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THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

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

PARTICIPANTS: The President
James A. Baker III, Secretary of State
Carla A. Hills, United States Trade Representative
Samuel K. Skinner, Chief of Staff
Brent Scowcroft, Assistant to the President for National Security Affairs
William K. Reilly, Administrator, Environmental Protection Agency
John D. Negroponte, U.S. Ambassador to Mexico
Bernard W. Aronson, Assistant Secretary of State for Inter-American Affairs
William T. Pryce, Senior Director, Latin American Affairs, NSC Staff

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PER E.O. 12958,
AS AMENDED
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Carlos Salinas, President of Mexico
Jose Cordoba, Chief of Presidential Staff
Fernando Solana, Foreign Secretary
Jaime Serra, Minister of Commerce
Gustavo Petricioli, Mexican Ambassador to the United States
Andres Rosenthal, Under Secretary for Foreign Affairs
Herminio Blanco, Chief, Free Trade Negotiating Team
Jose Carreno, Advisor to President Salinas
Rozalba Ojeda, Director for North American, Secretariat of Foreign Relations

DATE, TIME July 14, 1992, 3:40 - 4:30pm DST
AND PLACE: San Diego

The President: Thank you very much for coming. I thought I would tell the people here what I told you about how much I appreciated your visit. We talked about the NAFTA, and I made clear that we're very interested in seeing the NAFTA concluded promptly. If you hear that there are people who say that it is good politics to slow it down, I want you to know that is not my view. That is not the view of this Administration. We are working hard to get it through. (C)

President Salinas: I appreciate very much the invitation. It started with a game. I didn't know what game (smiles). For us, it would be good to get a balance sheet on NAFTA. We are pleased with the experience in the negotiations. Jaime says that there

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is good progress, so good that we can say we are in the final stages. We understand the reluctance to fix the date. But the market expects that there will be an agreement, and that it will be finished and signed before the elections. We worry that if we give a number of signals to the market that this is not the case, this would be very bad. (Ø)

A second point is that November is very important for us. The Mexican people couldn't understand if the agreement was signed a few days after my "Informe." That's why it is important that there is an early opportunity to have a hand shake on it. It is not the U.S. elections, but the markets that are important. (Ø)

The President: President Salinas and I have talked about several points on oil. And, we have agreed on the urgency, but a date -- I'm not sure we can go that far as to name a specific date. We use the phrase of the "ninth inning". But, I don't know. What would you like on further elaborations. We want to get it done. (Ø)

President Salinas: We have said that we want it done as soon as possible. Carla and Jaime are to have a private meeting on the 23rd, and then there is the Ministerial meeting on the 25th. If we give them clear mandate to try to finish at that meeting, that would give us a date that the markets are expecting. (Ø)

The President: I would agree that's a good goal. Let's try to button it up. Who knows, let's try to finish. Shall we leave it that they will try to finish. What is the last day for you? (Ø)

President Salinas: August 1. (U)

Minister Serra: I think we can do it. Some positions won't change. We need to sit down and find a final balance. (Ø)

President Salinas: That's right. (U)

Ambassador Hills: There's no question that we want to finish the agreement as soon as possible. To initial means we must complete the legal changes and corrections, and bring along the Canadians who say that the legal questions could take a month. (Ø)

But first things first. Mr. President, you have always said that we need a good agreement. If we get an agreement that is okay on the 25th, that's okay. If it takes to the 26th, that's okay. What we need is to get a good agreement. (Ø)

The President: Do you think that oil is the remaining major difficulty? (Ø)

President Salinas: It's the main one. There are other areas. Minister Serra has more details. From the Mexican point of view, if we give guaranteed access to supply, that is giving access to Mexican oil. It is impossible and unconstitutional for us to go on that aspect. The Canadians are agreeable to have mention of

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an agreement in the overall treaty, but to have an annex, which exempts Mexico. (Ø)

It doesn't mean that in a emergency Mexico wouldn't provide oil, but constitutionally and politically, we couldn't promise it. The Canadians didn't have much difficulty with this because they don't have much oil. They wouldn't do it with water. (Ø)

The President: Do they equate that with ownership? (Ø)

President Salinas: Yes. (U)

The President: But who is it that (U)

President Salinas: You have the lawyers. They say that politically it is impossible and probably it is unconstitutional. Then there is a son of a former President who would attack us and try to make political capital. I don't want to give him that opportunity. It is very clear, and I believe it. So, we cannot accept this provision. But, we have opened up very much. Minister Serra can talk about this. (Ø)

Minister Serra: We have made great progress, first we've opened up on petrochemicals -- it is fully opened. Second, we have an interesting formula on gas. Third, there is room for performance contracts with incentives. And fourth, we have opened up on electricity. (Ø)

Some issues are not on the table, that is security of supply. The Canadian negotiator says we can have a clause in the main text and then make an exception for Mexico. We have given the Canadians concessions. They have agreed to have a trilateral agreement in the main text, and then we would have a bilateral agreement on agriculture, which would exempt the Canadians. We believe that it is a kind of thing we could do here also, where we have a trilateral umbrella and then some things are exempted. (Ø)

Ambassador Hills: They have been good on some things, but not so good on other things. (Ø)

This will be extremely difficult politically and with the Congress. If we get into a period of short supply, and we are now saying that we wouldn't get national treatment, we will be in big trouble. If we don't have this, we will have to come to more positive arrangements on many other items in order to sell the agreement. (Ø)

President Salinas: I understand the difficulties. It would make it impossible for me if I accepted such a clause. I don't want to ruin the negotiations. I did mention to the President in 1990 that energy issues could be a "deal breaker" for the negotiations. (Ø)

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The President: What are we talking about? If we have agreements where a certain amount of oil is promised then there is a reduction in supply, we are cut short? (Ø)

Ambassador Hills: PEMEX could say that we would be cut short. (Ø)

Minister Serra: We have a good set of rules. When we agree to long-term contracts, we agree to supply. Section 904 is more specific. If there is a crisis, political opposition would say that Section 904 requires that you must cut Mexico equally to the U.S. That is interpreted by the lawyers as agreeing that the U.S. has a claim on ownership of oil and this is a bomb. (Ø)

Ambassador Hills: In the situation of Canada, if there should be a need to reduce supply by one third, we would all be reduced by one third. (Ø)

Minister Serra: They wouldn't give it on water. (U)

Secretary Baker: I thought Canada gave it across-the-board. (U)

Ambassador Hills: We had a case where a pipeline was cut off in Michigan, and we faced a real shortage and it's caused tremendous problems, and that led to the agreement. One of the first questions I got in terms of energy, is whether we would get 904. (Ø)

President Salinas: When we first started these negotiations, we knew about this problem. That's why I mentioned it in Monterrey. This is part of the agreement for you. It is the whole agreement for us. (Ø)

The President: Is there no way to assert that this does not impinge on national sovereignty? Would there be no way to affirm that? (Ø)

Minister Serra: We have looked everywhere for a formula, but none were adequate. (Ø)

President Salinas: But, the rest of the agreement, we should look at the rest -- financial, agriculture, financial services. (Ø)

The President: Why don't we see if you two can talk more about it. (Minister Serra, Ambassador Hills). We will scrub hard and see if there is something we can come up with, which will protect our side of the equation but take care of Mexico's sovereignty concerns. I'm a little confused as to why something which is in a contract, impinges on sovereignty. (Ø)

Minister Serra: Contracts are kept. They provide for penalties, if not fulfilled. (U)

I think that your industry is more interested in other areas, rather than security of supply. I don't think it has that much

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importance in business. It is more of a political nature, with a very big importance for us. We are offering much which will be attractive to your business. (Ø)

President Salinas: There is a difficulty. This is a very serious problem with our opposition. That would not let NAFTA fly. We said from the beginning that Section 904 would not fly. (Ø)

Ambassador Hills: There is enormous value of security of supply in our succeeding in getting approval. It is not just the oil states who are important, it is all consumers around the country. The steps on petrochemicals and contracts are a step forward. But PEMEX can block them. If we are willing to pinch here, we will have difficulty in getting support for the agreement. We will have to build stronger support elsewhere. On tariffs, on drawbacks, which is a very sensitive subject for us. On automobiles, we are still waiting for a paper from you, and you can't just hand over a paper one day and expect a response on the next. These are difficult, complicated issues and the numbers, which result from a proposal have to be worked out. On the investment side, there has been real progress, but we still have a serious problem with "screening." (Ø)

President Salinas: What worries me is that the negotiators have been stuck on certain issues. What they need is more flexibility and a mandate. Jaime has instructions -- (Ø)

The President: Let us talk about it. We won't solve the problem today. We know that you are not just throwing up problems. (U)

Ambassador Hills: We need to build 51% support for the treaties. If we lose, we are worse off than if we had not started. So, if we lose support on one area, we have to make it up on another. So you know, we have to have more positive things in other areas to get support. (Ø)

The President: Let's try to move forward on this. (U)

President Salinas: Let's talk about Alvarez Machain. Your letter was most welcome. We understand your difficulty with revising the extradition treaty. We would like to look at the idea of developing a trilateral extradition treaty between Mexico, Canada, and the United States. Maybe we could have a meeting on this. After the election, we want to talk about how to return Alvarez Machain. After President Bush's election. (Ø)

The President: We know this is causing difficulty for you. We have tried to put this behind us. We assume there is no sympathy in Mexico for this individual. (Ø)

President Salinas, FM Solana, Mr. Cordoba -- all Mexicans: No! (U)

President Salinas: I would like to mention that we have an agreement on tuna, but shrimp is a new problem. (Ø)

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Minister Serra: We have been working for a long time to solve the tuna issue, but shrimp is causing us problems. (Ø)

Secretary Baker: Send us a letter on this. Congressman Studds has been trying to be helpful, but we know it's been a problem. Let us know. (Ø)

President Salinas: On labor. Our two Deputy Secretaries have agreed to sign a document on the 28th. We need to ensure that they continue to make progress in this area. (Ø)

On the environment, Mr. Reilly and Mr. Colosio have been in contact. We will try to create conditions here and in labor to avoid problems. We have made improvements on border crossings, but still get problems with patrols and other things. (Ø)

The President: This is important. We may get a question on immigration. (Ø)

President Salinas: My answer is more jobs in Mexico with the NAFTA. The Koreans can't swim over. (Ø)

The President: Shall we go do it? (the press conference) (U)

Secretary Baker: I would like to raise one matter -- the FMLN. They are sending weapons to insurgents in Guatemala, Honduras and Peru. They also have a number of unreported ground to air missiles. The peace process is going well, but we hope that weapons would not be supplied to other movements. (Ø)

President Salinas: What do you want us to do? (U)

Secretary Baker: If you could talk to the FMLN and convince them to stop shipping arms. If you could tell them that you will censure them both publicly and privately, this would help. (Ø)

President Salinas: We will do it tomorrow. (U)

Foreign Minister Solana: We would like a document, which would tell us what the activities have been and when -- so we could use this. (Ø)

Mr. Aronson: We could do a briefing for you. (U)

Mr. Skinner: Immigration is becoming a number one political issue here. (U)

President Salinas: Growth in Mexico slowed down and immigration has increased. That's why we worry about getting an early agreement. (Ø)

The President: Let's go do it, (the press conference) then go to the ballgame! (U)

-- End of Conversation --

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