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Global Agricultural Information Network

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Coffee Grower Protests Inspire a Domino Effect of Agricultural Subsidies

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Report Highlights:

Coffee grower protests and road blockades result in promises of government assistance in the form of establishing internal floor prices per bag of coffee and increasing the value of direct payments per bag. The Government of Colombia (GOC) response to the coffee growers has set a precedent in crisis management with further financial promises to various other agricultural sectors facing economic hardship.

Executive Summary:

Falling commodity prices, a strong Colombian peso, and low production levels due to disease and inclement weather have weakened the coffee sector and one of Colombia's most renowned exports. With production costs higher than producer prices, profitability for the sector has been challenged despite efforts by the National Federation of Colombian Coffee Growers (FEDECAFE) to address shortcomings with technical training and research. As a result, 80,000 frustrated coffee growers led a 12-day protest beginning February 25, blocking major roads and creating a national media sensation while demanding a government-led solution to stem financial losses. Under immense public pressure, the Government of Colombia (GOC) increased coffee subsidies for 2013. Entitled "Protection for the Income of Farmers (PIC)," the subsidies attempt to narrow the gap between purchase price and production costs. Nevertheless, the value of the subsidy falls short of ensuring growers that they will make a profit, much less break even. Other economically challenged agricultural sectors, such as cocoa and rice, have also demanded, and received, GOC financial intervention.

General Information:

The coffee sector has historically played a large role in Colombia's economic success, providing a livelihood for over 560,000 producers, with FEDECAFE maintaining significant political influence. A majority of growers are members of FEDECAFE and take advantage of the organization's educational programs, technical training, and sales support. FEDECAFE purchases coffee from its members at an internal price which parallels the international commodity market. Coffee producers estimate a current production cost of Colombian pesos (CP) \$750,000 (US\$425) per 125 kilogram bag of green coffee. As of January 2013 the internal FEDECAFE price per bag plummeted to CP\$525,000 (US\$295), creating an unprofitable environment for producers. The fall in price has been exacerbated by a strong Colombian peso, which appreciated about 45 percent vis-a-vis the U.S. dollar over the past four years. With 41 percent of Colombian coffee exported to the United States, growers are receiving less local currency per bag while input costs continue to grow.

In addition to falling prices and rising costs, producers must also contend with weather events that have had a devastating impact on coffee production. Recent "La Niña" phenomenon weather patterns have detrimentally impacted production as the rainy seasons have been increasingly pronounced. Floods began in 2008 as a result of excessive rains, devastating agricultural production throughout Colombia. Many of the areas affected by the weather have yet to recover. In addition, heavy rains have created the ideal environment for the fungus *Hemileia Vastatrix*, or coffee rust, which has devastated production.

Disease and climate events culminated in a 2012 coffee harvest of only 7.7 million bags, a dramatic fall in production from the historic 11 million bag annual average. As a result, Colombia dropped from the second to the fourth largest coffee producer in the world behind Brazil, Vietnam and Indonesia. The coffee sector was responsible for 10 percent of Colombia's Gross Domestic Product in 2000, but currently represents approximately 0.5 percent. Disease resistant varieties planted in 2010 are becoming economically viable and with recent good weather, production in 2013 is showing a steady recovery. Improved production notwithstanding, economic difficulties for growers remain, motivating unrest.

Coffee Sector Upheaval

Colombian coffee growers, facing considerable financial difficulties, initiated protests on February 25, 2013 to demand that the GOC recognize the sector's hardships and provide financial assistance. Approximately 80,000 growers protested for 12 days, blocking roads and causing a national media sensation. Roadblocks created gasoline shortages in some towns and caused at least two deaths as ambulances were not allowed to pass through protestors. The leaders of FEDECAFE publicly distanced the organization from the protestors and their methods. The GOC began negotiating directly with the protestors while FEDECAFE remained largely on the sidelines. The negotiations resulted in an agreement by the GOC to provide a minimum internal floor price per bag paid to growers and an increased subsidy in the form of a direct payment. The protests ended on March 8, 2013.

The subsidy agreement, entitled Protection for the Income of Farmers (PIC), took effect on March 18, and ensures growers a minimum internal floor price of CP\$480,000 (US\$270) per bag and an additional CP\$145,000 (US\$80) per bag in the form of a direct payment. If the international coffee price falls below CP\$480,000 the total amount of GOC financial assistance will increase through 2013.

Conversely, the GOC will reduce the amount of subsidies if the price rises above CP\$700,000 (US\$395). With total financial support of CP\$625,000 (US\$353), the subsidy may fall short of ensuring that growers will earn a profit or even break even, since many producers claim a production cost of CP\$750,000 (US\$425) per bag.

Colombia's coffee sector had already enjoyed the highest level of GOC financial support and subsidies among agricultural sectors between 2010 and 2012 with a total of CP\$3.4 billion (US\$2 million), followed by livestock and milk production with CP\$3.3 billion (US\$1.9 million). While protesting coffee growers, invoking the image of Juan Valdez by wearing traditional woven hats and outfits, struck an emotional chord with some Colombians, several newspaper opinion pieces criticized growers for demanding that the Colombian taxpayer support additional financial subsidies that benefits 560,000 farmers in a country of 47 million. Public opinion will likely become increasingly suspicious of GOC approaches to agricultural sector crisis management that invariably results in financial promises from the government purse.

The Dominoes Fall

The outcome of the coffee protests and GOC promises of financial assistance served to inspire a domino effect of different agricultural sectors demanding similar forms of GOC support. During the coffee protests, cocoa producers began demonstrations to demand GOC financial assistance. This resulted in a GOC agreement with cacao producers that will double the 2013 direct payment subsidy from the 2012 rate of CP\$400 (US\$0.22) to CP\$800 (US\$0.44) per kilogram. At a recent general assembly of flower farmers/exporters, the GOC offered to double their financial subsidy from CP\$60 billion (US\$33 million) to CP\$100 billion (US\$56 million) in 2013. The GOC also increased the base price per liter for fluid milk by about 2 percent in response to demands from the dairy sector. Rice growers threatened to protest, but disregarded the notion after the GOC offered to establish a minimum internal price paid by domestic millers. In that case, however, the milling industry was willing to cost-share the subsidy with the GOC and cover an estimated CP\$13 billion (US\$7.2 million) with the GOC agreeing to set aside CP\$10 billion (US\$5.5 million) for storage incentives. As the pressure from the agricultural sector grows and government financial promises become fiscally questionable, the GOC may seek similar cost-sharing accommodations from the commodity processing, handling and milling industries as in the case of rice.

The Colombian Agricultural Society (SAC), representing all plant agricultural sectors, including FEDECAFE, recently met with Colombian President Juan Manuel Santos with demands that the GOC establish policies to prevent or minimize the negative impacts to domestic agriculture from current trade agreements and pending agreements under negotiation. As well, SAC members continue to publicly communicate that they do not condone protester methods and that the motives of the upheaval do not coincide with their issues as a group. However, if the coffee protests began simply as an organic movement by the growers, the position of distance by SAC, and FEDECAFE, may cast doubts about the channels of communication between the growers and the SAC/FEDECAFE member leadership. The problems facing the Colombian agricultural sector, nevertheless, are ostensibly more complex than trade, as exchange rates, production inefficiencies, and deficient marketing infrastructure create significant challenges to domestic and international agricultural commerce. Moreover, establishing trade restrictive, protectionist policies will not likely resolve the prevailing commercial challenges facing the Colombian agricultural sector. The domino effect has abated for now, but threats to demonstrate by sugarcane workers and possibly other agricultural sectors will likely remain.