Background on Key Issues

1. (U) U.S./Canada Relationship: Our bilateral relationship is perhaps the closest and most extensive in the world. Over $1.2 billion in trade each day and 200 million people per year cross our border, and the U.S. and Canada cooperate extensively in multilateral fora including the UN, NATO, the OSCE, the OAS, APEC and the G-8. Canada is one of our strongest supporters in the battle against terrorism, providing ships, planes and troops for the campaign, and sharing intelligence. Under NORAD, Canadian aircraft help defend North America.

Border/Immigration

2. (must do) (SBU) NSEERS/Travel Warning: On October 29, the Canadian Government released a travel warning for Canadians who were born in or also had the citizenship of one of the five National Security Entry/Exit Registration System (NSEERS) countries—Iran, Iraq, Syria, Sudan, and Libya, warning that they may be subject to fingerprinting at U.S. ports of entry. The warning was released without any advance notice to us (and was withdrawn on November 6.) Foreign Minister Graham and others feel this is an onerous requirement for Canadian dual nationals and divides Canadian citizens into two classes. The travel warning received considerable media attention and was raised in the Canadian Parliament on October 30.

(SBU) In late September, in response to Canadian concerns about the NSEERS, the USG changed the treatment of Canadian citizens born in the five countries so that place of birth by itself would not automatically trigger registration.

As enforcement of NSEERS with Canadian dual nationals will still depend in part on the individual inspector’s discretion, or on sensitive database information, there may still be cases publicized in the future that cannot be fully explained to the Canadian government or media.

(SBU) The goal of NSEERS is to allow the United States to more accurately track the arrivals and departures of certain aliens. U.S. immigration officials reserve the right to register any aliens, including Canadians, who they believe pose a threat to the United States. The U.S. has already registered aliens from more than 100 countries from around the world using intelligence-based criteria.
3. (if raised) (U) Safe third: PRM is finalizing a C-175 requesting signing authority from you. Once that is in place, signing could take place any time. This is Canada's top priority in the "Smart Border Accord" and it is important they understand that this policy is of little benefit and significant cost to the USG. We should expect to see similar advancement on other issues by the GOC.

4. (if raised) (U) Border Security: While significant progress has been made on much of the Ridge/Manley Smart Border Accord, some problems remain. Canadian concerns about privacy and individual rights issues have complicated agreement on sharing of information. The Canadians have proposed adding a few points to the Ridge-Manley 30-point action plan, and we are reviewing their proposals.

5. (if raised) (S/NF) Maher Arar:

(S/NF) Arar sought entry into the U.S. at JFK airport on September 26, 2002, as a Canadian citizen. He arrived on a flight from Switzerland. INS detained him for interrogation at an administrative hearing on October 8, Arar was ordered removed. He is currently incarcerated in Syria.

6. (if raised) (SBU) Michel Jalbert: Jalbert was arrested on October 11 as an illegal alien in possession of a shotgun when he entered the U.S. at the Quebec/Maine border between designated ports of entry. His previous criminal record in Canada mandated that he obtain a waiver prior to entry into the
U.S. The Border Patrol had intercepted him twice before, warned him to report to ports of entry to apply for admission and then returned him voluntarily to Canada. On this third illegal entry, the Border Patrol arrested him. He remains in detention and is being charged criminally as an illegal alien in possession of a firearm.

8. (if raised) (U) Commonwealth Visas: Currently Canadian landed immigrants from Commonwealth countries do not require visas to enter the U.S. The Department and INS are planning to require them to obtain visas, but implementation has been delayed. INS and State have consulted extensively with the GOC on this. When these plans leaked last week they were widely criticized in the Canadian press, but PM Chretien and FM Graham publicly recognized the right of any country to establish its visa policies.
Trade Issues

16. (must do) (U) Steel: The Canadian PM is expected to decide this month whether to impose a steel safeguard, which might include U.S. products. USTR has advised Canada that the U.S. would consider such an action contrary to NAFTA and that nothing short of total exclusion would be appropriate. Moreover, a safeguard measures against U.S. steel could provoke retaliation or the surge protection mechanism, which would apply our safeguards to Canadian steel, should its imports be shown to be substantially increased. The Administration exempted Canada, along with other countries that have a FTA with the U.S., from its Section 201 steel safeguard action last March.
18. (Watch out for) (U) Wheat: On September 16, the North Dakota Wheat Commission (NDWC), representing an estimated 19,500 wheat farmers, filed antidumping and countervailing duty petitions with the Department of Commerce. The NDWC wants the USG to impose duties to offset Canadian subsidies and the dumping of hard red spring and durum wheat on the U.S. market. The ITC has launched an investigation with a preliminary injury finding due Nov. 19. USTR announced in February that the USG was considering a WTO challenge to the CWB. In September, a U.S. Congressman announced that a decision had been made by USTR, but USTR has made no public announcements. Previous USG challenges to the Wheat Board in WTO have not prospered.
Special Summit of the Americas

22. (if raised) Holding a Special Summit: PM Chretien has spoken with Brazil's President-elect Lula about the Summit and Lula's team is "reflecting." Lula's team has also been approached by Mexican FM Castaneda, who is also pushing the Summit idea. It will be important to indicate our strong support and to get FM Graham's sense of how the proposal is faring.

23. (if raised) Theme: We believe the summit should be limited in scope to allow leaders time for in-depth discussions and support the Canadian proposal to focus on strengthening democratic institutions and the rule of law. We have received a "close-hold" version of their concept paper, and will provide comments shortly.

24. (if raised) Venue and Timing: The White House has told us that the President favors holding a summit, but that May 2003 will not work for him to attend. We need to start looking at other possible dates. We have supported Mexico as host, despite their foreign ministry's decidedly lukewarm support for the proposal.

Other Issues
25. (Watch our for) (U) State Visit to Canada: On November 7, NSC told WHA/CAN that Canada was requesting that a state visit to Canada be scheduled. Consideration of this request is pending.
28. (Watch out for) (U) Clean Energy Credit under Kyoto: At the recently concluded COP-8 meeting in New Delhi, Canada unsuccessfully pushed a proposal that it be granted a credit under the Kyoto protocol for exports of "clean energy" (natural gas or hydro generated electric power) to the U.S. A GOC fall-back proposal for a two-year study on the concept of a credit for traded energy also failed to win support. The U.S. delegation spoke against both the original and the study proposals in New Delhi, to the strong disappointment of the Canadian delegation. We concluded that, like the original proposal, the study would raise enormously difficult issues concerning the greenhouse gas emissions impact of traded goods and could hurt our interests in future emissions regimes under the auspices of the UN Framework Convention on Climate Change (UNFCCC). We also opposed it because of the dangerous precedent it would set by bringing a non-Party (the U.S.) into the Kyoto process. Kyoto ratification has become an intensely debated issue in Canada since Prime Minister Chrétien's surprise announcement at the WSSD that he would submit it for parliamentary ratification before the end of this year.

29. (Watch out for) Canadian Citizen Trades With Cuba: A federal jury returned guilty verdicts against two U.S. citizens and James Sabzali, a Canadian citizen, for violating the 41-year-old U.S. trade embargo against Cuba, the Trading With The Enemy Act, by sending $2 million in water-purification materials through foreign intermediaries to Cuba.

Sabzali did not testify in his defense. His attorneys maintained that he believed he was not covered by the U.S. embargo because he is Canadian and before 1996, worked for Bro-Tech in Canada. Prosecutors, however, argued that foreign citizens living in the United States are bound by U.S. laws, including the Cuban embargo.

Canada's Ministry of Foreign Affairs (DFAIT) sent an emissary to WHA/CAN on April 25 to register that country's concern about the April 2 conviction of James Sabzali. The legal aspects of the case were not discussed. The GOC is looking into the conviction to determine whether Sabzali was simply upholding Canadian law by refusing to adhere to the U.S. trade embargo against Cuba. The Canadians believe 8 of the 20 counts of the conviction were for Sabzali's actions while he lived and worked in Canada (1992-
1996), while the remaining 12 counts were for actions while working in the head office in Philadelphia (1996-2000).

Department officials have declined to comment on the Sabzali case, pending disposition of the appeal. We informed the Canadians that it was inaccurate to say that Mr. Sabzali’s activities were conducted “entirely within (Canadian) jurisdiction” during this period. On the contrary, Mr. Sabzali’s activities were primarily directed at, and in, the United States.
Canadian Foreign Minister William Graham

You last met Wright at

1. (U) U.S./Canada Relationship: Canada is our largest trading partner, largest foreign energy supplier, and a key ally. We have worked closely together in the war on terrorism, from border management to law enforcement to intelligence. Canada continues to make a significant military contribution to Operation Enduring Freedom.

Border/Immigration Issues

2. (must do) (SBU) NSEERS/Travel Warning: Understand the travel warning was withdrawn, but would have preferred that the GOC had consulted with us before issuing it. USG responded to Canadian concerns back in September and altered program so not based solely on country of birth for Canadian citizens. NSEERS is an important security measure for us.

3. (if raised) (U) Safe third: Hope to be able to sign agreement by the end of the year. This is a significant burden for U.S., but we understand the need to advance on all 30 points of border plan.

4. (if raised) (U) Border Security: Good progress made so far in developing a safe, secure and efficient border. Still have significant progress to make on sharing of information and other tough issues. Important to continue progress on areas of broad agreement and not be hampered by disputes over details. We are reviewing Canadian proposal to add additional points. (see tab 6 on "Progress on the Smart Border Accord").

5. (if raised) (SBU) Michel Jalbert: A border enforcement case that is more complex than the Canadian press has reported. Prosecution is being pursued through normal channels. Border security standards should apply to everyone.
8. (if raised) (U) Visas for Commonwealth Citizens: We have consulted extensively with the GOC on this. It is a necessary step to standardize visa requirements, so all citizens of particular countries require visas even if landed immigrants.

14. (must do) (U) War on Terrorism: Pleased that U.S. and Canadian forces have worked well together in the Afghanistan theater. Appreciate Canadian support for strong UNSC resolution on Iraq. Brief Canadians on next steps on Iraq. Canadians may ask about U.S. policy toward North Korea.
Trade Issues

16. (must do) (U) Steel: Complete exclusion of U.S. steel from any safeguard remedy is both necessary and appropriate.

17. (watch out for) (U) Softwood Lumber: Seek market-oriented reform of Canada's lumber practices; Commerce will consider the impact of such reforms and could reduce the currently imposed countervailing duties if reforms sufficiently eliminate Canadian subsidies; our goal is durable, long-term solution to the dispute.

18. (watch out for) (U) Wheat: Believe sales and prices of agricultural products between the U.S. and Canada should be on basis of free and open markets; the Government of Canada grants the Canadian Wheat Board special monopoly rights and privileges which undermines the integrity of our trading system; IF ASKED: As indicated in USTR's announcement in February, the USG is considering a WTO challenge to the Canadian Wheat Board.

Haiti/Other Regional Issues:

19. (if raised) (U) Haiti: Disappointed Provisional Electoral Council not formed, but a short delay may yet allow for progress. GOH needs to fulfill its obligations under OAS Resolution 822. We continue to support OAS Special Mission; glad to hear Canada is considering more financial assistance.

21. (if raised) (U) Inter-American Convention Against Terrorism: President Bush will be sending the Convention to the Senate soon for advice and consent on ratification. Will Canada be signing soon?
Special Hemispheric Summit

22. (if raised) Holding a Special Summit: support holding a special hemispheric summit; interested in reactions from others and Canada’s take on discussions at SIRG; any further word from Lula’s team regarding the proposal?

23. (if raised) Themes: support focus on strengthening democratic institutions and rule of law; need to discuss how to incorporate commitment to democracy, sound macroeconomic policies and market-led economies; reviewing Canadian redraft of their concept paper.

24. (if raised) Venue and Timing: Support Mexico as Summit host; May 2003 timeframe is not good for White House.

Other Issues:

25. (Watch out for) (U) State Visit to Canada: Have just heard about PM’s invitation; we are following up with the WH.

28. (Watch out for) (U) “Clean Energy” Credit under Kyoto: after careful deliberation, concluded we had to oppose your proposals concerning possible credits for clean energy exports at COP-8 because they could harm our interests under the UN Framework Convention on Climate Change.

29. (Watch out for) (U) Canadian Citizen Trades With Cuba. Canadian citizen James Sabzali was convicted in April in a federal court in Philadelphia of violating the Trading With The Enemy Act for transactions involving property in Cuba, while he was working both in the U.S. and Canada. The GOC expressed concern that Sabzali may have been simply upholding Canadian law.
by refusing to adhere to the U.S. trade embargo against Cuba for those transactions while resident in Canada.
Canadian Assistant Deputy Foreign Minister, Americas, Marc Lortie

Lortie met with Assistant Secretary Reich on November 8 in Washington. Lortie has been an open, friendly interlocutor in several meetings since his July 2001 appointment to his current position. A former Canadian Ambassador to Chile, the versatile Lortie has been posted in Washington and, from 1987 to 1989, served as Press Secretary to Prime Minister Mulroney.

Special Hemispheric Summit

1. (must do) Planning for a Special Summit: Note that we have reviewed the Canadian redraft of their concept paper and provided informal comments to DFAIT; support focus on governance issues; May 2003 timeframe is not good for White House; any discussions with Mexico regarding theme/timing? any further word on Lula's position?

4. (must do) (U) Inter-American Convention Against Terrorism: Congratulations on being among the first OAS member states to ratify the Inter-American Convention Against Terrorism. President Bush sent the Convention to

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: HARRY R MELONE
CLASSIFICATION: CONFIDENTIAL REASON: 1.4(D)
DECLASSIFY AFTER: 31 OCT 2027
DATE/CASE ID: 10 JAN 2005 200303827
the Senate November 12 for advice and consent and we hope we will be able to ratify the Convention early next year.

5. (must do) (U) Haiti: Demonstrations over the last ten days have slowed progress toward formation of Provisional Electoral Council. Concerned that it be formed quickly and that Haiti stay on course toward elections in 2003. Crucial that GOH meet its obligations under OAS Resolution 822. We continue to support OAS Special Mission; glad to hear you are considering more financial assistance.

Disappointed Provisional Electoral Council not formed November 4; concerned that it be formed quickly. GOH needs to fulfill its obligations under OAS Resolution 822. We continue to support OAS Special Mission; glad to hear you are considering more financial assistance.

Border Issues

6. (if raised) (SBU) NSEERS: USG responded to Canadian concerns back in September and altered program so not based solely on country of birth for Canadian citizens. Unhappy that the GOC chose to issue travel warning without prior consultation (although it was withdrawn). NSEERS is an important security measure for us, we expect Canada to recognize this and not use it to score political points.

7. (if raised) (U) Commonwealth Visas: We have consulted extensively with the GOC on this and see this as a routine step to regularize our visa requirements, so all citizens of particular countries require visas.

8. (if raised) (U) Safe third: Hope to be able to sign agreement very soon.

9. (if raised) (U) Border Security: Good progress made so far in developing a safe, secure and efficient border. Must ensure continued progress on areas of broad agreement not hampered by disputes over details.

10. (if raised) (S/NF) Maher Afar: 

Defense Cooperation
13. (if raised) (U) Canadian Defense Spending: Pleased that Defense Minister McCallum is asking for additional funding. Understand this is a sensitive domestic issue but concerned that without this budget increase Canadian forces will not be able to maintain current operational tempo.

15. (if raised) (U) War on Terrorism: Pleased that U.S. and Canadian forces continue to work well together in the Afghanistan theater.

Other Issues:

16. (Watch our for) (U) State Visit to Canada: Have heard about your request; not in a position to comment at this time.

17. (Watch out for) (U) Softwood Lumber: The United States remains prepared to offer Canadian lumber producers unfettered access to the U.S. market if the provinces implement market-based pricing for sales of timber from public lands.
Background on Key Issues

Special Hemispheric Summit

1. (must do) Planning for a Special Summit: The November 7 SIRG meeting saw support for a special summit from all but Brazil. Both the Canadians and Mexicans have raised the possibility with Lula, who has committed to "reflect" on it. We have proposed that the President raise it with Lula during his upcoming visit. Once Brazil is on board, official planning can begin. The Canadians provided us an advance copy of a revised concept paper, which highlights governance issues and uses them as a framework for raising issues that will be important to other countries (e.g., the international financial system and Monterrey follow-up), while downplaying FTAA. We have provided informal, generally positive comments, as the proposal fits well with our effort to promote governance issues in the hemisphere. The White House has told us that the President favors holding a summit, but that May 2003 will not work for him to attend. We need to start looking at other possible dates.
s. (must do) (U) Haiti: Under OAS Permanent Council Resolution 822, the Haitian Government committed itself to a series of steps resolving the political crisis that began with flawed elections in May 2000. As a counterbalance, the resolution supported normalization of Haiti’s economic relations with International Financial Institutions (IFIs), delinking signing of a political agreement from discussions on resumption of loan programs. The November 4 benchmark for formation of a Provisional Electoral Council (CEP) passed when opposition and civil society representatives demanded more GOH progress on security issues and payment of reparations to victims of violence. The OAS, Ambassador Noriega, and the U.S. Embassy in Port-au-Prince have recently made strong statements noting that the GOH hasn’t taken sufficient steps to meet its commitments. Canada agrees but has not taken a strong stand on this issue publicly.
Border Issues

6. (if raised) (SBU) NSEERS/Travel Warning: In late September, in response to Canadian concerns about the NSEERS, the USG changed the treatment of Canadian citizens born in the five countries so that place of birth by itself would not automatically trigger registration. As enforcement of NSEERS with Canadian dual nationals will still depend in part on the individual inspector's discretion, or on sensitive database information, there may still be cases publicized in the future that cannot be fully explained to the Canadian government or media.

(SBU) The goal of NSEERS is to allow the United States to more accurately track the arrivals and departures of certain aliens. U.S. immigration officials reserve the right to register any aliens, including Canadians, who they believe pose a threat to the United States. The U.S. has already registered aliens from more than 100 countries from around the world using intelligence-based criteria.

(SBU) On October 29, the Canadian Government released a travel warning for Canadians who were born in or also had the citizenship of one of the five National Security Entry/Exit Registration System (NSEERS) countries--Iran, Iraq, Syria, Sudan, and Libya, warning that they may be subject to fingerprinting at U.S. ports of entry. The warning was released without any advance notice to us. (Note: It was withdrawn on November 6.) Foreign Minister Graham and others feel this is an onerous requirement for Canadian dual nationals and divides Canadian citizens into two classes. The travel warning received considerable media attention and was raised in the Canadian Parliament on October 30.

7. (if raised) (U) Commonwealth Visas: Currently Canadian landed immigrants from commonwealth countries do not require visas to enter the U.S. The Department and INS are planning to require them to obtain visas, but implementation has been delayed. INS and State have consulted extensively with the GOC on this.
8. (if raised) (U) Safe third: PRM is finalizing a C-175 requesting signing authority from the Secretary. Once that is in place, signing should take place before the end of the year.

9. (if raised) (U) Border Security: While significant progress has been made on most aspects of the Ridge/Manley Smart Border Accord, some problems remain. Canadian concerns about privacy and individual rights issues have complicated agreement on sharing of information.

10. (if raised) (S/NF) Maher Afar:

(S/NF) Afar sought entry into the U.S. at JFK airport on September 26, 2002, as a Canadian citizen. He arrived on a flight from Switzerland. INS detained him for interrogation. At an administrative hearing on October 8, Afar was ordered removed. He is currently incarcerated in Syria.

Defense Cooperation
13. (if raised) (U) Canadian Defense Spending: Ambassador Cellucci has publicly chided Canada's parsimonious defense outlays. At the NATO's Prague Summit, Defense Minister McCallum told reporters that Canada's budget was an internal matter and that he didn't need Ambassador Celluci's assistance to press for his requested $1 billion annual increase in the Defense budget over the next several years.

Canada's defense budget is currently $12 billion a year, about 1.1 percent of GDP, half the NATO average of 2%. Observers state that Canada needs to double the capital outlays in the defense budget just to replace ageing assets. Canada's 58,000 armed forces members are hard pressed to sustain Canada's overseas deployments, including peacekeeping missions. Without an increase in defense expenditures it is unlikely that Canada can maintain the current operational tempo.

15. (if raised) (U) War on Terrorism: A Canadian infantry battalion served in Afghanistan, and Canadian ships and
aircraft continue to patrol the Southwest Asia region and Canadian special ground force assets are still in place in Afghanistan. Canada is considering a U.S. request that certain Canadian military units participate in the event of hostilities in Iraq.

Other Issues

16. (Watch our for) (U) State Visit to Canada: On November 7, NSC told WHA/CAN that Canada was requesting that a state visit to Canada be scheduled. Consideration of this request is pending.

17. (Watch out for) (U) Softwood Lumber: U.S. producers claim that softwood lumber is harvested from Canadian government lands at artificially low, non-market prices. In meetings with Canadian provincial and federal officials in August and September, the Commerce Department offered to implement a process for review of market reforms on a province-specific basis. Depending on the nature and extent of reforms, this process, known as a "changed circumstances" review, could lead to province-specific reductions or revocations of the CVD order.

The GOC would prefer a quicker and more comprehensive negotiation that will reduce or eliminate all duties. Intense negotiations along these lines failed in March 2002. While we are willing to restart such talks, the two producing industries remain far apart. Canada has also begun several legal challenges under the NAFTA and WTO to have the U.S. actions declared illegal and removed, these processes are still playing out.
Canadian Assistant Foreign Minister, Americas, Marc Lortie

You last met Lortie on September 5 in Washington.

Special Hemispheric Summit

1. (must do) Holding a Special Summit: support holding a special hemispheric summit; interested in reactions from others and discussions at SIRG; any shift in Brazilian position?

2. (must do) Themes: support focus on strengthening democratic institutions and rule of law; discuss how to incorporate commitment to democracy, sound macroeconomic policies and market-led economies; ask for more detail on the Canadian redraft of their concept paper.

3. (must do) Venue and Timing: Support Mexico as Summit host; May 2003 timeframe is not good for White House.

Border Issues

4. (must do) (SBU) NSEERS/Travel Warning: Understand it was withdrawn, but very unhappy that the GOC chose to issue travel warning without prior consultation. USG responded to Canadian concerns back in September and altered program so not based solely on country of birth for Canadian citizens. NSEERS is an important security measure for us, we expect Canada to recognize this and not use it to score political points.

5. (if raised) (U) Commonwealth Visas: We have consulted extensively with the GOC on this and see this as a routine step to regularize our visa requirements, so all citizens of particular countries require visas.

6. (if raised) (U) Safe third: Hope to be able to sign agreement by the end of the year.

7. (if raised) (U) Border Security: Good progress made so far in developing a safe, secure and efficient border. Must ensure continued progress on areas of broad agreement not hampered by disputes over details. Must not add new items to the 30 points until current ones are all well underway.
9. (if raised) (SBU) Michel Jalbert: A normal border enforcement step, similar to Canadian treatment of US citizens in similar circumstances. Border security standards can and should apply to everyone.

Haiti/Other Regional Issues:

10. (must do) (U) Haiti: Disappointed Provisional Electoral Council not formed, but a short delay may yet allow for progress. GOH needs to fulfill its obligations under OAS Resolution 822. We continue to support OAS Special Mission; glad to hear you are considering more financial assistance.

12. (must do) (U) Inter-American Convention Against Terrorism: President Bush will be sending the Convention to the Senate soon for advice and consent on ratification. Will Canada be signing soon?
16. (if raised) (U) Canadian Defense Spending: Pleased that Defense Minister McCallum is asking for additional funding. Concerned that without this budget increase Canadian forces will not be able to maintain current operational tempo.

18. (if raised) (U) War on Terrorism: Pleased that U.S. and Canadian forces have worked well together in the Afghanistan theater. Working for UN Security Council mandate on Iraq.

Other Issues:

19. (Watch out for) (U) Secretarial Visit to Ottawa: The Secretary has agreed, in principle to a visit. Scheduling has been problematic.

20. (Watch our for) (U) State Visit to Canada: Have just heard about your request; not in a position to comment at this time.

21. (Watch out for) (U) Softwood Lumber: The United States remains prepared to offer Canadian lumber producers unfettered access to the U.S. market if the provinces implement market-based pricing for sales of timber from public lands.
Background on Key Issues

Special Summit of the Americas

1. (must do) Holding a Special Summit: The November 7 SIRG meeting will see the first discussion of the Canadian proposal since Brazil’s elections. It is unclear whether the election will soften Brazil’s opposition to holding a summit, and whether the proposal will be discussed at the official meetings in any meaningful way. It will be important to get Lortie’s sense of how the proposal is fairing.

2. (must do) Theme: We believe the summit should be limited in scope to allow leaders to discuss more in depth, and support the Canadian proposal to focus on strengthening democratic institutions and the rule of law. The Canadians are redrafting their concept paper, however, and have promised to share it with us early.

3. (must do) Venue and Timing: The White House has told us that the President favors holding a summit, but that May 2003 will not work for him to attend. We need to start looking at other possible dates. We have supported Mexico as host, despite their decidedly lukewarm support for the proposal.

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CONFIDENTIAL
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16. (if raised) (U) Canadian Defense Spending: Canada's defense budget is currently $12 billion a year, half the NATO average of 2% of GDP. Defense Minister McCallum is hoping to get an annual $1 billion increase in his budget over the next several years. Observers state that Canada needs to double its defense capital outlays to $3.5 billion a year just to replace ageing assets. Ambassador Cellucci has publicly chided Canada's parsimonious defense outlays. Canada's 58,000 armed forces members are hard pressed to sustain Canada's overseas deployments, including peacekeeping missions. Without an increase in defense expenditures it is unlikely that Canada can maintain the current operational tempo.

18. (if raised) (U) War on Terrorism: A Canadian infantry battalion served in Afghanistan, and Canadian ships and aircraft continue to patrol the Southwest Asia region and Canadian special ground force assets are still in place in Afghanistan. Canada voiced opposition to a unilateral campaign against Iraq but has applauded U.S. efforts to seek UN authorization.

19. (Watch out for) (U) Secretarial Visit to Ottawa: The Canadians are keen to have Secretary Powell visit Ottawa soon, as much to underscore close bilateral ties as to address any specific issue. The Secretary has agreed, in principle, to the visit but, so far, scheduling has been problematic.

CONFIDENTIAL
20. (Watch our for) (U) **State Visit to Canada:** On November 7, NSC told WHA/CAN that Canada was requesting that a state visit to Canada be scheduled. Consideration of this request is pending.

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You met informally with Graham at the APEC Summit in Los Cabos, Mexico.

1. (U) U.S./Canada Relationship: Canada is our largest trading partner, largest foreign energy supplier, and a key ally. We have worked closely together in the war on terrorism, from border management to law enforcement to intelligence. Canada continues to make a significant military contribution to Operation Enduring Freedom.

Border/Immigration Issues

2. (must do) (SBU) NSEERS/Travel Warning: Understand the travel warning was withdrawn, but would have preferred that the GOC had consulted with us before issuing it. USG responded to Canadian concerns back in September and altered program so not based solely on country of birth for Canadian citizens. NSEERS is an important security measure for us.

3. (if raised) (U) Safe third: Hope to be able to sign agreement by the end of the year. This is a significant burden for U.S., but we understand the need to advance on all 30 points of border plan.

4. (if raised) (U) Border Security: Good progress made so far in developing a safe, secure and efficient border. Still have significant progress to make on sharing of information and other tough issues. Important to continue progress on areas of broad agreement and not be hampered by disputes over details. We are reviewing Canadian proposal to add additional points. (see tab 6 on "Progress on the Smart Border Accord").

6. (if raised) (SBU) Michel Jalbert: A border enforcement case that is more complex than the Canadian press has reported. Prosecution is being pursued through normal channels. Border security standards should apply to everyone.
8. (if raised) (U) Visas for Commonwealth Citizens: We have consulted extensively with the GOC on this. It is a necessary step to standardize visa requirements, so all citizens of particular countries require visas even if landed immigrants.

14. (must do) (U) War on Terrorism: Pleased that U.S. and Canadian forces have worked well together in the Afghanistan theater. Appreciate Canadian support for strong UNSC resolution on Iraq. Brief Canadians on next steps on Iraq. Canadians may ask about U.S. policy toward North Korea.
Trade Issues

16. (must do) (U) Steel: Complete exclusion of U.S. steel from any safeguard remedy is both necessary and appropriate.

17. (watch out for) (U) Softwood Lumber: Seek market-oriented reform of Canada's lumber practices; Commerce will consider the impact of such reforms and could reduce the currently imposed countervailing duties if reforms sufficiently eliminate Canadian subsidies; our goal is durable, long-term solution to the dispute.

18. (watch out for) (U) Wheat: Believe sales and prices of agricultural products between the U.S. and Canada should be on basis of free and open markets; the Government of Canada grants the Canadian Wheat Board special monopoly rights and privileges which undermines the integrity of our trading system; IF ASKED: As indicated in USTR's announcement in February, the USG is considering a WTO challenge to the Canadian Wheat Board.

Haiti/Other Regional Issues:

19. (if raised) (U) Haiti: Disappointed Provisional Electoral Council not formed, but a short delay may yet allow for progress. GOH needs to fulfill its obligations under OAS Resolution 822. We continue to support OAS Special Mission; glad to hear Canada is considering more financial assistance.

21. (if raised) (U) Inter-American Convention Against Terrorism: President Bush will be sending the Convention to the Senate soon for advice and consent on ratification. Will Canada be signing soon?
Special Hemispheric Summit

22. (if raised) Holding a Special Summit: support holding a special hemispheric summit; interested in reactions from others and Canada's take on discussions at SIRG; any further word from Lula's team regarding the proposal?

23. (if raised) Themes: support focus on strengthening democratic institutions and rule of law; need to discuss how to incorporate commitment to democracy, sound macroeconomic policies and market-led economies; reviewing Canadian redraft of their concept paper.

24. (if raised) Venue and Timing: Support Mexico as Summit host; May 2003 timeframe is not good for White House.

Other Issues:

25. (Watch out for) (U) State Visit to Canada: Have just heard about PM's invitation; we are following up with the WH.

28. (Watch out for) (U) "Clean Energy" Credit under Kyoto: after careful deliberation, concluded we had to oppose your proposals concerning possible credits for clean energy exports at COP-8 because they could harm our interests under the UN Framework Convention on Climate Change.

29. (Watch out for) (U) Canadian Citizen Trades With Cuba. Canadian citizen James Sabzali was convicted in April in a federal court in Philadelphia of violating the Trading With The Enemy Act for transactions involving property in Cuba, while he was working both in the U.S. and Canada. The GOC expressed concern that Sabzali may have been simply upholding Canadian law.
by refusing to adhere to the U.S. trade embargo against Cuba for those transactions while resident in Canada.