

## Trade Ministers' meeting

which the main plaintiff was the United States, supported by other agricultural exporters such as Canada and Australia. The crux of the problem is the Common Agricultural Policy (CAP) of the European Community (EC). Agricultural exporters claim its price support programs and export subsidies have undercut sales from efficient producers, not only to the EC countries themselves but in third-country markets as well.

Agriculture is a long-standing problem in trade relations. Agricultural protectionism became firmly established in Central Europe in the late nineteenth century as a response to falling grain prices resulting from expanding production in the new world. A later movement to protect farm products occurred during the 1930s. The most recent round of agricultural protectionism in Europe has occurred as part of the efforts of the EC to integrate farm support policies in the member countries. From a standpoint of the goals of European integration the CAP has been one of the most successful initiatives of the EC, which makes the current American offensive against European agricultural subsidies appear indistinguishable from an attack on the EC itself.

Although the EC is clearly the worst offender, the fact is no nation is currently without some restrictions on agriculture. There are two reasons for this. First, although nations differ sharply on this dimension, agriculture has not done well relatively in any country, and hence all have taken policy actions to raise or stabilize farm incomes. Second, because agricultural production has implications for the geographical distribution of population, virtually all countries handle agriculture more as a matter of social policy than as trade policy. They have been willing to bear the economic costs of an inefficient agricultural policy in order to avoid the social destabilization caused by a too-rapid deterioration of farm employment. Furthermore, economic research would suggest that in fact the economic costs of farm support policies have not been excessive in comparison with other social costs.

The United States has a key position in the agricultural trade problem. As the largest agricultural exporter, it has since the 1960s pressed the Europeans to adopt a more liberal position on agricultural trade. This pressure has become especially insistent after 1970, as the US government recognized the effect agriculture could have on the US trade deficit. Unfortunately for Washington, however, the US position in the GATT is badly compromised on agriculture. US farm support legislation has never been consistent with the GATT obligations, and in 1955 the United States took advantage of its preeminent position to obtain a waiver of the GATT rules for its agricultural policies. The waiver has been officially condemned as probably causing more damage to GATT objectives than any other factor, but it nevertheless continues unaltered. The upshot today is that American protectionism in agriculture is in fact far less extensive than the European variety, but the US case against the EC is neither morally nor legally convincing within the GATT framework.

The specific charges on agriculture at the Ministerial meeting was a new run at a very old target. This issue was previously aired in the Kennedy and Tokyo Rounds of trade talks, and it caused a lengthy blockage in each negotiation. The European response to American pressure has been to interpret the criticism as an attack on the CAP and the EC itself, and to elevate the issue to one of principle. In

the preliminary negotiations before this Ministerial Meeting, an agreement was reached to conduct an "examination" of "all measures" affecting trade in agricultural products. However, this agreement proved to be an insufficient basis for a quick conclusion at the Ministerial session where the EC came under renewed pressure to make a commitment to phase out its export subsidies.

This issue was concluded after hard bargaining at the Ministerial Meeting with little further change by the EC. The result was wholly unsatisfactory to Australia, which refused to sign the declaration. For the United States and Canada, agriculture was not so important in the end as to overthrow other aspects of the agreement, but the outcome was clearly less than satisfactory. As a result, agriculture continues as one of the more intractable problems of international trade. If one issue had the potential to cause the present GATT system to come unstuck, it is probably trade in agricultural products.

### Trade in services growing

Another major issue before the Ministerial session was trade in services. Again the United States was the principal demander, with the developing countries in the position of parrying demands for unwelcome changes. Canada found itself on both sides on this issue.

The main component of international trade is goods, for example machinery, wheat or transistor radios. However, the service sector, which includes such activities as banking, computer software, shipping, and communications, has seen the most dynamic growth since the 1960s. World trade in services is now about one-third of total international trade, and has grown at about 17 percent annually during the past decade. The service sector is relatively more important for the developed countries. The United States has the most advanced service sector, and it is estimated that two-thirds of the GNP and approximately 70 percent of American jobs depend on services. In US trade, exports of services (including interest paid to US banks) have posted a healthy surplus which has offset a substantial deficit in merchandise trade. In Europe and Japan, the service sector is also growing and it now accounts for about one-half of the total work force. Canada has a service profile that resembles the United States', but it has a sharp deficit on its trade balance on services, mostly caused by interest payments on foreign loans.

There are many national barriers that now impede further international exchanges in services. The GATT, which regulates mainly trade in goods, says very little about services. Service-exporting nations obviously want to put this subject on the future agenda of GATT discussions. The main resistance has come from developing countries like Brazil, who fear that liberalization of trade in services could interfere with national development plans that give preferences on services to local business. At a more profound level, developing countries view some services such as transportation or banking as critical in the development of a national culture, and they are unwilling to tolerate foreign activities even though this policy may create a loss in economic terms. Clearly, this is also a position that Canada, and other developed nations, have adopted as part of their own national economic strategies.

The Ministerial Declaration included in the end a statement on trade in services. The statement invited members to conduct "national examinations" of this issue and to