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THE WHITE HOUSE  
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Carlos Salinas of Mexico (U)

PARTICIPANTS: The President  
James A. Baker III, Secretary of State  
Nicholas F. Brady, Secretary of the Treasury  
Robert A. Mosbacher, Secretary of Commerce  
Carla A. Hills, Ambassador, United States Trade Representative  
Brent Scowcroft, Assistant to the President for National Security Affairs  
John D. Negroponte, Ambassador to Mexico  
Robert Zoellick, Under Secretary of State for Economic & Agricultural Affairs  
William T. Pryce, Senior Director, Latin American Affairs, NSC Staff (Notetaker)

Carlos Salinas, President of Mexico  
Jose Cordoba, Director, Office of Coordination  
Fernando Solana, Foreign Minister  
Jaime Serra, Minister of Commerce  
Pedro Aspe, Minister of Finance  
Herminio Blanco, Principal NAFTA Negotiator  
Gustavo Petricioli, Mexican Ambassador to the United States

DATE, TIME AND PLACE: December 14, 1991, 11:20am - 12:20pm EST  
Camp David

The President: Well, here we go. I had a chance to visit with President Salinas a little while and would like to go over some of the issues that we discussed. Most important is that we want a NAFTA agreement and we want it as soon as possible. We will make a statement saying that and I will say it when we get down from this place on Monday. There are reports that some political figures think we believe we have political problems with going ahead. I don't know where they come from. Political problems will get worse if we appear to be pulling away from an agreement which is good for the United States. It is in the selfish interest of the United States to get this thing. It will help our people. Having said that, there are political forces who will be out shooting at us. One of the ideas is that there will be slippage of jobs to Mexico as a result of the NAFTA. We have crossed that bridge. I wanted each of you to hear from me that no matter how hot the political pressures become, we will not move an inch back. When we talked about a beneficial agreement we meant just that. You have seen things which give the idea that we are going backwards. We are not going to change because

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in terms of principle this is good for the United States. We are not going to back track. If we have a good agreement, we are going to push as hard as we can. We are pregnant. We are not going to get unpregnant. I want to make it clear that when I told you we can get it, I think we will. I also told President Salinas that there are political problems involved. There are people who are against it now and who will continue to be against it. That will include labor. We have heard some candidates who are opposed to it. But I believe a majority are in favor including the Committee heads. I talked to one of them this morning. (P)

I told you that we have problems. We need to sell it. We can't send up a bad agreement, but we don't mean to have a bad agreement. (P)

I don't know how you want to proceed. There could be a general discussion or we could discuss particulars. (P)

President Salinas: We are fully committed; support is growing. Two-thirds are for it and it is not that the others are all against it. It is surprising that we have so much support that we can look for a way to push through. This can be helpful for both the U.S. and Mexico and Canada. The opposition in Canada thought the bilateral agreement was too good for the U.S. We are convinced this is good for the U.S. and for Mexico and we also know that Mexican-Americans think that this is good because they could get business. This agreement will mean jobs in Mexico for the U.S. We have felt a great deal of their presence here (in Mexico); they think that their country of origin is doing the right thing. The Ambassador has participated in a number of programs with the Mexican-American community. (P)

I had a call last week from Prime Minister Mulroney who said that the longer we wait the greater the risk. They want to do it as soon as possible. They are fully committed at the governmental level. (P)

Minister Serra: I had a very positive meeting with Carla Hills last week. We have also met with Wilson. We believe that we could have an agreed text by February 1st for the text of an agreement. We met last week and made real progress on that. Carla don't you agree? (P)

Ambassador Hills: I agree completely. We are going to get together on Thursday. We should have a bracketed text by January. (P)

President Salinas: What could delay agreement? (U)

Ambassador Hills: I don't see anything delaying a bracketed text, but the content of the agreement will determine if we have a package that has what is necessary so that the Congress will approve it. The worst thing would be to have an agreement voted down. There may be some difficulties, some bad sides, to the agreement that we will need to change. (P)

Minister Serra: As far as a bracketed text is concerned, there should be no problem in arriving at that. The problem is to agree on the difficult issues. We need an early text, then we need to get rid of the brackets or as many brackets as possible. (φ)

On the Mexican side there are a few items where we have problems. For us there are a few topics which are very important. One is agriculture, because of the major agricultural reforms (in Mexico). I know this is also politically sensitive in the United States. This is one area where we have not exchanged texts. Hopefully this is one where we can exchange soon. (φ)

There are other problems. One is textiles. The textile industry is deeply opposed to having a limit, but I have approached U.S. industry and talked to Roger Milliken. (φ)

The President: You have convinced him? (U)

Minister Serra: He is for NAFTA if there is agreement on rules of origin when there is an elimination of quotas. He has talked about a new system which is called a quick response system which calls for a rapid response to input from retailers through producers which will bring about great productive efficiency. If we can get agreement this will make the quick response system work very well. (φ)

Then, there is the common problem of the automobile industry. ~~Part of the problem is the recession, but it is also because there is repositioning.~~ We think we can have a common approach which would eliminate distortions over time. We have committed to send a paper on this. (φ)

Another subject is duty drawbacks. This is important, because if we eliminate this, many Mexicans would be worse off than others -- if Mexico can't do what others can do. (φ)

There is also the question of anti-dumping. We have looked at the U.S. proposal at the Uruguay Round. We believe the idea in the Canadian agreement on sections 18 and 19, which we understand Secretary Baker is the sponsor of, could be a good way to approach things. (φ)

The President: Why don't we state some of the areas which are of interest to us. We could start with energy. We certainly respect history and we don't want to infringe on fundamental energy rights in Mexico. We understand Mexico's sensitivity on energy issues. There is interest in exploring areas. Carla, would you like to add anything to what I've said on energy and on other subjects? (φ)

Ambassador Hills: Of the five areas that Minister Serra mentioned, they are going to be difficult, but we can deal with them. Import licensing still covers 40% of Mexican products. Mexico could keep it if it was justified, but many people feel it is not justified. This is a very sensitive issue for us. (φ)

On textiles we have a deal, but we have to agree on very strict rules of origin. Actually I think Milliken would like to see 100% of origin. (P)

On automobiles it's true that all three countries have difficulties in this area. One of the constricting problems is that the industry is restructuring. We have met at least two times on this subject. We will have to be sensitive. We all have distortions. (P)

On duty drawbacks, Mexico, and even the U.S. grant to countries who import and then export back. But in most common markets there is no agreement which allows duty drawbacks. The EC doesn't permit them. This is a difficult situation because there are people who worry that Mexico would be a gateway and a perception that companies can get into Mexico with no duties and then export to the United States. They will do better than companies which are direct importers in the United States. (P)

On anti-dumping, all of us know how sensitive this is. Some countries have been doing away with anti-dumping, for example Australia and New Zealand. But we would want to tread very lightly in this area because we don't have a consensus to ask for a change in policy. The EC has common anti-dumping provisions. (P)

On our side, the President mentioned energy. In Seattle, I mentioned five areas where we encountered difficulties. This is because we have foreclosed risk sharing. But it is proposed that we would also eliminate retailing and the sale of gas to markets to U.S. and Mexico. Perhaps we could discuss this because there's interest not only in the southwest but also in the northeast. (P)

On investment we have been told that there are a 104 areas off the table. Financial services is one. If there is a lack of parity of opportunity in the financial area this will cause great problems. But with proper approach it is doable. If we get a narrow agreement, we won't get the broad support of people who think that they will get economic benefit from the treaty. We want to be sure we don't have a bad agreement. (P)

The President: We touched on environment and labor -- the question of jobs is very important. It is here that our people are most sensitive. We have assured them that we will stay engaged. (U)

We need to get the fewest number of brackets. Carla is asking for 100%. It is correct that the broader the agreement the more we will be able to win a spirit of consensus in favor of it. (P)

Secretary Brady: May I say something about financial services where there is a wide gulf for us? We want the same treatment for banks as Mexico has in the United States. We also have reasonably large gaps in tax agreements. The interest rate is 10% versus 5%. We have two or three other areas where we feel

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strongly and where the banks feel strongly. We don't want discrimination. (Ø)

Minister Aspe: Well, as you know, you have 15%; we have 5%. We signed with Canada with 10%. The U.S. says 15% is not good enough. You know we have been privatizing the banks. We need time to adjust. Nine out of ten banks still need to be privatized. (Ø)

The President: Bob (Mosbacher), would you like to say something? (U)

Secretary Mosbacher: I think that what we have from the business community is positive, but anti-dumping is their number one concern. They feel very strongly, and this is something we have to deal with. I do not want to get into fields where Pedro is the expert, but financial services are also important. (Ø)

The President: Bob (Zoellick), do you want to talk about the environment? (U)

Assistant Secretary Zoellick: If I could. The political danger is that we could get flack from these flank issues. We have explained that there has been progress on the environmental fronts, but we need to work together on this to help both sides support the NAFTA. I know you have committed around \$400 million to the environment. This is an area that is very important. As we move ahead on trade, we need to move at an equal pace, and we may need to take additional steps. I don't have anything really specific in mind. (Ø)

On labor, we need to explain things better. You told President Salinas of the importance of worker adjustments. We also need a stronger approach to workers' rights. If you could make an effort on workers' rights like the environment, this would be very helpful. And I should also mention the dog that didn't bark yet, which is narcotics. We need to keep the progress that we have made in that area and to focus on continued progress. (Ø)

The President: I think that there is a proper perception of new-found drug cooperation. (U)

President Salinas: On drug trafficking. We will continue to move decisively and devote responses to fight it because it is in our interest. It is for the protection of our own people. We want to thank you for sharing information, which comes from your planes. We seized 40 tons recently. That is double Mexico's previous seizure. (Ø)

The President: This is important. We are trying hard on the demand side. There are some encouraging signs. Casual use, and use by youngsters is down. The problem area is in the 35 year old and over area. We think that education and community programs are helping and we are trying out new programs. (Ø)

President Salinas: People say, "why not ask for more aid," and we say "what we need is more cooperation with the United States"

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and not aid." We need to get better information and we are in this because it is against our people. U.S. has rules about agreements for choppers, but we don't need them because we are going to buy them. Mexico is doing this because drugs are affecting our own families. (P)

The President: You have mentioned the Veracruz incident, and said, "hey, there is going to be no coverup." (P)

President Salinas: This is the first time in Mexican history, that a three-star General will go to jail. Anybody who is caught cooperating with traffickers will go to jail. (P)

The President: I want to know if there have been any problems with border violence. I understand that we have made progress here, and I want to know if there is a problem. (P)

President Salinas: There has been progress, but we need to keep progressing. We need to mention it in the Press Statement. I was told that in Los Angeles, that it was just an incident of a person that was involved in specific violence and not a policy. The situation has improved and could improve more. (P)

The President: Okay. We had a good Attorney General, and we have a new good Attorney General. Barr is a very open person. Our door is open. We don't want to have tensions from that sort of thing. (P)

Can I ask another question? I know that Mexico is sensitive about ownership and risk and the production of energy, but I wonder why there couldn't be more in the area of retailing? (P)

President Salinas: In the case of financial services investments, I believe that we can make adjustments and in anti-dumping as well. On energy, this is a very difficult area, and in basic energy it is impossible to change, but in chemicals we could do something more. This is a very difficult area. Insisting on impossible energy questions could be deal breaking. (P)

The President: Yes, I just was wondering, why there isn't more possibility for progress, on say, marketing and refining. I can understand the feelings on ownership, but don't know why they would pass to retailing. What would be the difference if Shell has a station next to Pennex, or is it all lumped together? (P)

President Salinas: Yes. Exactly. Some areas, although not prohibited by the Constitution, are very sensitive. If we had an Exxon sign next to a Pennex sign, it would indicate to Mexicans that we had sold our national patrimony and would be explosive. However, I believe that it is possible to be more liberal in the chemical area. We are allowing people to build energy plants to produce the energy for their production. (P)

Secretary Baker: Build them and operate them? (P)

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Minister Aspe: Yes. Operate them and produce energy for their own enterprises and then if there is energy left over, they can sell it to the national energy network. (φ)

Secretary Baker: Is there a minimum percentage? (φ)

Secretary Serra: We have found a way to allow investment in this area, but we have to be able to do it within the Constitution. Before coming here, we had signed an agreement. I have talked to Carlos where there is some flexibility, and we can move in this area. It seems we can find some areas for investing in energy, but there are some where it is absolutely impossible. (φ)

Secretary Baker: Are there areas where we can have an increase in investment other than energy? In Canada there were cultural exceptions to restrictions on entertainment industry investment. (φ)

Secretary Serra: Well, we have some exceptions in the entertainment field, like you do, on TV for example. We have tried to do things with the United States, but have difficulty. This is something that we could talk about. (φ)

Ambassador Hills: I would like to point out that we have had some difficulty in arriving at principles, but if you have a long list of exceptions, then the principles don't mean too much. There is a list of 137 product areas where foreign investment is restricted in Mexico. (φ)

President Salinas: We want the minimum number of exceptions. (φ)

Ambassador Hills: We welcome talks about that. Certainly the list will narrow. This is the basis we want to proceed on. (φ)

The President: Carla is right about the need to respond. One hundred and thirty seven exceptions for Mexico only lessens our possibility of areas for support. (φ)

President Salinas: In January, we will get three texts. (φ)

The President: We will see if we can have some expanded energy considerations. (φ)

We met with Perez de Cuellar on a decoration thing. When we met, he mentioned El Salvador. He was going to see you that night. You have done very well in helping on this process. We have been less in the forefront. Where does that stand? (φ)

President Salinas: I just got a visit from President Cristiani a week ago. He was worried because he thought his opponents did not want a deal by the end of the year. I told Perez de Cuellar I would talk with President Cristiani. We agreed that it would be good for him to be in New York to show that we want a deal. This is very difficult for Cristiani. He has a lot of pressure from the right. He can only compromise once more. We need to convince him to come so that we can put maximum pressure on the

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FMLN. (Foreign Minister) Solana will talk with the FMLN to tell them that they must be serious about these talks. We used to have stronger leverage with the FMLN because we supported them, but now that we support President Cristiani we have lost leverage. We almost sent them out (of Mexico) but didn't because President Cristiani didn't want us to do so. I will pressure the FMLN. (φ)

Secretary Baker: This is a critical point. We need to have agreement that there will be a genuine cease-fire. Then Cristiani could come up. (φ)

The President: Was there a problem with the police? (φ)

President Salinas: Yes, there is trouble with the police but we pushed on that. (φ)

The President: With your support for Cristiani, that should tell the FMLN "look your time is up." (φ)

Secretary Baker: What about the Parliament? (φ)

The President: And others. (U)

Foreign Minister Solana: There were problems with the 14 families. (φ)

The President: I didn't realize they had reduced to 14. (φ)

Foreign Minister Solana: Yes, 14. We will work with the four friends. I would be optimistic. (φ)

The President: I might say that in the UN, given the decline of the Soviet Union and the automatic veto has been much more positive. They were helpful on peacekeeping. The guy put his life at risk. He did a good job. We respect the role, they have symbolized. They can play a more important role. (φ)

I want to mention the Zionism Resolution. It is the right thing to do. We appreciate your help. We have respect for Shamir. The Israeli said he thought there was progress on the talks. It is important that they go on. There was progress in some areas. (φ)

On the events in the Soviet Union, I talked to Yeltsin. They say don't worry about the nukes. But the system has not yet been worked out. Strains between Gorbachev and Yeltsin are very great. We are not trying to influence. We want democracy. We characterize Gorbachev and Shevardnadze as highly positive people. Yeltsin has played a key role. He is a little flamboyant. We are not sure where he will go. We want to help - to see a reduction in nuclear arms. We will take one-half and help in the destruction of weapons. We do not want to see proliferation. Gorbachev says people are going back on their word. It is a desperate state. Gorbachev says if you do this, do it constitutionally. I don't have a feeling he is adamantly

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struggling to keep his job. (To Secretary Baker) Is there anything else? (Ø)

Secretary Baker: Only perhaps Cuba. (U)

The President: I mean on this. (U)

Secretary Baker: We want to have a coordinating conference which will be in January. We hope Mexico will be there. We won't put the arm on Mexico. We want to have everybody contribute in the best way they can. We hope that as a leader of Latin America, you will come. (Ø)

President Salinas: Who will replace the Soviet Union on the Security Council? (Ø)

The President: Gorbachev said the Center. I suppose Boris will hold it. (Ø)

The President then suggested the meeting break for lunch. (U)

-- End of Conversation --

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