warehouse Restaurant;
- 1430: DPM/SSEA and Secretary Shultz hold Joint Press Conference, Nova Scotian Hotel;
- 1510: Official delegations depart Nova Scotian Hotel for Canadian Forces Base Shearwater;
- 1530: Secretary Shultz departs Canada - full military honours.

Department of External Affairs



Ministère des Affaires extérieures

Canada

DINNER IN HONOUR OF THE HONOURABLE GEORGE SHULTZ, SECRETARY OF
STATE OF THE UNITED STATES OF AMERICA, ON SUNDAY, OCTOBER 16,
1983 AT 1930 HOURS IN THE NIGHT WATCH ROOM, CHATEAU HALIFAX

HOST

The Honourable Allan J. MacEachen
Deputy Prime Minister and
Secretary of State for External Affairs

GUESTS

His Excellency Paul H. Robinson, Jr.
Ambassador of the United States of America

Mr. W. Allen Wallis
Under Secretary for Economic Affairs
United States of America

Mr. Richard R. Burt
Assistant Secretary for European
and Canadian Affairs
United States of America

Mr. R. John Hughes
Assistant Secretary for Public Affairs
and Department Spokesman
United States of America

Mr. Raymond G.H. Seitz
Executive Assistant to the Secretary
United States of America

Mr. James M. Medas
Deputy Assistant Secretary for Canada
United States of America

Mr. James C. Nelson
Director
Office of Canadian Affairs
United States of America

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Mr. William D. Ruckelshaus
Administrator
Environmental Protection Agency
United States of America

Mr. Brunson McKinley
Department Executive of the
Department of State
United States of America

Mr. Fitzhugh Green
Associate Administrator
Office of International Activities.
Environmental Protection Agency
United States of America

Mr. John H. Rouse, Jr.
Deputy Chief of Mission
United States of America

Mr. Lawrence R. Raich
Consul General
Halifax

and Mrs. Raich

Dr. Sandra L. Vogelgesang
Counsellor
Economic Affairs
Embassy of the United States of America

Mr. George Jaeger
Counsellor
Political
Embassy of the United States of America

Mr. Lawrence P. Taylor
First Secretary
Embassy of the United States of America

The Honourable Gerald Regan
Minister of State (International Trade)
and Mrs. Regan

The Honourable Charles Caccia
Minister
Environment Canada

Miss Coline Campbell
Member of Parliament
and Guest

Mr. Howard Crosby
Member of Parliament
and Mrs. Crosby

Mr. Mike Forrestall
Member of Parliament

Mr. J. Patrick Nowlan
Member of Parliament
and Mrs. Nowlan

Mr. A.E. Gotlieb
Canadian Ambassador to Washington

Mr. de Montigny Marchand
Deputy Minister
Foreign Policy
Department of External Affairs

Mr. Jacques G erin
Deputy Minister
Environment Canada

The Honourable Gerald Sheehey
Minister of Health and Minister in Charge
of Administration of the Drug Dependency Act
Registrar General of Nova Scotia
and Mrs. Sheehey

The Honourable Ronald Barkhouse
Minister of Mines and of Energy of Nova Scotia
and Mrs. Barkhouse

The Honourable George Henley
Minister of Lands and of Forest of Nova Scotia
and Mrs. Henley

The Honourable Harry W. How, Q.C.
Attorney General
Provincial Secretary
Minister in Charge of Administration of the Regulations
Act of Nova Scotia
and Mrs. How

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Mr. Derek Burney
Assistant Deputy Minister
United States Branch
Department of External Affairs

Dr. Robert Slater
Assistant Deputy Minister
Environmental Protection Service
Environment Canada

Mr. Alain Dudoit
Senior Departmental Assistant
Department of External Affairs

Mr. Kenzie McKinnon
Executive Assistant
Department of External Affairs
and Mrs. Casilda MacLean

Mr. Manfred von Nostitz
Director
United States General Relations Division
Department of External Affairs

Mr. Stanley Gooch
Director
United States Transboundary Division
Department of External Affairs

Mr. John Noble
Official Spokesman and Director
Press Office
Department of External Affairs

Mr. Randy Harrold
Deputy Director
United States Transboundary Division
Department of External Affairs

Mr. Georges Bouin
Chief of Protocol
Department of External Affairs

Mr. Jamil Karan
President
Nova Scotia Lebanese Society
and Mrs. Karan

His Worship Ron Wallace
Mayor of Halifax

and Mrs. Wallace

Mr. Arthur MacKenzie
Warden of Halifax County

and Mrs. MacKenzie

Mr. John Marshall
President
H.H. Marshall Ltd.

and Mrs. Marshall

Mr. Wilfred Moore
President
Liberal Party of Nova Scotia

and Mrs. Moore

Mr. Murray Osborne
President
Breton Industrial and Marine Ltd.

and Mrs. Osborne

Mr. Laurie Stevens
President
Stevens Construction

and Guest

Mr. Robert Weary
President and General Manager
Bowater Mersey Paper Co. Ltd.

and Mrs. Weary

Mr. Harry Steele
President
Eastern Provincial Airways

and Mrs. Steele

Mr. Jack Craig
President and General Manager
Nova Scotia Tractors & Equipment Ltd.

and Mrs. Craig

Mr. Ken C. Rowe
President
Industrial Marine Products Ltd.

and Mrs. Rowe

Mr. D.J. Grace
President
Nautical Electronic Laboratories Ltd.

and Mrs. Grace

Mr. John Currie
President
Internav Limited

and Mrs. Currie

Mr. Steve Rankin
President
Cape Breton Development Corp.

and Mrs. Rankin

Mr. F.O. Hipwell
Vice-President and General Manager
Hermes Electronics Limited

and Mrs. Hipwell

Mr. J. Dickson Crawford
President
Maritime Live Assurance Co., Ltd.

and Mrs. Crawford

Mr. Marc F. de Logères
President
Michelin Tires (Canada) Limited

and Mr. Jacques Lamotte
Vice-President

Mr. D.A. Eisenhauer
President
Atlantic Bridge Co. Ltd.

and Mrs. Eisenhauer

Mr. J.J. Jodrey
Chairman
Avon Foods Limited

and Mrs. Jodrey

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Mr. Peter Gwyn
President
Halifax Industries Ltd.

Ms. Mary McDonald
Chairman of the Board of Directors
of the New Waterford Consolidated Hospital
and Guest

Mr. Michael Kirby
Senior Corporate Vice-President
CN Railways
and Mrs. Kirby

Mr. Lorne E. Power
General Manager
Scotian Gold Cooperative Ltd.
and Mrs. Power

Mr. David MacLean
General Manager
CJFX
and Mrs. MacLean

Mr. Ralph Keef
Resident Manager
Nova Scotia Forest Industries
and Mrs. Keef

Mr. Stuart Aitken
Area Manager
Mobil Oil
and Mrs. Aitken

Mr. Ted Myers
Area Manager
Husky Bow Valley East Coast Project
and Mrs. Myers

Mr. Michael Lane
Regional Executive Director
Department of Regional Economic Expansion
and Industry, Trade and Commerce of Nova Scotia
and Mrs. Maggie Johnson

Mr. John Anderson
Business Development Engineer
and Mrs. Anderson

Mr. David Mann
Barrister
and Mrs. Mann

Mr. Bill Belliveau
Bruce, Law & Associates
Advertising Limited
and Mrs. Belliveau

Mr. Frederick Crooks
Barrister & Solicitor
Cox, Downie & Goodfellow
and Mrs. Crooks

Mr. Sandy Cameron
Leader of the Opposition of Nova Scotia
and Mrs. Cameron

Mr. Alex W. MacDonald
and Mrs. MacDonald

Mr. Jim MacLellan
and Mrs. MacLellan

Mr. Joseph Shannon
and Mrs. Shannon

Mr. John Young
Boyne, Mones, Murrant & Young
and Mrs. Young

Mr. David Rankin
and Mrs. Rankin

Mr. Donald MacEachern
and Mrs. MacEachern

Mr. Donald L. Gillis
Antigonish Casket

and Mrs. Gillis

Mr. H.A. Hollingsworth

and Mrs. Hollingsworth

Mr. Dennis James

and Guest

Mr. Harry Mathers

and Mrs. Mathers

Mr. Arthur LeBlanc

LeBlanc, MacDonald & Pickup

and Mrs. LeBlanc

Mr. Harry MacKeen

Mr. Donald McDougall

Stewart, MacKeen & Covert

and Mrs. McDougall

Ms. Teresa Burns

and Mr. Burns

Sister Teresa Bellefontaine

and Guest

Mr. Gerald J. McConnell

Kitz Matheson

and Dara Gordon

Mr. Jeffrey Regan

and Guest

Mr. John de Witt

and Alice Reed

Mr. Howard McNutt

and Mrs. McNutt

SECRETARY OF STATE SHULTZ VISIT

U.S. Official Delegation

HON. GEORGE P. SHULTZ - SECRETARY OF STATE
H.E. Paul H. Robinson - Ambassador to Canada
W. Allen Wallis - Under Secretary for Economic
Affairs
Richard R. Burt - Assistant Secretary for European
and Canadian Affairs
R. John Hughes - Assistant Secretary for Public
Affairs and Department Spokesman
Raymond G.H. Seitz - Executive Assistant to the
Secretary
James M. Medas - Deputy Assistant Secretary for
Canada
James C. Nelson - Director, Office of Canadian
Affairs
William D. Ruckelshaus - Administrator, Environmental
Protection Agency
Brunson McKinley - Department Executive Secretary of
the Department of State
Fitzhugh Green - Associate Administrator, Office of
International Activities,
Environmental Protection Agency
John H. Rouse, Jr. - Deputy Chief of Mission

(Extra: to be invited to dinner)

Lawrence R. Raicht - Consul General, Halifax
(if wives are invited Mrs. Raicht should be included)
Sandy L. Vogelsang - Counsellor, Economic
George Jaeger - Counsellor, Political
Lawrence P. Taylor - First Secretary

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Canadian Official DelegationExternal Affairs

- Hon. Allan J. MacEachen - Deputy Prime Minister and Secretary
of State for External Affairs
- Hon. Gerald Regan - Minister of State (International
Trade)
- de Montigny Marchand - Deputy Minister
Foreign Policy
- Derek Burney - Assistant Deputy Minister
United States Branch
- Alain Dudoit - Senior Departmental Assistant
Minister MacEachen's office
- Kenzie McKinnon - Executive Assistant
Minister MacEachen's office
- John Noble - Official Spokesman and Director
Press Office
- Manfred von Nostitz - Director, U.S. General Relations
Division
- Stanley Gooch - Director, United States
Transboundary Division

Environment

- Hon. Charles Caccia - Minister, Environment Canada
- Jacques Guérin - Deputy Minister
- Dr. Robert Slater - Assistant Deputy Minister
Environmental Protection Service

(Extra: to be invited to dinner)

- Randy Harrold - Deputy Director, United States
Transboundary Division

WELCOMING STATEMENT BY DPM/SSEA
ON THE OCCASION OF THE VISIT TO HALIFAX
BY U.S. SECRETARY OF STATE GEORGE SHULTZ
SUNDAY, OCTOBER 16, 1983

THIS IS THE FOURTH TIME WE HAVE MET SINCE WE AGREED TO DO SO REGULARLY AT OUR FIRST FORMAL MEETING IN THE FALL OF 1982. IT IS A PLEASURE FOR ME TO WELCOME YOU THIS TIME TO ATLANTIC CANADA, MY HOME REGION. I HOPE YOUR BRIEF VISIT HERE WILL GIVE YOU SOME OPPORTUNITY TO GLIMPSE SOMETHING OF THE DIVERSITY OF CANADA. THE IMPORTANCE OF RELATIONS WITH THE UNITED STATES IS EVEN MORE TRUE HERE THAN IN ANY OTHER PART OF CANADA. THROUGHOUT THE HISTORY OF THE NEW WORLD, THERE HAS ALWAYS BEEN EXTENSIVE CONTACT AND COMMERCE BETWEEN THE REGIONS OF NORTH AMERICA'S EASTERN SEABOARD. THERE HAS ALSO BEEN RIVALRY AND EVEN OPEN CONFLICT. HAPPILY, WEAPONRY AND WAR ARE NO LONGER CENTRAL TO THIS RELATIONSHIP. DIPLOMATIC COOPERATION AND CORDIALITY HAVE LONG SINCE BECOME THE NORM IN OUR RELATIONSHIP FROM COAST TO COAST. THIS IS NOT TO SAY THAT COMPETITION HAS DIED OUT, BUT IT IS NOW OF THE CONSTRUCTIVE KIND AND WE HAVE AN APPRECIATION OF THE SHARED CONCERNS WHICH IT IS IN BOTH COUNTRIES' INTEREST TO PROTECT.

FISHERIES RESOURCES, THE ENVIRONMENT AND ADVANTAGEOUS COMMERCIAL EXCHANGE ARE ALL AREAS WE NEED TO PROTECT IN THIS

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RESPECT. WE HAVE HAD A LITTLE TROUBLE DRAWING A BORDER TO APPORTION THE SEABOARD AREA BETWEEN OUR TWO COUNTRIES, BUT WE NOW ARE ARGUING THAT ISSUE BEFORE AN IMPARTIAL TRIBUNAL. THAT DEBATE HOWEVER ILLUSTRATES THE INTRICACY AND INTIMACY OF THE LINKS BETWEEN OUR TWO COUNTRIES. SUCH LINKS MEAN PROBLEMS AS WELL AS OPPORTUNITIES. WE ARE ABLE TO DISCUSS BOTH DURING OUR REGULAR MEETINGS.

THE COMPLEXITY OF OUR RELATIONSHIP, THE INDIVIDUAL ISSUES WHICH COMMAND ATTENTION IN MANAGING IT AND THE WARMTH AND SINCERITY OF OUR EFFORTS TO DEAL WITH THOSE ARE ALL VERY WELL KNOWN. OUR MEETINGS HOWEVER REFLECT THE HIGH IMPORTANCE OF OUR RELATIONSHIP TO BOTH OUR COUNTRIES. THEY ARE A MARK OF THE CHALLENGES WE FACE, THE EMPATHY WE SHARE IN OUR APPROACH TO THE BROADER WORLD CONTEXT, AND THE DETERMINATION TO ACT EFFECTIVELY TO GUARD AND IMPROVE THE QUALITY BOTH OF OUR BILATERAL RELATIONS AND OF THE WORLD IN WHICH WE LIVE.

OUR RELATIONS HAVE OFTEN -- JUSTLY I THINK -- BEEN OFFERED AS A MODEL WORTHY OF EMULATION. THAT DID NOT JUST HAPPEN. IT WAS CONSTRUCTED BY JOINT EFFORTS AND OPEN AND POSITIVE DIALOGUE -- NOT SIMPLY IN RESPONSE TO CRISES OF THE MOMENT, BUT AS AN ONGOING PROCESS TO PROMOTE UNDERSTANDING GENERALLY, AND TO IDENTIFY AND CONTAIN OR RESOLVE POTENTIAL

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OR EXISTING PROBLEMS. I KNOW YOU SHARE MY DETERMINATION TO SEE THIS DIALOGUE CONTINUE IN ORDER THAT WE MAY FACE THE CHALLENGES WHICH CONFRONT US TOGETHER.

I WELCOME YOU AND YOUR COLLEAGUES ONCE AGAIN WARMLY TO HALIFAX AND I LOOK FORWARD TO OUR DISCUSSIONS IN THE NEXT DAY AND A HALF.

NOTES FOR A STATEMENT AT THE SIGNING OF THE
PHOSPHORUS LOAD REDUCTION SUPPLEMENTARY AGREEMENT

- THE SUPPLEMENTARY AGREEMENT WE HAVE JUST SIGNED REPRESENTS AN IMPORTANT STEP FORWARD IN CANADIAN AND UNITED STATES COOPERATIVE EFFORTS TO IMPROVE WATER QUALITY IN THE GREAT LAKES BASIN.
- IT IS THE RESULT OF SEVERAL YEARS OF CAREFUL NEGOTIATION AND REFLECTS OUR COMMON DETERMINATION TO ENSURE THAT THE ECOLOGY OF OUR GREAT LAKES IS PROTECTED AND ENHANCED FOR THE FUTURE.
- THE AGREEMENT OUTLINES CONCRETE MEASURES TO FULFILL THE GENERAL COMMITMENTS MADE IN THE 1978 AGREEMENT BETWEEN THE UNITED STATES AND CANADA ON GREAT LAKES WATER QUALITY TO UNDERTAKE CONTINUED REDUCTION OF PHOSPHORUS LOADING FROM ALL SOURCES.
- IN 1972, CANADA AND THE UNITED STATES AGREED TO ATTACK WHAT IS CALLED POINT SOURCE PHOSPHORUS POLLUTION -- POLLUTION ARISING FROM MUNICIPAL WASTE TREATMENT FACILITIES, INDUSTRIAL DISCHARGE AND HOUSEHOLD DETERGENTS.

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- SEVERAL STEPS TAKEN SINCE 1972, SUCH AS THE INSTALLATION AND IMPROVEMENT OF WASTE TREATMENT PLANTS AND THE REDUCTION OF THE AMOUNTS OF PHOSPHORUS IN DETERGENTS, HAVE ALREADY CONTRIBUTED SIGNIFICANTLY TO AN IMPROVEMENT IN WATER QUALITY.
- THIS IMPROVEMENT HAS LED TO THE RETURN OF THE COHOE SALMON TO WATERS THAT HAD BECOME A TOTALLY INHOSPITABLE ENVIRONMENT.
- IN 1978, WE RECOGNIZED, HOWEVER, THAT PHOSPHORUS LOADING FROM WHAT ARE CALLED NONPOINT SOURCES, SUCH AS AGRICULTURAL RUN-OFF AND URBAN DRAINAGE, WOULD ALSO HAVE TO BE ATTACKED IF FURTHER IMPROVEMENTS IN WATER QUALITY WERE TO BE ACHIEVED. I AM PLEASED THAT THIS AGREEMENT PROVIDES FOR THESE FURTHER MEASURES.
- MR. SECRETARY, I TAKE CONSIDERABLE PLEASURE IN JOINING YOU, AND OUR COLLEAGUES, IN LAUNCHING THIS IMPORTANT COMMON ENDEAVOUR WHICH WILL BE OF DIRECT AND LASTING BENEFIT TO MILLIONS OF CANADIANS AND AMERICANS LIVING ON BOTH SIDES OF THE GREAT LAKES.

DRAFT TOAST BY DPM/SSEA AT A DINNER
IN HONOUR OF U.S. SECRETARY OF STATE GEORGE SHULTZ
HALIFAX - SUNDAY, OCTOBER 16, 1983

I HAVE THE HONOUR THIS EVENING OF WELCOMING GEORGE SHULTZ, SECRETARY OF STATE OF THE UNITED STATES OF AMERICA, WHOM I FIRST MET SOME 35 YEARS AGO, TO MY HOME PROVINCE OF NOVA SCOTIA. WE ALL SHARE, I AM SURE, THE PRIDE THAT I FEEL AT WELCOMING SUCH A DISTINGUISHED COLLEAGUE, NEIGHBOUR AND FRIEND.

AS THE SECRETARY OF STATE OF THE UNITED STATES, YOU CARRY A HEAVY RESPONSIBILITY AND CONSIDERABLE INFLUENCE IN THE AFFAIRS OF THE WORLD. MORE OR LESS OF ONE OR THE OTHER THAN YOU WOULD PROBABLY SOMETIMES LIKE, NO DOUBT. IN ANY EVENT, THAT WORLD WHICH IS YOUR CONCERN IS NOT A REMOTE CONCEPT IN HALIFAX. WE ARE PART OF IT, AS INEXTRICABLY AS THE ATLANTIC OCEAN IS DOWN THE ROAD. ITS PEACE AND PROSPERITY IS A MATTER HERE OF IMMEDIATE CONCERN.

I HAVE ALWAYS FOUND GEORGE SHULTZ A MAN WITH WHOM ONE CAN HAVE AN OPEN AND HONEST DISCUSSION WHETHER ON ISSUES IN OUR BILATERAL RELATIONS OR IN RELATION TO THE SEARCH FOR PEACE, WHICH CONCERNS US ALL INTIMATELY, IN A TURBULENT WORLD.

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TONIGHT, WE ARE MARKING A SIGNIFICANT OCCASION IN CANADA-USA RELATIONS. THE CONSULTATION THAT WE ARE UNDERTAKING THIS WEEKEND CONSTITUTES THE SUCCESSFUL CONTINUATION OF A MAJOR INITIATIVE IN MANAGING THE BILATERAL RELATIONSHIP. A YEAR AGO, WHEN GEORGE AND I FIRST MET IN OUR PRESENT CAPACITIES, WE AGREED THAT THE EFFECTIVE MANAGEMENT OF CANADA-USA RELATIONS REQUIRED OUR PERSONAL ATTENTION, ON NOT JUST A REGULAR BUT ON A FREQUENT BASIS. WE AGREED AT THAT MEETING TO MEET FOUR TIMES A YEAR. THIS IS OUR FOURTH MEETING SINCE THAT FIRST ONE. THAT WE HAVE SUCCEEDED IN HOLDING THESE MEETINGS IN SUCH TURBULENT AND THEREFORE BUSY TIMES IS, I BELIEVE, A CLEAR REFLECTION OF THE IMPORTANCE THAT BOTH GOVERNMENTS ATTACH TO OUR RELATIONSHIP AND TO ITS SUCCESSFUL MANAGEMENT.

A FEW YEARS AGO, THE IDEA WAS AROUND THAT RELATIONS BETWEEN OUR TWO COUNTRIES WERE TROUBLED. THERE WERE PROBLEMS. THERE ARE PROBLEMS TODAY. THERE WILL BE PROBLEMS A YEAR FROM NOW AND TEN YEARS FROM NOW. THIS IS THE MOST COMPLEX, THE MOST INTRICATE RELATIONSHIP IN THE WORLD...TWO ENORMOUS COUNTRIES, EACH WITH ITS OWN DISTINCT CHARACTERISTICS AND NATIONAL INTERESTS, ITS OWN POLITICAL AND ECONOMIC INSTITUTIONS, ITS OWN SYSTEMS OF TRANSPORTATION AND COMMUNICATION, AND OTHER REFLECTIONS OF NATIONAL IDENTITY, CO-EXIST AND INTERACT INTIMATELY AT A TIME WHEN EXPECTATIONS OF ECONOMIC GROWTH

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AROUND THE WORLD ARE SHRINKING. THIS IS GOING TO PRODUCE SOME PROBLEMS.

THE GREAT DEVELOPMENT IN CANADA-USA RELATIONS IN THE PAST YEAR HAS BEEN TO RECOGNIZE THAT THIS IS A NORMAL SITUATION AND THAT IT DOES NOT MEAN THAT THE RELATIONSHIP ITSELF IS THREATENED. WE HAVE TO MANAGE THE ISSUES TO ENSURE THAT THE WHOLE RELATIONSHIP IS NOT UNDERMINED BY SPECIFIC DIFFERENCES WHILE WE WORK OUT WAYS OF RECONCILING THESE DIFFERENCES. DOES THIS APPROACH REALLY WORK? THE DIFFICULT PHENOMENON OF ACID RAIN IS A CASE IN POINT. WE HAVE MADE PROGRESS HERE SINCE GEORGE AND I FIRST DISCUSSED THE SUBJECT A YEAR AGO. MUCH MORE NEEDS TO BE DONE, BUT THE EMPHASIS IS CLEARLY ON COOPERATION. UPPERMOST IN THE MINDS OF CANADIANS IS A NEED FOR TANGIBLE STEPS ON A PRIORITY BASIS BY BOTH GOVERNMENTS TO RESPOND EFFECTIVELY TO THE STRONG CONCERN OF OUR PEOPLE.

OF COURSE, THERE IS STILL A QUANTUM DIFFERENCE IN THE IMPORTANCE EACH COUNTRY PLAYS IN THE LIFE OF THE OTHER, BUT OURS IS NOW A CONFIDENT AND HEALTHY RELATIONSHIP BETWEEN TWO NEIGHBOURS AND ALLIES, ANXIOUS TO SEE NORTH AMERICAN DEVELOPMENT CONDUCTED IN TERMS OF BENEFIT TO EACH OF US.

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THE NOTION THAT THERE IS A COMMON HERITAGE AND AN INTERDEPENDENT DESTINY OF MANKIND IS A REAL ONE IN CANADA. BUT A COUNTRY OF YOUR SIZE AND WEIGHT IN WORLD AFFAIRS CAN RELY ON ITS OWN STRENGTH TO A VASTLY GREATER EXTENT. MULTILATERAL INSTITUTIONS ARE MORE CENTRAL TO OUR NEEDS. AT THE SAME TIME, THE FIRM COMMITMENT OF THE USA TO THE PRINCIPLES OF THESE INSTITUTIONS IS VITAL TO THEIR SUCCESS.

EACH OF US HAS A FUNDAMENTAL STAKE IN THE HEALTH OF THE INTERNATIONAL ECONOMY AND THE TRADE AND FINANCIAL SYSTEMS ON WHICH THIS DEPENDS. THIS IS TRUE IN GOOD TIMES AND IN BAD, PERHAPS ESPECIALLY IN THE BAD. YOUR COUNTRY HAS A CRUCIAL ROLE TO PLAY IN ORGANIZATIONS LIKE THE GATT AND THE IMF. NOW, SIGNS OF ECONOMIC RECOVERY ARE POSITIVE AND WE HAVE A COMMON CAUSE IN REINFORCING THE RECOVERY, THE INTERNATIONAL FINANCIAL SITUATION, AND AN OPEN TRADING ENVIRONMENT. WE WANT TO JOIN WITH YOU TO MOVE VIGOROUSLY TOWARDS A PROSPEROUS FUTURE.

THERE IS ANOTHER DEEPER COMMON REALM WE SHARE WHICH TRANSCENDS DIFFERENCES OF SIZE AND POWER, DIFFERING OUTLOOKS AND GENUINELY COMPETING INTERESTS. THAT IS OUR COMMITMENT TO PEACE AND FREEDOM AND OUR FIRM RESOLVE TO PROTECT THEM AND TO PROMOTE DEMOCRACY. THESE GOALS ARE A SOURCE OF UNIVERSAL INSPIRATION AND HOPE.

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THE CHALLENGE TO ALL OF US IS TO KEEP OUR HEADS IN THE FACE OF INTERNATIONAL PRESSURES AND CONFLICTS, TO KEEP THESE GOALS CLEARLY IN VIEW AND TO PURSUE THEM WITH PATIENCE AND RESOLVE. THIS IS PERHAPS AN EASIER CHALLENGE FOR US THAN IT IS FOR YOU, BECAUSE YOU ARE IN A POSITION OF AWESOME STRATEGIC RESPONSIBILITY. BUT THE DEMOCRATIC VALUES THAT WE SHARE ALSO IMPOSE ON CANADIANS THE RESPONSIBILITY OF JOINING ENERGETICALLY IN THE SEARCH FOR A MEANS OF BUILDING A SAFER WORLD. YOU CAN BE CERTAIN OF OUR WILLINGNESS TO STAND WITH YOU IN PROMOTING WORLD PEACE AND INTERNATIONAL UNDERSTANDING AND IN PROTECTING OUR DEMOCRATIC VALUES.

THIS INVOLVES A WILLINGNESS TO NEGOTIATE, BUT ALSO A WILL TO DEFEND OURSELVES IN THE FACE OF THREATS TO OUR VALUES. IN THE CRITICAL FIELD OF ARMS CONTROL, WE WELCOME AND SHARE YOUR DETERMINATION ON BOTH COUNTS. IF WE CANNOT, DESPITE OUR BEST EFFORTS, ACHIEVE SATISFACTORY ARMS CONTROL AGREEMENTS AT THE BARGAINING TABLE, WE MUST BE PREPARED TO ACT IN THE FIELD WITH OUR ALLIES TO DEPLOY THE DEFENSIVE MEANS TO COUNTER MILITARY THREATS TO OURSELVES AND OUR FRIENDS.

EARLIER, I SPOKE OF THE PRIDE WITH WHICH WE WELCOME GEORGE SHULTZ TO HALIFAX. IT IS ALSO WITH THE WARMTH AND CORDIALITY CANADIANS HAVE TRADITIONALLY WELCOMED THEIR AMERICAN NEIGHBOURS.

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I WOULD REMIND YOU, HOWEVER, GEORGE, THAT THE AFFECTION OF CANADIANS FOR AMERICAN LEADERS IS NOT NEW. RECENTLY, A FELLOW CANADIAN - AND SCOTSMAN, I MIGHT ADD - AND ECONOMIST, JOHN KENNETH GALBRAITH, GAVE STRIKING TESTIMONY TO THIS FACT BY RECALLING HOW IN SOUTHERN ONTARIO, WHERE HE GREW UP, THE AFFECTION OF SOME OF HIS NEIGHBOURS FOR FRANKLIN ROOSEVELT EXTENDED, ON OCCASION, TO VOTING FOR HIM. APPARENTLY, IT HAD BEEN THE PRACTICE THERE, AFTER THE CROPS WERE IN, TO GO TO WORK IN THE CAR PLANTS IN DETROIT. THERE, THE LOCAL DEMOCRATIC MACHINE LOANED THESE AUTUMN MIGRANTS THE NAMES AND VOTES OF THE RECENTLY DEAD, ON THE BASIS, I HAVE TO ASSUME, THAT THEY WOULD NO DOUBT HAVE WANTED THIS DONE HAD THEY STILL BEEN ALIVE. IT WAS WITH HONESTY F.D.R. COULD SAY IN DETROIT IN THOSE DAYS, "I AM THE RESURRECTION!" SO IT WAS THAT SOME OF GALBRIATH'S EX-NEIGHBOURS IN ONTARIO WERE MORE THAN GLAD TO BE ABLE TO DEMONSTRATE THEIR AFFECTION FOR A SPECIAL AMERICAN NEIGHBOUR BY DOING SOMETHING CONCRETE ON HIS BEHALF.

LADIES AND GENTLEMEN, I ASK YOU ALL TO RISE AND DRINK A TOAST TO THE UNITED STATES, OUR PARTNERS IN DEMOCRACY AND FREEDOM, TO GOOD RELATIONS, AND TO OUR GOOD NEIGHBOUR GEORGE SHULTZ.

October 18, 1985

CONFIDENTIAL

ACID RAIN

Mr. MacEachen opened the discussion on acid rain by referring to the importance both countries attached to the issue and to the fact that he and Mr. Shultz had grappled with it during all their previous meetings. Although the current meeting would not launch negotiations directed at reaching a bilateral agreement, he nevertheless hoped that progress would be made, by nailing down future guidelines for joint resolution of this issue. Mr. MacEachen went on to underscore the importance of acid rain in the Canada-USA relationship, asserting that no issue had greater potential for creating irritation. He pointed to growing impatience in Canada over the inability of the two sides to come to grips with the problem. Mr. MacEachen observed that some progress had been made to date. It had not been necessary, for example, to bring scientific advisors to this meeting to wrestle over the question of whether or not there was sufficient scientific evidence to undertake immediate acid rain abatement measures, a question which had bedevilled their earlier discussions. In concluding his opening remarks, Mr. MacEachen acknowledged the priority Mr. Ruckelshaus attached to reaching a solution and looked forward to early results.

Mr. Caccia emphasized that the Canadian concern over acid rain was not a plot by Canadian public utilities to sell more electricity to the USA but rather reflected genuine concern, especially centred in Ontario, which was witnessing the impact of acid rain on tourism, fish and even the forestry industry. He then referred to the "North-East Option", which he said Environment Canada experts regarded as a good initial step, but which would not achieve the 20 kilo per hectare or 18 pounds per acre objective necessary to protect the environment. Mr. Caccia told the American side that his recent meeting with the provinces had reaffirmed their common commitment to combat acid rain as part of a total Canadian effort. In concluding his opening remarks, Mr. Caccia noted that even if Canada were to stop all sulphur dioxide emissions the effect would not be sufficient to reach the 20 kilo target level.

Mr. MacEachen voiced his appreciation to Mr. Ruckelshaus for keeping the Canadian side informed of the Administration's review of its acid rain policy and for outlining the general line of the option he favoured. This option had some potential even if it would not achieve the ultimate Canadian objective. Mr. MacEachen concluded the opening Canadian remarks by asking the USA side for its prognosis of the future shape of the Administration's policy.

In reply, Mr. Shultz observed that nobody new the official position of the USA Environmental Protection Agency, but nevertheless a certain amount of information had been leaked. It

was not surprising in his view that much of the time of the two Ministers had been devoted to environmental issues in view of the shared water and air. Mr. Shultz, however, pointed to the just-concluded Phosphorus Agreement as reflective of a general improvement in Great Lakes water quality which he attributed to efforts undertaken by both countries. He paid tribute to Mr. Ruckelshaus with whom he had discussed the acid rain issue both before and after his confirmation and who he regarded as a careful, thorough and reliable colleague who would address problems carefully and in a cost effective way.

Mr. Ruckelshaus confirmed that acid rain was of great concern to him and expressed the view that over the long term it would be dealt with. He drew a parallel with the 1972 Great Lakes Water Quality Agreement. In his view, there is no doubt that water quality has improved significantly since then. The two countries had now agreed on further measures directed at further improvements. His prediction was that joint efforts on acid rain would follow a similar course and that in a similar period or less there would be a supplemental agreement on acid rain which would lead to further measures.

As to the short term prognosis for acid rain, Mr. Ruckelshaus asserted that the USA had been meeting it head on, but that it had proven to be an extremely divisive issue. Since his appointment he had met with virtually every group with an interest in acid rain. The USA policy review had moved forward. The problem had been better identified as had approaches that might be successful in the USA. This issue was unusually difficult because the source of the problem was geographically remote from its impact, whereas in the case of Great Lakes water quality the people who had to take the measures would also be the beneficiaries. The problem was also particularly difficult because the magnitude of the necessary reduction of sulphur dioxide was very high and necessary measures expensive. Mr. Ruckelshaus commended Canada for its restraint during the USA review - Canada had expressed the desire to move forward which was helpful but on the other hand too much emphasis on the enormity of necessary sulphur dioxide reductions had the negative effect of making the problem loom too large. Mr. Ruckelshaus nevertheless cautioned against painting too grim a picture - the Administration's review would proceed and would require another round with Presidential involvement. It was impossible in present circumstances to project a date for a final decision. In briefly outlining elements of the North-East option, Mr. Ruckelshaus referred to abatement measures in 10 to 12 states directed at determining once and for all the scientific effect of such measures. This "experiment" would provide the government with the information necessary to determine what further programs were necessary to deal with the problem on a larger scale. The Administration was also looking at other ways of reducing sulphur dioxide emissions through amendments to the Clean Air Act.

Mr. Caccia drew attention to the good work Canada and the USA had done under the 1980 Memorandum of Intent. The Canadian Government was now under increasing pressure and would like to join the USA in an action plan. Canada was anxious to proceed and was ready to move quickly.

Mr. Shultz picked up the reference to the earlier work and observed that it is a standard rule that you cannot solve a problem unless you first agree that it exists. Mr. Ruckelshaus again referred to the enormous debate in the United States, and to the enormous potential for serious conflict related in part to the high costs of abatement measures. He suggested that the risk inherent in actions contemplated by Congress is that they would involve great expense with insufficient certainty of results. In the Administration's view it is important to pay due heed to this matter. If sulphur dioxide reductions are made over a large area they would be extremely expensive.

Mr. MacEachen returned to the point that USA action was vital to Canada, noting once again that if all Canadian emissions were eliminated, Canada would still need action from the United States to reduce sulphur deposition to the minimum level of 20 kilos per hectare. In summing up, Mr. MacEachen noted that he had registered the Canadian position and the USA side had outlined its difficulties in examining its options but had not yet concluded what it would do. A strong response from the United States Administration would make it easier for Canada to get on side and work together with the USA.

In response, Mr. Shultz acknowledged that all participants recognize the importance of action and that the United States cared and was working actively. He suggested that Mr. Ruckelshaus keep Mr. Caccia briefed on USA developments and that Mr. Ruckelshaus also keep Mr. Shultz informed so that he could, in turn, keep Mr. MacEachen in the picture.

Mr. MacEachen concurred that it would be helpful to maintain information links. He wondered, however, if Mr. Caccia's work with provincial Ministers was of interest and of use to the United States and whether in fact there was more Canada could do to assist, without, of course, interfering in USA domestic matters. In response, Mr. Ruckelshaus noted that there were many claims regarding Canadian intentions. It was clear, however, that Canada was committed to a reduction in emissions of up to 50% and would certainly do its part. From the USA perspective, however, it might be helpful if Canada would not trumpet too loudly its determination to reduce sulfur dioxide emissions by 50% or even its objective of reaching the 20 kilo goal. This had the

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effect of strengthening the position of those who believe that acid rain control measures are just too expensive. Mr. Shultz suggested that it would be helpful if Mr. Caccia would write a letter to Mr. Ruckelshaus outlining the principal points of the Canadian position. Mr. Ruckelshaus confirmed that Mr. Caccia had already done so.

Mr. Caccia suggested that if there was no movement in the next weeks or months then there might be no action until 1987. In response to a query from Mr. Shultz, Mr. Caccia observed that 1987 was four years later and related to his understanding of political dynamics in the USA. Mr. Shultz commented that lots gets done in election years.

Mr. MacEachen confirmed that Canada would not depart from its acid rain objectives but that it could acknowledge steps in the right direction. Mr. Ruckelshaus confirmed that this would be helpful but once again noted that the USA was very sensitive to talk about significant reductions which involve high costs. Mr. Caccia concluded that Canada had a large constituency that strongly supported acid rain control measures.

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Caccia-Ruckelshaus Consultations - Halifax October 16, 1983

After meeting for nearly an hour with the DPM/SSEA and Secretary Shultz, Minister Caccia and Administrator Ruckelshaus withdrew and met separately for an additional hour on environmental questions. They discussed acid rain, the Flathead River, Niagara toxics and PCB's. (A separate report has been prepared on the previous meeting.)

Acid Rain

Mr. Caccia expressed some disappointment with the first hour of discussions and asked when the debate in the Administration over acid rain policy would enter its conclusive stages. He also indicated he knew nothing about leaks relating to EPA options that had been referred to in the first hour. Mr. Green clarified that there was no intention to point fingers and that he was not aware of complaints about leaks from Canadian side. The comments had been meant to refer to the EPA leaks problem in general.

Mr. Ruckelshaus confirmed he would continue to keep Canada fully informed of the debate on acid rain policy as it develops. However, he would not be able to offer detailed comments on his eventual recommendation to the President which in any case would get different interpretations put on it inside Cabinet. The issue had certainly been sharpened by the current debate but he could offer no firm timetable for its conclusion. He also suggested it would be counter-productive for Canada to be hardline in public about a 50% emissions reduction as it undermined his efforts in Washington.

Mr. Slater explained we had been pursuing the 20 kilo deposition target figure. One means of reaching this goal was a 50% reduction east of the Mississippi Valley and the figures had been based on the original calculations. It might well be that cuts of less than 50% in certain areas could result in deposition levels in Canada of 20 kilos.

Mr. Ruckelshaus said there had been talk of both figures and either the 50% or 20 kilos were zeroed in on by environmental groups and some proponents of other options in Congress. Once hard figures were seized upon it hardened opposition to other proposals on one hand and on the other hand engendered concerns over costs from opponents. The problem was more complex than the simple focus implied and a 50% reduction in emissions may not be enough in some areas and may be more than enough in others.

In response to Mr. Slater's query about the usefulness of Canada clarifying the environmental objective of 20 kilos, Mr. Green reiterated Mr. Ruckelshaus' point that any hard figure provoked opposition to a more flexible or targetted approach. He said the key element they are concerned about, however, is the eventual Canadian response to what the Administration decides as its policy. A number of US scientists like the target approach (such as 20 kilos). He added however, that budget people in the Administration were fearful about putting any such target before Congress because of its controversial nature.

Mr. Ruckelshaus then characterized the situation in Congress as divisive and rife with sectoral interests. As a result he cautioned that Congress would not act clearly or decisively. He said mid-west interests wanted to continue mining and burning high sulphur coal and to install scrubbers that would be paid for in a cost sharing program. Their position would likely forestall action in Congress. He was not sure what would happen. Hearings in the Senate Energy Committee would show that mid-western and western senators were divided. Ruckelshaus himself has not given up hope that something will happen but he cautioned that we should not rely on Congress itself to act because the issue is so divisive. Definitive action, in his view, will not be forthcoming from Capitol Hill.

Mr. Caccia reminded Ruckelshaus that a media event would follow the discussions and that as he saw it the question boiled down to one of political will in the Administration. Mr. Ruckelshaus said that he would be candid with the media on the way things stand within the Administration and on the situation in the United States, that the policy would continue to be discussed in the Administration, and that he had not given up hope for a positive outcome.

Flathead River

Mr. Ruckelshaus said the United States had serious concerns about the possible development of a coal mine at Cabin Creek. It could have deliterious effects on air and water quality in a scheduled region and he referred to the Montana-British Columbia sessions which were ongoing. He indicated he was under considerable pressure from Montana to prevent any development affecting Flathead River water quality. Mr. Green said discussions with the Canadian Embassy in Washington and in Ottawa had focussed on the advantages of dealing with the problems at a Federal Level. The issue had gotten loose however, and there seemed to be

too many foreign ministers along the border. He wished to deal with the question in a more organized way. He had spoken with the U.S. Consulate in Vancouver and with the Embassy in Washington with the object of receiving further assurances on environmental safeguards relating to the project.

Mr. Caccia responded that there were not only a growing number of provincial foreign ministers in Canada but that the provinces were establishing trade offices around the world and dealing with subjects for which they did not have responsibility. He offered full assurances that Canada would comply with its environmental obligations. The concerns of Montana would be taken into full account in the coal mining proposal. Environment Canada was monitoring developments closely and had on a number of occasions expressed its concerns and requirements clearly to the British Columbia government. He said Canada would welcome a new request from the US for consultations and asked that a list of detailed concerns be attached. From that point we could enter into full consultations that would include representation from the province. Mr. Ruckelshaus said he was pleased "negotiations" would be held next month with British Columbia. Mr. Caccia replied that officials would be discussing joint water and air monitoring plans at a technical meeting to ensure that the objectives on both sides would be met.

Niagara River

Mr. Caccia began by thanking the EPA Administrator for the tour of the Niagara area which had recently been arranged. He was left in a state of shock however after seeing the magnitude of the problem. He raised the non-functioning wastewater treatment plant in Niagara Falls and asked whether repairs and improvements to the activated carbon system for removing industrial organic chemicals would be completed as scheduled in March, 1985 and when compliance with effluent limitations would be met.

Mr. Ruckelshaus replied that construction would be completed by January 1, 1985, and that no delays were expected. Eighteen million dollars was being spent on the filtration facility and construction had begun in June of this year. He enquired whether the consultative mechanism through the EPA regional office and with the state of New York was working effectively to apprise of developments or delays. Mr. Green asked that we let them know if communications were not good. In referring to the

consultation system, Mr. Slater indicated that if it did not meet needs on the American side it would be worthwhile for headquarters on both sides to examine communication links on all these items. Mr. Gerin said he was encouraged that the doors in EPA had been opening substantially since last spring. Minister Caccia expressed concern that the toxic discharge had been continuing since 1978 and good communications were insufficient in themselves to deal with the pollution problems.

He went on to discuss "S Area". Canada was aware that new studies were being financed by Superfund but when did EPA expect to take remedial measures? He noted leaching would soon bring contaminated water into the river and asked for EPA's plans to deal with this development.

Mr. Ruckelshaus said that Hyde Park, "S Area" and Love Canal were all involved in legal suits. Progress had been made since his return; EPA intended to go ahead with the cleanup before establishing full responsibility for generation of the problem. In effect he was reversing the previous process of legally determining responsibility before cleanup, which had caused a great deal of resistance in the courts because industry expected to face costs it could not bear. He said that the EPA was close to an out-of-court settlement in S Area and had so informed the court. EPA will go ahead with further studies however, should an anticipated clear settlement not be reached this month.

Mr. Caccia again expressed concern that contaminated ground water would reach the river and asked for the cleanup timeframe. Mr. Ruckelshaus responded that the EPA could only do a site by site investigation of leaching, and as problems are identified they would be dealt with. He could not provide an overall prediction on the speed of migration of toxics into ground water. A current mitigating factor was that no violations of drinking water standards had been reported. He said the EPA had put enormous resources into the Niagara area including a comprehensive study done in 1982. The area was targetted for enforcement before other areas. Enforcement was jointly administered with the states, in this case New York. The EPA would issue permits with stringent standards. To the extent that the states or companies did not comply, the EPA would take enforcement action. Before enforcement could be undertaken the EPA had to determine clearly what should be done; enforcement actions would range from executive action to legal action. EPA wished to avoid the legal route because once in court it could take years to settle a

particular problem. On the other hand EPA had to demonstrate to industry that it was willing to go to court to gain compliance with the laws, but preferred in fact to achieve voluntary compliance and out-of-court settlements rather than to proceed through law suits which could delay the cleanup process for years.

Mr. Slater complimented the EPA on the professionalism of its regional office and of the State of New York's Environment office. He had studied the Niagara River Agenda and the program under way was first class. Canada did not have problems remotely resembling US problems in the Niagara area. However it was difficult for Canada to explain the US situation in public and he suggested that the EPA could improve public information in Canada on what was being done.

Mr. Ruckelshaus said that sometimes they crowed about their successes, but experience showed environment was a very contentious issue in the United States and the press did not always respond positively to measures being taken. There was a tendency to focus on the negative, on what remained to be done. The EPA had spent ten billion dollars in the Great Lakes area over the last ten years. Canada continues to see the negative aspects and he wondered whether we could say more positive things about some of the efforts that had been undertaken.

Mrs. Wetherup asked if the US could not communicate more clearly the sense of urgency that it felt about the cleanup. Canadians often feel US is not addressing questions of urgent priority to Canada.

Mr. Rusckelshaus said that they could be honest in their public affairs statements but communicating the urgent nature of the problem held the danger of triggering a major public reaction and of raising expectations beyond what the EPA could deliver. Moreover, frequent public statements telling people of the problem made more people sick than did the toxics. Media tended to focus on people who think they are victims. However, in responding to legitimate concerns he noted that they would try, without scaring people or inflating expectations, to provide more information. EPA was moving as fast as it knew how but the court cases made it difficult to predict how quickly actual solutions could be reached. Stimulating public attention frequently did not always translate into effective action. Mr. Green suggested that some hard facts on money spent and on cleanup projects undertaken might be prepared and provided to the US Embassy in Ottawa for use in a feature story in the press.

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Mr. Ruckelshaus cited the Love Canal case as one example of creating unfortunate expectations. The EPA had jumped before it knew what it was talking about and now had to backpedal seriously. Mr. Caccia enquired about a timetable for the Love Canal cleanup saying he was aware that studies were being conducted. Mr. Ruckelshaus outlined EPA's first approach, which was to build a wall to contain the material. The proposal had been discussed publicly but additional studies showed that it would not work. These facts were laid out and the limitations of knowledge indicated; subsequently another study was announced which locals interpreted as inaction but which professionals close to the problem understood. Mr. Green said much had already been done in the cleanup program. The State was taking remedial action to put a cap on the site, to decontaminate sewers and creeks, to study the leaching and monitor the situation. The wall idea had been abandoned September 27th after the two senators from New York said it was an unsound proposal - after further investigation the EPA tended to agree. He undertook to send Minister Caccia further details in writing. In response to a question about rumoured budget cuts, Mr. Ruckelshaus said that money was not a problem in the Love Canal case and in the Niagara area in general but in the rest of the country it was.

Mr. Caccia asked if the US would be prepared to accept greater Canadian participation in cleanup plans and decisions where there were apprehended potential transborder pollution problems. This would be taken to include participation in the design of study plans, the interpretation and evaluation of data and in any final decisions on remedial strategies. He felt improvements were needed in Canadian inputs into these areas. Mr. Ruckelshaus responded that there was no difficulty in considering further Canadian participation in the process but that final decisions would have to be US ones. Mr. Caccia said that improvement in these areas would help us especially to preclude Ontario intervening politically (or legally) in the situation if the perception prevails that nothing serious is being done.

Mr. Caccia asked if there was a long term budget for the Niagara area, perhaps covering the next ten years. Mr. Ruckelshaus responded he did not see budget as a serious limiting factor in the area. Niagara involved high profile issues and resources would be found to deal with them. Superfund money was not close to meeting nationwide requirements for cleanup, but in the Niagara area the stumbling blocks were more a combination of defining the problem and determining steps to be taken in arriving at a solution. He also noted EPA was examining the costly and difficult possibility of relocating the sites.

PCB's

Mrs. Wetherup asked if the US would reopen its borders to PCB's because there were no disposal facilities in Canada. It was hoped provincial governments would agree to the establishment of a site for a disposal plant but there was no short term solution readily at hand. Mr. Ruckelshaus replied that US regulations were now in place prohibiting the import of PCB's and they would have to be changed before any negotiation on the question could take place. Mr. Green explained that Stewart Hay had visited EPA in Washington recently to discuss using disposal sites in the US south-west. There was concern in the US however about extensive cross country transport either by road or rail, as there was always the risk of accidents. If it came to light that Canadians would not burn their own PCB's it would spark a serious political controversy in the United States.

Mr. Slater put the question into the context of the already existing substantial transborder trade in hazardous wastes and indicated that it had not been clear to Canada that PCB's should be in a special category. Canada had labored under the misapprehension that PCB's were included within the general trade. If the US was saying that their agreement to accept PCB's was tied to the development of a facility in Canada it was clear to us now.

Mr. Ruckelshaus said that if Canada and the US had a general hazardous waste disposal agreement it would help to get rid of problem items such as PCB's. He noted that local municipalities and legislatures in states were increasingly passing legislation that prohibited the introduction or transport of hazardous waste within their jurisdictions.

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GARRISON DIVERSION UNIT

Mr. MacEachen introduced the discussion of the Garrison Diversion Unit (GDU) by putting forward two current issues. He acknowledged that consultations had taken place, but asserted that Canada wanted to consult fully to ensure that necessary technical modifications to Stage I are in place (Mr. MacEachen specifically mentioned the requirement for the fish screen to protect Hudson Bay Basin waters.) As to Phase II of the project he cited former Secretary of the Interior Watt's recent statement and asked if the two sides could agree that it not be built.

In response, Mr. Shultz confirmed that the United States recognized its obligation not to pollute waters flowing into Canada. Mr. Ruckelshaus underscored the importance of this point and voiced assurance that the USA had no intention to move ahead unless it could assure Canada on biota transfer. This commitment would also apply to Phase II whether it was conducted in the life time of those present or in the more distant future. He concluded by asking if there were specific points related to Lonetree that Canada wished to raise.

Mr. MacEachen confirmed that Canada wanted further consultations on Lonetree. Ambassador Gotlieb reminded the American side that good preliminary consultations had taken place in July, but that nevertheless the USA side had then gone ahead. It was now important that consultations proceed in a timely manner. Mr. Ruckelshaus asked if Canada had the feeling that construction was proceeding ahead of consultation. Mr. MacEachen replied "yes" and pointed out that Canada had proposed further consultations for November.

Mr. Ruckelshaus again reiterated that the USA commitment was very clear. Mr. Caccia re-emphasized the deep concerns of Canada and Manitoba. Ambassador Gotlieb observed that the USA was over-building features of Phase I which increased the possibility that Phase II would become inevitable if only to provide economic justification for the projects being undertaken as part of Phase I. Mr. MacEachen agreed that the obligations of the USA under the Boundary Waters Treaty were clear, but nevertheless the implementation of this Treaty remained a matter of concern. Canada wished to see Phase II killed, as Secretary Watt had predicted. Mr. Burney picked up a comment from the USA side that consultations take place in November and suggested that this would be encouraging.

Mr. MacEachen said he had only one other environmental issue which he wanted to flag for Mr. Caccia and Mr. Ruckelshaus to consider in their separate session - the toxic waste dump sites

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on the Niagara River. Mr. Caccia noted the complex nature of these issues. Mr. Ruckelshaus agreed that the number of hazardous waste sites in the USA presented an extremely complex issue for him. The treatment of these sites was moving forward but progress was too slow for many people across the United States. Mr. Caccia said that vigorous action had to be taken; the dangers posed by untreated hazardous waste sites presented a potential time bomb. Mr. Shultz voiced his understanding that the Superfund could be used in this area. Mr. Ruckelshaus agreed but pointed out that the United States had some 17,000 abandoned hazardous waste sites to deal with.

In concluding the discussion of environmental issues, Mr. Caccia suggested that it would be more effective to have a timeframe in which the acid rain problem could be dealt with. Mr. Shultz did not think that this was possible as the timing of the decision of the President was uncertain.

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NATIONAL ENERGY PROGRAM

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Mr. MacEachen introduced the NEP by referring to Mr. Shultz's letter of June 7 and suggesting that he thought it would be better to have a discussion. He proposed to address the matter first in its historical context. Mr. MacEachen suggested that consideration of the issue had narrowed somewhat, with the United States being now principally concerned about the apparent retroactivity of the Crown share. Mr. Shultz confirmed this, but observed that while the USA might question whether Canadian policy was sensible it recognized the right of Canada to set requirements for future development as it saw fit.

Mr. MacEachen acknowledged that the United States might have treated the problem differently. He recalled that he had returned to it time and time again beginning when he was Minister of Finance dealing with Mr. Donald Regan. Nevertheless the more he looked at it the more he was convinced that it was an appropriate policy for Canada. Mr. MacEachen acknowledged that the NEP represented a strengthened régime. It was important to realize that Canada lands are vested in the Canadian people and are not privately held. In the 1960's companies had leases over large tracts of land but were undertaking little activity. It was clear that this was not in the interests of Canada. The then Minister of Indian and Northern Affairs (Mr. Chrétien) had indicated early on that changes in this régime were coming. These changes were first embodied in Bill C-20 which was not passed. It, like its successor, Bill C-48, was directed primarily at ensuring more rapid development on Canada lands. The fact that there were now nine rigs off the coast of Nova Scotia which prior to the NEP had been "as dead as a graveyard" suggested that the NEP had had a very positive impact. The PIP grants of the NEP had led to a faster pace of development in Canada lands.

The importance the Government attached to giving Canada some say in the development of the Crown lands was the basis for the Crown share. The Crown had been involved in the past through the corridor acreage scheme under which a firm entering the production stage had to return to the Crown up to 50% of its exploration acreage. Thus it was not accurate to say that the Crown share was a new principle. Mr. MacEachen then cited a statement of the former Minister of Finance, the Honourable Donald MacDonald, who had wondered why a 25% Crown share could possibly be worse than a 50% return of acreage. He acknowledged that companies could decide which portions of acreage to return. The intent nevertheless was that at a certain point Canada would reap a share of profits and be at the table making decisions on the future development on the Crown lands. It would have been possible for equivalent revenues to have been taken through increased royalties and taxes. He wondered whether the USA Windfall Profits Tax was in substance any different from the Crown share.

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Mr. MacEachen pointed out that when the NEP was introduced the old system was extinguished by Parliament. Its features taken together were directed at achieving Canadian objectives. The NEP had to be seen as a package because it was not useful to compare sections of the old régime with sections of the new régime. The NEP, however, could usefully be compared with actions taken for similar reasons elsewhere. The Canadian Government believes that the return on investment remains as good as anywhere else. The proof is the brisk activity taking place at the present time. In concluding his opening remarks, Mr. MacEachen noted that he had other arrows in his quiver but would prefer to open the dialogue and then use them at a later stage.

Mr. Shultz confirmed that any country has the right to set the régime which would apply to the lease of land. The issue in his view was the retroactive application of rules. Rules had been changed in a manner that had taken the form of expropriation without compensation. Mr. Shultz did not think that the facts bore out the assertion that the NEP had been good for exploration. It had been bad. Alberta roads had been blocked by the oil rigs which were moving south. As regards offshore activities, Mr. Shultz insisted that Mobil went a long way back. Its significant high risk finds had been made using money put up by Mobil, not through the NEP. He termed his advice "gratuitous", but in his view the Canadian Government should maintain strong incentives for high risk exploration and not penalize those who had taken high risks. Mr. Shultz asserted that the facts did not square with the information presented to him. The rules of the game are being changed; that is why the "back in" is so objectionable. Mr. Shultz warned against reducing incentives to exploration particularly at a time when all countries in the Western world have a stake in ensuring energy security.

Taking up the point of comparability with actions elsewhere, Mr. Wallis asserted that they never grouped Canada with little countries that expropriated readily. He did not challenge the assertion that the NEP was no more retroactive than the Windfall Profits Tax, rather he indicated that he thought the Windfall Profits Tax was also a mistake. It had been challenged in the courts and he hoped the challenge would succeed. Mr. Shultz endorsed this view, noting that the Windfall Profits Tax and the NEP were perhaps both mistakes and that one was no worse than the other. Mr. Wallis said that if the Windfall Profits Tax was wrong, it did not make the NEP right. Any change of conditions was an abrogation of contract. Ambassador Robinson suggested that the checkerboard system did not necessarily yield up 50% of the actual field discovered. A further provision of the NEP required 25% to be sold to Canadian interests. (Presumably

he meant that the additional 25% would be eventually required to achieve the 50% overall Canadian ownership goal.) Because the sale was a forced one, it amounted to sale at fireside prices. Donald MacDonald in fact had told him that the retroactive back in was a vexing and irritating aspect of the NEP.

Mr. MacEachen clarified that his comments on the effect of the NEP were not based on the Alberta situation, but rather the situation on the Canada lands. Mr. Shultz re-asserted that Mobil had made significant finds. Mr. MacEachen countered that nothing had taken place until the NEP. Mr. Regan clarified that Mobil had been active prior to 1971, then Shell had undertaken some activity but by the end of the 1970's activity had ceased. Activity had finally begun through the involvement of PetroCan. Now there were nine rigs off Nova Scotia. Mr. Shultz referred to the Hibernia situation and pointed out that the basic point is that rules on past activities had been changed and that was what was being objected to. Mr. Shultz asserted further that there is a significant difference in companies returning portions of their acreage after discoveries were made and being compelled to accept new parties in discoveries at the production phase. Mr. MacEachen observed that he had brought up the 50% reduction of acreage to make the point that Canada had not made a historical switch. Mr. Shultz said that the lease had been taken under one set of rules and then the rules had been changed. Mr. MacEachen reiterated that this was no different than the imposition of additional royalties or taxes as the USA had done.

Ambassador Gotlieb noted that the situation in Canada was different than that in the United States. Companies operating in Canada in effect had always known about the Crown share. As early as 1970 companies had been informed that the nature of their operations would change and this had been the case with the bridging arrangements of 1977. By 1977 the current concept was well defined.

Mr. Regan returned to Hibernia, noting that Hibernia had been a joint Mobil/PetroCan discovery. He suggested that it might be possible for the governments and companies involved to see how the discovery can be made the most marketable. Mr. Shultz replied "No". His objection was generalized about changing rules retroactively. The change raised questions with American investors. They will want assurances that rules will not be changed in the future. Ambassador Robinson suggested that this issue be pursued further by a contact group. Mr. Shultz saw this as feasible but did not know if it was practical. He suggested that they think further about the issue and come back to it later. Mr. MacEachen said he was engaged and prepared to continue whenever Mr. Shultz liked with a view to reaching a

better understanding or perhaps to letting the matter drop. Mr. Shultz replied that the USA believed that Canada had done something wrong and it would be consulting with the companies affected to determine a future course of action. Ambassador Gotlieb suggested that the United States was prepared to engage in retroactive measures and pointed specifically to gas imports and also to certain aspects of the Export Administration Act.

In conclusion Mr. MacEachen observed that we had gone about as far as we can go. Mr. Shultz replied forcefully (as were his comments throughout the discussion of this issue) that we must recognize that the USA side had made certain statements with which the Canadian side did not agree. "It is now up to us to figure out what we are going to do about it."

NATURAL GAS PRICING

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Mr. Shultz introduced discussion of natural gas pricing by referring to the good movement that had taken place recently in this difficult and complex area. He noted that Canada had to be concerned both with its domestic and foreign markets. The commodity itself demanded a long-term approach. Referring to the state of flux in the current USA market, Mr. Shultz expressed confidence that over a period of time the current problems would solve themselves and that prices set ahead of market developments would stabilize. In concluding his opening remarks, Mr. Shultz again pointed to the considerable flexibility demonstrated by the Canadian side and expressed confidence that the issue was being handled well.

Mr. MacEachen asked Mr. Shultz if he had any particular comments on the prebuild. In response Mr. Shultz noted that the prebuild was part of the gas pricing issue. It was difficult to determine the "implied" price of gas coming through the pipeline and also the consequences of decontrol, including the impact on prices. (It appears that Mr. Shultz confused the prebuild and the Alaska pipeline.) He said that a lot of people in the USA, including himself, believed that the price would drop if quantities of shut in shallow gas were released. Continuing on the subject of the prebuild, Ambassador Gotlieb noted that Canada had built this section of the Alaska gas pipeline but that it was only being used at 20% of capacity. In this circumstance the prebuild was a major element in the market price of Canadian gas. This left Canada somewhat stuck. Canada had sought to impress this point on critics of Canada in the USA such as Senator Percy. Finally, Ambassador Gotlieb noted that Canada had requested consultations provided for under the Northern Gas Pipeline Agreement. Mr. Wallis observed that there had been a lot of problems on building the line and that the price of oil had been grossly over-estimated at \$40 per barrel. It was his impression that companies had written off their investment. Ambassador Gotlieb pointed out that Canada had not written off the prebuild.

Mr. MacEachen noted that President Carter had made certain obligations to Canada relating to the prebuild. Mr. Shultz recalled that the Alaska pipeline had first come to his attention when he had attended a meeting in Rogers Morton's office back in 1973 or 1974. Mr. Wallis said that the issue had been badly managed on the USA side in the early days. This was attributed to the fact that "unreliable people had been in charge". Mr. Wallis indicated that consultations would provide an opportunity to get people on the USA side of the border together to review the situation thoroughly. Ambassador Gotlieb suggested that the problem was an acute one related to the question of the market price of Canadian gas. Mr. Wallis noted proposals which he said had been examined for their potential profitability to modify the pipeline by incorporating a "Y" westward which would send some of the product to Japan as LNG. As to the pipeline

itself, Mr. Wallis again questioned its viability by observing that it was hard to tell whether it was only government money that was now keeping it alive. Mr. Shultz then enquired if Canada was still considering a proposal to sell LNG out of B.C., to which Ambassador Gotlieb replied that it was still under discussion. Mr. Wallis observed that there was an abundance of gas in the wrong places and pointed to the huge reserves in the Beaufort Sea. Ambassador Gotlieb responded that industry sees the current glut lasting 2-4 years. Then there would be a requirement to bring in Alaskan gas or for the USA to go to the world market. Mr. Shultz wrapped up the discussion of this subject by noting that natural gas was a complex subject with many strands including the pipeline. He asked Mr. Wallis to follow-up for the USA side.

TELECOMMUNICATIONS

CONFIDENTIAL

Mr. Shultz referred to telecommunications which he termed a subject of great interest which will get greater and greater. With particular reference to the forthcoming ITU Conference, he noted that people in this field attached particular importance to it. There had been good cooperation with Canada over the years and he just wanted to flag current concerns. In the American view this was an area "forming itself" with rapid changes in technology. It was important to "get it right now" to save problems later on.

In response Mr. MacEachen confirmed that he was aware of those particular USA concerns and that he understood officials from several governments would be consulting in November. Mr. Marchand observed that the approach suggested by Canadian technical experts is seen by USA officials as very clever but perhaps depriving the USA of the flexibility necessary to get around Soviet jamming. In conclusion Mr. MacEachen noted the USA concern and undertook to cooperate.

COPYRIGHT

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Mr. Shultz continued by referring to Canadian copyright legislation, expressing the view that payments for T.V. rebroadcasting should be included in the revision of the law. Mr. Shultz then brought up the tax on travel brochures.

Mr. MacEachen replied that action is being considered on copyright and that the Canadian Government knew about the concerns of the USA on this matter.

CONFIDENTIAL

October 25, 1983

MacEachen-Shultz Bilateral: Halifax, October 17, 1983

Extraterritoriality (ET)

Shultz opened the discussion in a conciliatory way. Referring to the issuance of direct subpoenas to Canadian Banks, he said that it was his assessment that established operation procedures between Canada and the USA had worked well so far. He was therefore wondering why the Department of Justice was taking a different tack. He promised to find out and directed Under-Secretary Wallis to check into the Justice Department approach to this issue.

2. The DPM/SSEA replied that he was glad Shultz had raised the Bank of Nova Scotia case. There had also been cases affecting the Royal Bank and the Bank of Montreal. He said he was greatly troubled by these developments. The President of

the Bank of Nova Scotia had been particularly alarmed recently about the issuance of a subpoena(s) for Bank of Nova Scotia documents held in the Cayman Islands. He told Shultz that he found this process distasteful. He said that presumably other processes could be used, such as as tax treaty or legal measures. The DPM/SSEA noted that Ambassador Gotlieb had suggested activating the Banking Basket Committee under the aegis of the Dam/Gotlieb consultative mechanism. There might be other alternatives.

3. Ambassador Gotlieb intervened to provide more detail on the Bank of Nova Scotia case. He told Shultz that the Department of Justice had engaged in a very different method of proceeding by ordering the Bank of Nova Scotia to produce Bahamian documents or face three or four thousand dollar a day fines. The Bank thereupon discussed the case with the Bahamian authorities who refused to release the documents. The Department of Justice then obtained imposition of a \$25,000 per day fine as a result of which the Bank of Nova Scotia violated Bahamian laws and produced the requested documents. Now, there was the Cayman Islands case, in which the Bank of Nova Scotia was again not only threatened with fines but with a jail

sentence for its Florida manager if it did not produce the Cayman documents. The problem was that the Canadian Banks did not want to violate USA laws but at the same time they were being forced to violate the laws of third countries.

4. Shultz indicated that he assumed that the Department of Justice was handling American Banks in the same way. (No one gave him an answer in this regard.) Turning to Wallis he said that the Bank of Nova Scotia case should be taken up under Deputy Secretary of State Dam's aegis, together with Ed Schmults from Justice. Shultz then compared the Bank of Nova Scotia situation to a wildcat labour strike. A wildcat strike, he said, only has to be successful once in order to work effectively as a threat mechanism.

5. Moving on to the unitary tax issue, Shultz said that he was very much aware of the concern it was causing a number of foreign governments. He revealed that a working group had now been established, under the chairmanship of the Secretary of the Treasury to review this problem. He said the President had also been made very cognizant of foreign concerns, particularly as a result of Prime Minister Thatcher berating him on this issue.

He said that Mrs. Thatcher had not left the President "in any mystery" on the unitary tax practice.

6. The DPM/SSEA said that Prime Minister Trudeau had also been in touch with the President on the unitary tax system as it affected the Canadian company ALCAN. ALCAN, he said, had asked the Canadian government for help with its petition for Writ of Certiorari to the U.S. Supreme Court. The question at issue was, whether it was appropriate that a State had a right to levy taxes against the worldwide income of ALCAN in doing business in the State of California. He strongly urged Shultz to file an amicus curiae brief on ALCAN's behalf with the Supreme Court. Shultz said this would be taken under consideration. Gotlieb noted that ALCAN had been denied the opportunity to date to appeal their assessment in the Courts.

7. Wallis attempted a brief defence of unitary tax collection, arguing that State governments were contending they were only taxing the income earned by a company within the

state boundaries. He said they were not taxing worldwide income. With multinationals, he contended, it was hard to get a fix on what the company was exactly earning, so that the State governments were merely looking at the company's global income and taking a tax chunk in proportion to the Company's scope of business in the State.

8. Marchand/DMF asked how much disincentive there was now for a business to launch new investments in those States collecting unitary taxes. Shultz replied that those States such as New York, which did not have unitary tax, were already promoting their business environment as more propitious and that, as a consequence, he considered unitary taxation a powerful disincentive to investment. But harking back to Wallis's point, he said if States did away with unitary tax, it would be difficult to keep track of multinational income. He said it was the corporate instinct to move money around which made it difficult for State governments to track.

9. The DPM/SSEA then brought up the issue of assistance by the Administration. He asked Shultz again whether he was

considering filing an amicus brief. Shultz made no reply. The DPM/SSEA then shifted the focus of the discussion to dealing with the general principle of extraterritoriality bedevilling Canada-USA relations.

10. He noted that there was no doubt that this issue had a great deal of potential for trouble in Canada-USA relations. He said that both he and Shultz had anticipated trouble on this front when, last year, they had set up the Dam/Gotlieb consultative mechanism in order to stave off any blow-ups in this area. Regrettably, however, this consultative process had not been able to break new ground and had become bogged down over legal matters. As a consequence, the DPM/SSEA noted that it was more important now for him and Shultz to recognize that the underlying questions of principle must also be addressed politically. On the Canadian side, the DPM/SSEA noted the basic principle of reciprocity was suggested as a starting point, i.e. the USA may assert a claim to jurisdiction over conduct in other countries only if it would recognize a claim by foreign governments to regulate conduct within the USA in similar circumstances, which Shultz then paraphrased as "not to do anything that is not being done to you". The DPM/SSEA continued to note that no progress had been made on the questions of

principle. He characterized the USA view in the face of this impasse as considering it inevitable and that we should deal with issues as they came up. The DPM/SSEA said that this was alright but if a big case, such as the Bank of Nova Scotia problem, came up, this was not workable. He therefore suggested that we should now, on an urgent basis, work out some new way of tackling the problems.

11. The DPM/SSEA then flagged the problems the Export Administration Act now being reviewed in Congress would mean for Canadian operations. The potential extraterritorial impact of the Act underlined, according to the DPM/SSEA, how farsighted he and Shultz had been when they first focussed on how to solve the extraterritoriality problem. He said that we should not now let an opportunity to address this problem fall by the wayside. He wondered what could be done now to break some new ground. In commenting on the Dam/Gotlieb mechanism, Gotlieb explained that the discussions under this mechanism had foundered on different perspectives on principle on which both sides had agreed to

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disagree, such as the philosophy underlying the Export Administration Act. The only conclusion the consultation had reached was that consultations on specific issues were helpful and that these had contributed to rubbing the sharp edges off disputes. He did note that there had been progress made on the Antitrust Understanding, which was on the verge of completion.

12. Wallis intervened to say that, with "undue respect", he did not think that the lawyers could ever settle this issue. He considered the extraterritoriality problem more threatening in the next 10-20 years than any problems relating to the GATT. In order to look at the long term implications of extraterritoriality, he noted that the Administration was organizing a group of scholars from outside the government, in addition to lawyers and business representatives, to put together a paper in 12-18 months, hold a conference and then produce a book on the issue about three years down the road. He said it was important that this type of groundwork be established in light of the constant change in U.S. Administrations. He conceded, however, that this was not an immediate solution to the problem.

13. Gotlieb said that he agreed 100% with Wallis' analysis. The question to resolve was whether USA Branch plants in Canada would follow the Canadian or the American flag. The whole issue was coming to a head faster on the Canada-USA front than with Europe. Wallis added that of course extraterritoriality problems with Europe were nothing new and were also getting more serious.

14. The DPM/SSEA then observed that we had a choice: we could go on as we have been doing and experience periodic explosions and crises or we could endeavour to find a mechanism or philosophy to deal in a more acceptable way on a government to government basis with the extraterritoriality issue.

15. Gotlieb again emphasized that it was important to bear in mind that the Canada-USA situation was unique. He noted the high percentage of U.S. control of Canadian manufacturing industry and implicitly referred to the political emotions aroused by any actions affecting U.S. subsidies.

16. Shultz said he believed lawyers could show where the

"crunch points" were but he agreed with Wallis that they would not give adequate weight to political and economic consequences of extraterritoriality. He said he did not want to run lawyers down - far from it, but definitely a more broad-minded approach to this problem was required.

17. Wallis said that there was still lots of homework to be done. Within the Administration there were heavy discussions and serious debates on extraterritoriality. In other words there was no consensus formed yet.

18. DMF wondered what had happened to the spirit of LaSapinière when Shultz had recognized that there had been growing intra-alliance strains due to disputes about trade with the East and an effort had been undertaken to build a broader consensus in the allied approach to East-West relations. DMF noted that, of course, the USA had powerful interests but that it looked to him that the Export Administration Act was really a safety net which went beyond LaSapinière and the Cocom consensus.

19. Shultz replied that there had been more of a cooperative attitude among allies after LaSapinière but he

maintained that there had been slippages on trade with Eastern Europe with respect to computers in spite of all the Allied good will. Some in USA felt that in some sense it was necessary for the U.S. to continue to press unilaterally in order to keep the evolving consensus moving in the 'right' direction.

20. The DPM/SSEA then asked Shultz to think about the idea of setting up a mechanism, which might be analogous to the International Joint Commission, to deal with the extraterritoriality issue. He said it was the most successful experience in Canada-USA relations. Major questions had been resolved by an objective Commission. The IJC had been a real value to governments in reaching decisions on boundary problems. If we could come up with a similar mechanism to deal with extraterritoriality issues, this would be a breakthrough. We would all have to think about it. Shultz agreed that both sides should study this suggestion.

21. In concluding this discussion, the DPM/SSEA noted that the Antitrust Understanding, which was on the point of being finalized, was good news.

22. As for the Jaffe case the DPM/SSEA said he was pleased it was out of the way and thanked Shultz for the State Department's intervention with the State of Florida. Shultz also said that he was happy he could wipe the Jaffe case off the agenda.

23. Immediately subsequent to the Plenary meeting a round the table Shultz directed Wallis to do a memorandum to the President on extraterritoriality questions (not necessarily just on Canada-USA problems). The Embassy in Washington was to follow up with Wallis in order to ensure that the uniqueness of the Canada-USA ET problem would be reflected in this memo to the President.

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Defence Issues: Air Defence Modernization

Secretary of State Shultz took the lead on defence issues by high-lighting the co-operative nature of the relationship. He said he applauded defence developments in Canada. Whereas there were no big problems, he wanted to avail himself of the opportunity offered by this meeting to note that things were going well.

The DPM/SSEA agreed that NORAD had been a good example of continuous bilateral cooperation and coordination in a very important sector, and reinforced the Canadian Government's support for the modernization scheme. The DPM/SSEA then stated that Canada was contributing to the payment of this very costly modernization programme, and that he wanted to register with Shultz the Canadian interest in sharing in the development and production of the new defence systems. In this respect, the DPM/SSEA stated that a number of Canadian companies, such as Spar Aerospace and Canadian Marconi, had been refused access to technical briefing sessions and this in turn had put them at a

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distinct disadvantage in bidding for contracts.

Secretary Shultz deferred to Assistant Secretary Burt who stated that this problem had come to his notice only last week, during a meeting of the Permanent Joint Board on Defence. Burt added that he had been informed by the Department of Defense

Secretary Shultz directed Burt to follow up on resolving this issue and emphasized that the Administration had no argument in principle with the position put forward by the DPM/SSEA.

Weapons Testing: Cruise Missile

The DPM/SSEA reviewed the free-flight test plans of the Cruise missile over Alberta and stated that Canada had only recently learned that the missiles would now only be tested in a "tethered mode" during 1984. The DPM/SSEA stated that a lot of the public criticism in Canada over Cruise missile testing had been directed toward the safety hazards of the weapons being tested in a "free-flight mode" and that had the Government of Canada known earlier of the plans to test the device in a

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"tethered mode", a great deal of public concern and controversy could have been averted. The DPM/SSEA stated that we wished it understood that he was not advocating one mode of testing over another, but that he wished the Canadian Government to be kept fully informed, in a timely fashion, of U.S. plans in order to be able to deal with the political management of the issues. In other words he said he was not asking the U.S. government to have or not to have a free flight in 1984. He just wanted to know with as much advance notice as possible when a free flight would be possible.

Assistant Secretary Burt stated that part of the problem was the State Department's inability to obtain current information from the Department of Defense. He took note of the DPM/SSEA's concerns that the Cruise testing must also be addressed as a political problem and that he would make DOD cognizant of this requirement.

Secretary Shultz instructed Mr. Burt to raise this issue with the Department of Defense and to relay the results of

the enquiry to the Canadian side. Shultz wanted Burt to emphasize that this issue was raised personally by the DPM/SSEA and that therefore there should be careful attention accorded to this concern by DOD.

The DPM/SSEA then reiterated that the Canadian side was not advocating a particular way of testing the missile, but

simply wished to be kept fully informed on current developments and plans. Marchand/DMF added that this did not mean that DOD should take short-cuts with safety precautions and emphasized that nobody in Canada was pressing for an early free flight.

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Pacific Salmon Treaty

Secretary Shultz opened the discussion by stating that, with some help from American fisheries' officers, there were no untoward incidents during the 1983 fishing season. Secretary Shultz then added that he was aware of the technical discussions which had recently taken place in Seattle and that, now that those discussions had been completed, both sides should tell their negotiators: "For God's sake, let's get on with this thing". So it was important to keep the pressure on.

The DPM/SSEA stated that he was in agreement with Secretary Shultz's sentiments. It was true that we had gotten through the 1983 season without major problems but it was essential an equitable treaty be concluded before the opening of the 1984 season.

Secretary Shultz stated that the American side would still have some difficulty with the Senators from Alaska; that there would be a need for some "special negotiations" between his officials and the Senators, but that he was confident that the issue could be successfully resolved since only two or three fishermen and the same number of fish were involved. Assistant

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Secretary Motley (responsible for Central American Affairs) was an Alaskan and, while he was quite busy at the moment, Shultz would ask him to assist in dealing with the two Senators. Burt was directed to follow up in this respect.

The DPM/SSEA stated that he felt Governor Sheffield would also have to be approached, and that he hoped for early ratification of the treaty which -- as drafted -- provided equitable treatment for both sides.

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M. von NOSTITZ

October 17, 1983

SUBJECT: Summary Record: Fifth Bilateral Meeting
Between DPM/SSEA and Secretary of State Shultz

MIDDLE EAST

The DPM indicated to Shultz that he was immediately leaving on a two week tour of the Middle East and that he was interested in picking the Secretary's brain on the American assessment of the region.

In response to the DPM's mention that he was possibly planning to visit Lebanon, Shultz said that the airport, although not closed, was still dangerous. He said there was no artillery shelling at the time, but there was a continuation of sporadic machine gun firing. Shultz observed somewhat facetiously that the best way for the DPM to get into Lebanon was to fly to Tel Aviv, and to take a chopper to an American carrier off the coast of Lebanon as the jump off point for a helicopter flight into Lebanon.

Shultz then gave an overview of the region. He said he would like to see the Middle East move to stability through negotiated arrangements. He identified as the major source of instability in the Middle East not Lebanon but the Iran-Iraq war. It

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was receiving less attention than Lebanon because it was not on T.V. It was a horrible war. So far it was the American estimate that there had been 200,000 casualties and the huge slaughter was continuing. A good many of the Iranian soldiers killed were children. Both countries were continuing to maintain a very tough uncompromising position. He saw no prospects of a negotiated settlement. The whole situation had also been exacerbated now by the Iranian threats to interrupt the flow of oil in the Gulf. The Secretary expressed concern that both parties at this point were in a desperate mood. This was setting the scene for a possible "wild flailing-out" than had been the case earlier in the war.

The USA, Shultz said, was very much part of the effort behind the U.N. resolution that would ensure a cease-fire in the Gulf, so that both Iran and Iraq could operate their oil facilities without fearing destruction. He very much doubted, however, that Iran will pay much attention to such a resolution. Without making a value judgement on the French, he said the latest heating up of the crisis stemmed from Iraq's getting the Etendard aircraft from the French equipped with Exocet missiles. The missiles he said had been available to the Iraqis before but they had been mounted on helicopters. In this mode

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the missiles were not as dangerous as they would be when mounted on the French aircraft. Shultz wondered what should be the U.S. reaction if, in retaliation, Iran "fouled up the waterways"? He asserted that important USA interests were tied up in the Gulf region and that as a result the aircraft carrier "Ranger" was now stationed there, as well as the British aircraft carrier "Invincible". He also had indications that the French were planning to return some mine sweepers to the Gulf area; but that to date nothing in this respect had materialized.

Shultz said it remained a major objective of the USA to work towards the improvement of relations between Israel and its neighbours. Although the Israel-Egypt Treaty was still intact, it could only be described as a "cool peace". However, if the moderate Arabs states such as Jordan and Saudi Arabia could only see their way clear to improve relations with Egypt, this would favourably affect their influence in the Middle East and balance off Syria which continued to be increasingly embraced by the Soviets.

The threat of the SA-5 missiles already posed to the region was now further enhanced by Syria's acquisition of the Soviet SS-21 missile. These missiles did not have a greater range but their accuracy was much better. They were also accompanied by new Soviet personnel. It was now the American

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estimate that 6,000 to 7,000 Soviet military advisors were now active in Syria. Shultz wryly noted that Moscow kept assuring Washington that the USA should be reassured that the Soviet presence was a stabilizing element, but that Shultz remained to be convinced. What was important now was that with massive Soviet support Syria now had improved its capacity to assert itself in Lebanon.

One of the foremost challenges in Lebanon was the establishment of a broader and better base of government for President Gemayel. This was of course very tricky. Previous efforts in this regard had been marked by a history of failure. However, people throughout Lebanon now were hankering after stability. The national reconciliation negotiations were important. They were an encouraging turn. In the meantime efforts had to be intensified to make the cease-fire hold. Shultz said he was pleased that the agreed Greek and Italian observer deal had been concluded although he had not yet seen an announcement. Similarly he considered the presence of the multinational force important as a back-stop to the government of Lebanon. The fact that this force had effectively defended itself had made an impact on the Syrians. It was true that there still was a national debate in the USA about the presence of the Marines in Lebanon, but the President

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had gotten backing by the Congress to the effect that the Marines could now mount a vigorous defence if necessary. As a consequence the USA expected to leave the Marines there to continue to give a structure for the reconciliation negotiations. Syria more than ever remained a major part of the scenario, and according to Shultz was bent on destroying the Lebanon-Israel withdrawal agreement. It was important to maintain this agreement because it had created a framework, an atmosphere, under which Israel was prepared to withdraw under reasonable terms. The moderate Arabs should therefore be encouraged not to change the conditions under which Israel could withdraw. However, the increasing number of Palestinians which Syria had infiltrated in the Shuf Mountains was making a negative impact on Israel's attitude towards withdrawal. Shultz noted that the Syrians had denied that many Palestinians had come back into Lebanon but according to U.S. information, this did not square with the facts. Shultz said that he had made the point to the Syrians that if the Palestinians would seep back into Beirut there would really be a major problem.

Shultz concluded his overview on Syria and Lebanon by quoting his intelligence analysts who were contending that the odds on Lebanon becoming a country were not good at all. He

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thought, however, that the U.S. could not afford to become impatient. The USA had big stakes in this area and even if the odds were bad the USA had no choice than to keep trying. He stressed again that while Gemayal needed to be encouraged to develop a broader governmental base, it was important at the same time that Syria's influence had to be contained in Lebanon. Shultz asked the DPM to probe the Syrians about their intentions and that he would be glad to have a report on the Canadian visit to Syria.

Turning to Israel it was Shultz's assessment that the new government was experiencing a different kind of crisis. Historically Israel had been primarily geared to a national security policy challenge. In the meantime, however, Israel had created an adverse economic situation which was now blowing up. The indexing of salaries to the rate of inflation had turned out to be "a catastrophe". Inflation at 130% was making a devastating impact on Israel's external accounts. Israel needed money and in this respect Shultz expected "that his phone would ring soon". The Aridor Plan had been tough medicine. However, it became watered down and the Israeli government walked away from it and did not come forward with a real alternative. The result was that the economic

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crisis simmered on and there was now no plan to deal with it.

Against this back drop of economic crisis the USA was trying to keep the peace process alive on the West Bank and Gaza. The Reagan Plan of 1982 was still the right way to go in Shultz's view. It was in line with U.N. Resolution 242 and the Camp David Accords. A great many Arabs agreed privately that the USA should not give up on it because it was the only game in town.

In the meantime the PLO was also going through a drastic transformation. What came out of this still remained to be seen. Shultz agreed with King Hussein that if the PLO ended up being so heavily dominated by Syria the PLO could no longer claim sole representation status on behalf of the Palestinian people; that might be an advantage. Shultz thought Arafat was out. He was now a puppet of Syria. He did not seem able to marshal enough power to break any new ground. Jordan's April Proposition to the PLO was still open. This is why Hussein deserved continuing support. Shultz however expressed regret at this point that the logistics program for the Jordanians rapid deployment force which involved the one time purchase of support aircraft had leaked to the press. This was very unfortunate. It was a classified programme and therefore could not be defended in Congress,

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like for instance the AWACS deal (with Saudi Arabia?). He indicated that Jordan had been very upset that this cooperative venture had leaked out to the media.

The DPM asked Shultz about his assessment on the West Bank settlements question. Shultz replied that he thought the settlements posed a real obstruction to the peace process. This was a very important issue on which the Israelis were newly isolated. President Reagan had said at one time that the settlements were legal; but that was not the real issue. At stake was what impact they made on the peace process. Shultz thought that Shamir and Aaron were as determined as Begin and Sharon were on the security of Israel's boundaries. While Shamir was perhaps more pragmatic than Begin he noted that he and Aaron had both voted against the Camp David Accords.

The DPM wondered about the long-term prospects on the West Bank. If Israeli settlements continued to take place in a troubled area where there are already a lot of Palestinians how could calm and stability ever be established. It really meant an indefinite trouble spot.

The DPM went on to note that it was the Likud Party view that central slices of the West Bank had to be held for security reasons. Was it not on this point that the Reagan Plan was rejected by Begin?

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Shultz agreed that this was so but disagreed with the Begin government's view that security could only be maintained with settlements. He expected Shamir to come forward with the same assessment. The Reagan Administration view, however, was that if the settlements were temporarily frozen it would be possible in Camp David parlance to set up "transitional arrangements" which would stabilize the situation while final status of the West Bank could be worked out. He thought some changes in the jurisdictional and governmental structures on the ground would create better conditions. An elected Palestinian official would have more of a mandate than Arafat. However, this Plan was floundering on the obstacle that Hussein could not accept it.

When asked by DPM whether Israel could be compelled to freeze its settlements Shultz said that tit for tat pressure on Tel Aviv had never worked out well. The situation had to be settled as part of a broader context. The main question now was how capable Israel was as a government in carrying on the peace process in the face of an economic impasse and a possible election.

The DPM asked whether Shultz saw any possibility of a break-through? In reply Shultz tempered his pessimism somewhat by stating that the USA would have to gear itself up to a renewed push

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to get things going. It sometimes happened, Shultz speculated if all cards were in the air, turmoil could also provide an opportunity particularly with the PLO in a weakened state.

DPM asked what kind of possible inducement there could be for Israel to have Tel Aviv freeze the settlements and launch negotiations? Shultz reaffirmed that Hussein held the key. If Hussein could come forward with a statement expressing readiness to negotiate this would have an impact on the Palestinians and on the body politic in Israel even with Likud government. Shultz also wondered what exactly would be meant by a freeze. There are many possible shades of freezes. His interpretation was that it meant territorial settlements would not be expanded but that an embargo would not be placed on more people moving in the area.

Shultz pointed out that the President had privately told Hussein that he opposed the settlements. Hussein had also been warned that if he did not become involved in negotiations with Israel there would very soon be little left to negotiate over. Shultz thus thought the moderate Arabs would therefore have to move more in the direction of negotiations, because the more time went by the less of an incentive there would be left for negotiations because more settlements would stultify the situation.

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Shultz then noted one aspect of the Reagan Plan which seemed to have escaped everybody. According to the Plan all settlements would not have to be destroyed but persons who continued to live there would be under the designated jurisdictions, i.e. this means that in due course Jews could be allowed to live under Jordanian laws on the West Bank. This would be an improvement compared to the time when Jordan administered the West Bank. Under that regime, Jews had not been allowed to live there. This was a nuance of the Plan that in Shultz's view had not gotten enough attention.

The DPM noted that if Jordan could even get its act together it would have an impact on Israel. Shultz concurred. He said it would have an electric impact particularly if movement on the Jordanian front were to take place at the same time some new ground could be broken in Lebanon. DMP asked to what extent Syria could be viewed as having a spoiler effect on the peace process in the area. In reply Shultz recalled that when Arafat was on the verge of an agreement with Hussein last April and had gone back to his own constituency he got "clobbered". This had been the result of Syria's influence. It was the Syrian perception, Shultz contended, that if Egypt, Israel and Jordan or Saudi Arabia even got together this would leave Syria in an isolated position. This is why the Syrians were trying to

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torpedo any progress in that direction. Damascus, Shultz said, would prefer to have Syria at centre stage of a settlement, in order to be able to call the tune. In other words Shultz said the Syrians outlook was that nothing would get settled until everything could be settled. This was, however, impossible in the USA view. There was just no way that a major settlement could be brought about. According to Shultz the Middle East must be approached on a piece-by-piece basis. The discussion on the Middle East was concluded by Shultz again requesting the DPM for his insights after his visit to the area.

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Summary Notes of DPM/SSEA-SHULTZ BILATERAL IN HALIFAX

Namibia

The DPM wondered what the Contact Group could do, to reach its objectives. There was now a need to reinforce the credibility of the Group. The Secretary General he pointed out had wanted the Contact Group to continue. At the same time the DPM said he had had some contact with the front line Ministers and they also wanted the group to stay in place. However, were there prospects for moving ahead faster?

Shultz replied that it was still important for the Contact Group to "be there". He opined that the Secretary General's visit to South Africa had been moderately successful. It had been the Secretary's General conviction that after the visit that the Namibia arrangements were "in the bin" if something could be done about uncoupling the resolution of the Namibia problem from the Cuban presence in Angola. Shultz indicated he had had individual contacts with the front line State Foreign Ministers lately. They had all expressed views that they were concerned about the Cuban presence in Angola but that they could not say so in a public forum.

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Shultz thought there were encouraging signals from Mozambique. Mozambique was in the process of shifting its views in line with its real interests. Shultz also noted that the new Portuguese government was turning out to be helpful. He said the Portuguese Foreign Minister had told him that Portugal had no money, but they had knowledge of the area and influence with both the Angola and the Mozambique governments in that their working relations remained very good. Shultz made special mention how he had been impressed by the young Portuguese Foreign Minister as well as by Prime Minister Soares. Shultz conceded, however, that emphasis on the helpful Portuguese dimension was perhaps clutching at straws against the backdrop of the Soviets stiffening up their presence in

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Angola. Moscow were putting increasingly more muscle in Angola because of the rising strength of UNITA. Shultz asserted as well that the Angolan economy was in a tailspin and stressed his general analysis (e.g before Congress and the Asean meeting in Bagdhad) that every economy the Soviet Union touched was turning out to be a disaster as far as the welfare of human beings was concerned.

DMF commented that the MPLA government had an additional pretext for keeping the Cubans in Angola because of the strength of UNITA which was buttressed by South Africa. Shultz replied that the Soviets/Cubans really had two options:

- (i) A case could be made for the Cuban withdrawal if there were to be an "internal reconciliation". The Soviets simply would have to go along with this scenario;
- (ii) the MPLA would be so weakened that they could no longer survive even with the help of the Cubans.

Shultz mentioned that at the request of the Angolans the USA had had contacts with the Luanda government. The

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Angolan government had actually drawn up a Cuban withdrawal plan which was opposed by the Soviets. This was resulting in a great deal of intra-governmental fighting which was further complicated by a diamond scandal. However, it was the assessment of Assistant Secretary Crocker that there were still grounds for optimism and that a possibility might yet be found somehow to dislodge the Cubans.

Shultz said that nothing would be accomplished by disbanding the Contact Group. The front line States did not want to have the interest of five important countries flag in Southern Africa. They respected these countries and needed their help. They therefore hoped that the Contact Group would not get too frustrated by too slow a process.

The DPM asked Shultz to what extent the USA government could put pressure on South Africa to uncouple the Namibia problem from the Cuban presence in Angola. Shultz replied that USA influence in South Africa was limited. Besides how could the USA expect the "South Africans to throw up their hands and allow the Soviets to take over a big chunk of land on their border"?

C O N F I D E N T I A L

FM EXTOTT URR0913 19OCT83

TO CAIRO/MINDEL DELIVER BY 210800 WSHDC

INFO PCOOTT/FOWLER/ELCOCK FINOTT/SHANNON/DRABBLE/TOUGH CNGNY
FRMNY BONN PARIS LIN MOSCO BNATO BREEC TOKYO MXICO CNBRA
EH EMROTT/TELLIER/GOLDENBERG/PRIDDLE/GOOD/IERE NEBOTT/EDGE
NPAOTT/SHARP DE OTT ENVHULL/CACCIA/GERIN/SLATER/BRUCE/IAD/IWD
LE OCI

DISTR MINA MINE MINT USS DMF DMT UGB URE URT UGP URD CMR CPD UTD
UTT UTM EFB EED EEA EER TDD EEF ETD ETE EPD EPT RGF RCD RBD RCR
RBR IFB IDD IDA IDR GGB GMR GAA GMD GAD LGB LCD LCR IMD IMU FPR
JLO JCX JCD ZSP ZSI

---MACEACHEN/SHULTZ OCT 16/17 BILATERAL IN HALIFAX:OVERVIEW
FOLLOWING SALIENT POINTS EMERGED FROM TWO DAY MTG(FIVE HRS OF
FORMAL TALKS)WHICH WAS CHARACTERIZED BY SHULTZ AS QUOTE PFST
BILATERAL EVER UNQUOTE WITH DPM/SSEA:

2.ENVIRONMENT:(1)WHILE SIGNING OF PHOSPHORUS LOADING AGMT
GENERATED GOOD PUBLICITY (NY TIMES FIRST PAGE)AT OUTSET OF MTG,
DEADLOCK WITHIN ADMIN ON ACID RAIN TORPEDOED IMMEDIATE CDN
OBJECTIVE OF SEEKING EXPEDITIOUS ADMIN ACTION TO ENABLE CDA/USA
TO TAKE URGENT JOINT ACTION.ON BASIS OF RUCKELSHAUS FRANK
ASSESSMENT,WE HAVE HAD TO CONCLUDE THAT MUCH HERALDED AND LONG
AWAITED NEW USA ACID RAIN POLICY IS MIRED DOWN IN DIVISIVE HIGH

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CABINET-LEVEL DISPUTE CENTERED ON COST-EFFECTIVENESS AND WILL REQUIRE DECISIVE INVOLVEMENT AT RIGHT MOMENT BY PRES. CONTINUING DELAY CARRIED INCREASING RISK THAT POLICY FORMULATION WILL GET TANGLED UP WITH PRESIDENTIAL ELECTION CAMPAIGN OVER WHAT RUCKELSHAUS TERMED QUOTE SECTIONAL DIFFERENCES UNQUOTE, BETWEEN MIDDLE WEST AND NORTH EAST. CDN IMPATIENCE WITH APPARENT BACK-PEDALLING BY USA SIDE WAS EFFECTIVELY ARTICULATED TO SHULTZ/RUCKELSHAUS BY MIN CACCIA WHO SAID THAT IF THERE WAS NO/NO MOVEMENT IN NEXT FEW WEEKS OR MONTHS THEN THERE MIGHT BE NO/NO ACTION UNTIL 1987. (11) USA SIDE WAS PREPARED TO HOLD FURTHER CONSULTATIONS ON PHASE I OF GARRISON DIVERSION BUT WAS NOT/NOT PREPARED TO AGREE THAT PHASE II WOULD NEVER BE BUILT. BOTH RUCKELSHAUS AND SHULTZ REITERATED COMMITMENT THAT USA HAD NO/NO INTENTION TO MOVE AHEAD ON EITHER PHASE I OR PHASE II UNLESS CDA WAS ASSURED ON BIOTA TRANSFER PROBLEM. AMERICANS PROPOSED AND CDN SIDE AGREED TO HAVE FURTHER CONSULTATIONS IN NOV. (III) DPM/SSEA IDENTIFIED NIAGARA RIVER TOXIC WASTE SITES AS FURTHER IMPORTANT ENVIRONMENTAL ISSUE.

(3) ENERGY: (1) DPM/SSEA GAVE DETAILED PRESENTATION ON CROWN INTEREST) BACK-IN) PROVISION BUT COULD ELICIT NO/NO MEANINGFUL DIALOGUE. AS IN EARLIER WSHDC AND BANGKOK DISCUSSIONS, SHULTZ

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INTRANSIGENTLY REAFFIRMED HIS INVETERATE POSITION THAT BACK-IN WAS RETROACTIVE AND THAT RULES HAD BEEN CHANGED IN A MANNER THAT HAD TAKEN FORM OF EXPROPRIATION WITHOUT COMPENSION. AFTER MTG DPM/SSEA WAS OF VIEW THAT HE HAD NOW FULLY ADDRESSED CONCERNS OF SHULTZ AND THAT BALL AS FAR AS HIS MTGS WITH SHULTZ WAS CONCERNED WAS NOW BACK IN USA COURT. THUS WHILE HE DID NOT/NOT WISH TO HAVE BACK-IN PLACED ON AGENDA FOR NEXT BILATERAL, DPM/SSEA WILL STILL HAVE TO RULE ON SUGGESTIONS OF OFFICIALS WHICH INCLUDE ANSWERING OF JUNE 7/7 SHULTZ LET AND/OR HIVING BACK-IN ISSUE OFF TO ENERGY CONSULTATIVE MECHANISM. (II) EXCHANGE ON NATURAL GAS PRICING AND PRE-BUILD WAS POSITIVE WITHOUT BREAKING ANY NEW GROUND. SHULTZ NOTEL COMPLEXITY OF THIS SUBJ WITH MANY STRANDS INCLUDING PIPELINE, AND DIRECTED UNDER-SEC WALLIS TO FOLLOW UP ON USA SIDE.

(4) TRADE: TONE FOR DISCUSSIONS WAS SET BY SHULTZ'S POSITIVE REFERENCES TO CDN TRADE POLICY PAPER AND PROJECTED SECTORAL APPROACH. USA HE SAID WANTED GREATER LIBERLIZATION OF BILATERAL TRADE. SSEA FLAGGED THAT CDN SIDE NEEDED TO DO MORE HOMEWORK AND SAID GOVT WAS NOW LOOKING AT LIMITED FREE TRADE ARRANGEMENTS IN SECTORS SUCH AS URBAN MASS TRANSIT, PETROCHEMICALS AND SPECIALTY

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STEEL. MIN REGAN STRESSED IMPORTANCE TO CDA OF JPNS INVESTMENT IN AUTO-SECTOR TO PRESERVE CDN/USA AUTO PACT IN FACE OF JPNS INVESTMENT IN USA. OTHERWISE REGAN TICKED OFF CDN CONCERNS OVER USA ACTIONS ON SPECIALTY STEEL, CLOTHING AND TEXTILES, CEMENT, FISH AND POTATOES. SHULTZ ALLUDED TO USA CONCERN THAT TV CABLE RETRANSMISSION RIGHTS BE PROTECTED BY CDN COPYRIGHT LAW.

DPM/SSEA COUNTERED SHULTZ COMPLAINT ABOUT CDN SALES TAX ON TRAVEL BROCHURES BY EXPLAINING TAX APPLIED EQUALLY TO DOMESTIC AS WELL AS FOREIGN BROCHURES. OF SPECIAL INTEREST TO CDN SIDE WAS FACT THAT FOR FIRST TIME IN FIVE BILATERALS FIRA WAS NOT/NOT RAISED BY USA.

(5) EXTRATERRITORIALITY (ET): DPM/SSEA BLUNTLY TOLD SHULTZ HE FOUND USA PRACTICE OF ISSUING SUBPOENAS TO FORCE CDN BANKS TO PRODUCE DOCUS ON THIRD COUNTRIES QUOTE DISTASTFUL UNQUOTE. SHULTZ REACTED SYMPATHETICALLY. HE SAID HE ALSO WONDERED WHY ESTABLISHED CO-OPERATIVE PROCEDURES WERE NOT/NOT APPLIED WITH RESPECT TO BANK OF NOVA SCOTIA. HE ASKED WALLIS TO LOOK INTO THIS CASE. ON UNITARY TAX, SHULTZ SAID ADMIN (INCLUDING PRESIDENT) HAD BEEN MADE VERY COGNIZANT OF FOREIGN CONCERNS. A WORKING GROUP UNDER CHAIRMANSHIP OF SEC REGAN HAD NOW BEEN FORMED TO REVIEW SITU. DPM/SSEA STRONGLY URGED SHULTZ TO FILE AMICUS CURIAE BRIEF IN SUPREME COURT ON BEHALF OF ALCAN. DESPITE

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SEVERAL ATTEMPTS BY DPM/SSEA TO PIN HIM DOWN IN THIS REGARD SHULTZ REMAINED NON-COMMITTAL. AFTER REFERRING ALSO TO PROBLEMS THAT EXPORT ADMIN ACT WOULD CAUSE FOR CDA, DPM SUGGESTED THERE WAS SOME URGENCY TO SET UP A NEW MECHANISM TO DEAL WITH WHOLE GAMUT OF ET PROBLEMS BETWEEN CDA AND USA. ALTERNATIVE WAS JUST TO GO ON AS WE HAVE BEEN DOING AND HAVE CRISES LIKE THE BANK OF NOVA SCOTIA CASE EXPLODE AROUND US. HE SUGGESTED CONSIDERATION BE GIVEN TO A MECHANISM ANALAGOUS TO IJC. SHULTZ AGREED THAT BOTH SIDES SHOULD STUDY THIS OPTION. SHULTZ ALSO INSTRUCTED WALLIS TO PREPARE A MEMORANDUM ON THE ET QUESTION (NOT/NOT NECESSARILY JUST ON CIA/USA PROBLEMS) FOR THE PRESIDENT. EMBWSHDC IS TO FOLLOW UP WITH WALLIS IN ORDER TO ENSURE UNIQUENESS OF CDA/USA ET PROBLEM WOULD BE REFLECTED IN THIS MEMO TO PRESIDENT.

(6) DEFENCE: RESPONDING TO COMPLAINTS FROM DPM/SSEA, SHULTZ INSTRUCTED ASSISTANT-SEC BURT (I) TO INFORM DOD OF POLITICAL IMPORTANCE CDN GOVT ATTACHED TO BEING KEPT FULLY AND CURRENTLY INFORMED OF ALL TECHNICAL ARRANGEMENTS FOR CRUISE MISSILE TESTING IN CDA, AND (II) TO INVESTIGATE WITH USA DEPT OF DEFENSE (DOD) OBSTACLES WHICH HAVE BEEN PUT IN WAY OF CDN COMPANIES WISHING TO BID ON AIR DEFENCE MODERNIZATION CONTRACTS AND TO SUBMIT A REPORT

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TO CDN SIDE(BURT MENTIONED DURING MTG THAT HE HAD FIRST BECOME AWARE OF THIS PROBLEM DURING PREVIOUS WEEK).

(7)PACIFIC SALMON TREATY:DPM/SSEA AND SHULTZ AGREED ON NEED TO HAVE TREATY FINALIZED AND RATIFIED.SHULTZ PROMISED TO ENLIST AID OF ASST-SEC MOTLEY AND OTHERS IN DEALING WITH RECALCITRANT ALASKAN LEGISLATORS AND EXPRESSED CONFIDENCE THAT ISSUE WOULD BE RESOLVED BEFORE ADVENT OF NEXT FISHING SEASON.

(8)EAST/WEST:(A)DPM/SSEA EMPHASIZED FIRM NATURE OF CDAS COMMITMENT TO NATO TWC-TRACK DECISION;(B)SYMBOLIC SIGNIFICANCE OF CRUISE TESTING,AND(C)DISAGREEABLE EXPERIENCE WITH KOREA AIRLINER INCIDENT.NONETHELESS HE SAID CDN GOVT WAS CONCERNED ABOUT DETERIORATION IN EAST-WEST RELATIONS AND WAS THEREFORE ASSESSING POSSIBILITIES FOR HELPING REOPEN DIALOGUE.WHILE REACTION FROM SHULTZ WAS POSITIVE IN THIS REGARD HE AND BURT STRESSED THAT ADMINISTRATION WISHED TO BE QUOTE PRE-NOTIFIED UNQUOTE IF THERE ARE ANY CDN INITIATIVES.DPM/SSEA AGREED.ON EAST/WEST FRONT SHULTZ THEN ASSESSED OVERALL SITU AS QUOTE PRETTY CHILLY UNQUOTE WITH USSR HARD LINE IN EVIDENCE ON ALL FRONTS.HE STRESSED THAT WEST NEEDED TO MAINTAIN FIRM BUT REASONABLE POSTURE TO SUSTAIN ALLIANCE SOLIDARITY AND PUBLIC SUPPORT.

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PAGE SEVEN URR0913 CONF D

(9) MIDDLE EAST: (1) IRAN/IRAQ WAR-SHULTZ SAW THIS AS MAIN SOURCE OF INSTABILITY IN REGION. THERE WAS NOW DANGER IRAN MIGHT BLOCK GULF IN RETALIATION FOR IRAQI USE OF NEW FRENCH EXOCET-EQUIPPED JETS. WITHOUT PROVIDING ANSWER, SHULTZ WONDERED ALOUD ABOUT USA RESPONSE IN SUCH EVENT. (II) LEBANON-SHULTZ ACKNOWLEDGED GEMAYEL GOVT NEEDED BROADER BASE. IN MEANTIME, EFFORTS HAD TO BE INTENSIFIED TO HAVE CEASE-FIRE HELD AND TO MAINTAIN AGMT ON ISRAELI WITHDRAWAL IN FACE OF SYRIAN WRECKING EFFORTS. USA HAD NO/NO CHOICE BUT TO KEEP TRYING TO STABILIZE SITU. (III) PEACE WITH ISRAEL:-SHULTZ SAW ISRAEL BOGGED DOWN IN UNPRECEDENTED ECONOMIC CRISIS. 1982 REAGAN PLAN WAS STILL RIGHT DIRECTION TO GO. PLO WAS IN DRASTIC TRANSFORMATION. SHULTZ THOUGHT ARAFAT WAS NOW A SYRIAN PUPPET. JORDANS APRIL PROPOSITION TO PLO REMAINED OPEN AND HUSSEIN DESERVED CONTINUING STRONG SUPPORT. (IV) WEST BANK SETTLEMENTS. SHULTZ THOUGHT THAT TEMPORARY SETTLEMENT FREEZE COULD LEAD TO TRANSITIONAL ARRANGEMENT PENDING A FINAL SETTLEMENT. SHULTZ SAID PRESSURE ON ISRAEL WAS NOT/NOT THE ANSWER. SITU HAD TO BE SETTLED IN A BROADER CONTEXT. JORDAN WAS THE KEY. IT WAS AGREED THAT IF HUSSEIN WOULD NEGOTIATE IT WOULD HAVE A FAR-REACHING IMPACT. SYRIA, HOWEVER, WAS OPPOSED TO ANY MOVE IN THIS DIRECTION AND WAS UNREALISTICALLY PUSHING FOR A ONE-SHOT COMPREHENSIVE SETTLEMENT. SHULTZ, HOWEVER, BELIEVED BROAD SETTLEMENT COULD ONLY BE APPROACHED ON PIECE BY PIECE BASIS.

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(10)CENTRAL AMERICA:SHULTZ EXPRESSED INTEREST IN MEXICAN FOREIGN MINISTERS SUGGESTION THAT CDA PARTICIPATE IN A CENTRAL AMERICAN VERIFICATION COMMISSION.DPM/SSEA TOLD HIM PROPOSAL WAS STILL TOO VAGUE FOR CDA,BUT IF CDA COULD PLAY CONSTRUCTIVE ROLE, CDN GOVT WOULD CONSIDER TAKING PART IN SUCH AN EFFORT.ON 21 POINT PROPOSAL,SHULTZ THOUGHT THERE STILL WAS LACK OF REAL CAPACITY ON PART OF MAIN PLAYERS TO COME TO GRIPS WITH CONCRETE OPERATIONAL SPECIFICS.SHULTZ URGED CDN SIDE TO KEEP IN CLOSE CONTACT WITH ASST SEC MOTLEY REGARDING FURTHER EVOLUTION OF CENTRAL AMERICAN SITU.

(11)NAMIBIA:CONTACT GROUP SHOULD BE RETAINED.IN USA VIEW THERE WAS STILL SOME POSSIBILITY OF DISLODGING CUBANS FROM ANGOLA.USA ABILITY TO PRESSURE SOUTH AFRICA TO DECOUPLE NAMIBIA FROM CUBAN PRESENCE WAS LIMITED AND,IN ANY EVENT,SHULTZ SAID USA COULD HARDLY EXPECT SOUTH AFRICANS TO QUOTE ALLOW SOVIETS TO TAKE OVER A BIG CHUNK OF LAND ON THEIR BORDER UNQUOTE.

(13)INTERNATIONAL ECONOMIC QUESTIONS WERE NOT/NOT DISCUSSED BETWEEN DPM/SSEA AND SHULTZ DUE TO TIME PRESSURES.HOWEVER OVER LUNCH WALLIS SOMEWHAT DIFFIDENTLY ACKNOWLEDGED THAT IMF QUOTAS WOULD BE EXPERIENCING QUOTE HEAVY GOING UNQUOTE WITH CONGRESS. HE ALSO EXPRESSED LITTLE SYMPATHY FOR CDN CONCERNS OVER IDA VII.

(14)SEPARATE REPORTS/TELEGRAMMES ON ALL SUEJECTS TO SELECTED ADDRESSEES ARE FOLLOWING.

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C O N F I D E N T I A L

FM EXTOTT URE0645 21OCT83

TO WSHDC

INFO CAIRO/MINDEL PCOOTT/FOWLER CNGNY

SFAX BOSTN CHCGO LNGLS NRLNS SFRAN SEATL

BH ENVHULL/MIN.GERIN/IAD/SLATER/BRUCE DE OCI

REGAM ATNTA BFALO CLVND DALAS DTROT MNPLS PHILA NRLNS

DISTR MINA UGB URD URR UGP ETE

REF OURTEL URR 0913 OF 20OCT

---MACEACHEN/SHULTZ BILATERAL 16-17OCT-ACID RAIN

SUMMARY:AS EXPECTED SINGLE MOST IMPORTANT TOPIC OF HALIFAX BILATERAL MTG WAS ACID RAIN AND ATTENDANCE OF ENVIRONMENT MIN CACCIA AND EPA ADMINISTRATOR RUCKELSHAUS ENSURED THAT IT ALSO RECEIVED BULK OF PUBLIC ATTN.DPM/SSEA AND MIN CACCIA SOUGHT TO USE OCCASION TO INFLUENCE USA REVIEW OF ACID RAIN POLICY,PARTICULARLY TIMING OF ADMIN DECISION.DPM/SSEA EMPHASIZED IMPORTANCE OF RESOLVING ISSUE TO BILATERAL RELATIONSHIP,ASSERTING THAT NO/NO ISSUE HAD GREATER POTENTIAL FOR CREATING IRRITATION.MIN CACCIA UNDERSCORED FACT THAT CDN FEDERAL AND PROVINCIAL GOVTS WERE UNITED IN THEIR COMMITMENT TO GOAL AND READINESS TO ACT IN CONCEPT WITH USA.BOTH MINS STRESSED ABSOLUTE NECESSITY OF JOINT ACTION WITH USA AND EXPRESSED CDN VIEW THAT NORTHEAST OPTION REPRESENTED GOOD INITIAL STEP BUT WLD BE INSUFFICIENT TO ACHIEVE CDN OBJECTIVE OF REDUCING WET SULPHATE DEPOSITION TO 20KILO TARGFT IN SENSITIVE AREAS. FINALLY,BOTH MINS WERE FRANK ABOUT GROWING IMPATIENCF IN CIA FOR EARLY EFFECTIVE ACTION.

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2. USA RESPONSE REFLECTED CURRENT DEADLOCK WITHIN ADMIN AND EXTREME LIVISIVENESS OF ISSUE IN ADMIN, CONGRESS AND COUNTRY AS WHOLE. RUCKELSHAUS WAS SANGUINE THAT ISSUE WLD BE RESOLVED OVER LONG TERM. AS TO SHORT TERM HE EXPRESSED REASONABLE CONFIDENCE THAT ADMIN WLD DEAL WITH IT IN SATISFACTORY WAY. BUT EFFORTS BY CDN MINS AND PRESS TO GET HIM TO SUGGEST TIME FRAME WEPE UNSUCCESSFUL. RUCKELSHAUS THOUGHT EXPRESSIONS OF CDN VIEW THAT NORTHEAST OPTION WAS WELCOME FIRST STEP AND REASSERTION OF CDN READINESS TO DO ITS SHARE WERE HELPFUL TO ADMIN BUT MADE IT VERY CLEAR THAT EMPHASIS ON HARD FIGURES SUCH AS 50 PER CENT REDUCTIONS IN EMISSIONS (OR EVEN 20 KILLO TARGET) ONLY PLAYED INTO HANIS OF THOSE WHO CLAIMED TASK WAS TOO LARGE AND TOO EXPENSIVE. SEC SHULTZ DID NOT/NOT APPEAR TO BE STIMULATED TO JOIN MORE ACTIVELY ADMIN DEBATE ON SIDE OF EARLY EFFECTIVE ACTION; RATHER HE LIMITED HIMSELF TO GENERAL EXPRESSIONS OF SUPPORT FOR RUCKELSHAUS AND A CAREFUL MEASURED APPROACH.

3. REPORT: DPM/SSEA BEGAN ACID RAIN DISCUSSION BY STRESSING ITS IMPORTANCE TO BILATERAL RELATIONSHIP AND EXPRESSING CDN DESIRE AND IMPATIENCE FOR EARLY ACTION, POSSIBLY BEGINNING WITH AGRMT AT MTG CN GUIDELINES FOR JOINT RESOLUTION OF ISSUE. HE NOTED, HOWEVER, THAT SOME PROGRESS HAD BEEN ACHIEVED AS IT WAS NO/NO LONGER NECESSARY FOR THEM TO DEBATE SCIENTIFIC NECESSITY OF EARLY ABATEMENT MEASURES. MIN CACCIA EMPHASIZED THAT CDN CONCERN WAS

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GENUINE, BASED ON EVIDENCE OF WHAT ACID RAIN WAS DOING TO TOURISM, FISH AND FORESTS, PARTICULARLY IN ONT, AND NOT/NOT RELATED TO SALE OF ELECTRICITY. BOTH MIN CACCIA AND LATER DPM/SSEA TERMED NORTHEAST ACTION A GOOD INITIAL STEP, BUT ONE WHICH WLD NOT/NOT ACHIEVE OBJECTIVE OF 20 KILOS PER HECTARE. MIN CACCIA TOLD INTERLOCUTORS THAT RECENT MTG WITH PROVS HAD REAFFIRMED COMMON COMMITMENT TO COMBAT ACID RAIN. BOTH MINS MADE POINT THAT TOTAL HALT IN CDN EMISSIONS OF SULPHUR DIOXIDE WLD NOT/NOT ACHIEVE 20 KILO TARGET: THUS JOINT ACTION WITH USA WAS ESSENTIAL. DPM/SSEA THANKED RUCKELSHAUS FOR KEEPING CDA INFORMED OF POLICY REVIEW AND GENERAL TERMS OF NORTHEAST OPTION AND ASKED FOR PROGNOSIS ON POLICY REVIEW.

4. SEC SHULTZ BEGAN BY OBSERVING THAT NOBODY KNEW OFFICIAL POSN OF EPA BUT THAT MUCH INFO HAD LEAKED. FACT THAT FOR MINS DEVOTED CONSIDERABLE TIME TO ENVIRONMENTAL ISSUES WAS NOT/NOT SURPRISING. GIVEN EXTENT TWO COUNTRIES SHARED WATER AND AIR. HE PAID TRIBUTE TO RUCKELSHAUS AS CAREFUL, THOROUGH AND RELIABLE COLLEAGUE WHO HE WAS CONFIDENT WLD DEAL WITH PROBLEM CAREFULLY AND IN COST-EFFECTIVE TERMS.

5. RUCKELSHAUS CONFIRMED THAT ACID RAIN WAS OF MAJOR CONCERN. OVER LONGER TERM HE WAS CONFIDENT THAT ACID RAIN WLD BE DEALT WITH JOINTLY AS SUCCESSFULLY AS GREAT LAKES WATER QUALITY HAD BEEN. IN SHORT TERM, USA WAS NOW MTG PROBLEM HEAD ON, BUT ISSUE WAS

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PROVING TO BE EXTREMELY DIVISIVE. HOWEVER, PROBLEM AND POTENTIALLY SUCCESSFUL APPROACHES HAD BEEN IDENTIFIED. PROBLEM WAS UNIQUELY DIFFICULT BECAUSE SOURCE WAS GEOGRAPHICALLY REMOTE FROM EFFECTS. ALTHOUGH HE THOUGHT REVIEW WLD PROCEED AND CONCLUDE WITH ANOTHER ROUND INVOLVING PRESIDENT, HE INSISTED THAT IT WAS IMPOSSIBLE TO PREDICT DATE FOR ITS CONCLUSION. HE DESCRIBED BRIEFLY BASIC OUTLINE OF NORTHEAST OPTION AND INDICATED THAT ADMIN WAS ALSO LOOKING AT WAYS OF REDUCING SULPHUR DIOXIDE EMISSIONS THROUGH AMENDMENTS TO CLEAN AIR ACT.

6. IN CONCLUSION IPM/SSEA NOTED THAT CDN POSN HAD BEEN OUTLINED AND THAT USA HAD OUTLINED ITS DIFFICULTIES AND NOT/NOT REACHED CONCLUSIONS. DPM/SSEA THEN ASKED WHETHER MIN CACCIA'S WORK WITH PROV MINS WAS HELPFUL AND WHETHER CDA CLD DO ANYTHING FURTHER. RUCKELSHAUS RESPONDED THAT IT WAS HELPFUL TO HAVE CLEAR INDICATION THAT CDA WAS PREPARED TO DO ITS PART BUT THAT TOO MUCH EMPHASIS ON DETERMINATION TO REDUCE EMISSIONS BY 50 PER CENT ONLY SERVED TO STRENGTHEN HAND OF THOSE WHO BELIEVED THAT ACID RAIN CONTROL MEASURES ARE TOO EXPENSIVE. HE FURTHER CONFIRMED THAT ACKNOWLEDGEMENT FROM CDA THAT USA POLICY WAS STEP IN RIGHT DIRECTION WLD BE HELPFUL. FINALLY, MIN CACCIA EMPHASIZED THAT CDA HAD LARGE CONSTITUENCY THAT STRONGLY SUPPORTED ACID RAIN CONTROL MEASURES.

7. FURTHER TEL SUMMARIZES SUBSEQUENT CACCIA-RUCKELSHAUS MTG WHICH INCLUDED FURTHER DISCUSSION OF ACID RAIN. SUMMARY RECORD WILL ALSO BE SENT IN DUE COURSE.

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PAGE TWO URE0644 CONF

RESPECT TO PHASE II, DPM/SSEA REFERRED TO SEC WATTS RECENT STMT TO MIN CACCIA AND ASKED WHETHER TWO SIDES CLD AGREE THAT IT NOT/NOT BE EUILT. MIN CACCIA STRESSED DEEP CONCERNS IN CDA, ESPECIALLY PEOPLE IN MAN. IN RESPONSE, SEC SHULTZ, SUPPORTED BY MR RUCKELSHAUS, CONFIRMED THAT USA RECOGNIZED ITS OBLIGATION NOT/NOT TO POLLUTE WATERS FLOWING INTO CDA. RUCKELSHAUS INDICATED THAT THIS COMMITMENT ALSO APPLIED TO PHASE II WHETHER IT WAS CONDUCTED IN LIFETIME OF THOSE PRESENT OR IN MORE DISTANT FUTURE.

3. IN REPLY TO SPECIFIC QUERIES FROM RUCKELSHAUS DPM/SSEA CONFIRMED THAT CDA HAD FURTHER CONCERNS RELATED TO LONETREE TO INCLUDE IN CONSULTS AND THAT CDA INDEED HAD FEELING THAT CONSTRUCTION WAS PROCEEDING AHEAD OF CONSULTATION.

4. AME GOTLIEB OUTLINED RECENT HISTORY OF CONSULTS AND POINTED OUT THAT USA WAS QUOTE OVER BUILDING UNQUOTE PHASE I WHICH INCREASED INEVITABILITY OF PHASE II.

5. CDN SIDE CONCLUDED DISCUSSION BY EXPRESSING ENCOURAGEMENT OVER INDICATION FROM USA SIDE THAT IT WLD BE PROPOSING NOV DATE FOR FURTHER CONSULTS.

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OCT 31 1983	
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C O N F I D E N T I A L
FM EXTOTT URE0646 25OCT83

TO WSHDC

INFO CNGNY

EH ENVHULL/ONT REGION FERGUSON/MIN/DM/GERIN/EPS/BLATER/AES/BRUCE/
PID/MANSON/IAD/WETHERUP/IWP/JAMES DE OCI

REGAM BFALC CLVND DALAS DTROT PHILA DE OTT

SFAX POSTN CHCGO LNGLS SFRAN SEATL DE CTT

DISTR UGE URD URR URT UTT CPD ETE JLO IMP CMRT CGS

---CACCIA-RUCKELSHAUS CONSULTATIONS-HALIFAX 16OCT ENVIRONMENTAL
QUESTIONS

SUMMARY:FOLLOWING MTG INVOLVING DPM/SSEA,SEC SHULTZ AND TWO ENVIRON
MINS,MINISTER CACCIA AND ADMINISTRATOR RUCKELSHAUS CONSULTED
SEPARATELY FOR MORE THAN AN HOUR ON ENVIRONMENTAL QUESTIONS
INCLUDING ACID RAIN,FLATHEAD RIVER,NIAGARA TOXICS AND PCB'S.MR
RUCKELSHAUS RESTATED OFFER TO KEEP CANADA FULLY INFORMED ON ACID
RAIN POLICY DEBATE IN ADMIN BUT COULD SUGGEST NO/NO CONCLUSIVE
TIMETABLE,CAUTIONED NOT TO RELY ON DIVIDED CONGRESS TO TAKE
DECISIVE ACTION ON ITS OWN,AND OUTLINED DIFFICULTIES CAUSED BY CDN
SPECIFICITY ON 50 PERCENT TARGET.ON FLATHEAD,USA EXPRESSED CONCERN
OVER ENVIRONMENTAL IMPACT OF COAL MINE TO WHICH MIN CACCIA OFFERED
ASSURANCES AND UNDERTOOK TO ENTERTAIN FORMAL REQUEST FROM US FOR
CONSULTATIONS. CIA EXPRESSED CONCERN OVER SLOW PROGRESS IN NIAGARA
TOXICS CLEANUP;RUCKELSHAUS OFFERED OPPORTUNITY FOR GREATER CDN
INPUT INTO CLEANUP PROCESS.RUCKELSHAUS WAS NOT/NOT OPTIMISTIC US

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PAGE TWO URE0646 CONF

ORDER COULD BE OPENED UP TO CDN PCB'S EXCEPT IN CONTEXT OF
BILATERAL HAZARDOUS WASTE AGMT THAT MIGHT BE NEGOTIATED.

2. ACID RAIN-MIN CACCIA EXPRESSED DISAPPOINTMENT WITH LACK OF
PROGRESS, ASKING WHEN RESULTS MIGHT BE EXPECTED FROM POLICY REVIEW
PROCESS. MR RUCKELSHAUS CONFIRMED CDA WOULD BE KEPT FULLY INFORMED
OF PROGRESS IN ADMIN DEBATE, ASIDE FROM PRECISE DETAILS OF FINAL
RECOMMENDATION TO PRESIDENT. IN HIS VIEW, CDN PUBLIC CALLS FOR 50%
EMISSION REDUCTIONS (OR 20 KILO TARGET) UNDERMINED HIS EFFORTS IN
WASHINGTON WITH THOSE CONCERNED ABOUT COSTS. FITZHUGH GREEN SAID
BUDGET PEOPLE IN WASHINGTON WERE FEARFUL OF EFFECTS OF PUTTING HARD
TARGET FIGURES BEFORE CONGRESS BECAUSE OF POTENTIALLY DIVISIVE
NATURE OF SUCH PROPOSALS. KEY ELEMENT FOR EPA HOWEVER WAS EVENTUAL
CDN REACTION TO ADMIN POLICY WHEN IT COMES.

3. RUCKELSHAUS CHARACTERISED SITUATION IN CONGRESS AS DIVISIVE AND
RIFE WITH SECTORAL INTERESTS. HE SITED EXAMPLE OF MIDWEST INTERESTS
DIRECTED AT ENSURING CONTINUED USE OF HIGH SULPHUR COAL AND
DIVISIONS BETWEEN MID-WESTERN AND WESTERN SENATORS LIKELY TO EMERGE
IN HEARINGS IN SENATE ENERGY CTTEE, ALL OF WHICH WOULD FORESTALL
ACTION. RUCKELSHAUS SAID HE HAD NOT/NOT GIVEN UP HOPE THAT SOMETHING
POSITIVE WOULD COME OUT OF ADMIN DEBATE AND CAUTIONED CDNS NOT/NOT
TO RELY ON CONGRESS ITSELF TO ACT.

4. FLATHEAD-DESPITE PRIOR INDICATIONS FLATHEAD WOULD NOT/NOT BE

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PAGE THREE URE0646 CONF

RAISED IN MTG RUCKELSHAUS SAID THERE WERE SERIOUS CONCERNS OVER EFFECTS ON WATER AND AIR QUALITY OF DEV OF PROPOSED SAGE CREEK COAL MINE BECAUSE OF PROXIMITY TO NATL PARK AND RIVER DESIGNATED SCENIC UNDER US WILD AND SCENIC RIVER ACT. EPA HAD BEEN UNDER CONSIDERABLE PRESSURE FROM MONTANA. GREEN REFERRED TO DISCUSSIONS WITH EMBWASH AND IN OTTAWA WHICH HAD FOCUSED ON ADVANTAGES OF DEALING WITH PROBLEM AT FEDERAL LEVEL. ISSUE HAD QUOTE GOTTEN. LOOSE UNQUOTE; THERE SEEMED TO BE TOO MANY FOREIGN MINISTERS ALONG THE BORDER, AND QUESTION SHOULD BE DEALT WITH IN MORE ORGANIZED MANNER. AFTER BRIEFLY OUTLINING GENERAL PROBLEMS IN FED-PROV RELATIONS, MIN CACCIA OFFERED FULL ASSURANCES CANADA WOULD STAND BY ITS ENVIRONMENTAL COMMITMENTS. CONCERNS OF MONTANA WOULD BE TAKEN INTO FULL ACCOUNT. ENV CIA WAS MONITORING PROJECT PROPOSAL CLOSELY AND HAD MADE ITS REQMS CLEAR TO BC ON NUMBER OF OCCASIONS. HE SUGGESTED US CONSIDER CONSULTATIONS AND INCLUDE LIST OF DETAILED CONCERNS. IN RESPONSE RUCKELSHAUS REFERRED TO QUOTE NEGOTIATIONS UNQUOTE NEXT MONTH WITH BC. MIN CACCIA CHARACTERIZED MTG AS TECHNICAL ONE AT WHICH TECHNICAL OFFICIALS WOULD PUT FORWARD AIR AND WATER CONCERNS.

5. NIAGARA RIVER-MIN CACCIA THANKED EPA FOR TOUR OF AREA, WHICH LEFT HIM IN STATE OF SHOCK OVER ENORMITY OF PROBLEM. HE EXPRESSED CONCERN OVER FLOW OF TOXICS FROM WASTEWATER TREATMENT PLANT IN NIAGARA

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PAGE FOUR URE0646 CONF

FALLS NY INTO RIVER SINCE BREAKDOWN OF ACTIVATED CARBON FILTRATION SYSTEM IN 1978 AND ASKED IF REFURBISHING WOULD BE COMPLETE BY MARCH 85, AND WHEN COMPLIANCE WITH EFFLUENT LIMITATIONS WOULD BE MET. RUCKELSHAUS INDICATED CONSTRUCTION HAD BEGUN IN JUNE. NO DELAYS WERE EXPECTED IN MEETING TARGET DATE OF JAN01/85 FOR 18 MILLION DOLLAR FACILITY. HE ASKED WHETHER COMMUNICATIONS FROM REGIONAL OFFICES WERE EFFECTIVE AND GREEN INVITED CDN SIDE TO APPRISE THEM OF INADEQUACIES. BOTH SIDES AGREED TO EXAMINE RESPECTIVE COMMUNICATIONS LINKS WITH VIEW TO IMPROVING THEM.

6. MR. CACCIA THEN ENQUIRED ABOUT PROGRESS IN QUOTE S AREA UNQUOTE CLEANUP. CDA WAS AWARE NEW STUDIES WERE BEING FINANCED BY SUPERFUND BUT REMEDIAL MEASURES TO STOP LEACHING SEEMED TO HAVE BEEN LONG DELAYED. RUCKELSHAUS NOTED HYDE PARK, S AREA AND LOVE CANAL WERE ALL INVOLVED IN LEGAL SUITS. SINCE HIS RETURN TO EPA PROCESS OF DETERMINING LEGAL RESPONSIBILITY THRU COURTS BEFORE STARTING CLEANUP HAD BEEN REVERSED; EPA INTENDED TO GO AHEAD WITH CLEANUP WHILE AWAITING DETERMINATION OF RESPONSIBILITY. INITIALLY EPA HAD ENCOUNTERED GREAT DEAL OF RESISTENCE IN COURTS BY INDUSTRY FEARFUL OF FACING UNBEARABLE COSTS. EPA WAS CLOSE TO OUT OF COURT SETTLEMENT IN S AREA AND HAD SO INFORMED COURT. IF ANTICIPATED CLEAR SETTLEMENT IS NOT/NOT REACHED THIS MONTH, HOWEVER, EPA WILL PROCEED WITH STUDIES. IN RESPONSE TO FURTHER CDN CONCERNS ABOUT CONTAMINATED

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PAGE FIVE URE2646 CONF

GROUNDWATER REACHING RIVER. RUCKELSHAUS NOTED THAT EPA COULD ONLY PROCEED WITH SITE BY SITE INVESTIGATION OF LEACHING AND AS PROBLEMS ARE IDENTIFIED DEAL WITH THEM. HE THOUGHT POSITIVE SIDE OF CURRENT SITUATION WAS THAT NO/NO VIOLATIONS OF DRINKING WATER STANDARDS HAD BEEN REPORTED.

7. RUCKELSHAUS POINTED OUT THAT EPA HAD PUT ENORMOUS RESOURCES INTO NIAGARA AREA INCLUDING COMPREHENSIVE 1982 STUDY: AREA WAS TARGETTED FOR ENFORCEMENT BEFORE OTHER AREAS; STRINGENT PERMITS STANDARDS WOULD BE MAINTAINED AND TO EXTENT STATES OR COMPANIES DID NOT/NOT COMPLY EPA WOULD TAKE ENFORCEMENT ACTIONS RANGING FROM EXECUTIVE TO LEGAL ACTION. RUCKELSHAUS SAID EPA WISHED TO AVOID LEGAL ACTION BECAUSE IT TOOK YEARS; ON OTHER HAND EPA HAD TO DEMONSTRATE ITS WILLINGNESS TO TAKE COURT ACTION TO SHOW INDUSTRY SERIOUS INTENT IN ORDER TO GAIN MORE VOLUNTARY COMPLIANCE. SLATER COMPLIMENTED USA SIDE ON PROFESSIONALISM OF REGIONAL OFFICE AND NY STATE OFFICE, AND NOTED CDN PROBLEMS DID NOT/NOT REMOTELY APPROACH MAGNITUDE OF THOSE ON US SIDE. HE ASKED IF MORE INFO MIGHT BE FORTHCOMING FROM US SIDE TO MITIGATE CDN PUBLIC CONCERNS THAT NOTHING WAS BEING DONE.

8. RUCKELSHAUS NOTED THAT EXPERIENCE HAD SHOWN ENVIRONMENT VERY CONTENTIOUS ISSUE, WHERE MEDIA TENDED TO FOCUS ON NEGATIVE ASPECTS, AND TO RAISE EXPECTATIONS EPA WAS UNABLE TO MEET. EPA HAD SPENT TEN BILLION DOLLARS IN GREAT LAKES OVER LAST TEN YEARS. HE CAUTIONED THAT

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FREQUENT PUBLIC STATEMENTS ABOUT PROBLEMS MADE MORE PEOPLE SICK THAN TOXICS THEMSELVES. HE DID UNDERTAKE TO RESPOND TO LEGIT CONCERNS, HOWEVER, SEEKING TO MAKE MORE INFO AVAILABLE WITHOUT UNDULY INFLATING PUBLIC EXPECTATIONS OR SCARING PEOPLE.

9. TO ILLUSTRATE PROBLEMS OF TOO MUCH PUBLIC EXPOSURE, RUCKELSHAUS OUTLINED LCVE CANAL SITUATION. INITIAL PUBLIC ANNOUNCEMENT THAT WALL WOULD BE BUILT TO CONTAIN TOXIC SLUDGE HAD TO BE ABANDONED (SEPT 27) AND WHEN LIMITS OF KNOWLEDGE WERE LAID OUT IT WAS TAKEN PUBLICLY AS FCOT DRAGGING. PROFESSIONALS UNDERSTOOD THAT FURTHER STUDY WAS NECESSARY. GREEN SAID MUCH WAS ALREADY BEING DONE IN REMEDIAL PROGRAM INCLUDING CAPPING OF SITE, DECONTAMINATION OF SEWERS AND CREEKS, STUDIES OF LEACHING, AND MONITORING. HE UNDERTOOK TO PROVIDE MORE DETAILED INFO TO MIN CACCIA. IN RESPONSE TO QUESTION ABOUT POSSIBLE BUDGET CUTS, RUCKELSHAUS SAID MONEY WAS NOT/NOT PROBLEM IN NIAGARA AREA WHICH HAD HIGHEST PRIORITY BUT IT WAS IN REST OF COUNTRY. STUMBLING BLOCK IN NIAGARA WAS DEFINING PROBLEMS AND DEVISING SOLUTIONS. RUCKELSHAUS ALSO NOTED EPA WAS EXAMINING COSTLY AND DIFFICULT POSSIBILITY OF RELOCATING SITES.

10. MIN CACCIA ASKED IF USA WOULD BE PREPARED TO ACCEPT GREATER CON PARTICIPATION IN CLEANUP STUDIES, PLANS, INTERPRETATIONS, AND DECISIONS ON REMEDIAL MEASURES WHERE THERE WERE APPREHENDED TRANSORDER POLLUTION RISKS. RUCKELSHAUS SAW NO/NO DIFFICULTY

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PAGE SEVEN URE0646 CONFD.

CONSIDERING MORE INTEGRATED CDN PARTICIPATION BUT NOTED FINAL DECISIONS WOULD HAVE TO BE AMERICAN ONES. MIN SUGGESTED IMPROVEMENT IN THIS AREA COULD FORESTALL DIRECT POLITICAL (OR LEGAL) ACTION BY PROVINCES, SUCH AS ONT, WHEN THERE IS PERCEPTION NOTHING IS BEING DONE.

11. PCBS - IN RESPONSE TO ENVCDA QUERY WHETHER IT WOULD CONSIDER REOPENING BORDERS TO PCBS BECAUSE THERE WERE NO/NO DISPOSAL FACILITIES IN CDA, RUCKELSHAUS INDICATED THAT USA REGS PROHIBITING IMPORT WERE NOW IN PLACE AND WOULD HAVE TO BE CHANGED BEFORE NEGOTIATION COULD TAKE PLACE. HE CITED POLITICAL DIFFICULTY IF IT CAME TO LIGHT THROUGH AN ACCIDENT DURING TRANSPORT THAT CDNS WOULD NOT/NOT EARN OWN PCBS. SLATER PUT QUESTION IN WIDER CONTEXT OF ALREADY EXISTING TRANSBORDER TRADE IN HAZARDOUS WASTES AND INDICATED IT HAD NOT/NOT BEEN CLEAR PCBS WERE A SPECIAL CASE. IF AGREEMENT TO ACCEPT PCBS IN USA WAS TIED TO DEVELOPMENT OF FACILITY IN CDA IT WAS NOW CLEAR. RUCKELSHAUS SUGGESTED THAT ELABORATION OF EILAT HAZARDOUS WASTE DISPOSAL AGMT WOULD PROVIDE FRAMEWORK FOR DISPOSING OF PROBLEM ITEMS SUCH AS PCBS. HE NOTED, HOWEVER, THAT LOCAL MUNICIPALITIES AND LEGISLATURES IN STATES WERE INCREASINGLY PASSING LEGISLATION PROHIBITING TRANSPORT OR DISPOSAL OF TOXIC MATERIALS IN THEIR AREAS.

CCC/171 260034Z URE0646

R E S T R I C T E D

FM EXTOTT URR0906 18OCT83

TO WSHDC

INFO POCOTT/FOWLER FINOTT/SHANNON

DISTR MINA MINE MINT DMF DMT EFB EED FPT EPG EPD EER UGB UTM URD
URT UTT UTD URE UGP

---MACEACHEN/SHULTZ BILATERAL: TRADE DISCUSSIONS---

ATMOSPHERE OF MTG CHANGED DRAMATICALLY AS FORUM SHIFTED FROM
DIFFICULT CROWN SHARE DISCUSSIONS TO TRADE. PERHAPS IN DELIBERATE
EFFORT TO IMPROVE MOOD SHULTZ OPENED DISCUSSION WITH EFFUSIVE
REFERENCE TO CDA TRADE POLICY (REMARKS HE REITERATED DURING JOINT
PRESS CONFERENCE). HE EMPHASIZED THAT USA WAS ANXIOUS TO WORK
TOGETHER WITH CDA TO SEEK GREATER LIBERALIZATION OF BILATERAL
TRADE, SPECIFICALLY WITH MORE ARRANGEMENTS ALONG LINES OF AUTOPACT.
USA AND CDA ENJOYED LARGEST VOLUME OF BILATERAL TRADE IN WORLD.
THIS MEANS, SAID SHULTZ, QUOTE THAT WE MUST BE DOING SOMETHING RIGHT
UNQUOTE.

2. SSEA ACKNOWLEDGED THAT CABINET HAD AGREED THAT WE SHOULD EXAMINE
PROS AND CONS OF LIMITED FREE TRADE ARRANGEMENTS WITH USA IN
SECTORS SUCH AS URBAN MASS TRANSIT, TEXTILES AND CLOTHING,
PETROCHEMICALS AND SPECIALTY STEEL. VAST MAJORITY OF GOODS NOW
TRADED ENTER MARKETS DUTY FREE. WE NEED TO DO MORE HOMEWORK AND
THEN DECIDE WHETHER NEGOTIATIONS MIGHT BE POSSIBLE BUT INITIATIVE
HAS A HIGH PRIORITY.

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PAGE TWO URR906 RESTR

3. REGAN STATED THAT HE HAD HELD POSITIVE DISCUSSIONS WITH USTR AMB BROCK ON THIS ISSUE. HE SAW CLEAR POLITICAL MERIT IN ACHIEVING PROGRESS. GOVT HAD REJECTED NOTION OF CUSTOMS UNION OR FULL FREE TRADE ARRANGEMENT WITH USA BUT SECTORAL STUDIES WERE UNDERWAY. IT WLD TAKE TIME TO COMPLETE ASSESSMENTS BUT HE SUGGESTED THAT IF WE CLD MOVE FORWARD ON ONE SECTOR IT WLD BE A POSITIVE SIGNAL AND STIMULUS FOR MORE.

4. THERE WAS BRIEF DISCUSSION OF THE PERCEPTIONS OF AUTOPACT WHICH LED QUICKLY TO REVIEW OF COMMON PROBLEM USA AND CDA HAVE WITH JAPANESE AUTO IMPORTS. REGAN STRESSED CDN GOVTS DESIRE TO ATTRACT JAPANESE INVESTMENT INTO AUTO SECTOR. BECAUSE OF ITS EXTENSIVE LEVERAGE WITH JAPAN, USA WAS MORE SUCCESSFUL IN SECURING SUCH INVESTMENT. IF THIS TREND CONTINUED IT WLD ULTIMATELY UNDERMINE BENEFITS OF AUTOPACT.

5. ON SPECIFIC BILATERAL ISSUES REGAN REFERRED IN FAMILIAR TERMS TO CDN CONCERNS REGARDING USA SPECIALTY STEEL RESTRICTIONS, CEMENT PROHIBITION, SECTION 332 INVESTIGATION INTO CDN FISH EXPORTS AND ANTI-DUMPING INVESTIGATION ON POTATOES. HE ACKNOWLEDGED THAT THERE WAS SOME MOVEMENT ON STEEL AND SOME PROSPECT OF RELIEF RE CEMENT EVEN THOUGH LATTER (I.E. OFFER OF COMPENSATION) PROVIDED NO/NO DIRECT BENEFIT TO CDN STEEL PRODUCERS. ON CEMENT SHULTZ OBSERVED THAT BUY AMERICAN AND BUY CDA PRACTICES WERE EQUALLY BAD FOR TRADE.

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PAGE THREE URR0906 RESTR

AS FOR ANTI-DUMP OR COUNTERVAIL ACTIONS THESE WERE INITIATED PRIVATELY, NOT/NOT BY ADMIN, AND WLD HAVE TO RUN THROUGH DUE PROCESS. (SHULTZ WAS SUBSEQUENTLY PRESENTED WITH CDN SALMON ALONG WITH CAPTION QUOTE HERES ONE YOU DO NOT/NOT HAVE TO INVESTIGATE UNQUOTE.) 6. SHULTZ RAISED TWO CONCERNS: CABLE RETRANSMISSION RIGHTS AND CDN TAX ON TRAVEL BROCHURES, WHICH, HE ADDED, MAY OBLIGE USA TO RECIPROCAT. SSEA NOTED REPRESENTATION ON RETRANSMISSION RIGHTS AND SAID MATTER WAS BEING CONSIDERED BY CABINET. ON TRAVEL BROCHURE TAX SSEA EXPLAINED THAT THIS WAS A FEDERAL SALES TAX WHICH APPLIED INDISCRIMINATELY TO DOMESTIC AND FOREIGN MANUFACTURERS. BURT UNDERSTOOD APPLICATION OF TAX TO USA MANUFACTURERS WAS AN ANOMALY. BURNEY SAID THAT, ON CONTRARY, ANOMALY WAS THAT, SINCE 1981, USA MANUFACTURERS HAD BEEN EXEMPTED FROM TAX WHICH WAS APPLIED TO CDN MANUFACTURER OF TRAVEL BROCHURES. SHULTZ ACKNOWLEDGED USA DEL DID NOT/NOT SEEM TO HAVE ALL THE NECESSARY FACTS ON THIS ISSUE.

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7	DOGLA JUSTICEOTT/

C O N F I D E N T I A L
FM EX10TT URE0636 21OCT83
TO WSHDC IMMED

INFO CAIRO/MINDEL CNGNY FINOTT/TOUGH/SHANNON
EH EMROTT/TELLIER/PRIDDLE/GAS BRANCH/GOOD/IERE/DOGLA JUSTICEOTT/
JEWETT DE CTT

DISTR MINA MINT DMT DMF UGB URD URE URT URR EFB ETD ETE JLF

---MACEACHEN/SHULTZ BILAT OCT 16/17-NEP CROWN SHARE PROVISION

SUMMARY:DPM/SSEA LEFT HALIFAX MTG WITH SENSE THAT LONG DESIRED
OBJECTIVE OF FULL DISCUSSION OF CROWN SHARE ISSUE WITH SCY SHULTZ
HAS NOW BEEN MET.DESPITE COMPREHENSIVE DEFENCE OF CDN POSITION BY
DPM/SSEA,SCY SHULTZ WAS NOT/NOT PERSUADED TO CHANGE HIS VIEW THAT
CROWN SHARE WAS RETROACTIVE IN NATURE AND THEREFORE OBJECTIONABLE.
THROUGHOUT DISCUSSION,SCY SHULTZ AND USA SIDE MAINTAINED
AGGRESSIVE TONE,IN CONTRAST TO REST OF HALIFAX MTG,AND IN CLOSING
MADE IT CLEAR THAT USA WOULD NOW BE CONSIDERING FURTHER ACTION.

2.REPORT:DPM/SSEA OPENED BY REFERRING TO SCY SHULTZ'S JUN07 LETTER
AND SUGGESTING IT WOULD BE BETTER TO HAVE DISCUSSION.BOTH AGREED
THAT MATTER IN DISPUTE HAD BEEN NARROWED TO QUESTION OF RETRO-
ACTIVITY.

3.DPM/SSEA REVIEWED HISTORICAL SITU THAT HAD LED TO CROWN SHARE.
COMPANIES HAD BEEN HOLDING LEASES OVER LARGE TRACTS OF PUBLICLY
OWNED CDA LANDS BUT HAD UNDERTAKEN LITTLE ACTIVITY.THIS WAS NOT IN
INTERESTS OF CDA,AND SO CDN GOVT HAD MADE IT CLEAR IN EARLY 1970'S
THAT CHANGES TO REGIME WOULD BE COMING.NEP HAD HAD DESIRED EFFECT

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PAGE 2 URE0636 CONFID

OF STIMULATING ACTIVITY THROUGH PIP GRANTS, WHILE CROWN SHARE GAVE CDA SOME SAY IN DEVT OF CANADA LANDS. PRINCIPLE OF CROWN INVOLVEMENT HAD ITS PRECEDENT IN OLD RETURN-OF-ACREAGE REGIME. APART FROM THIS, CROWN SHARE APPEARED NO DIFFERENT IN SUBSTANCE FROM USA WINDFALL PROFITS TAX. MOREOVER, NEP WAS TOTAL PACKAGE. IT WAS MISLEADING TO COMPARE PARTS OF OLD REGIME WITH PARTS OF NEW, PUT IN CDN VIEW NEP PROVIDED OVERALL RETURN ON INVESTMENT COMPARABLE WITH OTHER COUNTRIES.

4. SCY SHULTZ DISAGREED THAT NEP HAD BEEN GOOD FOR EXPLORATION AND ADDED THAT MOBIL HAD HAD LONG HISTORY OF OFFSHORE ACTIVITY IN CDA, BUT HE EMPHASIZED THAT HIS REAL CONCERN WAS THAT QUOTE BACK-IN UNQUOTE HAD CHANGED RULES OF GAME RETROACTIVELY AND AMOUNTED TO EXPROPRIATION WITHOUT COMPENSATION. THERE WAS SIGNIFICANT DIFFERENCE BETWEEN RETURNING CORRIDOR ACREAGE AND BEING COMPELLED TO ACCEPT NEW PARTNERS AFTER DISCOVERIES HAD BEEN MADE. SCY SHULTZ WARNED AGAINST REDUCING INCENTIVES TO EXPLORATION WHEN WESTERN WORLD HAD SUCH STAKE IN ENSURING ENERGY SECURITY.

5. NEITHER SCY SHULTZ NOR USA UNDERSEC WALLIS CHALLENGED COMPARISON OF CROWN SHARE TO WINDFALL PROFITS TAX. IN SCY SHULTZ'S VIEW PERHAPS BOTH HAD BEEN MISTAKES AND ONE WAS NO WORSE THAN OTHER. USA AMB ROBINSON ADDED THAT NEP HAD ALSO HAD EFFECT OF FORCING SALES AT FIRESIDE PRICES.

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6. AFTER SOME DISCUSSION ON HISTORY OF OFFSHORE ACTIVITIES, MSIT REGAN SUGGESTED IT MIGHT BE POSSIBLE FOR TWO GOVTS TO SEE HOW HIBERNIA COULD BE MADE MOST MARKETABLE. SCY SHULTZ REPLIED QUOTE NO UNQUOTE, THAT HIS OBJECTION WAS ON PRINCIPLE. USA INVESTORS NEEDED ASSURANCES THAT RULES WOULD NOT/NOT BE CHANGED.

7. AME ROBINSON SUGGESTED THAT ISSUE BE PURSUED BY CONTRACT GROUP, BUT SCY SHULTZ DOUBTED PRACTICALITY AND SUGGESTED THEY THINK FURTHER AND COME BACK TO ISSUE LATER. DPM/SSEA WAS PREPARED TO CONTINUE WHENEVER SCY SHULTZ LIKED WITH VIEW TO REACHING BETTER UNDERSTANDING OR PERHAPS LETTING MATTER DROP. SCY SHULTZ REPLIED THAT USA BELIEVED CDA HAD DONE WRONG AND WOULD BE CONSULTING COMPANIES AFFECTED TO DETERMINE FUTURE COURSE OF ACTION. AME GOTLIEB POINTED OUT THAT USA ITSELF WAS PREPARED TO ENGAGE IN RETROACTIVE MEASURES ON GAS IMPORTS AND CERTAIN ASPECTS OF EXPORT ADMIN ACT.

8. DPM/SSEA CONCLUDED BY OBSERVING THAT THEY HAD GONE ABOUT AS FAR AS THEY COULD. SCY SHULTZ REPLIED THAT IT MUST BE RECOGNIZED THAT THERE WAS A SUBSTANTIVE DISAGREEMENT. USA WOULD NOW DETERMINE WHAT IT WOULD DO ABOUT IT.

9. TEXT OF SUMMARY RECORD OF DISCUSSION BEING SENT TO WSHDC.

CCC/265 212254Z URE0636

URR	
OCT 24 1983	
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C O N F I D E N T I A L

FM EXTOTT URE0637 21OCT83

TO WSHDC IMMED

INFO CAIRO/MINDEL CNGNY FINOTT/TOUGH/SHANNON
EH FMROTT/TELLIER/PRIDDLE/GAS BRANCH/GOOD/IERB NEBTOTT/EDGE/
IRONSTONE NPAOTT/SHARP/CAMERON

SFAX BOSTN CHCGO LNGLS SFRAN SEATL DE OTT

REGAM DALAS MNPLS ATNTA BFALO CLVND DTROT NRLNS PHILA DE OTT
DISTR MINA MINT DMT DMF UGB URD URE URT C URR EFB ETD ETE

---MACEACHEN/SHULTZ BILAT OCT16/17-NATURAL GAS AND NORTHERN GAS
PIPELINE

SUMMARY:SECY SHULTZ USED OPPORTUNITY OF HALFX MTG TO EXPRESS
CONFIDENCE THAT COMPLEX NATURAL GAS ISSUE WAS BEING HANDLED WELL.
HE RECOGNIZED NEED FOR LONG-TERM APPROACH.DPM/SSEA RAISED CDN
CONCERNS RELATING TO PREBUILD,AND BOTH SIDES EXPECTED THAT CONSULTS
RECENTLY REQUESTED BY CDA UNDER NORTHERN PIPELINE AGMT WOULD BE
PRODUCTIVE.

2.REPORT:SECTY SHULTZ BEGAN BY REFERRING TO QUOTE GOOD MOVEMENT
UNQUOTE THAT HAD RECENTLY TAKEN PLACE ON GAS ISSUE AND EXPRESSED
CONFIDENCE THAT OVER PERIOD OF TIME CURRENT PROBLEMS RELATED TO
USA MARKET WOULD SOLVE THEMSELVES.HE POINTED TO CONSIDERABLE
FLEXIBILITY DEMONSTRATED BY CDA AND WAS CONFIDENT THAT ISSUE WAS
BEING HANDLED WELL.

3.DPM/SSEA RAISEI CDN CONCERNS OVER PREBUILD.IN ENSUING DISCUSSION,
USA SIDE TENDED TO ADDRESS ISSUE TO FULL ANGTS PROJECT RATHER THAN
FOCUSING ON SPECIFIC CURRENT PROBLEM DUE TO DIFFICULTIES IN

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PAGE TWO URE0637 CONF

MARKETING PREBUILD EXPORTS. FOR EXAMPLE, SECY SHULTZ NOTED DIFFICULTY IN PREDICTING QUOTE IMPLIED UNQUOTE PRICE OF GAS THROUGH (PRESUMABLY ANGTS) PIPELINE AND IN FORECASTING EFFECTS OF DEREGULATION, WHICH IN HIS VIEW WOULD PROBABLY LEAD TO DROP IN MARKET PRICE. USA UNDER SECY WALLIS THOUGHT COMPANIES HAD WRITTEN OFF INVESTMENT WHEN FORECASTED OIL PRICE INCREASES HAD FAILED TO MATERIALIZE. AMB GOTLIEB POINTED OUT THAT CDA HAD NOT/NOT WRITTEN OFF PREBUILD, AND DPM/SSEA REMINDED USA SIDE OF USA OBLIGATIONS TO CDA RELATING TO PREBUILD. WALLIS SAID ISSUE HAD BEEN BADLY HANDLED ON USA SIDE IN EARLY DAYS BECAUSE QUOTE UNRELIABLE PEOPLE HAD BEEN IN CHARGE UNQUOTE.

4. WHEN AMB GOTLIEB AGAIN RAISED PREBUILD PROBLEM, WALLIS NOTED PROPOSALS SUCH AS Y-LINE TO MAKE ANGTS MORE PROFITABLE AND AGAIN QUESTIONED ANGTS VIABILITY BY OBSERVING THAT IT WAS HARD TO TELL WHETHER IT WAS ONLY GOVT MONEY THAT WAS NOW KEEPING IT ALIVE.

5. BOTH CDN AND USA SIDES REFERRED TO PROPOSED CONSULTS ON PREBUILD AND HOPED THESE WOULD MAKE PROGRESS. SECY SHULTZ CONCLUDED DISCUSSION BY NOTING THAT NATURAL GAS WAS COMPLEX SUBJ WITH MANY STRANDS INCLUDING PIPELINE. HE INSTRUCTED WALLIS TO FOLLOW UP FOR USA SIDE.

CCC/279 212332Z URE0637

C O N F I D E N T I A L

FM EXTOTT URR929 25OCT83

TO WSHDC

INFO DNDOTT/AMPOL/DCPOL/DIPOL/DAC/CPD PCOOTT/FOWLER PMOOTT/B. SMITH

DISTR IDD IFB IDR DMF USS IDDX MINA MINE MINT UGB URD FPR IDA
ZSP ZSI

---SHULTZ/MACEACHEN BILATERAL:CRUISE MISSILE TESTING

FOLLOWING IS SUMMARY OF SHULTZ/MACEACHEN DISCUSSION ON THIS SUBJECT
IN HALIFAX 17OCT.

2.DPM/SSEA REVIEWED FREE-FLIGHT TEST PLANS FOR CRUISE OVER ALBERTA
AND NOTED THAT CDA HAD ONLY RECENTLY LEARNED THAT MISSILE WLD NOW
ONLY BE TESTED IN A QUOTE TETHERED MODE UNQUOTE DURING 1984.DPM/SSEA
STATED THAT A LOT OF PUBLIC CRITICISM IN CDA OVER CRUISE TESTING
HAD BEEN DIRECTED AT SAFETY HAZARDS FROM TESTING IN QUOTE FREE-
FLIGHT MODE UNQUOTE AND THAT HAD GOVT KNOWN EARLIER OF PLANS TO
TEST ONLY IN QUOTE TETHERED MODE UNQUOTE,A GREAT DEAL OF PUBLIC
CONCERN AND CONTROVERSY CLD HAVE BEEN AVERTED.DPM/SSEA MADE CLEAR
HE WAS NOT/NOT ADVOCATING ONE MODE OF TESTING OVER ANOTHER,BUT
HE WISHED CDN GOVT TO HAVE FULL AND TIMELY INFO ON USA PLANS
IN ORDER TO BE ABLE TO HANDLE POLITICAL MANAGEMENT OF ISSUE.IN
OTHER WORDS,HE WAS NOT/NOT ASKING USA TO HAVE OR NOT/NOT TO HAVE
A FREE FLIGHT IN 1984,HE JUST WANTED AS MUCH ADVANCE NOTICE AS
POSSIBLE ABOUT WHEN A FREE FLIGHT WLD BE POSSIBLE.

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R.P.KIRBY/mer

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M.G.VON NOSTITZ

PAGE TWO URR929 CONF

3. ASSISTANT SECRETARY BURT STATED THAT PART OF PROBLEM WAS STATE DEPT'S INABILITY TO OBTAIN CURRENT INFO FROM DEPT OF DEFENSE. HE TOOK NOTE OF DPM/SSEA'S CONCERN THAT CRUISE TESTING BE ADDRESSED AS A POLITICAL PROBLEM AND SAID HE WLD MAKE DOD COGNIZANT OF THIS REQUIREMENT.)

SHULTZ INSTRUCTED BURT TO FOLLOW THROUGH AND TO RELAY RESULTS OF HIS CONTACT WITH DOD TO CDN SIDE. SHULTZ ASKED BURT TO EMPHASIZE THAT ISSUE HAD BEEN RAISED PERSONALLY BY DPM/SSEA AND THEREFORE SHOULD BE ACCORDED CAREFUL ATTENTION.

* IN CONCLUSION, DPM/SSEA REITERATED THAT CDA WAS ^{NOT} ADVOCATING A PARTICULAR WAY OF TESTING MISSILE, BUT SIMPLY WISHED TO BE KEPT FULLY INFORMED ON DEVELOPMENTS AND PLANS. MARCHAND/DMF ADDED THAT THIS DID NOT/NOT MEAN THAT DOD SHOULD TAKE SHORTCUTS WITH SAFETY PRECAUTIONS AND EMPHASIZED THAT NOBODY IN CDA WAS PRESSING FOR AN EARLY FREE FLIGHT.

Diary

C O N F I D E N T I A L

FM EXTOTT URR928 25OCT83

TO WSHDC

INFO DNDOTT/DCPOL/ADMPOL PCOOTT/FOWLER

DISTR IPR UGB URT IDD UTD UTT UTM TDU TDD URD MINT MINA MINE DMT

TFB DMF TDM

---SHULTZ/MACEACHEN BILATERAL MTG:NORTH AMERICAN AIR DEFENCE
MODERNIZATION

FOLLOWING IS SUMMARY OF SHULTZ/MACEACHEN DISCUSSION ON THIS
SUBJECT IN HALIFAX 17OCT.

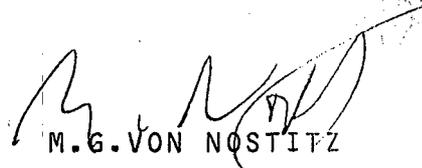
2.SHULTZ TOOK LEAD ON DEFENCE ISSUES BY HIGHLIGHTING
COOPERATIVE NATURE OF CDA/USA DEFENCE RELATIONSHIP.HE APPLAUDED
DEFENCE DEVELOPMENTS IN CDA AND SAID THAT ON ISSUES WHERE THERE
WERE NO/NO BIG PROBLEMS HE WANTED TO AVAIL HIMSELF OF MTG WITH
DPM/SSEA TO NOTE THAT THINGS WERE GOING WELL.

3.DPM/SSEA AGREED THAT NORAD HAD BEEN GOOD EXAMPLE OF CONTINUOUS
BILATERAL COOPERATION IN VERY IMPORTANT SECTOR,AND REPEATED CDA'S
SUPPORT FOR CONTINENTAL AIR DEFENCE MODERNIZATION. DPM/SSEA
STATED THAT,SINCE CDA WAS CONTRIBUTING TO PAYMENT OF VERY COSTLY
MODERNIZATION PROGRAMME,HE WANTED TO REGISTER WITH SHULTZ CDA'S
INTEREST IN SHARING IN DEVELOPMENT AND PRODUCTION OF NEW DEFENCE
SYSTEMS.DPM/SSEA NOTED THAT A NUMBER OF CDN COMPANIES,SUCH AS SPAR
AEROSPACE AND CDN MARCONI,HAD BEEN REFUSED ACCESS TO TECHNICAL
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R.P. KIRBY/mer

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M.G. VON NOSTITZ

PAGE TWO URR928 CONF

BRIEFING SESSIONS WHICH HAD PUT THEM AT DISTINCT DISADVANTAGE IN
BIDDING FOR CONTRACTS.

4. SHULTZ TURNED TO ASSISTANT SECRETARY BURT WHO SAID THIS PROBLEM
HAD JUST COME TO HIS NOTICE AS A RESULT OF MTG OF PERMANENT JOINT
BOARD ON DEFENCE. BURT ADDED THAT HE HAD BEEN INFORMED BY USA DEPT
OF DEFENSE THAT MATTER CLD BE RESOLVED. SHULTZ DIRECTED BURT
TO FOLLOW UP EMPHASIZING THAT ADMIN HAD NO ^{/no} ARGUMENT IN PRINCIPLE
WITH POSITION PUT FORWARD BY DPM/SSEA.

URR	
OCT 20 1983	
ACTION	INFO
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C O N F I D E N T I A L

FM EXTOTT UGB0028 18OCT83

TO WSHDC DELIVER BY 190900

INFO HAGUE/MINDEL DELIVER BY 190800

PNATO MOSCO LDN BON PARIS ROME PRMNY PCOOTT/FOWLER NDHQOTT/ADMPOL
DISTR MINA RBD RCD URD IFB IDD IDDZ RGB DMF USS URR

---SSEA/SHULTZ:EAST/WEST RELATIONS

SUMMARY: BREAKFAST DISCUSSION CONCENTRATED EXCLUSIVELY ON EAST/WEST RELATIONS. (MTG WAS PRECEDED BY SEPARATE PROBES FROM SHULTZ AND FURT RE OPTIONS BEING CONTEMPLATED BY CDA SPECIFICALLY THROUGH PMS GUELPH SPEECH. CLEAR MSG WAS THAT USA WAS ANXIOUS TO AVOID BEING SURPRISED AND/OR EMBARRASSED.) OVER BREAKFAST SSEA EMPHASIZED (A) FIRM NATURE OF CDAS COMMITMENT TO NATO TWO-TRACK DECISION; (B) SYMBOLIC SIGNIFICANCE OF CRUISE TESTING, AND (C) DISAGREEABLE EXPERIENCE WITH KOREAN AIRLINER INCIDENT. NONFTHELESS CDN GOVT WAS DEEPLY CONCERNED ABOUT DETERIORATION IN OVERALL EAST/WEST RELATIONS AND WAS ASSESSING POSSIBILITIES FOR HELPING REOPEN DIALOGUE. NO/NO CONCLUSIONS HAD BEEN REACHED. USA WOULD BE DEPT INFORMED. SHULTZ ASSESSED OVERALL SITUATION AS QUOTE PRETTY CHILLY UNQUOTE WITH USSR HARD LINE IN EVIDENCE ON ALL FRONTS. HE EMPHASIZED THAT WEST NEEDED TO MAINTAIN FIRM BUT REASONABLE

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PAGE TWO UGP0028 CONF

POSTURE TO SUSTAIN ALLIANCE SOLIDARITY AND PUBLIC SUPPORT. HE DID NOT/NOT DISCOUNT UTILITY OF VISITS NOR OF EFFORTS TO RENEW DIALOGUE.

2. REPORT: SSEA INTRODUCED DISCUSSION OF EAST/WEST RELATIONS BY NOTING THAT CDAS COMMITMENT TO NATO TWO-TRACK DECISION WAS FIRM AND UNWAVERING. NATURE OF THIS COMMITMENT WAS DEMONSTRATED SYMBOLICALLY THROUGH DECISION BY GOVT TO PERMIT TESTING OF AIR-LAUNCHED CRUISE MISSILES IN CDN AIRSPACE. SIGNIFICANTLY, OPPOSITION TO CRUISE TESTING IN CDA HAD DROPPED MARKEDLY FOLLOWING GOVT DECISION; INSTEAD OF 14 POINT GAP AGAINST TESTING, POLLS NOW SHOWED 50/50 SPLIT ON ISSUE OR SLIGHT MARGIN SUPPORTING TESTS.

3. SSEA REFERRED TO DISAGREEABLE CDN EXPERIENCE WITH USSR OVER KOREAN AIRLINER. OUR REQUESTS FOR COMPENSATION HAD BEEN REBUFFED. SOVIET REACTIONS EMERGED THROUGH READINGS FROM TASS. CDN HOUSE OF COMMONS HAD PASSED FIRM RESOLUTION ON ISSUE BUT SOVIET CHARGE, ON INSTRUCTIONS, REFUSED TO ACCEPT TEXT FROM HOUSE SPEAKER. SSEA HAD SENT PERSONAL NOTE OF CONCERN TO GROMYKO BUT SOVIET FOREIGN MIN STATED TO OUR AMB THAT HE HAD NO/NO INTENTION OF REPLYING. (HE HAD BEEN ASKED TO RECONSIDER BUT GAVE NO/NO COMMITMENT.)

4. AEROFLOT FLIGHTS INTO CDA HAD BEEN SUSPENDED FOR TWO MONTHS. BECAUSE THERE HAD BEEN SOME CONFUSION IN USA ON SCOPE OF

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SUSPENSION SSEA EMPHASIZED THAT NO/NO FLIGHTS OF ANY KIND INTO GANDER WERE BEING AUTHORIZED. (SHULTZ EXPRESSED APPRECIATION ON THIS POINT ACKNOWLEDGING THAT THERE HAD BEEN SOME CONFUSION IN WSHDC.) SSEA ADDED THAT CDN AUTHORITIES HAD BEEN NEGOTIATING AN ARRANGEMENT INTENDED TO PROVIDE FUEL STORAGE SPACE FOR AEROFLOT IN NEWFOUNDLAND. DESPITE FACT THAT CDN BUSINESSMEN HAD ALREADY MADE CONSIDERABLE INVESTMENT INTO THIS PROPOSAL MATTER WAS NOW ON HOLD. PROS AND CONS OF PROCEEDING WERE BEING REASSESSED. WHOLE AIRLINER EPISODE HAS HAD DISTINCTLY NEGATIVE IMPACT ON PUBLIC OPINION IN CDN AND ON SSEAS OWN ATTITUDE.

5. AT SAME TIME PM AND SSEA WERE CONCERNED ABOUT DETERIORATION OF WESTS OVERALL POLITICAL RELATIONSHIP WITH USSR. FACT THAT DIALOGUE WAS NON-EXISTENT IS NOT/NOT HEALTHY AND DEFINITELY WORRYING. DESPITE FEELING AROUSED BY AIRLINER INCIDENT CDN GOVT POSITION WAS THAT WE SHOULD DO OUR UTMOST TO REOPEN AND SUSTAIN DIALOGUE.

6. AS PM HAI INDICATED AT WESTERN UNIVERSITY, WE APPRECIATE DETERMINATION OF USA PRESIDENT TO MOVE ARMS DISCUSSION FORWARD. IT WAS VERY SOUND AND WISE NOT/NOT TO ALLOW PROVOCATION OF AIRLINER INCIDENT TO DETER USA FROM ARMS CONTROL OBJECTIVES. IN LIGHT OF HEIGHTENED CONCERN ABOUT OVERALL EAST/WEST POLITICAL SITUATION, PM AND SSEA WERE WONDERING WHETHER THERE MIGHT BE

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PAGE FOUR UGB0026 CONF

USEFUL STEPS CDA COULD TAKE WITHIN LIMITS OF OUR CAPACITIES AND
ROLE. PM IS DEVOTING MUCH TIME TO ASSESSMENT OF THESE POSSIBILITIES.
NO/NO CONCLUSIONS HAD BEEN REACHED. SSEA ADDED QUOTE IF WE HAD, I
WOULD TELL YOU. IF WE WERE VERGING TOWARDS CONCLUSIONS, I WOULD
TELL YOU UNQUOTE.

7. SHULTZ EXPRESSED APPRECIATION FOR AND AGREEMENT WITH SSEAS
OUTLINE OF CDN APPROACH. AS TWO-TRACK DECISION ILLUSTRATES, WESTERN
STRENGTH IS CENTRAL CONSIDERATION TOGETHER WITH READINESS TO PF
REASONABLE AND TO TALK THINGS OUT. IF WE THROW UP OUR HANDS (AND
REJECT ANY PROSPECT OF DIALOGUE), OUR PUBLICS WOULD OBVIOUSLY BE
TURNED OFF. IF, HOWEVER, PEOPLE SEE US AS FIRM (QUOTE STANDING UP
UNQUOTE) BUT REASONABLE, THEY WILL SUPPORT US. SHULTZ CONTENDED
THAT FIRM BUT REASONABLE POSTURE HAD HELPED KOHL AND THATCHER
SECURE ELECTION VICTORIES. HE REGARDED INCREASED PUBLIC SUPPORT
FOR CRUISE TESTING IN CDA AS FURTHER ILLUSTRATION OF SAME POINT.
8. MORE FUNDAMENTALLY, SHULTZ CHARACTERIZED OVERALL SITUATION AS
QUOTE PRETTY CHILLY UNQUOTE. USSR WAS EXPERIENCING HEAVY WEATHER
IN AFGHANISTAN BUT WAS DETERMINED TO PRESS ON; THERE WAS NO/NO
SUGGESTION OF OR SCHEDULE FOR TROOP WITHDRAWALS. IN SOUTHERN
AFRICA SOVIET LINE HAD BECOME HARDER AND MILITARY SUPPLIES WERE
INCREASING. SAME WAS TRUE OF CENTRAL AMERICA AND CAMBODIA.
ANDROPOV HAS NOT/NOT BEEN SEEN PUBLICLY FOR FIVE WEEKS AND, SHULTZ

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PAGE FIVE UBG0028 CONF

CONTENDED, EVEN EASTERN EUROPEANS (NAMESLY HUNGARIAN AND ROMANIAN FOREIGN MINS) ARE NERVOUS.

9. PRIOR TO KOREAN AIRLINER ATTACK, USA HAD BEEN MAKING SOME PROGRESS WITH USSR, EG ON NON-PROLIFERATION AND ON GRAIN AGREEMENT. PROMISE OF MOVEMENT WAS NOW DERAILED. SOVIETS COULD HAVE DEFUSED AIRLINER EPISODE IN VARIETY OF WAYS, PARTICULARLY IF SOMEONE WITH VIEW OF OUTSIDE WORLD HAD POWER BUT, SHULTZ STATED, THERE APPEARS TO BE NO/NO ONE IN MOSCO WITH POWER TO SAY MILITARY HAD MADE A MISTAKE. AGAINST THAT WEST HAD TO REMAIN REASONABLE BUT FIRM. QUOTE WE MUST NOT/NOT KID OURSELVES BY TRYING TO BE TOO REASONABLE UNQUOTE.

10. DMF OFFERED DIFFERENT VIEW ON SOVIET MANAGEMENT OF AIRLINER ISSUE. CDN EXPERTS WOULD HAVE BEEN SURPRISED IF USSR HAD HANDLED INCIDENT DIFFERENTLY. OUR EXPECTATION IS THAT AFTER NECESSARY PERIOD OF FACE-SAVING WE MAY SEE SIGNALS DEMONSTRATED THROUGH CHANGES WITHIN MILITARY COMMAND STRUCTURE. BURT SUGGESTED THAT BEST SIGNAL OF ALL WOULD BE SIGNS THAT USSR WAS PREPARED TO RESPOND POSITIVELY TO ICAO PROPOSALS, IE TO PREVENT RECURRENCE OF AIRLINER ATTACKS.

11. SHULTZ OBSERVED THAT UNFORTUNATELY ANALYSTS CAN BE VERY WRONG. QUOTE WE MUST BE CAREFUL NOT/NOT TO BASE OUR POLICIES ON WHAT WE THINK USSR IS DOING BUT RATHER ON WHAT WE OBSERVE THEM DOING UNQUOTE.

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12. SSEA WONDERED ABOUT UTILITY OF VISITS (VIS-A-VIS USSR) NOTING THAT BOTH HE AND PM HAD OUTSTANDING INVITATIONS. SHULTZ SAW THIS AS QUOTE TOUGH CALL UNQUOTE, PARTICULARLY IF VISIT MEANT TRIP TO MOSCO. THIRD-COUNTRY VENUE WAS DIFFERENT. SHULTZ HAD REFERRED EARLIER TO GENSCHERS MTG WITH GROMYKO. SOVIET FOREIGN MIN HAD PROPOSED MTG; GENSCHER HAD SUGGESTED NEUTRAL SITE AND GROMYKO AGREED. SHULTZ HAD NOT/NOT RECEIVED REPORT ON GENSCHER VISIT BUT WAS NOT/NOT HOPEFUL ABOUT RESULTS. HE SAW MTG AS DESIGNED PRIMARILY TO SERVE GENSCHERS DOMESTIC PREOCCUPATIONS, IE NEED TO BE SEEN TO BE PROBING, PARTICULARLY AS GERMANS MOVE INTO EYE OF DEPLOYMENT STORM. SHULTZ SAID HE WAS NOT/NOT WORRIED ABOUT EVENTS IN GERMANY AND WAS CONFIDENT FRG WOULD REMAIN VERY FIRM. (HE INTIMATED THAT SITUATION IN UK, WHILE LESS TURBULENT THAN FRG, MIGHT INVOLVE MORE TURMOIL THAN HAD BEEN ANTICIPATED.) MEANWHILE, HE ADDED, ITALIANS, UNDER THIRD PM THIS YEAR, KEEP MOVING STEADILY ALONG.

13. BURT UNDERSCORED EXTENT TO WHICH ABILITY OF GERMANS TO ACCEPT DEPLOYMENT WOULD BE INFLUENCED BY ATTITUDES OF NON-EASING COUNTRIES. HE ADDED THAT DANISH FOREIGN MIN WAS SCHEDULED TO VISIT MOSCO LATER THIS MONTH.

14. AT END OF BREAKFAST THERE WAS BRIEF EXCHANGE ON INF TALKS. DMF SUGGESTED THAT NEXT SOVIET PROPOSAL WAS BOUND TO SEEK MAXIMUM DISRUPTION IN ALLIANCE SOLIDARITY. HE WONDERED WHETHER SOVIETS

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MIGHT PROPOSE A REDUCTION BELOW AGGREGATE OF UK AND FRENCH
MISSILES.(SEE FINAL PARA)

15.SHULTZ CONTENDED THAT PROBLEM WAS,WHILE USA PROPOSED GLOBAL
REDUCTIONS,USSR TALKED ONLY OF REDUCTIONS IN EUROPE.BURT STATED
THAT USSR WOULD HAVE TO ACCEPT PRINCIPLE OF US DEPLOYMENT;
SOVIETS COULD NOT/NOT BE GIVEN MONOPOLY.HE ADDED THAT,IN TERMS
OF USSR COUNTER-REACTIONS TO USA DEPLOYMENT,THERE WAS WIDE
SPECTRUM OF POSSIBILITIES RANGING FROM TWO EXTREMES (ORATORICAL
OR SYMBOLIC REACTION THROUGH TO DEPLOYMENT OF SS-20S IN CUBA).
EXTREMES,PARTICULARLY LATTER,WERE DEEMED UNLIKELY.USSR COULD
ADJUST OR MAKE PUBLIC EXISTING MILITARY PROGRAMS AND DESCRIBE
THESE AS RESPONSE TO DEPLOYMENT.THEY COULD EXPAND OR ACCELERATE
DEPLOYMENT IN EASTERN EUROPE OR INCREASE NUMBER OF SUBMARINES ON
STATION IN A RANGE OF USA.REFLECTING EITHER CYNICISM OR REALISM
OR BOTH,BURT CONCLUDED THAT IT WOULD BE HARD TO POINT TO
ANYTHING THAT USSR MIGHT DO WHICH THEY WOULD NOT/NOT HAVE DONE
IN ANY EVENT.

16.IN SEPARATE CONVERSATION WITH BURT,DMF TRIED TO ASCERTAIN
WHICH OF ANTICIPATED SOVIET COUNTER MOVES TO LATEST REAGAN
PROPOSALS WOULD BE DISREGARDED AS MOST DIFFICULT TO HANDLE.DMF
OFFERED VIEW THAT SOVIET PROPOSAL TO REDUCE NUMBER OF SS-20S
BELOW AGGREGATE UK/FRENCH NUMBERS MIGHT BE MOST DIFFICULT.BURT
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REPLIED SUCH WOULD BE DIFFICULT BUT MANAGEABLE. MUCH MORE
DIFFICULT, ACCORDING TO BURT, WOULD BE SOVIET OFFER TO BEGIN TO
REDUCE UNILATERALLY BUT TO LINK DISCUSSION OF ACTUAL NUMBERS TO
POSTPONEMENT OF USA DEPLOYMENT. BURT WAS QUITE ADAMANT THAT
NOTION OF ANY USA DEPLOYMENT IN EUROPE WAS COMPLETELY UNACCEPTABLE
TO USSR. THEIR CHIEF AIM WAS, IN BURTS VIEW, TO LEAVE EUROPEANS TO
THEMSELVES WITHOUT ANY LAND-BASED MEDIUM-RANGE USA CONTROLLED
MISSILE SYSTEM.

CCC/020 182326Z UGB0028

MGTC FILE DIARY DIV CIRC WF

C O N F I D E N T I A L

FM EXTOTT URR912 19OCT83

TO WSHDC

INFO LDN BONN CAIRO KWAIT PRMNY PARIS BNATO BGDAD TUNIS MOSCO

RABAT ALGER AMMAN TAVIV JEDDA PCOOTT/FOWLER BAG: BEIRUT

DISTR GGB GMD GMT GMR DMF RCR RCD ZSP ZSI RGB GMRD MINA UGB

---SHULTZ/MACEACHEN MTG: LEBANON

FOLLOWING IS SUMMARY OF SHULTZ/MACEACHEN DISCUSSIONS IN HALIFAX,

17OCT:

shultz said

2. ONE OF FOREMOST CHALLENGES IN LEBANON WAS TO BROADEN BASE OF GEMAYEL GOVERNMENT. PREVIOUS EFFORTS HAD FAILED BUT THERE WAS NOW A HANKERING AFTER STABILITY. NATIONAL RECONCILIATION NEGOTIATIONS WERE ENCOURAGING. IN THE MEANTIME, EFFORTS HAD TO BE INTENSIFIED TO MAKE CEASE-FIRE HOLD. SHULTZ WAS PLEASED THAT GREEK/ITALIAN OBSERVER DEAL HAD BEEN CONCLUDED. SIMILARLY, PRESENCE OF MNF REMAINED IMPORTANT AS A BACK-STOP TO GEMAYEL GOVT. THE FACT THAT THIS FORCE HAD EFFECTIVELY DEFENDED ITSELF HAD MADE AN IMPACT ON SYRIANS.

3. DESPITE CONTINUING DEBATE IN USA ABOUT PRESENCE OF MARINES IN LEBANON, PRESIDENT HAD GOT CONGRESSIONAL BACKING FOR VIGOROUS DEFENCE BY MARINES IF NECESSARY. USA THEREFORE EXPECTED TO LEAVE MARINES THERE TO GIVE A STRUCTURE FOR RECONCILIATION NEGOTIATIONS.

4. SYRIA MORE THAN EVER REMAINED A MAJOR FACTOR AND ACCORDING TO SHULTZ WAS BENT ON DESTROYING LEBANON/ISRAEL WITHDRAWAL AGREEMENT.

(Backed up by Soviet support in missiles, including newly provided, SS-21, and personnel now estimated by USA to total 6,000 to 7,000 SOUS)

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R. Kirby

M. G. von Nostitz

R.P.KIRBY/mer

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M.G.VON NOSTITZ

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(Shultz saw it)

AS IMPORTANT TO MAINTAIN THIS AGREEMENT BECAUSE IT HAD CREATED A FRAMEWORK FOR ISRAELI WITHDRAWAL. MODERATE ARABS SHOULD THEREFORE BE ENCOURAGED NOT/NOT TO CHANGE CONDITIONS UNDER WHICH ISRAEL COULD WITHDRAW. PALESTINIAN INFILTRATION INTO THE SHUF MOUNTAINS WAS A NEGATIVE FACTOR. SYRIANS HAD DENIED THAT MANY PALESTINIANS HAD COME BACK INTO LEBANON BUT ACCORDING TO USA INFORMATION, THIS DID NOT/NOT SQUARE WITH THE FACTS. SHULTZ SAID HE HAD TOLD SYRIANS THAT PALESTINIAN SEEPAGE BACK INTO BEIRUT WOULD CREATE MAJOR PROBLEM. 5. SHULTZ SAID HIS INTELLIGENCE ANALYSTS CONTENDED THAT ODDS ON LEBANON BECOMING A COUNTRY WERE POOR. NEVERTHELESS, GIVEN BIG USA STAKE IN AREA, USA HAD NO/NO CHOICE BUT TO KEEP TRYING. SHULTZ ASKED SSEA TO PROBE SYRIAN INTENTIONS AND SAID HE WOULD BE GLAD TO HAVE REPORT ON SSEA VISIT.

C O N F I D E N T I A L

FM EXTOT URR0911 19OCT83

TO WSHDC

INFO LDN BONN CAIRO KWAIT PRMNY PARIS BNATO BGHDD TUNIS MOSCO RABAT
ALGER AMMAN TAVIV JEDDA PCOOTT/FOWLER

BAG BERUT DE OTT

DISTR GGB GMD GMT GMR GMRD DMF RCR RCD RGB ZSP ZSI MINA UGE

---SHULTZ/MACEACHEN MTG:IRAN/IRAQ WAR

FOLLOWING IS SUMMARY OF SHULTZ/MACEACHEN DISCUSSION IN HALFX,17OCT:

2.SHULTZ IDENTIFIED IRA/IRAQ WAR AS THE MAJOR SOURCE OF INSTABILITY
IN MID EAST.BOTH SIDES WERE IN DESPARATE,UNCOMPROMISING MOOD WITH
POTENTIAL FOR QUOTE WILD FLAILING-OUT UNQUOTE.SHULTZ SAW NO/NO PRO-
SPECTS OF A NEGOTIATED SETTLEMENT.SITUATION HAD NOW BEEN EXACERBA-
TED BY IRANIAN THREATS TO INTERRUPT FLOW OF OIL IN GULF.

3.USA WAS VERY MUCH BEHIND EFFORT FOR UN RESLN AIMED AT CEASE-FIRE
IN GULF TO PROTECT BOTH COUNTRIES' OIL FACILITIES.SHULTZ DOUBTED,
HOWEVER,THAT IRAN WILL PAY MUCH ATTN TO SUCH A RESLN.WITHOUT PASS-
ING JUDGEMENT ON FRENCH ACTION,SHULTZ SAID LATEST HEATING UP OF
CRISIS SIEMMED FROM IRAQ'S GETTING THE ETENDARD AIRCRAFT EQUIPPED
WITH EXOCETS.WITHOUT PROVIDING ANSWER,SHULTZ WONDERED WHAT SHOULD
BE USA REACTION IF,IN RETALIATION,IRAN QUOTE FOULED UP THE WATER-
WAYS UNQUOTE GIVEN IMPORTANT USA INTERESTS IN THE GULF.

CCC/021 201550Z URR0911

C O N F I D E N T I A L

FM EXTOTT URR915 22OCT83

TO WSHDC

INFO LDN BONN CAIRC KWAIT PRMNY PARIS BNATO BGDAD TUNIS MOSCO
RABAT ALGER AMMAN TAVIV JEDDA PCOOTT/FOWLER
EAG BEIRUT

DISTR GGE GMD GMT GMR DMF RCR RCD ZSP ZSI RGB GMRD MINA (UGB)
---SHULTZ/MACEACHEN MTG:PEACE SETTLEMENT WITH ISRAEL

FOLLOWING IS SUMMARY OF SHULTZ/MACEACHEN DISCUSSION 17OCT IN
HALIFAX.

- 2.SHULTZ SAID IT REMAINED MAJOR OBJECTIVE OF USA TO WORK TOWARDS
IMPROVEMENT OF RELATIIONS BETWEEN ISRAEL AND ITS NEIGHBOURS.
ISRAEL-EGYPT TREATY REMAINED ONLY QUOTE COOL PEACE UNQUOTE.HOWFVER,
IF MODERATE ARAB STATES SUCH AS JORDAN AND SAUDI ARABIA WLD IMPROVE
RELATIONS WITH EGYPT,THEIR INFLUENCE WLD INCREASE AND BALANCE OFF
SYRIA WHICH CONTINUED TO BE INCREASINGLY EMBRACED BY SOVIETS.
- 3.THREAT FROM SOVIET MISSILES IN SYRIA WAS NOW ENHANCED BY SYRIA'S
ACQUISITION OF SS-21 MISSILE.THERE WERE ALSO NEW SOVIET PFRSONNEL
IN SYRIA FOR A TOTAL ESTIMATED BY USA AT 6,000 TO 7,000.THIS HAD
INCREASED SYRIAS CAPACITY TO ASSERT ITSELF IN LEBANON.
- 4.SHULTZ PORTRAYED ISRAEL AS BEING IN ECONOMIC CRISIS WITHOUT A
SOLID PLAN TO DEAL WITH IT. USA IS TRYING TO KEEP PEACE PROCESS
ALIVE AND REAGAN PLAN OF 1982 WAS STILL RIGHT WAY TO GO;IT IS THE

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PAGE TWO URR915 CONF

ONLY GAME IN TOWN.

5. SHULTZ SEES PLO GOING THROUGH A DRASTIC TRANSFORMATION. WHAT CAME OUT OF THIS STILL REMAINED TO BE SEEN. SHULTZ AGREED WITH KING HUSSEIN THAT IF PLO ENDED UP BEING SO HEAVILY DOMINATED BY SYRIA THAT PLO CLD NO/NO LONGER CLAIM SOLE REPRESENTATION STATUS ON BEHALF OF PALESTINIAN PEOPLE; THAT MIGHT BE AN ADVANTAGE. SHULTZ THOUGHT ARAFAT WAS OUT. HE WAS NOW A PUPPET OF SYRIA. HE DID NOT/NOT SEEM ABLE TO MARSHALL ENOUGH POWER TO BREAK ANY NEW GROUND. JORDAN'S APRIL PROPOSITION TO PLO WAS STILL OPEN THIS IS WHY HUSSEIN DESERVED CONTINUING SUPPORT.

6. SSEA RAISED ISSUE OF WEST BANK SETTLEMENTS. IT WAS AGREED SETTLEMENTS POSED A REAL OBSTRUCTION TO PEACE PROCESS. SHULTZ SAID USA DISAGREED WITH BEGIN GOVT'S VIEW THAT SECURITY CLD ONLY BE MAINTAINED WITH SETTLEMENTS BUT HE EXPECTED SHAMIR TO COME FORWARD WITH SAME ASSESSMENT. USA VIEW, HOWEVER, IS THAT IF SETTLEMENTS WERE TEMPORARILY FROZEN, QUOTE TRANSITIONAL ARRANGEMENTS UNQUOTE CLD BE WORKED OUT PENDING A FINAL AGREEMENT ON WEST BANK. IDEA OF SOME CHANGES IN JURISDICTIONAL AND GOVERNMENTAL STRUCTURES ON THE GROUND WAS FLOUNDERING HOWEVER BECAUSE HUSSEIN CLD NOT/NOT ACCEPT IT.

7. SSEA ASKED WHETHER ISRAEL CLD BE COMPELLED TO FREEZE ITS SETTLEMENTS. SHULTZ SAID THAT TIT FOR TAT PRESSURE ON TEL AVIV HAD NEVER WORKED OUT WELL. SITUATION HAD TO BE SETTLED AS PART OF A BROADER CONTEXT. MAIN QUESTION NOW WAS HOW CAPABLE ISRAEL WAS AS A

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PAGE THREE URR915 CONF

GOVT IN CARRYING ON PEACE PROCESS IN THE FACE OF AN ECONOMIC IMPASSE AND A POSSIBLE ELECTION.

8. SSEA ASKED ABOUT POSSIBLE INDUCEMENTS FOR ISRAEL TO FREEZE SETTLEMENTS TO ENCOURAGE PEACE NEGOTIATIONS. SHULTZ REAFFIRMED THAT HUSSEIN HELD THE KEY. IF HUSSEIN CLD COME FORWARD WITH A STATEMENT EXPRESSING READINESS TO NEGOTIATE THIS WLD HAVE AN IMPACT ON PALESTINIANS AND ON ISRAEL EVEN WITH LIKUD GOVT. SHULTZ NOTED THAT PRESIDENT HAD PRIVATELY TOLD HUSSEIN THAT HE OPPOSED THE SETTLEMENTS. HUSSEIN HAD ALSO BEEN WARNED THAT IF HE DID NOT/NOT BECOME INVOLVED IN NEGOTIATIONS WITH ISRAEL THERE WLD VERY SOON BE LITTLE LEFT TO NEGOTIATE OVER. SHULTZ THUS THOUGHT MODERATE AREAS WLD HAVE TO MOVE MORE IN DIRECTION OF NEGOTIATIONS.

9. SHULTZ THEN REFERRED TO CONTROVERSIAL ASPECT OF REAGAN PLAN ACCORDING TO WHICH ALL SETTLEMENTS WLD NOT/NOT HAVE TO BE DESTROYED BUT THOSE WHO CONTINUED TO LIVE THERE WLD COME UNDER DESIGNATED JURISDICTION. THIS MEANT THAT IN DUE COURSE JEWS CLD BE ALLOWED TO LIVE UNDER JORDANIAN LAWS ON WEST BANK. THIS WLD BE AN IMPROVEMENT COMPARED TO EARLIER WHEN JORDAN ADMINISTERED AREA. UNDER THAT REGIME, JEWS HAD NOT/NOT BEEN ALLOWED TO LIVE THERE. IN SHULTZ'S VIEW, THIS NUANCE OF REAGAN PLAN HAD NOT/NOT GOTTEN ENOUGH ATTENTION.

10. SSEA AND SHULTZ AGREED THAT MOVEMENT BY JORDAN CLD HAVE DRAMATIC IMPACT. IN REFERENCE TO POSSIBLE SYRIA SPOILER ROLE, SHULTZ RECALLED

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PAGE FOUR URR915 CONF

WHEN ARAFAT WAS ON VERGE OF AN AGREEMENT WITH HUSSEIN LAST APRIL AND HAD GONE BACK TO HIS OWN CONSTITUENCY HE GOT QUOTE CLOPPERED UNQUOTE. THIS HAD BEEN RESULT OF SYRIA'S INFLUENCE. IT WAS SYRIAN PERCEPTION, SHULTZ CONTENDED, THAT IF EGYPT, ISRAEL AND JORDAN OR SAUDI ARABIA EVER GOT TOGETHER THIS WLD LEAVE SYRIA IN AN ISOLATED POSITION. THUS, SYRIANS WERE TRYING TO TORPEDO ANY PROGRESS IN THAT DIRECTION. DAMASCUS, SHULTZ SAID, WLD PREFER TO HAVE SYRIA AT CENTRE STAGE OF A SETTLEMENT, IN ORDER TO BE ABLE TO CALL THE TUNE. IN OTHER WORDS, SHULTZ SAID SYRIAN OUTLOOK WAS THAT NOTHING WLD GET SETTLED UNTIL EVERYTHING CLD BE SETTLED. THIS WAS, HOWEVER, IMPOSSIBLE IN USA VIEW. THERE WAS JUST NO/NO WAY THAT A MAJOR SETTLEMENT CLD BE BROUGHT ABOUT. ACCORDING TO SHULTZ, MID EAST MUST BE APPROACHED ON A PIECE-PY-PIECE BASIS.

CCC/265 211618Z URR0915

C O N F I D E N T I A L

FM EXTOTT URR0916 20OCT83

TO WSHDC

INFO SJOSE GTMLA CRCAS EGOTA MXICO PRMNY PARIS LDN MDRID BNATO
HAVAN KNGTN PCOOTT/FOWLER CIDAHULL/BMD *Mosco*

DISTR MINA ~~MINE~~ DMF LGB LCD LCR ~~LCRA~~ LCT LCP ~~IMU~~ UGB *URRA FPR*

---SHULTZ/MACEACHEN MTG:CENTRAL AMERICA

FOLLOWING IS SUMMARY OF SHULTZ/MACEACHEN DISCUSSION IN HALIFAX,
17OCT.

2.LPM/SSEA INTRODUCED DISCUSSION BY MENTIONING HIS CONTACTS WITH
CONTADORA GROUP MINS IN NEW YORK.HE NOTED CDN SUPPORT FOR THEIR
EFFORTS.MOREOVER,IF CENTRAL AMERICAN COUNTRIFS CLD PUT THEIR
OWN HOUSE IN ORDER,CDA CLD QUOTE ADD FURTHER TO ITS ECONOMIC
ASSISTANCE TO THE AREA UNQUOTE.

3.LPM/SSEA OPINED THAT CONTADORA MINS APPEARED CONFIDENT ABOUT
THEIR 21-POINT PROGRAMME,A VIEW WHICH SHULTZ SHARED.SSEA RECALLED
THAT HE AND SHULTZ HAD QUOTE AGREED TO DISAGREE UNQUOTE ON MILITARY
SITUATION IN CENTAM DURING THEIR APRIL BILATERAL IN WSHDC.SSEA
ALLUDED TO CONSTRUTIVE COMMENTS BY PRESIDENT IN HIS APRIL SPEECH
ON VERIFICATION ARRANGEMENTS IN CENTAM AND EXPRESSED SURPRISE AT
LIMITED INNATL REACTION TO THESE.SSEA MENTIONED THAT MEXICAN
FOR MIN AT MTG IN NY HAD ASKED CDA TO PARTICIPATE IN A VERIFICATION
COMMISSION IN CENTAM.SSFA SAID PROPOSAL WAS STILL TOO VAGUE FOR

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PAGE TWO URR0916 CCNFD

CDA, BUT IF CDA CLD PLAY A CONSTRUCTIVE ROLE, GOVT WLD CONSIDER PARTICIPATING.

4. NOTING CDN PUBLIC INTEREST IN CENTAM, SSEA ASKED ABOUT VIABILITY OF CONTADORA EFFORT. SHULTZ RESPONDED THAT IT WAS IMPORTANT TO SUPPORT CONTADORA GROUP SINCE IT WAS QUOTE ONLY SHOW IN TOWN UNQUOTE: AME STONE WAS PLAYING A VERY SUPPORT ROLE VIS-A-VIS CONTADORA. CHALLENGE WAS TO GIVE 21-POINTS PRACTICAL EFFECT. USA WAS WORKING CLOSELY WITH QUOTE CORE FOUR UNQUOTE (GUATAMALA, COSTA RICA, HONLURAS AND EL SALVADOR) BUT SHULTZ THOUGHT THAT IT WLD BE VERY DIFFICULT TO FOLLOW THROUGH ON SOME OF 21 POINTS, PARTICULARLY THOSE REFERRING TO DEMOCRACY. HE ASSERTED THAT NICARAGUA WLD NEVER RENOUNCE USE OF FORCE, DESPITE ITS ACCEPTANCE OF 21 POINTS. THERE WERE ALWAYS DIFFERENT INTERPRETATIONS OF BROAD PRINCIPLES AND IT STILL SEEMED TO SHULTZ A LONG WAY BEFORE SPECIFIC AGREEMENTS CLD BE REACHED.

5. SHULTZ SAID REAGAN'S APRIL SPEECH REMAINED MOST AUTHORITATIVE USA POLICY STATEMENT ON CENTAM. IT WAS A MULTI-STRAND APPROACH, FG RATIO OF ECONOMIC TO MILITARY AID WAS STILL PEGGED AT THREE TO ONE. AS ELECTORAL PROCESS WENT FORWARD (IN EL SALVADOR) IT WAS STILL OF PRIME IMPORTANCE TO MAINTAIN MILITARY SECURITY SHIELD FOR EL SAL GOVT. SHULTZ OPINED THAT EL SAL WAS NOW MAKING BETTER PROGRESS. WHILE CONCEDED THAT USA SUPPORT OF THE QUOTE CONTRAS UNQUOTE WAS QUOTE

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PAGE THREE URR0916 CONF

TOUGH SITUATION UNQUOTE, RESULT WAS BENEFICIAL: QUOTE CONTRAS UNQUOTE
HAD DISTRACTED NICARAGUA FROM INTERFERING EL SAL. SHULTZ STRESSED
THAT IT WAS PARTICULARLY IMPORTANT THAT NICARAGUA AND CUBA REALIZE
THAT CONTROL OF CENTAM THROUGH MILITARY FORCE WILL NOT/NOT WORK, AND
THAT OTHER ALTERNATIVES SUCH AS APPROACH OF CONTADORA GROUP WAS
ONLY VIABLE ALTERNATIVE.

6. DISCUSSING MEANS TO SUPPLEMENT CONTADORA EFFORT, SHULTZ SAID IT
WAS IMPORTANT THAT CORE FOUR WORKED IN COOPERATIVE PATTERN.
VENEZUELA IS ALSO IMPORTANT PLAYER. CONTADORA CLD ALSO BE
SUPPLEMENTED BY PLACING WHOLE CENTAM PROBLEM IN OAS, BUT NOT/NOT IN
UN, WHERE IT CLD ONLY BECOME PART OF EAST-WEST CONFRONTATION, WHICH USA
DID NOT/NOT WANT. USA HAD ONLY MOVED IN THIS DIRECTION BECAUSE USSR
HAD INJECTED ITSELF INTO PROBLEM. SHULTZ AGREED THAT THERE WAS REAL
DANGER OF 21-POINT PROCESS BOGGING DOWN, BUT THERE WAS NO/NO AVOIDING
GENERAL INABILITY OF MAIN PLAYERS TO COME TO GRIPS WITH CONCRETE
OPERATIONAL SPECIFICS.

CCC/217 212256Z URR0916

C O N F I D E N T I A L

FM EXTOTT URR0909 19OCT83

TO CAIRO DELIVER BY 200800

DISTR UGB MINA

REF NOBLE/VON NOSTITZ TELECON 18OCT OUPTELS URR0907 18OCT
URR0908 18OCT

--MACEACHEN/SHULTZ BILATERAL IN HALIFX:SUMMARY NOTES ON
NAMIBIA AND CENTRAL AMERICA

REGRET HAGUE COMCENTRE WAS NOT/NOT ABLE TO COMPLY WITH OUR
REQUEST TO HAVE NOTES ON NAMIBIA AND CENTRAL AMERICA AVAILABLE
FOR YOU 190800.ACCORDINGLY WE ARE RE-TRANSMITTING THEM TO CAIRO.
QUOTE

THE EPM WONDERED WHAT THE CONTACT GROUP(CG)COULD DO,TO REACH ITS
OBJECTIVES.THRE WAS NOW A NEED TO REINFORCE THE CREDIBILITY OF
THE GROUP.THE SECGEN HE POINTED OUT HAD WANTED THE CG TO CONTINUE.
AT THE SAME TIME THE DPM SAID HE HAD HAD SOME CONTACT WITH THE FRONT
LINE MINS AND THEY ALSO WANTED THE GROUP TO STAY IN PLACE.HOWEVER,
WERE THERE PROSPECTS FOR MOVING AHEAD FASTER?

SHULTZ REPLIED THAT IT WAS STILL IMPORTANT FOR THE CG TO QUOTE BE
THERE UNQUOTE.HE OPINED THAT THE SECGENS VISIT TO SOUTH AFRICA HAD
BEEN MODERATELY SUCCESSFUL.IT HAD BEEN THE SECGENS CONVICTION THAT
AFTER THE VISIT THAT THE NAMIBIA ARRANGEMENTS WERE QUOTE IN THE BIN
UNQUOTE IF SOMETHING COULD BE DONE ABOUT UNCOUPLING THE RESOLUTION
OF THE NAMIBIA PROBLEM FROM THE CUBAN PRESENCE IN ANGOLA.SHULTZ
INDICATED HE HAD HAD INDIVIDUAL CONTACTS WITH THE FRONT LINE STATE
FORMINS LATELY.THEY HAD ALL EXPRESSED VIEWS THAT THEY WERE CONCERNED
ABOUT THE CUBAN PRESENCE IN ANGOLA BUT THAT THEY COULD NOT/NOT SAY
SO IN PUBLIC FORM.

SHULTZ THOUGHT THERE WERE ENCOURAGING SIGNALS FROM MOZAMBIQUE.
MOZAMBIQUE WAS IN THE PROCESS OF SHIFTING ITS VIEWS IN LINE WITH ITS
REAL INTERESTS.SHULTZ ALSO NOTED THAT THE NEW PORTUGUESEGOVT WAS

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PAGE TWO URR0909 CONF

TURNING OUT TO BE HELPFUL. HE SAID THE PORTUGUESE FORMIN HAD TOLD HIM THAT PORUGAL HAD NO/NO MONEY, BUT THEY HAD KNOWLEDGE OF THE AREA AND INFLUENCE WITH BOTH THE ANGOLA AND THE MOZAMBIQUE GOVTS IN THAT THEIR WORKING RELATIONS REMAINED VERY GOOD. SHULTZ MADE SPECIAL MENTION HOW HE HAD BEEN IMPRESSED BY THE YOUNG PORTUGUESE FORMIN AS WELL AS BY PM SOARES. SHULTZ CONCEDED, HOWEVER, THAT EMPHASIS ON THE HELPFUL PORTUGUESE DIMENSION WAS PERHAPS CLUTCHING AT STRAWS AGAINST THE BACKDROP OF THE SOVIETS STIFFENING UP THEIR PRESENCE IN ANGOLA. MOSCOW WERE PUTTING INCREASINGLY MORE MUSCLE IN ANGOLA BECAUSE OF THE RISING STRENGTH OF UNITA. SHULTZ ASSERTED AS WELL THAT THE ANGOLAN ECONOMY WAS IN A TAILSPINE AND STRESSED HIS GENERAL ANALYSIS (EG BEFORE CONGRESS AND THE ASEAN MTG IN BGHDD) THAT EVERY ECONOMY THE SOVIET UNION TOUCHED WAS TURNING OUT TO BE A DISASTER AS FAR AS THE WELFARE OF HUMAN BEINGS WAS CONCERNED.

DMF COMMENTED THAT THE MPLA GOVT HAD AN ADDITIONAL PRETEXT FOR KEEPING THE CUBANS IN ANGOLA BECAUSE OF THE STRENGTH OF UNITA WHICH WAS BUTTRESSED BY SOUTH AFRICA. SHULTZ REPLIED THAT THE SOVIETS/CUBANS REALLY HAD TWO OPTIONS:

- (I) A CASE COULD BE MADE FOR THE CUBAN WITHDRAWAL IF THERE WERE TO BE AN QUOTE INTERNAL RECONCILIATION UNQUOTE. THE SOVIETS SIMPLY WOULD HAVE TO GO ALONG WITH THIS SCENARIO;
- (II) THE MPLA WOULD BE SO WEAKENED THAT THEY COULD NO/NO LONGER SURVIVE EVEN WITH THE HELP OF THE CUBANS.

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PAGE THREE URR2909 CONF

SHULTZ MENTIONED THAT AT THE REQUEST OF THE ANGOLANS THE USA HAD HAD CONTACTS WITH THE LUANDA GOVT. THE ANGOLA GOVT HAD ACTUALLY DRAWN UP A CUBAN WITHDRAWAL PLAN WHICH WAS OPPOSED BY THE SOVIETS. THIS WAS RESULTING IN A GREAT DEAL OF INTRA-GOVERNMENTAL FIGHTING WHICH WAS FURTHER COMPLICATED BY A DIAMOND SCANDAL. HOWEVER, IT WAS THE ASSESSMENT OF ASSISTANT SECRETARY CROCKER THAT THERE WERE STILL GROUNDS FOR OPTIMISM AND THAT A POSSIBILITY MIGHT YET BE FOUND SOMEHOW TO DISLODGE THE CUBANS.

SHULTZ SAID THAT NOTHING WOULD BE ACCOMPLISHED BY DISBANDING THE CG: THE FRONT LINE STATES DID NOT/WANT TO HAVE THE INTEREST OF FIVE IMPORTANT COUNTRIES FLAG IN SOUTHERN AFRICA. THEY RESPECTED THESE COUNTRIES AND NEEDED THEIR HELP. THEY THEREFORE HOPED THAT THE CG WOULD NOT/NOT GET TOO FRUSTRATED BY TOO SLOW A PROCESS.

THE DPM ASKED SHULTZ TO WHAT EXTENT THE USA GOVT COULD PUT PRESSURE ON SOUTH AFRICA TO UNCOUPLE THE NAMIBIA PROBLEM FROM THE CUBAN PRESENCE IN ANGOLA. SHULTZ REPLIED THAT USA INFLUENCE IN SOUTH AFRICA WAS LTD. BESIDES HOW COULD THE USA EXPECT THE QUOTE SOUTH AFRICANS TO THROW UP THEIR HANDS AND ALLOW THE SOVIETS TO TAKE OVER A BIG CHUNK OF LAND ON THEIR BORDER?

UNQUOTE

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QUOTE

THE DPM/SSEA INTRODUCED THE DISCUSSION ON THIS SUBJ BY MAKING MENTION OF HIS RECENT MTG WITH THE CONTADORA MINS IN NYORK. HE NOTED THAT THE CDN GOVT WAS SUPPORTIVE OF THEIR EFFORTS. MOREOVER, IF THE CENTRAL AMERICAN COUNTRIES COULD PUT THEIR OWN HOUSE IN ORDER, CDA COULD QUOTE ADD FURTHER TO ITS ECONOMIC ASSISTANCE TO THE AREA UNQUOTE.

THE DPM/SSEA OPINED THAT THE CONTADORA MINS APPEARED TO BE CONFIDENT ABOUT THEIR 21 POINT PROGRAM. HE ASKED WHETHER SHULTZ HAD A SIMILAR ASSESSMENT; SHULTZ REPLIED HE SHARED THIS VIEW. THE DPM/SSEA THEN WENT ON TO RECALL THAT HE AND SHULTZ HAD QUOTE AGREED TO DISAGREE UNQUOTE ON THE MILITARY SITUATION IN CENTRAL AMERICA DURING THE APRIL BILATERAL IN WSHDC. THE DPM/SSEA, HOWEVER, NOTED THAT THE PRESIDENT IN HIS APRIL SPEECH HAD MADE PARTICULARLY CONSTRUCTIVE COMMENTS ON VERIFICATION ARRANGEMENTS IN CENTRAL AMERICA, AND THAT HE HAD BEEN SURPRISED THAT THERE HAD BEEN SO LITTLE INNATL REACTION TO THIS DIMENSION OF THE PRESIDENT'S REMARKS. THE DPM/SSEA SAID HE MENTIONED THIS BECAUSE THE MEXICAN FORMIN, IN NYORK DURING THE UN ASSEMBLY, HAD ASKED CDA TO PARTICIPATE IN WHAT STILL REMAINED A RATHER VAGUE CONCEPT OF A VERIFICATION COMMISSION IN CENTRAL AMERICA.

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SHULTZ THEREUPON ASKED THE DPM WHAT HIS REPLY WAS TO THE MEXICAN FORMIN. THE DPM SAID THAT AT THIS STAGE THE PROPOSAL WAS STILL TOO VAGUE FOR CDA, BUT IF CDA COULD PLAY A CONSTRUCTIVE ROLE THE CDN GOVT WOULD CONSIDER TAKING A PART IN SUCH AN EFFORT.

BY WAY OF GENERAL REMARKS THE DPM THEN OBSERVED THAT THERE WAS CONSIDERABLE INTEREST IN CDA AS TO WHAT WAS HAPPENING IN CENTRAL AMERICA. HE WONDERED HOW CDA COULD HELP. WAS THE CONTADORA GROUP A QUOTE BOGUS UNQUOTE EFFORT OR WAS IT A VIABLE OPTION?

IN HIS RESPONSE, SHULTZ CONTENDED THAT IT WAS IMPORTANT TO SUPPORT THE CONTADORA GROUP SINCE IT WAS THE QUOTE ONLY SHOW IN TOWN UNQUOTE. HE MENTIONED THAT AMBASSADOR STONE WAS PLAYING A VERY SUPPORTIVE ROLE VIZ-A-VIZ CONTADORA. REFERRING TO THE 21 POINTS, SHULTZ SAID THAT IT WAS TRUE THAT EVERYBODY WAS NOW AGREED ON THE PRINCIPLES. HOWEVER, THE POINTS WERE STILL WORDS AND THE REAL CHALLENGE WAS TO MAKE THESE STATEMENTS OF PRINCIPLE OPERATIONAL. IN THIS WAY THE USA WAS WORKING CLOSELY WITH A QUOTE CORE FOUR UNQUOTE (GUATAMALA, COSTA RICA, HONDURAS AND EL SALVADOR). IN SPITE OF ALL EFFORTS SHULTZ THOUGHT THAT IT WOULD BE VERY DIFFICULT TO FOLLOW THROUGH ON SOME OF THE 21 POINTS, PARTICULARLY THOSE REFERRING TO DEMOCRACY. HE ASSERTED FOR INSTANCE THAT NICARAGUA WOULD NEVER RENOUNCE THE USE OF FORCE, NOTWITHSTANDING THE FACT THAT MANAGUA HAD AGREED TO THE 21 PCINTS. JUST LIKE THE SOVIET UNION CLAIMED TO BE A DEMOCRATIC REGIME, THERE WERE DIFFERENT INTERPRETATIONS OF SUCH

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BROAD PRINCIPLES IN CENTRAL AMERICA. AS A CONSEQUENCE IT STILL SEEMED TO SHULTZ A LONG WAY FROM COMING UP WITH ACTUAL PROCEDURES WHICH WOULD LEAD TO SPECIFIC AGREEMENTS.

WITH REF TO THE PRESIDENTS APR SPEECH, SHULTZ NOTED THAT IT STILL WAS THE MOST AUTHORITATIVE POLICY STATEMENT ON CENTRAL AMERICA. IT WAS A MULTI-STRAND APPROACH TO THE PROBLEM. FOR INSTANCE, THE RATIO OF ECONOMIC TO MILITARY AID WAS STILL PEGGED AT 3-1. FURTHERMORE AS THE ELECTORAL PROCESS WENT FORWARD (IN EL SALVADORE) IT WAS STILL OF PRIME IMPORTANCE TO MAINTAIN THE MILITARY SECURITY SHIELD FOR THE EL SALVADOR GOVT. SHULTZ THOUGHT THAT WITH THESE DIFFERENT STRANDS IN PLAY EL SALVADOR WAS NOW MAKING BETTER PROGRESS. WHILE HE CONCEDED THAT USA SUPPORT OF THE QUOTE CONTRAS UNQUOTE WAS A QUOTE TOUGH SITUATION UNQUOTE, THE RESULT WAS BENEFICIAL: THE QUOTE CONTRAS UNQUOTE HAD DISTRACTED NICARAGUA FROM INTERFERING IN EL SALVADORE. AS A RESULT EL SALVADORE WAS ALSO NOW DOING BETTER THAN BEFORE. SHULTZ STRESSED THAT IT WAS PARTICULARLY IMPORTANT THAT NICARAGUA AND CUBA GET THE IDEA THAT CONTROL OF CENTRAL AMERICA THROUGH MILITARY FORCE WILL NOT/NOT WORK, AND THAT OTHER ALTERNATIVES SUCH AS THE DIRECTION THE CONTADORA GROUP WAS MOVING IN WAS THE ONLY VIABLE ALTERNATIVE.

DMF AT THIS POINT NOTED THAT IF NOTHING HAPPEND, THE 21 POINTS - WHICH REPRESENTED SOME NICE IDEAS WOULD SOON BE OVERTAKEN BY EVENTS. WHO CAN HELP? HOW CAN THE CONTADORE GROUP EFFORT BE SUPPLEMENTED? SHULTZ
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REPLIED THAT IT WAS IMPORTANT THAT THE CORE FOUR WORKED IN A COOPERATIVE PATTERN. VENEZUELA SHOULD BE CONSIDERED AN IMPORTANT FACTOR IN HELPING OUT IN THE CENTRAL AMERICAN SITUATION BECAUSE OF THE VENEZUELAN UNDERSTANDING OF LATIN AMERICAN POLITICS. THE CONTADORA GROUP COULD ALSO BE SUPPLEMENTED BY PLACING THE WHOLE CENTRAL AMERICAN PROBLEM IN THE OAS, BUT NOT/NOT IN THE UN. ONCE IT WAS WEDGED IN THE UN, CENTRAL AMERICA COULD ONLY BECOME PART OF THE EAST-WEST CONFRONTATION. THE USA, SHULTZ CONCLUDED, DID NOT/NOT WANT AN EAST-WEST DIMENSION TO CENTRAL AMERICA. IT HAD ONLY MOVED IN THIS DIRECTION BECAUSE THE USSR HAD INJECTED ITSELF INTO THE PROBLEM. SHULTZ AGREED WITH DMF THAT THERE WAS A REAL DANGER OF LOGGING DOWN IN THE 21 POINT PROCESS, BUT THERE WAS NO/NO GETTING AROUND THE FACT THAT THERE STILL PREVAILED A GENERAL LACK OF CAPACITY ON THE PART OF THE MAIN PLAYERS TO COME TO GRIPS WITH CONCRETE OPERATIONAL SPECIFICS.

UNQUOTE

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MGTC FILE DIARY DIV CIRC (WF)

C O N F I D E N T I A L

FM EXTOTT URR910 19OCT83

TO WSHDC

INFO PRMNY LDN PRET LSAKA HRARE DSLAM BONN PARIS PCOOTT/FOWLER
CIDA HULL/YDP NDH^QOTT/CCP/DIPIL/DMPC/CIS

DISTR MINA IMD IMU GAD GAAD IDD IDR ZSP ZSI SFB DMF GGB GAF UGB

---SHULTZ/MACEACHEN MTG: NAMIBIA

Following is summary of Shultz / MacEachen Discussions in Halifax Oct 17

SSEA ASKED ABOUT HOW TO REINFORCE CREDIBILITY OF CONTACT GROUP (CG)

TO ALLOW IT TO REACH ITS OBJECTIVES MORE QUICKLY.

1. SHULTZ AGREED IT IMPORTANT THAT CG BE RETAINED. BOTH MINS
RECOGNIZED THAT FRONT LINE STATES (FLS) WANTED THIS AS DID UN SEC
GEN. SHULTZ THOUGHT SEC GEN'S VISIT TO SOUTH AFRICA HAD BEEN
MODERATELY SUCCESSFUL. AFTER VISIT, SEC GEN CONSIDERED NAMIBIA
ARRANGEMENTS WERE "IN THE BIN" IF NAMIBIA PROBLEM COULD BE
DECOUPLED FROM CUBAN PRESENCE IN ANGOLA. SHULTZ SAID ALL FLS FOREIGN
MINS HAD TOLD HIM THEY WERE CONCERNED ABOUT CUBANS IN ANGOLA BUT
COULD NOT/NOT SAY SO IN PUBLIC.

2. SHULTZ THOUGHT THERE WERE ENCOURAGING SIGNALS OF SHIFT IN
MOZAMBIQUE VIEWS. ALSO, NEW PORTUGUESE GOVERNMENT WAS TURNING OUT
TO BE HELPFUL. SHULTZ HAD BEEN IMPRESSED BY YOUNG PORTUGUESE FOR
MIN AS WELL AS BY PM SOARES. SHULTZ CONCEDED, HOWEVER, THAT NOTION
OF PORTUGUESE HELP WAS PERHAPS CLUTCHING AT STRAWS GIVEN STIFFENING
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R. Kirby

R.P.KIRBY/mer

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M. G. von NOSTITZ
M.G.VON NOSTITZ

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PAGE TWO URR910 CONF D

SOVIET PRESENCE IN ANGOLA IN RESPONSE TO RISING STRENGTH OF UNITA.
SHULTZ SAW ANGOLAN ECONOMY IN TAILSPIN AND STRESSED GENERAL VIEW
THAT EVERY ECONOMY USSR TOUCHED WAS TURNING INTO DISASTER FOR
WELFARE OF HUMAN BEINGS INVOLVED.

3. SHULTZ SAW TWO POSSIBILITIES FOR SOVIET/CUBAN PRESENCE IN ANGOLA:
A) IF THERE WERE AN "INTERNAL RECONCILIATION", CASE COULD BE MADE FOR
CUBAN WITHDRAWAL AND ^{SOVIETS} WOULD SIMPLY HAVE TO GO ALONG; B) MPLA COULD
BE SO WEAKENED THAT THEY COULD NOT/SURVIVE EVEN WITH CUBAN
HELP. ^{R4.} AT ANGOLAN INITIATIVE, USA HAD HAD CONTACTS WITH MPLA GOVERNMENT.
LATTER HAD ACTUALLY DRAWN UP A CUBAN WITHDRAWAL PLAN WHICH WAS
OPPOSED BY SOVIETS. THIS HAD RESULTED IN GREAT DEAL OF INTRA-
GOVERNMENTAL FIGHTING, COMPLICATED BY A DIAMOND SCANDAL, BUT
ASSESSMENT OF USA ASST SEC CROCKER WAS THAT THERE WERE STILL
GROUNDS FOR OPTIMISM ABOUT POSSIBILITY OF DISLODGING CUBANS.
5. SSEA ASKED SHULTZ TO WHAT EXTENT USA COULD PUT PRESSURE ON
SOUTH AFRICA TO UNCOUPLE NAMIBIA PROBLEM FROM CUBAN PRESENCE IN
ANGOLA. SHULTZ REPLIED THAT USA INFLUENCE IN SOUTH AFRICA WAS
LIMITED. BESIDES, HOW COULD USA EXPECT THE "SOUTH AFRICANS TO
THROW UP THEIR HANDS AND ALLOW THE SOVIETS TO TAKE OVER A BIG
CHUNK OF LAND ON THEIR BORDER?"



DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

COMMUNIQUÉ

N^o: 131
No.:

*for MacEachen
Shultz mtg
file*

FOR IMMEDIATE RELEASE
OCTOBER 7, 1983

VISIT OF U.S. SECRETARY OF STATE
GEORGE SHULTZ TO HALIFAX

The Honourable Allan MacEachen, Deputy Prime Minister and Secretary of State for External Affairs, announced today that he would be meeting with the U.S. Secretary of State, George Shultz, in Halifax, October 16-17. This meeting will be the fourth of the regular, periodic consultations the two agreed to hold during their first, formal meeting as Foreign Ministers in the fall of 1982.

These meetings allow the two Ministers to review the bilateral relationship on a continuing basis to ensure it is managed effectively by keeping each side aware of, and fully informed on, bilateral issues of importance. The Ministers will also be discussing the main international issues.

The two Ministers will be joined by the Honourable Charles Caccia, Minister of the Environment, and Mr. Ruckelshaus, the Head of the U.S. Environmental Protection Agency, for the portion of the discussions dealing with environmental questions, notably acid rain. The Honourable Gerald Regan, Minister of State for International Trade, will also be present for part of the discussion.



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TO/À • UGB (through URD)
M/DE • URE

REFERENCE •
RÉFÉRENCE

SUBJECT • Press Line on Acid Rain Issue for Pre-
SUJET briefing

Security/Sécurité
UNCLASSIFIED
Accession/Référence
File/Dossier
Date
October 13, 1983
Number/Numéro
URE 0609

ENCLOSURES
ANNEXES . . .

DISTRIBUTION

URR

The attached Press Line has been prepared for your use and that of Bob Slater and any others who might speak to the press on acid rain issue in advance of this weekend's bilateral meeting between Messrs. MacEachen and Shultz.

2. The statement focusses on the importance of joint and effective abatement action in the near future by Canada and the USA, aimed at achieving the environmental target of 20 kilograms of sulphur deposition per hectare per year; and outlines Canada's preconditions for a resumption of bilateral negotiations leading to a transboundary air pollution agreement between the two countries.

3. Environment Canada officials were involved in preparation of the Press Line, and have approved its contents.

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OCT 14 1983	
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N. Mickleburgh
for: S. Gooch
Director

CONFIDENTIAL

CANADA-USA BILATERAL MEETING, OCTOBER 16-17, 1983

ACID RAIN - PRESS LINE FOR PRE-BRIEFING

During the latest of their regular meetings to take place in Halifax, October 16-17, 1983, the Deputy Prime Minister and Secretary of State for External Affairs, Allan MacEachen, and USA Secretary of State, George Shultz, will be devoting highest priority to the acid rain issue. Messrs. MacEachen and Shultz will be joined by Canadian Environment Minister, Charles Caccia, and the Administrator of the USA Environment Protection Agency, William Ruckelshaus, for the portion of the discussions that cover acid rain and other transborder environmental issues.

Messrs. MacEachen and Caccia will underscore the importance Canada attaches to urgent and effective action to reduce the high levels of sulphur deposition which are causing serious damage to the lakes, rivers and forests of large areas of North America. In areas of particular concern, such as the Muskoka/Haliburton area north of Toronto, significantly more than half of the acid rain is of U.S. origin. Even if Canada were to virtually cease all SO₂ emissions, deposition in many sensitive areas in Canada would continue to exceed the 20 kg/ha/yr objective needed to protect moderately sensitive lakes and rivers. The Canadian Government remains convinced that the integration of Canadian and U.S. abatement programs is necessary to reverse the damage currently being done to the environment in both countries.

The Canadian Ministers will request information on the current status and timetable of the U.S. Administration's review of its acid rain policy, which was initiated last spring on the instructions of President Reagan.

The Canadian Government is convinced that the extent and intensity of the damage will increase unless remedial action is taken. An area of more than two million square miles, mostly in the eastern half of the continent, is vulnerable to acid rain. The natural resources base at risk sustains vital components of the economy and life style in many of these areas. The gross revenues potentially at risk account for about 8 per cent of the Canadian gross national product.

The first formal expressions of concern for acid rain were exchanged in late 1978 through diplomatic notes and through the creation of a Canada-U.S. scientific task force known as the Bilateral Research Consultation Group. Both countries formalized their commitments to work jointly to solve the problem with the signing of the Memorandum of Intent in August 1980. At the time of the signing, the two countries undertook to conclude a transboundary air pollution agreement within two years.

Negotiations under the Memorandum broke down in June 1982 when the U.S. side rejected as premature a Canadian proposal to reduce wet sulphate deposition in sensitive areas to no more than 20 kg/ha/yr by 1990. To achieve this, Canada was prepared to commit itself to a reduction of up

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to 50 per cent in 1980 allowable SO₂ emissions contingent on parallel U.S. action. In the meantime, Canada has proceeded with a unilateral 25 per cent reduction to be in place by 1990. These control actions are over and above those required to achieve local air quality.

Canadian federal and provincial governments are prepared to do their share in any joint program or strategies directed at reducing emissions. Canadian Ministers of the Environment, at a meeting in Fredericton in the last week of September, reaffirmed their common commitment to reduce sulphate deposition to less than 20 kilograms per hectare per year. Federal and Provincial Ministers agreed on the need to integrate Canadian and U.S. abatement programs and discussed further strategies beyond the initial 25 per cent reduction.

Canada is seeking a transboundary air pollution agreement with the United States which encompasses i) commitment to the 20 kg/ha/yr environmental objective, ii) implementation of significant emission reductions directed at achieving that objective, and iii) creation of a bilateral mechanism to monitor the progress of, and recommend necessary changes to, abatement programs. Canada would be prepared to negotiate, on an urgent basis, a bilateral agreement with the United States, if examination of the Reagan Administration's expected policy on acid rain indicates that scope exists for joint action which would achieve the results necessary.

NOTES FOR PRESS BRIEFING

- This meeting is the fifth bilateral between MacEachen and Shultz since assuming their present portfolios.
- This the fourth since that first meeting at which the decision to meet roughly quarterly was taken (Brussels/NATO Ministerial, December 1982; Washington, April 1983; Bangkok/ASEAN, June 1983); so we are two months ahead of schedule.
- Each meeting does not cover the full bilateral agenda because of time limitations, particularly when they are held on the margins of international meetings, e.g. NATO or ASEAN. Both these meetings were only about one hour long and mopped up outstanding issues of the more substantive October 1982 and April 1983 meetings. (I expect that the next bilateral will again be a briefer one since the Halifax meeting will have a very broad scope.) In Halifax, however, they will have more than five hours of dialogue.
- Regularity of meetings is a reflection both of the extraordinary complexity of the bilateral relationship and of the importance attached to it by both countries and the Ministers personally.

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- The purpose of the meetings is to allow Ministers to manage the bilateral relationship by ensuring that each is fully aware of the main issues and each other's respective concerns and points of view; the meetings also allow each side to advise the other of developments which can affect relations so that action to forestall any potential problems can be initiated.

and to set priorities for attention

- Meetings allow Ministers to focus personally on bilateral issues and give direction; this is important from our point of view ^(particularly) given other demands on Secretary Shultz's time.

- Meetings also allow Ministers to exchange views on main international issues.

- Bilateral relations are sound; there have been problems as will always be the case in any relationship as intimate and intricate as those between Canada and the U.S.A.; but cooperative joint efforts to resolve differences in recent months have been successful, e.g. trucking, lumber, Skagit; progress has been made on other issues, e.g. Great Lakes water quality, ET (close to understanding on anti-trust); but more needs to be done on numerous other issues, e.g. acid rain, Garrison, Pacific salmon and many we cannot anticipate, but the atmosphere is positive and cooperative; we will be seeking to move matters forward in these areas of our concern.

desire to achieve sound management shared by both govts, personified by regular Secty - JSEA mtgs

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- The relationship is therefore good with the Administration; Congressional action sometimes gives us problems, e.g. trade measures; on some of these issues the Administration can assist; we therefore want them to be aware of our views and where our interests coincide.

- The central bilateral concern to be addressed in Halifax is acid rain. Our position and our objectives in Canada are clear and reflect a strong federal/provincial consensus. *We cannot resolve the problem unilaterally.* We remain prepared to undertake a 50% reduction of sulphur dioxide emissions by 1990 and believe that joint efforts are urgently required to reduce/abate emissions to a level which scientists on both sides of the border recognize as necessary to prevent further harmful effects on North American waters. (More from Slater)

- We expect to learn from the U.S.A. the latest state of play on their policy review and on the manner in which this is likely to move forward in Congress. We are naturally hopeful that the two governments can agree on a common approach to resolve an issue which people on both sides of the border regard as very serious and needing prompt attention. (Refer to participation of Caccia and Ruckelshaus and to signing of phosphorous agreement.)

Brief reference to the concerns re Garrison Diversion.

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- In the area of trade there are specific issues to be addressed by both sides ^{and these are common concerns}. We are committed internationally to help reverse protectionist trends - will want to examine ways and means ^{as well as} and progress ^{in that field}. We remain concerned ^{Bilaterally} about protectionist tendencies in the U.S.A., especially those which impact adversely on Canada, e.g. specialty steel, cement. (We have joint concerns about the future of the North American auto industry.) However, we believe the recent Trade Policy Review provides a strong basis for joint effort ^{both} ^{and} multilaterally ^{or} bilaterally with the U.S. (importance of U.S. now and in future was highlighted in this review) as well as for specific initiatives involving possible limited free trade arrangements.
- We are concerned, as always, about extraterritorial actions by the U.S.A. affecting Canadian interests and sovereignty and will most likely refer to the most current examples - ^{actions affecting Cdn banks} unitary tax ^{Admin.} and the renewal of the Export Control Act.
- There ^{is likely to} ~~may~~ be some discussion of energy as well, e.g. the export of Canadian gas to the U.S.A. (and familiar U.S. views re NEP).
- Bilateral defence questions are also possible or probable topics for discussion. We have a particular interest in *seeking* to ~~ensuring~~ that Canadian firms have unfettered access to new markets and specifically that they have a full and fair opportunity to participate in modernization of North American defence.

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- Finally, but by no means least, and particularly considering the venue, fish will be on the agenda as well as the menu!

M.L.

Pst. • Dems Control - 8/W

- o Mid East
- o Cent. America
- o Int'l. Econ. IMF
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TRANSCRIPT OF A PRESS CONFERENCE WITH
THE HONOURABLE CHARLES CACCIA, MINISTER OF ENVIRONMENT CANADA
AND
MR. WILLIAM D. RUCKELSHAUS, ADMINISTRATOR, UNITED STATES
ENVIRONMENTAL PROTECTION AGENCY

HALIFAX, OCTOBER 16, 1983

- Q. I wonder if I could ask a question about acid rain which you Mr. Ruckelshaus know is high or number one on the Canadian environmental agenda and has been for some five years or more. My question specifically is about American government's intentions to study some more and think some more about doing something about acid rain and many Canadians have formed the impression that the American Government is all talk and no action on this subject. Can you tell us specifically when you expect to have some American government action as opposed to proposed action on acid rain?
- A. (R) We are, as you know, in the middle of a process of reviewing the Government's position which has been to, up to this point, carry forward on the acid precipitation act of 1980 to do a ten year research program with annual reports to the Congress and the American people of the results of that research. We have been carrying forward under that act with a rather large research program. This spring when I was sworn in as the new Administrator of the EPA, the President charged me with reviewing our acid rain efforts and making some recommendations to him and the Cabinet. Over this summer we have been doing that with a large analytical effort led by the Environmental Protection Agency and participated in by other departments of Government. We came up with a series of options for approaching the problem toward the end of July, first part of August. We then went through another review preparatory to bringing the issue before the Cabinet Council and the President in September. It has been my hope that we would have been able to come to a conclusion by the end of September as to what, if any, changes would be adopted by the Administration. As we developed those options for presentation to the President and the Cabinet, it became apparent to them that we were dealing with a very big, very controversial issue that members of the Cabinet who brought different perspectives to it, than did the Administrator the Environmental Protection Agency, wanted to see further analysis of it. We have had a meeting with the President and with the members of the Cabinet and the Chairman of the National Academy of Science's study on SO₂ emissions, the Chairman of the President's own scientific advisory committee, and three other eminent scientists, in which they discussed with the President and Cabinet the nature of the problem of acid rain, without making

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any suggestions for what should be done about it, just first of all describe the nature of the problem as they saw it. We had had one subsequent meeting with the Cabinet without the President there on the various options that we have analyzed for proceeding. We are looking at those options and analyzing additional options with the intention of eventually bringing it to the President for his decision. I wish I could tell you the exact timeframe of when that would happen but we are continuing to refine that analysis and those options and we will, when we feel it is right for a decision by the President, bring it to his attention.

Q. Mr. Caccia, put simply, isn't your Government just getting impatient with all these studies and these delays? How would you explain it?

A. (C) Canadians are becoming, of course, impatient on this issue. We have raised it some years ago as an important issue between Canada and the USA. We have established the damage in economic and ecological terms. We have gone as far also as working out a plan with the provinces as recently as one month ago. So we are ready to move, we are anxious to move. We have a plan and we are urging our American friends and Mr. Ruckelshaus to take to Washington the impressions that he has gathered here today, namely of growing and intense desire to come to grips with the acid rain issue and to resolve it once and for all. It is in essence that's our message.

Q. Could you tell us what kind of message you think he'll take to Washington? What did you tell him?

A. (C) You will have to ask Mr. Ruckelshaus.

Q. Mr. Ruckelshaus were you impressed with their impatience?

A. (R) Yes I have been ever since returning to the Government. In fact they were kind enough to give me a hat here that they suggested I put on which I think expresses very clearly the Canadian position. It says "Stop Acid Rain". There's no doubt in my mind that's their position and I will convey that as clearly as I know how to the Administration. It has been, I think, very clear to me as I say from the beginning that that's been their position and it has been conveyed to the President and his Administration.

Q. What chance of movement is there on the American front?

A. (R) I'm sorry I didn't hear.

Q. What chance of movement is there on the American front?

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- A. (R) Well the movement, we have been through a lengthy analytical process and we are now bringing forward the results of that analysis for decision. It is a very controversial issue in our country and it divides the country along sectional lines and people feel very strongly about it. It is not surprising to me that it is taking us some time to resolve those controversies and attempt to come to some conclusion by the Administration as to what their position should be.
- Q. EPA's Option Three didn't even get as far as the President's Office. Is that not to imply that acid rain is on the backburner?
- A. No it does not at all. The variety of options that we have brought forward are being reviewed by the Cabinet Council at this point and we are trying to see if it is possible to get a consensus. Certainly we want to resolve any factual disputes that exist before bringing it forward to the President.
- Q. Does the hat fit?
- A. The hat? Well I'll try it on as soon as I come back with a firm position. Well obviously it's for colder weather.
- Q. Mr. Ruckelshaus what is the principal reason that it's considered controversial in the United States? Is it the money or is there still so-called lack of scientific knowledge?
- A. (R) There are four controversies, four areas of controversy that exist. The science is still controversial. We have had a report by the National Academy and one by the Office of Science and Technology Policy of the White House that has come closer to a consensus that SO₂ is the problem. There continues to be scientific controversies surrounding this issue in the U.S. There is controversy over what kind of control strategy we should adopt if we decide to reduce SO₂ over an extensive area. There is controversy over who pays for it and how it's paid for, and there is controversy over how you administer it. At every step of the way there is enormous complexity in this problem and a potential for dividing the country along sectional and economic lines that are much different than the kinds of controversies that usually surround these pollution issues. So it is a very complex, controversial issue at several steps of the way.

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- Q. Mr. Caccia, do you define that controversy as foot-dragging?
- A. (C) I don't think it is for us to comment on the difficulties that Mr. Ruckelshaus has to face in the USA. He has defined the problem as he sees it. I think it is our task to intensify our efforts at home and in Washington in registering our anxiety and our desire to proceed and I think we will be able to intensify our efforts and we will convince our American friends that there is a problem that has to be resolved and that there are big economic issues that are affecting the people in the areas who are affected by acid rain, that we will be successful.
- Q. Mr. Ruckelshaus, do you sense a feeling on the President's part to have this solved before the next Presidential election?
- A. (R) Well I haven't discussed it with him in that context. I haven't discussed with him whether he's going to run or not in the next election. But I am sure that this, like many other issues that could arise in the election, are ones that the President would like to, and will need to, address before the election.
- Q. I wonder if I could ask a question on behalf of the photographers here. A lot of us wanted to know if you are prepared to wear that hat for us now and have that picture seen around your country?
- A. (R) It's not cold enough in this room to put that hat on.
- Q. Mr. Caccia, presumably you told Mr. Ruckelshaus about the agreement that you reached with the provincial ministers in your last meeting and I was wondering if at this time you could give us any more details of what the plan was that you came up with?
- A. (C) The time to do that will come when Mr. Ruckelshaus will have succeeded in getting through his plans with his Administration and there wouldn't be any point in starting negotiating now. I would like also to add that, as you know, we have signed an agreement on the reduction of phosphates in Lake Erie and Lake Ontario and effluence there. As you know that was a great issue and a very understandably strong one in the early 70's. Because of common good will it has been tackled and it is being gradually resolved. This issue here of acid rain is a much more complex one and we are coming to grips with it evidently but if there is enough good will, and particularly political will, it will be resolved as well.

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Q. Mr. Caccia, what did you mean by saying you were going to intensify efforts in the United States. What else can Canada do that has not already been done?

A. (C) Well we have held up because of the holiday season. We have somehow held back on making our views known in circles in Washington, particularly in Congress. As you know we have had a very effective lobby there. It has registered the Canadian concerns effectively. It has helped to give visibility in the public eye the acid rain issue and of course we want to be helpful to Mr. Ruckelshaus in a way which will intensify his efforts.

Q. Do you put any weight at all on any of the arguments in the United States that it is still scientifically controversial?

A. (C) To us in Canada that proof is no longer necessary. You only need to look at what has happened in Scandinavia and in parts of Western Europe now to know that this is a very serious and important issue and that we would want to avoid the European experience at all costs.

Q. Do you think that the only valid reason for going slow on it or foot-dragging, if there is a valid reason, would be the cost?

A. (C) That's for Mr. Ruckelshaus to answer.

Q. Is that the real reason, is it money?

A. (R) No it's not just money and I would not describe what we're doing as foot-dragging. It is instead the kind of intensive analysis which always results from controversy, whether it's scientific, economic, social disruption which would also occur if some of the suggested options were adopted. It concentrates the mind, it gets people excited and people want to make sure that their voice is heard, that what we ultimately decide to do encompasses their concerns as well as others. So I'm not in the first place the least bit surprised that this kind of controversy has arisen over this issue, nor am I surprised that we are having difficulty in coming to a final determination as to what we should do. I think we will come to such a determination in due course.

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- Q. What social disruptions would be caused by cutting down on sulphur?
- A. (R) If we decided to do it by providing for fuel switch which is where the first two or three million tons would come from in the Middle West, it could cause significant unemployment in the high sulphur miner area. It could cause towns now dependent on the mining of high sulphur coal to be very disrupted. The estimates range all over the map, anywhere between 30 and 150,000 people that would become unemployed as a result of switching from high to low sulphur content coal. You can avoid that by prohibiting switching or imposing the use of scrubbers on the major power plants. That's a much more expensive way of proceeding. So it often is a choice between spending a lot more money or causing some social disruption.
- Q. Mr. Ruckelshaus, so I can understand completely what you're saying, were you able to tell the Canadians today when the U.S. would be able to give an answer or at least take the position that we will give an answer but we can't tell you when.
- A. (R) That's the second position. Our discussions were very frank and in fact what we've said privately is exactly what I've said here publicly.
- Q. Mr. Caccia what does it mean here the agreement with the provinces. I was speaking with someone here who said that it was out of the question for them to put scrubbers on the exhaust of their power plants and so on, and if we don't put any scrubbers then the acid rain is going to continue.
- A. (C) As I already said a few minutes ago there has been an agreement. I don't think that today is the time to discuss that in front everybody before starting our negotiations with the United States.
- Q. What about the rains in Nova Scotia, do we know ...
- A. (C) No I don't really want to discuss that understanding now.
- Q. Would either one of you be willing to comment on the appointment of Mr. William Clark as the new Secretary of the Interior. Do you see this as having a positive effect on the issue of acid rain or a negative effect?
- A. (R) I don't think it will have an effect one way or another on what the Administration finally decides to do about acid rain. Obviously Mr. Clark's appointment is a strong one as far as the administration of the Department of the Interior is concerned. He has

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such a close relationship with the President and the President has, over the past several years, placed so much confidence in Mr. Clark that there is no doubt in my mind that he will be a very strong and effective Secretary of the Interior.

- Q. Mr. Caccia, in view of (inaudible)
What do you think the talks did or did not accomplish?
- A. (C) I don't agree with your premise. What was accomplished today as far as we Canadians are concerned was an opportunity to register once again our position, our readiness to proceed and the fact that we have a plan and the fact that we are impatient. We also spent a good hour, Mr. Ruckelshaus and I, talking about the Great Lakes, talking about toxic dumping along the river, and exchanging valuable information and bringing each other up to date on developments there. As it is in all kinds of human relations there are problems being faced from two sides of the border. The more people get together and talk about them with an intent of resolving the problems on the agenda, the better it is for the solution of this problem.
- Q. Mr. Ruckelshaus, do you have a sense in your discussions with the Canadians this afternoon that acid rain is the most difficult and controversial issue between the two countries (inaudible) ... and that it would sour the relations (inaudible)
- A. (R) Let me respond to that because I don't want to leave this press conference without expressing my own concern that that not happen. That we not let an issue like this that has, at least in my view, understandably triggered impatience on the part of the Canadians, has triggered an expression of concern about whether or not we are being good neighbours, in any way dampen our overall relationship. When the Great Lakes Agreement was signed in 1972 I was then the Administrator of the Environmental Protection Agency, I was in Ottawa when the agreement was signed. I still remember the statement that Prime Minister Trudeau made at the time about the importance of that agreement and the fact that it transcended the kinds of agreements that countries normally agree to in terms of their mutual defence, their economic benefit. He said this agreement preserving the waters that divide our country really was for the preservation of life itself. I'll never forget that statement and it seems to me we have here, while a different kind of problem -- different in the sense that it is very divisive in our country unlike I think in this country -- we still have a problem that must be addressed and I think we will eventually resolve,

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just as we have in the past resolved differences between our two countries and that we have this Great Lakes Agreement as a model for such resolution and its amendment that was signed here today was just further proof that we are able to move these agreements forward when we enter into them in good faith.

- Q. Mr. Ruckelshaus, you have noted yourself that it is an issue which Mr. Reagan must address (inaudible) Do you anticipate personally that you will have a policy review decision taken on options before 1984?
- A. (R) Well I certainly hope so but I am not going to make any time predictions right now, but if I had to guess I'd say yes we'll have it resolved before then.
- Q. Can you guess on any timetable?
- A. (R) No I can't give you a timetable. I mean obviously you would like one, I would like one myself. I don't want to create some anticipation of a date when in fact because of the necessity of working through all of these concerns that have been expressed, we can't meet.

TRANSCRIPT OF AN INTERVIEW BETWEEN CBC AND

THE HONOURABLE ALLAN MACEACHEN, DEPUTY PRIME MINISTER
AND SECRETARY OF STATE FOR EXTERNAL AFFAIRS

HALIFAX, OCTOBER 17, 1983

- Q. Mr. MacEachen you indicated this afternoon that the Canadian Government's decision to test the cruise in Canada was a matter of showing solidarity with the Western Alliance. Had it not been necessary to show solidarity, and given the public protest against the testing of that missile in Canada, would you have chosen not to test it here?
- A. Well in the absence of an alliance and in the absence of the deployment in Europe, in the absence of a United States request, all of which are alliance situations, probably the request would never have originated.
- Q. How do you assess the strength of the anti-cruise movement?
- A. I assess the support for the testing of the cruise or at least the willingness to test as increasing. I know there are quite a number of people who are concerned about the testing of the cruise, they will continue to be concerned I am sure because it is related to the nuclear fear that so many of us have, quite rightly.
- Q. May I ask how disappointed you were that there was no agreement during these two days of meetings to limit acid rain emissions.
- A. We had hoped that the United States would have been able to present to us their plan to which they had agreed within their own administration and that we might be able to say that this is a good first step or that even better we might have launched bilateral negotiations to reach an agreement on how to cooperate. That didn't happen. We were disappointed in that.
- Q. We have been trying to get the Americans, or the Canadian Government has been trying to get the Americans to move on this question for a year now approximately. What's going to resolve it. What's holding it up in the United States.

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- A. Well the first thing that held it up was a disagreement within the United States' scientific community as to the relationship between acid rain and sulphur dioxide emissions. That has been cleared out of the way since Mr. Ruckelshaus has become in charge of the Environmental Agency and I believe that he has given the issue considerable leadership and he has not yet succeeded in putting together the package that the administration would agree to, if you quote me. I think it will happen. I think that Mr. Shultz and Mr. Ruckelshaus are deeply involved in this issue and I think it will happen. When, I don't know.
- Q. During the recent visit to Canada of the British Prime Minister, our Prime Minister seemed, or did, express the desire for a cooling of rhetoric of superpowers. Is this a new initiative by the Canadian Government and if so did you mention it to Mr. Shultz and what was his reaction?
- A. We talked about the necessity of maintaining a dialogue with the Soviet Union, certainly I did. We have our differences obviously, we had deep differences recently with the Soviet Union over the shooting down of the airliner. Despite that, I think it is essential in current circumstances to take whatever steps we can in the right circumstances to have dialogue and maintain discussions with the Soviet Union. We discussed that. I don't think there is any difference of opinion between us on that point.
- Q. And your're satisfied that the Reagan Administration is cooling the rhetoric because it was pretty strong.
- A. Well I think the rhetoric was strong in the United States, particularly on the airliner incident. No less strong in Canada and other countries because I think the rhetoric was justified on that particular issue. I don't say that the same level of rhetoric or the same intensity should be maintained, nor would I approve every sentence or paragraph that has been uttered about the Soviet Union by the United States. I believe that the Soviet Union also has an obligation to reduce its level of rhetoric.

Mr. MacEachen thank you very much.

TRANSCRIPT OF A PRESS CONFERENCE WITH
THE HONOURABLE ALLAN J. MacEACHEN, DEPUTY PRIME MINISTER
AND SECRETARY OF STATE FOR EXTERNAL AFFAIRS

AND

THE HONOURABLE GEORGE P. SCHULTZ, SECRETARY OF STATE
OF THE UNITED STATES OF AMERICA

HALIFAX, OCTOBER 17, 1983

Statement by The Honourable George Schultz

Well I'd like to express my appreciation to Allan MacEachen and his colleagues and to the people of Halifax for the very good setting and the good conversation that we've had. We've had a very worthwhile meeting from my standpoint, so I am glad to have had the opportunity once again to have the meeting. I'm glad that Bill Ruckelshaus was able to join me and help in signing the Agreement on phosphorous, also to help in explaining about acid rain.

Statement by The Honourable Allan MacEachen

Well I certainly share Mr. Schultz's appreciation of the meeting. I think it was an extremely good meeting I appreciate his presence in Canada for another meeting and particularly in Halifax, and also the presence of Mr. Ruckelshaus because it illustrates the importance which both governments attaches to environmental questions and the necessity of making progress as we are both determined to do in the future. We had a pretty thorough canvass of bilateral questions and that has been the practise of our regular meeting and I think I can say that the question of bilateral issues has never been addressed more intensively in the past and we have certainly appreciated that development. On multilateral questions, East-West relations, alliance questions were part of our discussions and certainly, as I stated in my address last evening, Canada stands with the United States and its other allies in support of the two-track NATO decision and the implications of that decision as may be demonstrated in the deployment of missiles in Europe in the absence of a satisfactory agreement. We have demonstrated our solidarity with the Alliance and our association with the United States in our commitment to test the cruise missile. Those decisions are still very important parts of Canadian foreign policy and I believe that constituted a very important common cornerstone of our discussion.

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- Q. Mr. Schultz, have you had communication with Foreign Minister Genscher and if so could you share with us some of the background he gave you on his meeting with Mr. Gromyko?
- A. (S) I've had a cable from Foreign Minister Genscher which I'd received just a few minutes ago here, and basically it said that immediately as he has returned to Bonn he has asked our Ambassador, Arthur Burns, to see him and I believe by this time that conversation has been completed we'll be having a cable from Dr. Burns shortly and in the meantime he's sending two people who were present throughout the meeting with Foreign Minister Gromyko to Washington, and they're leaving tomorrow morning and we will be meeting with them on Wednesday. So we'll be having a full read out but as to the content I haven't received that material as yet.
- Q. I'd like to ask Secretary Schultz if I may whether he discussed with Mr. MacEachen the emphasis the Canadian Government, particularly Mr. Trudeau, as well as Mr. MacEachen, has laid recently on the need to reduce the high level of rhetoric between the superpowers as a means of reducing tension, and if so, what response do you, Sir, have to that?
- A. (S) We discussed of course so-called East-West issues at great length and I think very fully and I think we both expressed the importance of observing the situation accurately and describing it accurately, fully, of determination to maintain our strength and purposefulness. Minister MacEachen has already mentioned the dual tract-decision and the determination to follow through on that and at the same time to maintain our posture of being ready for strong discussions, and in reasonable positions and positions of give and take in the various fora where we are meeting with the Soviet Union. So I think we agree on the importance of all of those matters and I might say that I admire very much the strong statements, and for that matter, leadership, that came from the Canadian side in the Korean airliner catastrophe. The Canadian position was immediate and strong, well out in front of many other countries.
- Q. Mr. Schultz, the recent casualties by marines in Lebanon has raised concerns about the status of the American forces there. Will they have to be just left there to take further casualties or can steps be taken to protect them or do they have to keep going?

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A. (S) Any casualties of course are matters of great concern and concern on the part of the President and all of us. The marines are there to serve a purpose, they're there along with the representatives of other countries and the multinational force of Italy, France and the United Kingdom, and we are determined to see that purpose through and that's why they are there. As far as defending themselves is concerned, they will defend themselves.

Q. Mr. Schultz, yesterday for the presentation of the toasts, both of you stressed the friendship of the two countries and usefulness of these meetings to solve bilateral issues. One issue of great importance to Nova Scotia is the boundary issue and the fishing rights on Georges Banks. Do you believe that we'll have to go all the way to the Hague before we get a solution to that problem?

A. (S) Well if it takes that then we'll do that but we'll do it in a good spirit, in a sense of presenting our respective sides and in a sense of being prepared to accept whatever the verdict is. So I think that a good way to approach that, the subject of dispute over fishing matters, is something that I find as a Foreign Minister exists with many countries and fish seem to be a source of great tension somehow, but we want to resolve these issues and I think in the case of West Coast salmon, to take another example, we did manage to keep things under control during the current fishing season and we both have agreed to instruct our negotiators to do everything they can to bring about a positive result in that particular negotiation.

Q. May I ask if you have discussed that issue, Mr. MacEachen, with your colleague, or if you intend to discuss it at future meetings?

A. (M) The question of fish?

Q. The question of Georges Bank and the question of the boundary on the Gulf of Maine?

A. (M) Well the question of the boundary is now, by agreement with both countries, before the Court.

Q. You don't forecast an out-of-court settlement.

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- A. (M) No because we did our best to reach a conclusion, our best efforts didn't achieve that and we have put the matter before the International Court. The question of Georges Bank is before the Court, we are preparing each of us a case and it will be determined by the Court. So that is our decision and that is not part of our discussion because that is in a sense an issue that has been dealt with in the past in that way. We did talk about, as the Secretary has stated not only about Pacific salmon but also the impact of possible investigations on the Canadian fishery by United States authorities but we don't have at the moment, in a sense, major immediate live issues except on the necessity of concluding a treaty with respect to the Pacific salmon.
- Q. I'd like to return to the Gromyko/Genscher talks, are you more or less optimistic of breaking the deadlock ...
- A. (S) Well as I said I have no information directly from Mr. Genscher about the content of his discussions so I don't have a basis for answering your question.
- Q. Tass quoted Gromyko as saying an agreement in Geneva was still possible
- A. (S) I'm glad to hear it.
- Q. Mr. MacEachen, in all of the briefings leading up to these meetings, it's been suggested that in no way are you carrying the message to the Middle East on behalf of Mr. Schultz. Nevertheless you have presumably spent several hours discussing the Middle East and I was wondering what sort of message on your own behalf you would be carrying to the Middle East, and inasmuch as you're going to visit Damascus and Cairo, and Amman, and possibly Beirut, what effect do you think you could have on the current situation in the Middle East?
- A. (M) Well the first point, it is true that we did spend some time on the Middle East. I'm leaving for that part of the world tonight and I wanted to get the benefit of Mr. Schultz's experience in that area, and indeed we did discuss the matter, but I'm not carrying any specific messages to the Middle East. My purpose is to conduct bilateral visits in five countries and to assess the situation. I have no plan to bring about peace there. I have expressed support not only in our

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discussions this morning, but earlier, for the Reagan peace plan which offers the best promise for progress. I realize that the situation is very difficult and that no one, certainly not myself, sees the light that would ensure a settlement, but I certainly would encourage, and did encourage, Mr. Schultz to continue those efforts in the prospect that at some point there will be a breakthrough. I think we have to continue those efforts. But as far as Canada is concerned we do not seek a special role in that process.

Q. Mr. MacEachen, what is Canada's position regarding the increasing externally-supported attacks on Nicaragua? Do you think that Canada can do anything in this situation, and did you discuss the matter with Secretary Schultz?

A. (M) We have, as a matter of policy, indicated our support for the Contadora group recently at New York. I expressed our political support for that effort and expressed an interest in contributing to that process if in our judgement we could make a contribution. I believe it is a step ahead that the twenty-one points of the Contadora Ministers have now been agreed and it remains to be seen how they can be implemented through a political process. I also mentioned the speech that the President of the United States made to Congress in April on Central America and that his suggestion with respect to a possible military verified withdrawal of forces from that area was a constructive one and that should receive international support. If the Contadora Group could accelerate a process leaning in that direction then it would be very constructive in the Canadian point of view.

Q. Do you have a position on the attacks on Nicaragua?

A. (M) I have not discussed specifically the attacks on Nicaragua. I have already discussed on an earlier occasion with Mr. Schultz our view as to how a military, in our view how the solution to the situation in Central America does not rest in the military root. That is a Canadian point of view that we have discussed in the past and to which I refer today.

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Q. Did you press Mr. Schultz to perhaps do what he could to speed approval of gas exports from Nova Scotia, offshore gas, anywhere else to the United States.

A. (M) No I didn't press, not yet, that may come in the future.

Thanks for the tip.

Q. During the past couple of days you both spoke somewhat about the good relationships between Canada and the United States. At the moment there are a number of outstanding issues, particularly in the area of trade, for instance natural gas exports, steel and so on. Can you tell us what progress has been reached in those areas.

A. (M) Well on natural gas, we did discuss that. I think that that is a situation that is moving but there was a more accommodating atmosphere in that area in our meeting today. We have attempted to make our gas export policy more market sensitive and without speaking for Mr. Schultz, I think that has been noted by him. On specialty steel of course we have brought to the attention of the American authorities the impact of the application of Article 19 on Canadian sales and we are presently working, Mr. Reagan is working Mr. Brock, on possible solutions. We don't know if they will take place but certainly it is an area where discussions and possible action is in place.

(S) I would add a point, the trading relationship between the United States and Canada is the largest country-to-country trading relationship in the world and I think you can take two facts, inferences, from that fact. Number one, we must be doing something right, number two there will always be problems and so these problems come and go and we try to work them out. I think when we talked the last time we talked a lot about trucking and lumber. We didn't talk about those anymore because those problems have been dealt with. I think that the proposal, the paper put forward by Mr. Regan on behalf of the Canadian government on trade is a very interesting one and he proposes that we go about the continued opening of trade, and I believe that something like 80% of the trade takes place without any tariffs, quotas, or anything, but continued opening on the basis of a sectoral approach. We think that offers some interesting possibilities. So I would expect to see that pursuit on specialty steel and petro-chemicals

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I think were two areas that were put forward by Canada as subjects for discussion.

Q. Mr. MacEachen, could we have your opinion on acid rain? Do you feel there has been a set back or has the negotiations or the talks slowed somewhat?

A. (M) No I don't think that the talks have slowed. While yesterday we weren't able to conclude to the point where we could decide to have bilateral discussions looking to a bilateral agreement, I think the presence of Mr. Ruckelshaus and Mr. Schultz indicates the importance that the United States Government attaches to this question. While I have to say that we would be much better pleased if Mr. Ruckelshaus had been able to disclose a final decision of the Administration that we could support, nevertheless, we have made some progress in terms of acknowledging together that there is a real problem. The United States Administration is deeply concerned and that what is in issue now is what programs could be put in place. I'm aware that since we began our discussions more than a year ago, that is the discussions between Mr. Schultz and myself, we have made progress, but we haven't yet reached the goals that Canada wishes.

Q. The four points raised by Mr. Ruckelshaus, as where will the money come from, who is going to pay, how are we going to administer the rules and what kind of rules we will have. Do you have any opinion on how Canada views these four points.

A. (M) No I don't have an opinion on these four points because they are issues that are the responsibility of the United States Administration. Mr. Ruckelshaus has made clear the situation that he has to deal with and I think that is the responsibility, and not for me to make comments on how each of them could be addressed.

Q. Question for Mr. Schultz. At the time of cease fire in Lebanon you said that was the first step for withdrawal of many of the foreign forces out of the country. Do you think it would be feasible to try and bring about yet another Israeli partial withdrawal in the absence of any Syrian movement.

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- A. (S) Well I think in Lebanon right now of course the effort is to see that the cease fire does hold, that observers can be put in place, that the national reconciliation and broadening the base of government discussions go forward. I believe that if those things can take place successfully then we have the basis for working on the withdrawal of foreign forces and of course that subject will be kept up front and precisely how that ought to be managed and who should do what is a matter for negotiation.
- Q. As the Canadian Government has become more actively involved in the East Coast fishery ... has this lead the United States to renew talks about the possibility of investigating price setting and posing duties?
- A. (S) Well countervailing duty and dumping cases can be brought by United States citizens and it is up to them to decide if they want to bring case, and if they do then that will be taken up by the organization within the Commerce Department. That's the process and I'll just stand on that process.
- Q. I believe that some Canadian officials (inaudible)
- A. (S) Well you understand that a case under the Countervail Duty Law is not an action of the United States Government. It's an action that is open to anyone in the United States; a competent party that feels in some way aggrieved under our law so that a decision about whether a case is going to be brought is up to individuals then the governmental authority examines the case and decides what to do about it and I might say that the Canadian Government or whatever government or party involved has ample opportunity to provide information.
- (M) May I make a comment. You mentioned the restructuring. I don't think that the issue that may arise as a result of the interest of Senator Cohen has anything to do with the restructuring program in the Nova Scotia and Newfoundland fisheries. It's quite a separate matter.

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- Q. Mr. MacEachen, you mentioned earlier that Canada has an interest in contributing to the process in Central America. Did you make any commitments of what we might contribute there, was there any response from Mr. Schultz in terms of an interest in the Canadian contribution in Central America?
- A. (M) No, I have made no commitments. We haven't had any request even from the Contadora Group and if a request for assistance or a contribution were made, we would obviously consider it. But without knowing much more about the circumstances that might prevail it wouldn't be possible to give any commitment in advance.
- Q. Mr. MacEachen, a moment ago Mr. Schultz suggested that one of the problems in the Middle East is the withdrawal of foreign forces out of Lebanon. You're going to be going to Damascus and I believe Syria was mentioned as a specific example. Could you enlarge a little bit on exactly what it is you will be talking about in Damascus and how the Canadian position is either similar to or closely aligned to that of the American position and what sort of effect or effort you will be able to bring in Damascus to restore some sort of order. What are you going to be saying.
- A. (M) The first point is that this is the first time that a Canadian Minister has ever visited Damascus in an official capacity, and has ever had a dialogue with the Government of Syria and I think that is a very important objective in itself for Canada now to engage in a discussion to understand more of what Syria wants to do, why it is pursuing certain courses. That is a very important object in itself that I intend to pursue. But beyond that I do not intend to present a proposal or to attempt to inject Canada into a situation for which we do not have an obvious role.
- Q. I would like to ask the Minister why it is that we do not have an obvious role when this is a situation that has been going on for years and Canada has a well formulated foreign policy and at least you can explain to them what the Canadian position is or attempt to do something. Is this surely just a fact finding mission after decades of knowledge between the two countries. Are you not going to say something that would be of a definitive value in putting forward or extending a peacekeeping role.

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- A. (M) Well most of my life I have been searching to say things that are of definitive value and if I find something I certainly will say it in Damascus.