

# WORLD TRADE ORGANIZATION

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## FOOD AND AGRICULTURE ORGANIZATION (FAO)

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*(Speaking As an Observer)*

The Food and Agriculture Organization of the United Nations is pleased to address the Fifth WTO Ministerial Conference. FAO notes and supports the emphasis placed in this Doha Round on the concerns of developing countries. We would like to share our thoughts on issues of international trade in food and agriculture and their impact on food security and rural development.

Two major challenges face the world today: reducing poverty and ensuring food security for all and at all times. The multilateral trading system, with the WTO at its apex, is one of the essential international institutions for promoting these goals. The Agreement on Agriculture in particular was an important first step towards these goals.

FAO estimates that in 2000 some 840 million people went to bed hungry each night. Of these about 800 million lived in developing countries, 30 million in transition economies, and 10 million in developed countries. Since 1990-92 the total number of undernourished in developing countries has declined by less than 2.4 per cent in absolute terms. Currently about 17 per cent of the population in developing countries is undernourished, a decline from 20 per cent in 1990. At this rate of decline the Millennium Development Goal as well as the World Food Summit target of halving hunger in the world by 2015 seems increasingly remote.

Of the 1.2 billion people living on less than \$1 a day, 98 per cent are in developing countries. More than 70 per cent of the world's extremely poor and food insecure people live in rural areas, with agriculture constituting their primary source of income. Agriculture represents the main income source for about 2.5 billion people in the developing countries, about 40 per cent of their total population. But despite representing 80 per cent of the world's population, developing countries have just a 30 per cent share in world agricultural trade.

Food and agricultural trade is vital for food security, poverty alleviation and growth. Food imports contribute vitally to the provision of minimum supplies of basic foodstuffs in many of the poorest countries. And agricultural exports are an important source of foreign exchange earnings and rural income in many developing countries. However, growth in world agricultural trade (less than 5 per cent annually between 1981 and 2000), has continued to lag behind the growth in total merchandise trade (which grew over 7 per cent over the same period), and the share of developing countries in global agricultural exports has stayed roughly constant over time.

Over the last two decades the share of Least-Developed Countries and Net Food Importing Developing Countries (NFIDCs) in global agricultural exports has declined and their share in global

food imports has increased. LDCs moved from net agricultural export surpluses of US\$1-2 billion in the late 1970s to net deficits of US\$4.4 billion in 1999. NFDCs similarly moved from surpluses of US\$2-3 billion in the late 1970s to deficits of more than US\$4 billion in the late 1990s.

FAO projections suggest a continuing rising trend in net food imports of developing countries to the year 2030. The 49 Least-Developed Countries (LDCs) have seen a rise in the share of food import bills in their total merchandise exports from about 45 per cent in the late 1980s to an average of close to 70 per cent in the late 1990s. It becomes increasingly difficult for many of these countries to pay for their food imports. As many LDCs depend primarily on agriculture for their economic development, unless they raise their domestic and international competitiveness in agricultural products they are bound to increasingly depend on aid, or slip deeper into debt, and face major food shortages.

In addition to the trend towards greater import dependence for basic foods, there has been a growing number of import surges since 1980 - when food imports temporarily rise sharply above their normal levels. While trade in processed agricultural products grew faster than trade in primary products, a large number of developing countries remain heavily dependent on one or few agricultural primary commodities for their export earnings.

After completion of the Uruguay Round, average weighted import tariffs in developed countries were reduced to around 4.5 per cent but this average hides a number of tariff peaks and tariff escalation for processed or value-added fish products in the most important import markets. This hinders processing and economic development of the fishery industries in many developing countries. Subsidies also continue to have negative effects on world fisheries resources, whereas a variety of new technical standards in import countries make in many instances fish exports by developing countries more difficult.

There are also issues relating to the certification and labelling of forest products, which might constitute non-tariff barriers in WTO terms, as well as to the valuation of the environmental and social importance of forests.

If trade is to serve as an engine of economic growth and poverty alleviation, countries both in the North as well as South need to broaden their production base on a fair competitive basis. Comparative advantage can assure everyone a fair share of growing world income.

However, international trade in agricultural products is characterized by a number of problems that do not allow comparative advantage to operate. The markets for temperate zone products and basic food commodities continue to be substantially distorted due to government subsidies and protection, particularly in rich countries. Export subsidies on products exported by developed countries continue. The products most affected include rice, sugar, milk, wheat, sheep meat, maize, beef and veal, oilseeds, poultry and pig meat. Tropical agricultural products, such as coffee, tea, natural fibres, tropical fruits and vegetables, face problems such as high, complex and seasonal tariffs, and significant tariff escalation.

The distortions send the wrong signals to the governments of the low income food deficit countries, with the result that some have neglected their own agricultural sectors. As a result, low prices and lack of resource mobilization hinder sustainable agricultural and rural development in poor countries. In this context it must be emphasized that it is in the developed countries' interest that developing countries grow fast, not least in order to increase the size of markets for developed country exports. But this cannot happen when entry into the developed country markets of the bulk of developing country agricultural exports is severely restricted. It cannot happen if agriculture, the backbone of the economies of most Low Income Food Deficit Countries, has to compete with subsidized "cheap food imports" on domestic markets.

Enormous untapped agricultural potential exists in developing countries to meet the twin challenges of hunger and poverty. What we need is a renewed focus on effective North-South cooperation so that available resources are used efficiently. We must ensure the quality and safety of food, plant, and animal health, in light of the increased risks of trans-boundary transmission of diseases within an increasingly globalized and liberalized trading system.

Up to now the impact of the Uruguay Round Agreement on Agriculture on food security in developing countries has been imperceptible. This is because, on the one hand, prices of major basic food products, after a short period of increase in the period immediately following the Round, have continued to trend downwards, despite predictions of increases. Secondly, while there are some indications that the increased trade openness has had a positive impact on food security, the relationship is very weak.

Finally, many of the poorer developing countries have not yet been able to reap the benefits from freer trade by creating the necessary enabling environment through policy reform and investment. They need to improve the competitiveness of their agricultural sectors, and this not only in order to export, but in particular to reduce the growing dependence on food imports. To achieve this, major efforts are needed in these countries, including policy reforms and investment in agriculture and rural areas to raise productivity, improve product quality and strengthen market infrastructure.

The multilateral trading system must reinforce such efforts by developing countries. If both, the North and the South, are to benefit from global agricultural trade, efforts are needed to promote a trade that is firstly fair and secondly free, with rules that support the development of poor countries, and are compatible with their institutional, human capital and infrastructure needs.

FAO hopes that current negotiations recognize the importance of food security and rural development. FAO recommends:

1. The Ministerial Conference may wish to emphasize the importance of trade as well as investment in agriculture in developing countries in ensuring the food security of all people at all times.
2. In spite of significant progress in giving access to LDCs by major trading blocks, further cuts are needed in tariffs on agricultural imports from developing countries.
3. In particular the incidence and size of tariff peaks and tariff escalation needs to be significantly reduced. Such measures hinder exports of both primary and processed agriculture and fishery products from developing countries.
4. As MFN rates are being reduced, the implication for the erosion of preferential trade arrangements should be taken into account and consideration be given to alternative forms of compensation to developing countries.
5. Certain provisions may be considered to allow developing countries to protect small and resource poor farmers from the adverse consequences of temporary import surges, particularly those caused by price declines for products subsidized by developed countries.
6. It is noted that many developing countries do not always use the options available to them, such as the possibility to raise applied tariffs temporarily to the bound levels. But while there is no level playing field in agricultural world markets,

developing countries will need sufficient policy flexibility to ensure rural development and food security.

7. Developed countries must cut substantially export subsidies in agricultural products, to allow more efficient producers to expand their agricultural exports and to permit the net food importing developing countries to improve competitiveness in their domestic food markets.
8. Rules need to be adopted to effectively implement the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of Trade Reforms on the Least-Developed and Food Importing Developing Countries.
9. As regards SPS/TBT standards, greater assistance needs to be given to developing countries to allow them to participate more actively in standard-setting bodies and to build capacity to meet those standards.
10. The negotiations must ensure that environmental measures such as recycling and eco-labelling do not affect adversely market access for forestry and fishery products from developing countries.
11. Developing countries need substantial assistance to improve their capacity to participate in international trade, namely all the services relevant for international markets. Constraints in this area are potentially more important than border measures in rural development. FAO has a relevant capacity-building programme for this (Umbrella II), which donors are invited to support.
12. Negotiated international trading rules and regulations should be simple to implement. In cases of complex agreements, that are administratively costly and require extensive domestic legislation, monitoring and enforcements, developing countries need substantial assistance for their implementation. The TRIPS Agreement is such an example.

In conclusion, FAO wishes to re-emphasize the importance of continuing investment in agriculture and rural areas of developing countries in order to increase the competitiveness, especially in food production for domestic markets and thus improve food security. Such investments have multiple payoffs, not the least is the increased capacity of developing countries to become more effective participants in the international economy.

FAO is determined to continue playing its role in contributing towards the reduction of global hunger and malnutrition and moving the world towards a fair and more market oriented agricultural trading system.

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