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NATIONAL SECURITY COUNCIL  
WASHINGTON, D.C. 20506

ON FILE COMMERCE, TREASURY RELEASE  
INSTRUCTIONS APPLY

NATIONAL SECURITY COUNCIL MEETING

February 14, 1986 -- 11:12 a.m. - 11:43 a.m.  
The Cabinet Room

NSS/NSC, OSD, DOJ, State  
Dept. reviews completed

SUBJECT: NSC Meeting on Canada

PARTICIPANTS:

The President

Office of the Vice President  
Mr. Donald P. Gregg

CIA  
Mr. William J. Casey

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State  
Secretary George P. Shultz  
Mr. James Medas

USTR  
Ambassador C. Yuetter  
Ambassador Alan Woods

Treasury  
Secretary James A. Baker, III  
Mr. David Mulford

JCS  
Admiral William Crowe  
LTG John Moellering

Defense  
Secretary Caspar W. Weinberger  
Mr. Ronald Lauder

USIA  
Mr. Stanton H. Burnett

Justice  
Attorney General Edwin Meese, III

EPA  
Mr. Lee Thomas

Commerce  
Secretary Malcolm Baldrige  
Mr. J. Michael Farren

White House  
Mr. Donald T. Regan  
Admiral John Poindexter  
Mr. John A. Svahn  
Mr. Larry Speakes  
Mr. David L. Chew

Energy  
Deputy Secretary Danny Boggs

NSC  
Rodney B. McDaniel  
Stephen I. Danzansky  
Tyrus W. Cobb

OMB  
Mr. James C. Miller

Minutes

Admiral Poindexter opened by noting that today's NSC meeting would focus on Prime Minister Brian Mulroney's official visit to the United States on March 18. In addition, the meeting provides an opportunity to survey the key issues in the Canada-U.S. relationship. The Admiral added that the Washington meeting

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would have extraordinary significance for the Prime Minister and his policy of providing strong public support for American initiatives.

The Admiral confirmed that we have witnessed a dramatic turn-around in Canadian attitudes toward the U.S., particularly in the absence of the Trudeau tendency to always knock the United States. Recently, he said, the Canadians strongly supported our Libyan sanctions policy, and were matched in that support only by Italy. In addition, Mulroney has indicated that he will speak out forcefully on behalf of our Libyan sanctions and in condemnation of terrorism at the Francophone Summit in Paris.

In some respects, the Admiral noted, we are the victims of our own success last year at Quebec, where we signed a number of agreements and issued a series of important declarations on defense and trade concerns. He suggested that Canadians will compare that session to this year's meeting, but that we do not anticipate signing any major agreements, except possibly the NORAD renewal. Therefore, much of the focus will be on the manner in which we demonstrate the President's "special relationship" with Mulroney. One issue, acid rain, which will be discussed in detail later today at the DPC meeting, will likely dominate Mulroney's agenda. The manner in which we respond to the Lewis-Davis report will have a major effect on Canadian-American relations.

The President interjected that he understood the concerns Mulroney had on that issue and how important it was to his political standing. The President added that the Prime Minister had phoned him last week and indicated that he was "hanging by his fingernails" up there.

Secretary Shultz noted that sometimes it was difficult to understand how Mulroney got himself in such difficult political straights, given the vast majority his party enjoyed in the Parliament. But he certainly is in political difficulty now and we do have an interest in sustaining him in office. Because of Mulroney, Canada has supported us not only on the Libyan question and in countering global terrorism, but on key East-West and arms control issues. He has been the strongest supporter of our approach to General Secretary Gorbachev. Mulroney has also been a positive force in accomplishing many of his campaign promises of particular interest to us, including moves to promote foreign investment, particularly in energy, and his initiation of the talks on multilateral trade agreements. In short, the Secretary noted, Mulroney has done more than provide us with that verbal support.

Nevertheless, Shultz added, the Prime Minister has slipped badly in the past year, and not just because of his pro-American policies. Inefficiencies, Cabinet level scandals, and inexperience have contributed to Mulroney's slide. He has been

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broadly criticized for tacitly agreeing to the transit of the icebreaker the Polar Sea through the Northwest Passage last Summer. He has also found it difficult to galvanize the sluggish Canadian economy, and has been heavily criticized for failing to take sufficient measures to counter alleged American "cultural imperialism."

The Secretary indicated that four key issues will dominate the President's meeting with Mulroney. The most critical involves the contentious acid rain problem, particularly our decision to accept or reject the Lewis-Davis report. The second issue involves the proposed Free Trade Agreement (FTA). If we can initiate such an agreement, this would be a tremendous achievement. Third are several interrelated security concerns that Cap will address later. Finally, there is the matter of "enhancements." The Prime Minister feels strongly that something additional must be added on to this visit to demonstrate the President's "Special Relationship" with Mulroney. Unfortunately, the Canadians have been unable to follow-up on our suggestions to see the President at his ranch or Camp David.

Secretary Weinberger said that by and large we are pleased with Canadian attitudes toward security issues. Canada, however, has not improved its performance on defense spending, which is one of the lowest in NATO. When Defense Minister Nielsen arrives next week, this will be at the top of the agenda. The Canadians have informed us that they are prepared to move forward with the NORAD renewal. However, some elements in the Canadian parliament and government are attempting to insert a clause in the agreement endorsing the ABM Treaty. We feel that this is unwise for several reasons, and believe it would make an implied link between our common air defense effort and SDI. Both Mulroney and Nielsen understand the distinction between NORAD and SDI, but they need to do a better job of promoting Canadian public understanding of the issue.

The question of Arctic sovereignty will be on the Canadian agenda, given the opposition to the transit of our ship last year. Some politicians have overreacted and proposed allocating scarce defense resources to the construction of an icebreaker. It appears, however, that this ridiculous idea is waning. Finally, Mulroney will be very interested in enhancing defense cooperation, in the hope that the Canadians would gain even greater access to our defense procurement process. In some areas, we are pleased with Mulroney's attitude toward security issues, but he needs to stand up and defend his position when he feels he is right.

Secretary Baker said he agreed with Cap's assessment of Mulroney's timidity. He asserted that if the government would simply exercise the mandate that it received, Mulroney could push

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through virtually any policy he wished. Baker added that if Mulroney would simply do what he promised during the campaign, his party would be in an excellent position. The economy has been growing at an acceptable 3½ to 4% annual rate, but Mulroney hasn't been able to resolve persistent problems, such as high unemployment, a deficit that is larger than ours on a per capita basis, and pervasive structural rigidities.

We have two major irritants with Canada, continued Baker. The first involves restrictions on foreign investments. Although Canada has removed some of the worst aspects of the "FIRA," several onerous provisions requiring government review of foreign investment remain. Secondly, we are very concerned about their restrictive attitude toward foreign involvement in "culturally sensitive areas." For example, in book publishing, where they have been so recalcitrant that we may have to introduce counter-legislation in order to get their attention. Another area of some concern is continuing Canadian requests for defense offsets. We believe that Canada already has a good deal here -- they have relatively free access to our procurement process, but put up barriers against our firms wishing to enter Canada's market. Nevertheless, Baker concluded, overall our trade and economic relations are excellent.

Ambassador Yeutter pointed out that we are concerned about the persistent deficit that we have with Canada, which is second only to that with Japan. The proposed FTA, however, shows considerable promise as a means to liberalize or remove trade barriers. If the consultation process with Congress stays on track, we should be ready to enter into negotiations by May. This will be the end of the "sixty Congressional working days period." During the meeting with Mulroney, the President may wish to insure that the Canadians know that we will want to continue discussions on numerous trade irritants. We do not want to allow the Canadians to defer discussions until the completion of the FTA talks, which could take up to three years.

Yeutter explained that the real problem is that the Mulroney government simply is not decisive enough. On so many issues, they simply will not bite the bullet. In our trade negotiations, they continue to dally along -- indeed we are moving much faster with the Japanese. Two key examples involve book publishing, where they continue to delay reaching a decision, and pharmaceuticals. On the latter, Yeutter noted they are often worse than the developing countries in refusing to recognize patent protections. Many of the same problems exist with respect to lumber. Yeutter concluded that the President might warn Mulroney that failure to resolve these issues could mean that the Congress would hold the FTA hostage.

Under Secretary Boggs noted that we were pleased with certain steps that the Canadians have taken to dismantle many aspects of their overly nationalistic National Energy Program. Indeed we now have an active trade in oil and Mulroney has allowed natural gas to move toward a more market-sensitive price structure. We can also expect the Canadians to press us on the sale of

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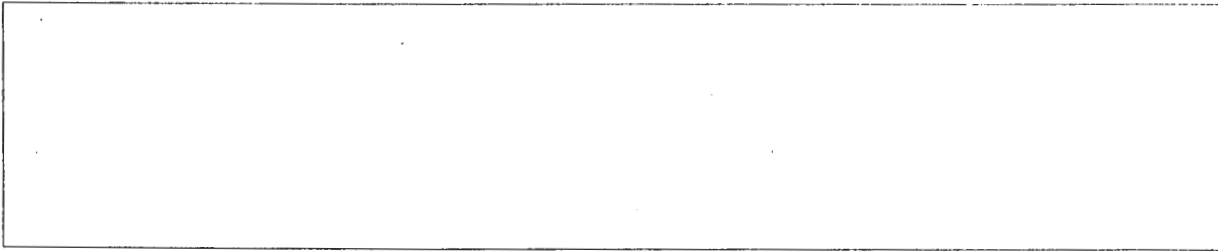
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electricity to both the Northeast and Western United States. Unfortunately, Boggs added, rigid "Canadianization" still is the rule in many areas of the energy sector, where they simply have not liberalized as fast as we would prefer.

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Mr. Regan asked if we were getting cheaper oil from Canada and what Mulroney's position was toward the oil import fee. Under Secretary Boggs replied that the Canadians were quite vociferous on this point and were strongly opposed. They know that there has been a discussion of certain exceptions, including Canada, but also understand that Congress might not be in a mood to permit exceptions. Boggs added that Canada's imports and exports of oil were roughly balanced, so lower oil prices had not been significant for them. Secretary Shultz added that lower oil prices could force the government to kill projects being actively considered.

Mr. Regan then called attention to a relatively minor issue and asked about the status of the dispute over potatoes. Secretary Baldrige noted that this was a fascinating case and that the problem involved "seed potatoes." Baldrige noted that we did identify subsidies there and are satisfied, although the ITC did not support us. Baldrige added that we also ought to lower the visibility of the FTA negotiations. These talks would go on for a long time and we should not be overly optimistic.

Attorney General Meese added that he had some good news regarding Mulroney's performance. Last year the Prime Minister signed legislation that has permitted excellent cooperation with us in capturing fugitives -- which contrast with our experience with another country to the south. Yeutter indicated that another example of Mulroney's inept performance regarded the selection of a site of GATT Ministerial this September. The Prime Minister decided to pick Montreal without telling his Foreign or Economic Ministers. We were originally supporting Singapore as a site, but when they dropped out we shifted our support to Montreal. However, we do not believe that city stands any chance of selection.

Admiral Poindexter noted that this episode was indicative of continuing Canadian incompetence in resolving issues. Nevertheless, Mulroney remains a good friend of the U.S., and Canada, under Mulroney, has been extraordinarily supportive of our national security policies. Therefore, we should do everything that we can to sustain his position.

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The President agreed and noted that Mulroney, in a recent phone conversation, indicated that he was in a very precarious political situation. Ambassador Yeutter added that in one area of special interest to the President, Mulroney's performance has not been so positive. The government of Canada was attempting to restrict imports of American motion pictures. The President retorted that after having seen many of these pictures, he really couldn't blame the Canadian government! Seriously, the President added, he knew acid rain would be very much on Brian's mind. It was an issue that covered a multitude of sins.

The meeting concluded at 11:43 a.m.

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ACTION

February 24, 1986

MEMORANDUM FOR JOHN M. POINDEXTER

FROM: TYRUS W. COBB *TC*

SUBJECT: Minutes of NSC Meeting on Canada -- February 14, 1986 -- 11:12 a.m.- 11:43 a.m.

Attached are the minutes from the NSC meeting on Canada.

RECOMMENDATION

That you approve the minutes at Tab I.

Approve     *TC*     Disapprove \_\_\_\_\_

Stephen Danzansky concurs.

Attachment  
Tab I      Minutes

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Sec 6/01 E.O. 13526, as amended  
Date: 10/24/17  
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