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How agricultural trade can help the poor and hungry

Agricultural trade and trade liberalization can unlock the potential of the food and agriculture sector to stimulate economic growth and promote food security. Agricultural growth and greater trade prospects have the potential to contribute significantly to improve food security and promote wider economic growth in poor countries.

Despite progress in trade liberalization, markets in agricultural products are still characterized by trade barriers and trade distorting subsidies. The same is true for international trade in fish and fish products. Higher value processed products are often subject to even higher barriers, to the detriment of income and employment generation of developing countries.

FAO estimates that the number of undernourished people in developing countries stands at 815 million. A large proportion of the food insecure lives in rural areas and depends on agriculture for their livelihood.

The gains from freer trade are neither automatic nor universal. Not all developing countries would necessarily gain from either reduced levels of protection by their trading partners or from opening up their own markets. Therefore, multilaterally agreed trade rules need to be crafted in a way that is conducive to development and food security. Poorer countries will need assistance to overcome problems that limit their ability to take advantage of improved trading opportunities.

Under a freer global agricultural trade regime, prices of agricultural commodities that are presently highly protected, including basic foodstuffs, are expected to increase. If transmitted to domestic markets, this will benefit farmers in non-protecting countries and provide incentives for investment.

However, developing countries differ widely in terms of economic structure and the capacity they have to respond to market incentives.

Some of the more advanced and competitive developing country exporters would benefit greatly from reduced protection in agriculture world-wide. These countries could also gain from exposing their agriculture sectors to competitive pressures which will drive efficiency gains through the reallocation of resources in line with each country's comparative advantage.

The less advanced developing countries will face greater obstacles to participating in the gains from reduced distortions in international markets. As agricultural exporters, many of the poorer developing countries already have significant duty and quota free access to developed country markets through reciprocal and non-reciprocal preferential trade arrangements. The erosion of these preferences may lead to decreases in their export revenues, unless they expand their volumes of exports or diversify into value-added and non-agricultural production.

Also, many of the less advanced developing countries still face serious supply side constraints that limit their capacity to benefit from increased market opportunities. Meeting the costs of compliance with SPS and TBT standards is one of the concerns of many of the poorer countries. Technical and financial capacity building and assistance are necessary to meet these standards and secure access to new markets.

Net food importing countries may face greater food import bills. As a result of tightened disciplines on export credits and on food aid, these countries could also lose access to facilities that lessen the cost of their food imports and many will need assistance during the adjustment period.

For such countries, increased food security will have to come primarily from improvements in productivity of local food crops. Most of the required investment in infrastructure and research is non-trade distorting. In addition, these countries would need flexibility in using product-specific policies specifically directed to improving food and livelihood security and rural development.

In summary, FAO believes that freer agricultural trade will deliver global gains and contribute to reducing hunger and poverty. However, the benefits from trade would not be evenly distributed. The less advanced developing countries are likely to gain less from trade and could even suffer losses, at least in the short run. For these countries, excessive opening of national agricultural markets to international competition, before domestic markets and infrastructure function adequately can undermine the potential stimulus to growth from the agricultural sector.

Therefore, FAO wishes to re-emphasize the importance of complementary policies and recommends a twin-track approach to ensure that the potential of trade is realized by the poor and food insecure developing countries.

The first track calls for increased investment in agriculture and rural areas in order to improve productivity and build competitiveness, especially in food production for domestic markets. Such investments have multiple payoffs, not the least of which is the increased capacity of developing countries to participate more effectively in the international economy.

The second track calls for safety nets to protect vulnerable groups from trade-related shocks and to allow the poor to take advantage of the economic opportunities arising from trade.

FAO is determined to continue playing its role in contributing towards the reduction of global hunger and malnutrition and moving the world towards a fairer and more development-friendly agricultural trading system.