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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

National Security Council Meeting
March 3, 1987, 2:00 p.m. - 3:04 p.m., Cabinet Room

SUBJECT: Canada-U.S. Relations

PARTICIPANTS:

The President

The Vice President

The Vice President's Office
Craig Fuller
Donald Gregg

OMB:
James Miller, Director,
Wayne Army

State
Deputy Secretary John Whitehead
William Bodde

CIA:
Acting Director Robert Gates

Treasury:
Deputy Secretary Richard Darman

USTR:
Ambassador Clayton Yeutter
Peter Murphy

Defense:
Secretary Caspar Weinberger
Fred Ikle

JCS:
General Robert Herres,
Vice Chairman

Justice:
Arnold Burns

USIA:
Director Charles Wick

Interior:
Secretary Donald Hodel

EPA:
Administrator Lee Thomas

Agriculture:
Peter Myers

White House:
Howard Baker
Frank Carlucci
Gary Bauer
Nancy Risque
Colin Powell
Marlin Fitzwater

Commerce:
Secretary Malcolm Baldrige

Energy:
Deputy Secretary William Martin
David Waller

NSC:
Stephen Danzansky
Tyrus W. Cobb,

Minutes

The President opened the meeting by underlining the importance he attached to his visit to Ottawa. He recalled that two years ago

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he went to Quebec to meet with Brian Mulroney for the "Shamrock Summit," and that he had a great visit. The President remarked that many significant accords were signed. Turning to Secretary Weinberger, he noted that we initialed an agreement modernizing the North American warning system. He noted to Deputy Secretary Darman that the initial movement toward the trade talks came out of the Quebec meetings. Finally, he said, we signed a very important judicial cooperation agreement. (S)

The President joked that Prime Minister Mulroney quipped then that the visit highlighted the "rule of the Conservatives" -- and, not incidentally, the Irish -- from the Arctic to the Rio Grande. But, the President added, today Brian is in deep political trouble and that is of great concern to us. The Prime Minister has been one of our strongest allies. He has been outspoken in supporting this country and me personally. Sometimes he took this courageous stand alone, showing great courage. (S)

The President then said that he wanted to read directly from a warm note of support that he received just this morning from Mulroney. The Prime Minister said:

- The support of Canada for the President's leadership of the Western Alliance is completely undiminished.
- The PM intends to make known, as he already has in public, Canada's support for and confidence in the President's leadership.
- On a personal note, the PM said he noticed that the President's support had plummeted to 47% in the polls. He joked that "The rest of us mortal politicians struggle desperately to try to get up to where he is!" (S)

Today, the President said, I want to take a comprehensive look at the state of our relations with Canada. I think it is important to see where we stand on major issues and decide what needs to be done before I go up there next month. He then asked the National Security Advisor to proceed with the agenda. (S)

Mr. Carlucci stated that as the President had directed today's NSC meeting would provide a comprehensive overview of our relationship with Canada, highlight outstanding issues we need to resolve and lay out the process whereby we will finalize preparations for the President's trip to Ottawa. The President had sent the Vice President to Ottawa in January at the Prime Minister's request to get a firsthand assessment from Mulroney of the state of our relations. At that time the PM stated that he needed progress on three key issues -- Arctic sovereignty, the free trade talks, and acid rain. (S)

Carlucci pointed out that acid rain was by far the most critical issue. The President had called the Prime Minister directly in January to stress that he would live up to the commitments he agreed to in the Lewis-Davis Report. While we have had some progress on this issue, the Canadians will be looking for hard evidence that the President is indeed prepared to live up to his stated commitments. (S)

At today's session, Carlucci added, John Whitehead will provide an overview of our relationship and the Prime Minister's political situation. Cap will follow with a review of the defense and security issues, and Dick Darman will give us an economic overview. Then Clayton will look at the trade talks and Don Hodel will outline our efforts on the contentious environmental issues. Secretary Hodel joked that acid rain indeed was the "litmus test" of the relationship. (S)

Deputy Secretary Whitehead emphasized that relations between Canada and the U.S. were at a critical point. The Prime Minister was in deep political trouble -- his approval rating had now slipped to 22 percent. Unfortunately, the Prime Minister believes that his failure to receive special treatment from the U.S. for his pro-American stance has cost him politically at home. He has thus laid a heavy burden on the relationship with the United States. While we have a deep interest in helping the Prime Minister, his pro-U.S. posture is not why his popularity has plummeted. (S)

Whitehead continued that there are many strategic reasons why we need to maintain a vibrant and positive relationship with Canada. We share a 5,000 mile border -- the world's longest undefended frontier. Canada sits astride a strategic polar route and we have a very productive and crucial relationship there. We cooperate on cruise missile testing, in NORAD, on the Permanent Joint Board on Defense and in the NATO Alliance. These cooperative security ventures demonstrate the depth of our mutual commitments. Canada is also one of our most important allies because of our deep economic ties. The two-way trading relationship is the largest in the world, well over \$120 billion now. (S)

Continuing, Whitehead underscored there is no doubt that acid rain is the most important issue on our agenda, and the Canadians will be looking for evidence that we are seriously implementing the Lewis-Davis Report. We committed to allocating \$2.5 billion to develop clear coal technology demonstration projects. And, we agreed that these projects would be selected in a way that would contribute to reducing damage to their lakes. This is a highly emotional, highly political issue in Canada that cuts across the political spectrum. For that reason the Prime Minister is deeply disappointed that our commitment has not been totally implemented. The DPC will be meeting on this question tomorrow; hopefully they will provide you, Mr. President, with an option that calls for full funding. (S)

While acid rain tops the list, there are other important issues, said Whitehead. We believe the free trade talks are proceeding on schedule, but Canada has been reluctant to move forward on other economic irritants -- such as the degree of our involvement in their media and mutual banking problems. We need to unshackle these irritants because a failure to do so could complicate the FTA negotiations as they move toward completion later this year.

Arctic sovereignty is another major concern to the Canadians, although it is not anywhere near the top of our agenda. Negotiations on this dispute are underway and Ed Derwinski believes that we are reasonably close to a solution. In sum, these are the three issues and it does not appear to us that the Canadian demands are unreasonable. (S)

Mr. Carlucci then turned to the Vice President for his observations. Vice President Bush commented that he had gone up in January but had also made a trip to Western Canada as well as Ottawa last June. Unfortunately, that came at a time that we had just announced our "shakes and shingles" decision. The Vice President noted that he was met with a rather vociferous demonstration in Vancouver including one sign that said "a shake in the hand is worth two in the Bush." But, he added, this January trip was an even more emotional encounter. Mulroney is clearly in trouble and he needs to have us in a supportive position at this time. Of course, we should not base our foreign policy on propping up our friends, but this PM is 100 percent behind us. While I was there, the Vice President said, I saw a tape in which a respected Canadian TV commentator stated that the best way to get the U.S. moving on key issues was to "bring in the Russians." (S)

The Vice President noted that he thought we were moving forward on the key issues. He pointed out that free trade negotiations were proceeding reasonably well and the prospect of solving the Arctic sovereignty problem appeared reasonably bright. However, I cannot stress too much, the Vice President said, how important the acid rain question is. This is a matter that is not just a concern for the PM, but it is one that cuts across the political spectrum in Canada. (S)

Mr. Carlucci then turned to Secretary Weinberger, who opened his presentation by underlining that our security relationship with Canada is very strong. He noted that we do, of course, have some problems, but compared to the Trudeau era we are in excellent shape. John Turner, the opposition Liberal Party leader, is a close friend of mine and the United States, Weinberger noted, but he simply wouldn't be as supportive as Mulroney. (S)

Secretary Weinberger noted that there are some serious differences with the Canadians. They have just announced a cut in their projected defense spending, which will result in zero growth. One would think that their enormous 182-seat majority

would provide them the ability to live up to their commitment to improve defense spending, but they haven't. The Secretary added that he was disturbed by their stand on the Arctic sovereignty question. The Canadians, in reaction, have done some very strange things. For example, they are planning to produce some submarines and a very expensive ice breaker in order to "patrol the Arctic passageways." (S)

The Secretary continued that he is very concerned about the Canadian commitment to NATO. Ottawa has floated a trial balloon regarding a reorientation of their forces away from Central Europe farther north. I'm not sure, he said, that Norway is prepared to accept such a foreign presence. However, we and all of our NATO Allies are concerned that this Canadian reorientation would remove their forces from the critical central front. This has to be a key issue for discussion on our agenda. On another issue, he continued, Brian has been solid on cruise missile testing, but troubles could arise when we shift to the ACM. We need to test it over Canada -- the terrain is very similar to that over the Soviet Union. Some of the opposition in Canada has labeled the ACM a "first-strike weapon". Considering its response time this is absurd. (S)

On other issues the outlook is much brighter, said Weinberger. We have implemented many of the agreements that were signed at the Quebec Summit; for example, on North American warning and forward operating bases. We are working together in contributing our joint resources for the OTH radars and a number of other agreements are moving forward -- for example, the six air defense agreements. (S)

General Herres pointed out that the real problem with their planned reorientation toward Norway is time. Canada simply could not get its brigade there in time to influence the course of a conflict. Secretary Weinberger underlined that Canada does not have the naval or airlift capability to move the brigade. Herres emphasized that we need to get Canada to hold off making this decision until NATO has formally analyzed their proposal. The Secretary added that we are looking at their draft "defense white paper" and we hope that we can influence their recommendations. (S)

Deputy Secretary Darman then presented an economic overview. He was pleased that many of the economic irritants have been resolved. Surprisingly, given the PM's declining popularity, Canada's economy has been doing quite well. Its real growth has averaged 3.5 percent, and only Japan of the Summit Seven countries has a better record over the last five years. Given this there is no justification for the decline in the defense budget. (S)

Darman expressed pleasure that the GOC is also moving toward lower tax rates, which are, along with unemployment, too high.

We are very pleased with Canadian movement on the issues of services and investment. In 1985, Treasury was pessimistic on these questions, but we are very satisfied now. We have some remaining concerns in the energy and "culture sovereignty" areas, but overall Canada's performance has been much better. We are also pleased that Canada took the high road and didn't get as hung up as Italy did on the G5-G7 dispute. (C)

Darman continued that the FTA represents one of the most promising initiatives for the remainder of the Reagan Administration. However, the legislative calendar is ticking and we are concerned with the ability of the Canadian Government to resolve its internal differences in time to get this before the Congress. Clayton Yeutter agreed that this was an important initiative. The FTA should not be seen as a zero sum game -- both sides can benefit; but at the same time we both will have to bite some difficult bullets. Canada's key concern has been that we have not paid sufficient attention to these negotiations. (C)

Yeutter declared the key question is whether or not they are truly ready to make the necessary compromises on the tough issues. He expressed particular concern with how responsive Canada will be on the cultural issues and the automotive question. What we are attempting to do is "discipline their subsidies". On the bilateral issues, we had resolved the lumber dispute, but the PM was zapped by public opinion on that one. The infamous "shakes and shingles" issue was "still shaking." Canada rescinded its countermeasures, but we believe that it is premature to review our decision. Two issues that could haunt us, prior to the Summit, are corn and steel. Despite these irritants, Yeutter concluded, our trade relations are better than ever. (C)

Robert Gates noted that the Prime Minister's 22 percent popularity rating deserved comment. He observed that the Liberals were now at 44 percent and the Socialists were at 32 percent -- 10 percent above the Conservatives. The primary problem has been a perception of incompetence and corruption. Seven ministers have had to resign, thus contributing to the public view of the Mulroney Administration as ridden with malfeasance and scandals. This is why Mulroney banks so much on his being able to deliver on his relations with the United States. (C)

Mr. Carlucci asked Don Hodel for his views on how we might resolve the contentious acid rain problem. The Secretary noted that he spoke from an unusual perspective -- his parents had emigrated from Canada and he thoroughly understood the Canadian viewpoint. He compared the Canadian critical view of Americans as similar to that he and other native Oregonians had for Californians, causing the President to joke, "That bad?" Hodel said that we had made some progress on key issues such as salmon fisheries, the Great Lakes dispute, and the Atlantic fishing grounds. (C)

On acid rain, the Secretary noted that the DPC was now examining ways in which we could best implement the Envoys' Report. He pointed out that the President had a commitment to allocate \$2.5 billion, and this was not in our budget. The DPC was looking for options that would meet Canadian concerns. We might be able to do this by getting more private sector help and regulatory relief. We are concerned, quite frankly, that Canada will continue to demand a 50 percent cutback in pollution. This option is simply far too expensive. The DPC is concerned that Canada will take implementation of the Lewis-Davis Report as the starting point from which they will demand we do more. Undoubtedly, they will be lobbying Congress to force a real abatement program on us. (S)

The Secretary said he also wanted to raise Canadian intransigence on the Arctic Wildlife Refuge, an area with promising oil reserves. Our record is good here. Canada complains about our drilling plans, but ignores the fact that they have done considerable drilling themselves in this wilderness. (S)

Finally, Hodel concluded, he wanted to point out that he had never seen a lobbying effort as intensive as the shameless way in which the Canadian Government lobbies this Administration. And they seem to have been reasonably effective in getting us to move on many issues. I would hope, he said, that we could lobby them as strongly. (S)

Carlucci pointed out that we needed to make it clear that we are asking for \$2.5 billion for the development of clean coal technologies, not for an acid rain abatement program. I am very disturbed, he said, with recent Canadian demands that we commit to such reduction programs. Jim Miller pointed out that OMB had serious reservations regarding the demonstration programs. With respect to an abatement program, this should only be done in the most efficient manner. The most effective method would be to switch to low sulfur coal from the West, but this is not realistic given the current power structure in the Congress. I am also concerned, he added, that we exercise caution not to transfer the burden of an acid rain program on to the private sector. It would simply be far too expensive. (S)

Bill Martin noted that the science was still incomplete on acid rain. We have programmed \$400 million in the budget this year and our efforts have yielded an SO₂ emissions curve that is continuing down. This is good news and he hoped that our foreign policy people can devise ways to insure that we get credit for what we have done. Secretary Hodel agreed and reiterated that the key problem was that even if we were to comply completely with the Report, the Canadians would simply demand that we do more. (S)

Dick Darman said we needed to put this problem in perspective. Last year the United States made a major concession and met a key Canadian concern when we agreed that acid rain was a serious

problem and had transboundary implications. In turn they made a major concession by dropping off from their demand for a full-scale abatement program. Our compliance with the \$5 billion clean coal demonstration program would be the test of our commitment. Canadians simply do not see any new money in the budget. (S)

EPA Director Lee Thomas said that we needed to face up to the fact that we simply have not lived up to our commitment. He added that we also needed to develop a real acid rain control program over the next few months. Secretary Baldrige underlined that those who had recently traveled to Canada knew that the overall perception there was that we had not lived up to our commitments. If we continued to balk at fully complying with the Acid Rain Report we would jeopardize matters of much greater importance to the United States -- such as security concerns and the FTA negotiations. It would help us all if we would meet our commitments here and get this issue off the agenda, emphasized Baldrige. (S)

Director Miller noted he was very concerned with Lee Thomas' recommendation that we look into a control program and specifically asked how much it would cost. Thomas responded that he felt an adequate program could be designed that would cost less than \$1 billion a year. He added that most of this could come from the private sector, on the basis of "polluter pays." He acknowledged that this represented a change in Administration strategy. However, he was concerned that if the Administration did not get out in front of this issue and devise a program that it could live with that Congress would take the lead and devise a much more aggressive program than we would like. (S)

The President pointed out there should be no one who thinks that we have not done a lot in this area. Indeed, our environmental record was second to none. But the bottom line remained that we have a commitment here to live up to the Report, and that he intended to do so. Carlucci stated that this was a good note to conclude on. Clearly we have numerous areas where we have achieved progress in the relationship -- eliminating trade irritants, coordinating economic policy and on defense cooperation. But the critical issue that remains is acid rain. Ed Meese and Don Hodel would be directing the DPC review process that would present to the President a range of options on how to meet his commitments to the Envoys' Report. Clearly the success of the Summit depends on securing a solution to this question. (S)

The President said he wanted to reiterate once again how difficult Brian Mulroney's political situation is. The Prime Minister is in trouble and it behooves us to do what we could to help him. God help us, the President said, if the opposition parties were to take over. That would have serious ramifications for our defense and trade relationships. Let's see what we can do, the President directed. (S)

The meeting concluded at 3:04 p.m. (S)