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Agricultural Sector Protests Put Santos Government in Crisis Mode

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Approved By:

Joseph Lopez, Agricultural Counselor

Prepared By:

Anthony J. Gilbert, Agricultural Attaché

Report Highlights:

Country-wide protests, or *paros*, initiated by small-scale farmers throughout Colombia have inspired a collective of civil society groups to join in mutual condemnation of Colombian President, Juan Manuel Santos, and his administration. The farmers, or *campesinos*, demand that President Santos take serious steps to improve rural livelihoods through increased agricultural subsidies and more trade protection. The Government of Colombia (GOC) has agreed to some demands of the agricultural sector, but has publicly stated that renegotiation or reversing the momentum of the U.S. free trade agreement (FTA) is off the table. In a cabinet shake-up, Minister of Agriculture Francisco Estupiñan was forced to resign after only three months, one of the shortest tenures on record for a Minister in the GOC.

Executive Summary:

Following years of neglect and ineffective approaches to improve small-scale farming livelihoods, disenfranchised rural Colombia erupted in protest with road blockades, marches and civil disobedience. The primary grower groups leading the "agro-paro" movement represent the rice, potato, onion, corn and dairy sectors. The growers' public grievances articulating their hardship are straightforward: low commodity prices and rising input costs. Nevertheless, their demands for more trade protection are based on misinformation and myths about unfair import competition from the heavily subsidized agricultural sectors of free trade agreement partners, primarily the United States, but also the European Union. The actions by protestors have incited numerous other civil society groups, including teachers, truckers and students, to join together in mutual condemnation of President Santos and his administration with protests spilling over into urban areas. In the Colombian capital, Bogota, protests in the city devolved into riots resulting in at least four deaths, hundreds injured and thousands of dollars in property damage. To date, President Santos' approval ratings hover around 20 percent and the protests continue in many rural departments along the frontiers of Ecuador and Venezuela.

To stem the violence, President Santos began negotiations with *campesino* leaders. In a speech to the nation, he laid out his negotiation positions offering to reduce import duties on agricultural chemical inputs, monitor input prices, review FTA safeguard measures, guarantee prices to milk producers through direct purchases for GOC social programs and strengthen the border controls against contraband. There have been no indications that the GOC will reverse the momentum of the FTA with the United States; however, safeguard measures may be applied for agricultural products from the Southern Common Market (MERCOSUR) and the Andean Community of Nations (CAN). In an attempt at political damage control, President Santos accepted the resignations of the Minister of Agriculture, Francisco Estupiñan, and four other cabinet ministers, including Justice, Mining and Energy, Interior and Environment. As well, various functionaries in the Ministry of Agriculture have also resigned, most notably the Director of the Colombian Institute of Agriculture and Livestock, the primary regulatory authority for managing sanitary and phytosanitary issues and border controls against contraband agriculture.

The problems facing the Colombian agricultural sector are deeply structural and ostensibly more complex than bad leadership and trade competition, as exchange rates, production inefficiencies, and deficient marketing infrastructure create significant challenges to improving domestic agricultural competitiveness. Moreover, establishing trade restrictive, protectionist policies will not resolve, but likely worsen the prevailing commercial challenges facing the Colombian agricultural sector.

General Information:

One Hundred Years of Neglect

The rural/urban divide in Colombia is stark. Poverty rates for urban versus rural residents are 20 and 48 percent, respectively. The quality of life in rural Colombia is rife with challenges, whether through public sector neglect, isolation, and/or violence as a result of almost half a century of conflict involving narco-communist insurgents, criminal mafias and paramilitary organizations. Colombia is roughly twice the size of the state of Texas with approximately less than 15 thousand miles of paved road (for comparison: Texas has over 72 thousand miles of paved highway). Infrastructure deficiencies plague commerce and raise the costs of doing business, such that it costs less (US$25/ton) to ship a product from the Port of New Orleans on the Gulf of Mexico to the Colombian Caribbean Port of Barranquilla than to move that product (US$37/ton) inland to Bogota.

Infrastructure isolation is a major challenge to small-scale farmers, weighed down by high input and transport costs, squeezing farmer profit margins and effectively reducing product competitiveness. In the case of fertilizers, Colombians on average excessively apply almost three thousand pounds of fertilizer per acre of farm land per year -- more than triple the Latin American average. Wholesale fertilizer prices in Colombia are regularly 25-35 percent above international prices and, for example, account for about 30 percent of the production costs for a Colombian potato farmer. For comparison, fertilizer inputs are only 4-7 percent for a potato farmer in Peru. These disparities highlight the need for extension services to address production inefficiencies that exacerbate a Colombian farmer's lack of competitiveness.

To make matters worse, the GOC lacks a comprehensive agricultural policy or strategy. Recent approaches to support small-scale agriculture through more accessible credit failed as a result of government corruption. The credit resources disproportionately supported landholding elites, resulting in criminal charges against the Agriculture Minister. Moreover, the last rural reform law of 1994 stipulates that farmers who received land from the GOC cannot apply that land as collateral for loans. For example, farmers in the eastern plains of Colombia with government distributed landholdings of 2,470 acres (1,000 hectares) cannot get loans to develop that land. Indications are that this policy will be reversed in the near term. As well, production inefficiencies abound and the GOC lacks agricultural research and extension services to transfer new technologies that will improve agricultural practices. Extension services are provided through the various agricultural sector federations, but the quality of services are disparate. For example, the Colombian Coffee Federation has a well funded extension staff with extension agents throughout the coffee growing regions. In the case of corn production, there are few resources devoted to extension services for a sector that represents approximately over 200 thousand farmers.

These longstanding issues have cultivated a perception of neglect by *campesinos*. In addition to to the abovementioned challenges, cross-border contraband is excessively fluid putting downward pressure on prices for many basic commodities. Free trade agreements have become the latest concern in this perception of neglect, with Colombia signing multiple FTAs over the past decade, including the United States, Canada and the European Union. The common, but misinformed argument of *campesinos* is that the FTA with the United States opened Colombia to cheaper, subsidized agricultural imports, against which Colombia's domestic producers cannot compete.

Chronicle of an "Agro-Paro" Foretold

Fragmented agricultural sector protests follow a timeline going back to the beginning of 2013. In February, thousands of coffee farmers throughout Colombia conducted a three-week long protest as a result of rising labor costs and low prices. The GOC acquiesced to their demands and provided a direct payment per 60 kilogram bag of coffee to cover the difference between prices and costs. In March, cacao growers protested successfully with the GOC agreeing to increase the price per kilogram cacao subsidy. After threats from rice growers, to avoid protests, the government mediated a solution with the rice millers to increase the prices paid to growers for financial subsidies to support expansion of rice storage facilities. In April, the dairy sector protested and received an increase in the guaranteed price per liter of fluid milk. In May, the potato growers took to the streets with demands for subsidized agricultural inputs and increased controls of contraband potatoes from Ecuador. In June, the Agricultural Society of Colombia (SAC), representing all the major agricultural sector commodity federations, met with President Santos to communicate the issues impacting their sectors and demonstrate the expectation that the GOC seriously address and implement policy solutions. The GOC provided no immediate response to the SAC and did not appear to recognize the storm approaching. In late June and July, the region of Catatumbo in northeast Colombia, isolated between the eastern mountain range and the border with Venezuela, erupted with *campesino* groups demanding semi-autonomy and the right to grow coca, the raw material used to manufacture cocaine. The GOC response to the protest resulted in violent confrontation, resulting in at least two deaths and many injuries to both protestors and national police. During the largest Colombian agricultural trade show, *AgroExpo*, President Santos opened the event in mid-July with a strong speech about the needs of the sector, but struck a defensive tone when mentioning the unrest in Catatumbo and looming threats of an agriculture sector-wide protest by an organization calling itself the Agricultural Dignity Movement, or *Movimiento Dignidad Agropecuaria*.

Country-wide agricultural strikes began on August 19, 2013. Led by the Agricultural Dignity Movement, protests were formed that included the potato, cacao, rice, dairy, onion, bean, and cereal producers, as well as trucker/transport unions protesting the high cost of fuel. Areas most affected were the southwestern departments of Cauca, Nariño, Putumayo, Caqueta and the more central rural departments of Quindío, Risaralda, and Caldas. Protests and roadblocks soon spread into the departments of Boyacá and Cundinamarca, eventually spilling into the capital, Bogota. Protests in Bogota devolved into riots resulting in four deaths, hundreds of injuries and thousands of dollars in property damage.

The General In His Trade Labyrinth

While Colombia's FTA with the U.S. has been a principal target of criticism by some protesting groups, the reality is that U.S. agricultural exports to Colombia are hardly to blame. Colombia negotiated long-term, phased-in tariff reductions, quotas and grace periods for agricultural products such as rice, chicken-leg-quarters (CLQs), dried beans and other sensitive commodities to domestic agriculture. U.S. exports make up a fraction of agricultural consumption in Colombia. For example, the 2012 quota for U.S. rice is 79 thousand metric tons (TMT), or only 4% of national production. Contraband rice, however, crossing from the southern and eastern borders allegedly represent about 25 percent of domestic production. While potato producers are among the protesters, in 2012 Colombia imported 19.8 TMT – only 1% of national production (note: the U.S. does not export fresh potatoes to Colombia and the main suppliers of French fries to Colombia are the Netherlands followed by Canada.) The tariff-rate-quota (TRQ) for U.S. milk powder is 5.5 TMT (increasing 10 percent per year) with domestic milk production around 800 TMT. For 2013, that quota would represent less than 230 grams of powdered milk for every Colombian or about 1.7 liters of milk. Colombians drink on average 141 liters of milk every year, so duty-free milk powder from the United States will represent only 1.2 percent of milk consumption. In the case of CLQs, the zero duty 27 TMT quota (increasing at four percent per year) only represents 2.5 percent of Colombian annual chicken consumption.
Overall Colombian agricultural imports are down: first half 2013 imports were 6.5 percent less than the same period of 2012, falling from 5 to 4.6 million metric tons. Colombian agricultural imports from the

United States have risen, but from a reduced base – regaining some lost market share. U.S. exports fell to 499 TMT between first semester 2011 and first semester 2012.   U.S. exports to Colombia for the first semester of 2013 are 971 TMT and mostly accounted for by five products; soybean meal, wheat, soybeans, soy oil and dairy products. In all five cases, overall imports of those products fell from the same period a year before.

On the other hand, U.S. market access for non-traditional Colombian agricultural products (excluding coffee, cut flowers and bananas) is increasing for various products, such as hides and skins, fresh mushrooms, powdered cacao and specialty cheeses. Colombian agricultural exports to the United States increased from US$46 million in first half of 2012 to US$48 million in first half of 2013.

Love in the Time of Protests

President Santos entered into negotiations with leaders of the Agricultural Dignity Movement in Tunja, Boyaca department, on August 29, 2013. At first, the negotiations looked promising -- the government immediately agreed to reduce import tariffs on agricultural inputs and to allow grower groups to source fertilizers and pesticides directly with overseas vendors, cutting out intermediaries that drive up costs. Negotiations later broke down, but then resumed with the protesters aligned with the Agricultural Dignity Movement agreeing to lift roadblocks even though negotiations had yet to yield formal agreements.

On August 30, President Santos announced the creation of a "National Pact for the Agricultural Sector and Rural Development," and scheduled to kick off discussions in September 2013. The discussions are to include national and local government officials, agricultural sector representatives, indigenous leaders and others. It remains unclear whether the Agricultural Dignity Movement will agree to participate. Stated goals of the Pact include discussion of a Rural Development Law (which was originally proposed under Agriculture Minister Juan Camilo Restrepo - who resigned in May 2013) and to clarify approaches to distribute and develop new, idle farm land.

The GOC has stated it will not roll back the free trade agreements, but may slow down the liberalization process and refocus on policies to bolster domestic agricultural production. The government will begin with low cost measures that can be quickly implemented, such as reducing tariffs on agro-inputs and cheaper and more readily available credit, perhaps allowing farmers that received land from the 1994 rural reform law to apply their landholdings as collateral for loans. The GOC will eventually be forced to implement measures that will have significant budgetary implications, such as guaranteeing minimum prices. Since the first coffee strikes in February 2013, the GOC has already committed to over US$900 million in pay-outs to meet the demands for increased subsidies from the various sectors.   To fight the huge influx of contraband products undercutting domestic prices, the GOC has pledged to add 1000 specially-trained customs police at the borders. The government will also increase purchases of domestically produced milk for subsidized feeding programs in publicly-funded institutions. The GOC has pledged to implement safeguard provisions for the next two years against the following products with origins from the CAN member countries Peru, Bolivia, Ecuador, and MERCOSUR countries, primarily Argentina and Brazil: fresh potatoes, pre-cooked and frozen potatoes, onions, dried beans, tomatoes, pears, powdered milk and other dairy products.

Ongoing 2014 budget negotiations in the Colombian Congress surprisingly included a 38 percent decrease in the 2013 US$1.5 billion budget for the Ministry of Agriculture. The protests inspired the Colombian Congress to wisely reverse course, with discussions now to increase the agriculture budget by US$1 billion for 2014. To pay for all this, the Santos administration and congress may delay a planned reduction in the financial transaction tax (and transfer funds to agriculture) and/or may work with regional governments to shift some petroleum and mining royalties to the agriculture budget.

It is uncertain whether the leadership changes and proposed approaches to provide more resources to the agricultural sector will prove fruitful. The selection of Ruben Dario Lizarralde as the new Minister of Agriculture demonstrates that President Santos wants leaders that understand how to transform rural livelihoods. During 1990's and the first half 2000, he was active leader in the palm oil sector developing new wealth sharing approaches to link small-scale palm farmers with larger industrial farms and palm oil manufacturers. This model has been often highlighted as a private sector led successful approach to improving livelihoods for small-scale farmers in conflict and former conflict zones. Nevertheless, deep structural changes are needed to address the underlying problems that limit the immense potential competitiveness of Colombian agriculture. Many of the problems, however, will not be fixed in the short term. The question is whether the disenfranchised agricultural sector of Colombia has the patience and willingness to work with the GOC to develop and implement effective rural development strategies that will have a lasting impact.