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## THE MOOD IN WASHINGTON

Two issues dominate Washington as the holiday season approaches: the prospects for conflict in the Persian Gulf and the gloomy economic picture. Washington is also concerned that unless the GATT negotiations--currently suspended--succeed, there could be a damaging outbreak of world-wide protectionism.

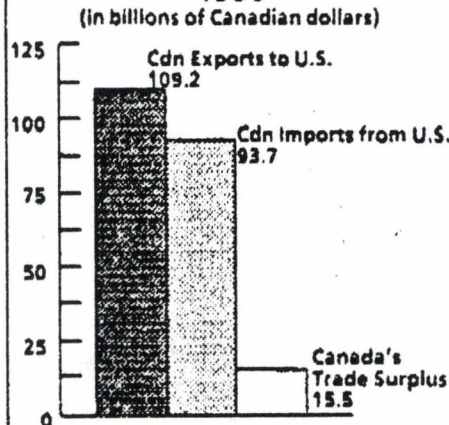
## THE ECONOMY

The U.S. economy is weakening. There is a growing consensus that the United States is in a recession. Unemployment rose in November to 5.9%. The Federal Reserve has been easing interest rates but the effects will not be felt for some months. One of the uncertainties is the fragility of the financial sector. While the export sector is doing reasonably well, not least because of the weak U.S. dollar, even a shallow recession will intensify the protectionist pressures. Any conflict in the Persian Gulf would have a major impact on the U.S. economy.

## THE POLITICAL SCENE

The 102nd Congress is scheduled to convene on 3 January 1991 and may then stay in session to debate developments in the Persian Gulf. President Bush will deliver his State of the Union speech on 29 January in which he will set out his agenda for the coming year. There is speculation that a main

## Bilateral Merchandise Trade 1990



Total Trade: \$202.9 billion  
Source: Projections based on StatsCan figures for 1990.

theme of the President's speech will be "market-oriented empowerment", to apply solutions with greater individual choices to the problems in various areas such as education, health and poverty.

## JOHN CROSBIE IN WASHINGTON

On December 17, Trade Minister Crosbie met with U.S. Trade Representative Carla Hills and Mexico's top negotiator, Herminio Blanco, to review progress in the trilateral consultations on a North American free trade agreement. Following the meeting, Mr. Crosbie said "We're not a suppliant to anyone", adding that Canada will either have full status at the negotiating table or none at all. He saw no major obstacles to Canadian participation based on preliminary talks held to date.

## THE ENVIRONMENT

An historic Canada-United States air quality accord is on the verge of completion. Coincident with the release of the Green Plan in Canada and on the heels of the U.S. Clean Air Act, the bilateral accord will enshrine mutual commitments on transboundary acid rain levels and procedures to manage other shared air pollution problems.

## AIR NEGOTIATIONS

As part of the preparatory work for a new bilateral air transport agreement, the special Parliamentary Committee on Canada-U.S. Air Services visited Washington to meet with a cross-section of interested U.S. parties. The House of Representatives Subcommittee on Aviation went to Ottawa to hear Canadian views.

## THE FTA

On processed pork, Trade Minister Crosbie and Agriculture Minister Mazankowski expressed disappointment with the U.S. Commerce Department's decision to uphold substantially its countervailing duty finding. In its response to the FTA panel, Commerce decreased the duty to 6.6 cents per kilogram from 8 cents, but maintained that Canadian programs provide countervailable subsidies. Canadian governments and industry are considering a further appeal to the binational panel.

