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Dashed Expectations

Small-scale farmers are the clear losers in the first year of the US-Colombia Free Trade Agreement

Summary

The Free Trade Agreement (FTA) between the United States and Colombia, which entered into force over a year ago, was the result of inequitable negotiations, to the detriment of Colombia's agricultural sector in particular. A study commissioned by Oxfam looked at the available data from the first nine months of the Agreement and identified some worrying overall trends as well as specific agricultural products at risk of adverse impacts affecting small-scale producers in Colombia. The study examined a set of indicators to create a risk index and alert system, ranking whey, rice, white corn, milk powder, and pork to be at greatest risk because of increased imports from the United States and a fall in import prices.

The results of the study contradict the promises announced of the Colombian government about the benefits of the Agreement. In these first months, imports from the United States grew at a much faster rate than exports to that country, causing deterioration in Colombia's balance of trade. Small-scale Colombian farmers are now forced to compete on an unequal footing with agricultural products that benefit from considerable subsidies in the United States. As a result, significant declines are expected in domestic production, and consequently in the income of small-scale farming families.

Inequitable agreement

In May 2012, several containers loaded with textiles and flowers were exported from Colombia to the United States. This shipment officially inaugurated the US-Colombia FTA. To its proponents, this was to be a window into the world's largest import market and an opportunity for more business and jobs. To its detractors, it just further tightened the screw on the profound crisis affecting the Colombian small-farm sector.

The agreement implements a free trade scenario between Colombia and the world's largest economy. This implies vast asymmetry: the US gross domestic product is 42 times greater than that of Colombia, its population seven times more, its crop surface nine times bigger, its agricultural production 17 times greater, and its export capacity 20 times superior. In addition, the US government provides substantial economic support for production, causing clear distorting effects on trade and international prices.

As organizations such as Oxfam, cereal and rice producers' associations, indigenous communities, and even Colombian entrepreneurs had warned, the agricultural sector was a clear loser in the Agreement. While the United States was able to maintain its protectionist policies through production subsidies, sanitary and phytosanitary barriers, and the exclusion of a key Colombian commodity—sugar—from tariff relief, the agreement obliged Colombia to dismantle the principal mechanisms that had protected its productive sectors.

The total value of the concessions made by Colombia - that is, the value of trade subject to immediate tariff elimination and the value of the duty-free quotas - exceeded the value of concessions agreed to by the United States. This situation, which would now be difficult to reverse, has resulted in gaining greater US access to the Colombian market rather than vice versa.

Although Colombia had been gradually reducing import tariffs since 1990, the agricultural sector still benefited from various protections, such as variable tariffs for important products (cereals, oilseeds, dairy, poultry, pork products, and sugar), high tariffs for sensitive goods (rice, beans, and beef), import quotas, and direct support for production, among other measures. In the negotiation of the FTA, Colombia agreed to eliminate all tariffs, immediately or over time, even including those on highly sensitive products such as chicken and rice. The Agreement ended Colombia's Andean Price Band System and a quota administration mechanism, which had guaranteed the purchase of domestic crops.

As if all that wasn't enough, the introduction of a non-reciprocal preferential clause for the agricultural sector was agreed to, by which Colombia must grant the United States the same tariff preference agreed with any other trading partner, if the tariff is more favorable than that granted in the US-Colombia FTA. This drastically reduces Colombia's flexibility in negotiating future trade agreements with other potential partners.

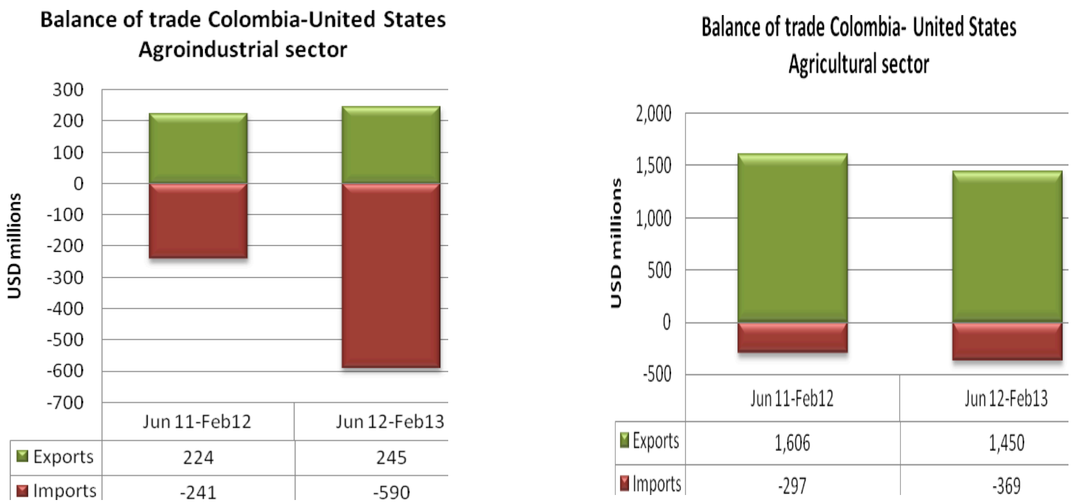
Worsened balance of trade

In the first nine months of the Agreement, Colombia's balance of trade with the United States has deteriorated, as imports from the US increased and exports from Colombia to the US declined when compared with the same period a year earlier. This was foreseen in a study carried out in 2009 with support from Oxfam. The data show that Colombia's balance of trade with the US dropped by 40 percent, from $7,556 million to $4,486 million.

The expectations trumpeted by the Colombian government in the agro-industrial sector in particular have been dashed. While processed food exports from Colombia to the United States increased by only $21 million (less than 10 percent), imports of US products grew by $348 million (2.5 times) (see Chart 1). This has led to a dramatic deterioration in the balance of trade for the agro-industrial sector: a deficit that has grown from $17 million to one of $344 million.

In the agricultural commodity sector, which excludes processed food products, the deterioration of the trade balance is not as pronounced, but is still significant, the surplus having decreased from $1,283 million to $1,057 million, a fall of over 17 percent (see chart 2). Despite what the Colombian government says, this reduction cannot be attributed solely to the problems experienced by traditional exports (coffee, bananas, and flowers). Even when these products are excluded from the calculation, the trade balance has still deteriorated, as exports remained almost constant, while imports increased by 24 percent.

Chart 1: Changes in Colombia's balance of trade with the United States.



Although data is limited to the first nine months of validity of the Agreement and therefore require cautious interpretation, these results are indicative of a disturbing trend that could deepen in the future.

More new import businesses than export businesses

Despite the expectations of access to the large US market, there have been more new companies set up in Colombia to import agricultural and processed food products from the US than those set up to export these kinds of products to the US.

In contrast, the penetration of new US products into the Colombian market has been considerably higher than that of new Colombian products in the US market. While the former reached a value of $89 million (9.3 percent of imports from the US) the latter only amounted to six million dollars (0.4 percent of total export value).

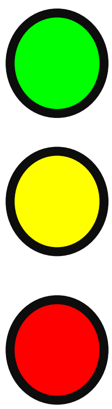
Red light: small-scale farmers at risk

There is clear evidence of adverse trends in Colombia's trade with the United States and risks for the small-farm economy. So in order to monitor the effect of the FTA on small-scale producers, Oxfam and Planeta Paz commissioned the development of a system of indicators that can be applied individually to each of the products at the level of tariff subheading. This system works like a traffic light: the red light comes on when there is a serious risk or threat (see Figure 1).

The alert system is a very useful decision-making tool. With this group of indicators, institutions may obtain individualized, detailed, and up-to-date information, enabling them to take timely measures to control imports and establish compensation mechanisms for producers who may be harmed. Furthermore, in the case of breach of any provision of the Agreement, the system could facilitate both the implementation of sanctions against those responsible in Colombia and the filing of claims with the US government.

However, despite its usefulness, and multiple appeals from Colombian civil society demanding monitoring of the impacts of the FTA, the government has not adopted this, or any other instrument, to measure and anticipate the effects of the Agreement. Proof of this is that the entities responsible lack detailed statistical information, as well as data on the enforcement of sanitary and phytosanitary regulations.

Figure 1. Signals used in the alert system for products important to the small-farm economy



Currently there is no threat to the small-farm economy, although continued observation is necessary.

There is a risk for small-scale producers, or there may be violation of the provisions in the Agreement designed to prevent serious damage to agriculture, such as quota levels or tariff reduction schedules. Thus, if the appropriate control or mitigation measures are not taken, producers could be harmed in the future.

Terms of the Agreement are being violated, or there is a serious risk of threat to small-scale producers. This warrants, on one hand, the punishment of those responsible in Colombia, or the filing of an official complaint to the US government, and, on the other, domestic policy measures to help offset the damage caused.

The system is composed of six indicators:

The first indicator measures the **behavior of total imports** of each product, and US participation in them. The red alert signal lights up when both these factors increase, or when imports remain constant but US participation increases.

The second indicator measures the behavior of **agro-industrial imports** that use as inputs agricultural products important to small-scale producers, as well as US participation in Colombia's import market of such processed food products.

The third indicator compares **import prices** of products originating in the United States with other import sources. The red signal lights when prices of products from the United States are lower than those of its main competitors, when they are lower than the average of all sources of imports, or when the United States is the only supplier in the Colombian import market.

The fourth indicator relates to **compliance with the tariff reduction schedules**. The red alert occurs when tariffs on imports are lower than those in the tariff reduction schedules of the Agreement.

The fifth indicator verifies **compliance with quotas**, and the red light comes on if the volume of imports of duty-free products exceeds the level of the agreed quota.

The sixth indicator checks the **timely imposition of the agreed safeguards** on products to which they apply (chicken hind-quarters, rice, and beans). The red alert lights when the volume of imports reaches the volume established in the Agreement for imposition of a safeguard measure.

In addition to these six indicators, additional general indicators have been incorporated to examine how market access to both countries operates, and to evaluate potential US sanitary and phytosanitary restrictions which go beyond those in force and agreed in the FTA. Using this information, the real possibilities for the entry of new Colombian agricultural products into the US market can be deduced.

But despite its usefulness, and multiple appeals from Colombian civil society demanding monitoring of the impacts of the FTA, the government has not adopted this or any other means to measure and anticipate the effects of the Agreement. In fact, responsible government entities lack current, detailed statistical information, as well as data on the enforcement of sanitary and phytosanitary regulations.

Dairy, rice, white corn, and pork worst affected

A risk index for each of the products most important to small-scale farmers has been calculated from the above six indicators. The five products the system identified as being at high risk of being harmed by the FTA, are, in descending order: whey (a liquid sub-product in the cheese making process used extensively in the processed food industry), rice, white corn, powdered milk, and pork. Products identified at a medium risk level are: wheat, chicken, carrots, and peas. Low risk products are: sorghum, yellow corn, onions, beans, and tomatoes (see ranking in Table 1).

After contentious bargaining on **dairy** products, Colombia finally agreed to include whey and to concede import quotas for several dairy products subject to immediate tariff relief. This has allowed US dairy products to enter the Colombian market with prices more favorable than those of its competitors, as well as lower prices than in the previous period studied. The result is that the United States has significantly increased its market share in Colombia for milk products, especially milk powder, from a share of less than 1 percent in total imports to one of over 27 percent. In particular, Colombian whey imports grew by 79 percent overall, and the United States aggressively entered the Colombian market gaining a stake of 18 percent.

Rice is one of the most important staples in the Colombian family diet and vital to the small-farm economy. The value of total rice imports increased almost eightfold in the first nine months of entry into force of the Agreement, particularly in the cases of paddy and long grain rice. The United States has penetrated very aggressively into the Colombian market with both these products, acquiring a market share of about 80 percent. In 2012, the negotiated quota was exceeded, but not enough to activate the safeguard clause. That is, some rice entered duty free, while a tariff was applied to the remaining imports. The import price, including tariff, for long grain rice fell by almost 85 percent in comparison with the previous period studied.

Table 1. Changes in the value of imports from the United States for the main products of the small-farm economy (June 2012-February 2013 compared to June 2011-February 2012).

Position in ranking	Product	Changes in imports from the US ($)
1	Whey	1,121,190
2	Rice	64,593,477
3	White Corn	8,657,325
4	Pork	9,951,334
5	Wheat	13,076,721
6	Chicken Meat	10,550,776
7	Carrots	16,148
8	Peas	2,257,016
9	Tomato	N/A
10	Beans	1,669,824
11	Onions	87,347
12	Yellow corn	50,368,352
13	Sorghum	2,386

In the case of **white corn**, total Colombian imports have increased by more than 60 percent. Unlike with yellow corn, the United States has increased its participation in the sale of white corn in Colombia to the point of displacing its main competitors (Brazil and Argentina), and becoming the only external supplier. The quota allocated for this product is one of those most highly utilized, as large volumes are imported.

With regard to **pork**, the value of imports from the United States grew 37 percent in the first months of entry into force of the FTA. The US share in total imports has increased significantly, displacing from this market other trading partners with which Colombia has signed agreements, such as Chile and Canada. The drastic increase in the value of total imports in some of the tariff subheadings of frozen pork (66 percent) puts Colombian domestic producers at risk. A further warning sign is that the agreed tariff reduction timetable for the pork subheadings has already been breached, as a tariff lower than the agreed one was applied on average to imports of these products from the United States.

More attention to sanitary and phytosanitary (SPS) barriers

Sanitary-type restrictions are often used as barriers to trade, by means of the issue of regulations that impede the entry of certain products to a domestic market. After the Agreement went into force, the United States took a firmer position than Colombia by maintaining virtually unchanged a list of products that have to undergo an application process, while Colombia's position varied significantly by exempting from its list products such as tomatoes, spinach, and beef, and including others in their place, such as mango, stuffing cucumber (cyclanthera), and naranjilla (solanum quitoense).

The *Instituto Colombiano Agropecuario* (Colombian Agricultural Institute), which is responsible for sanitary and phytosanitary matters, did not respond to questions about the possible adoption by the United States of new sanitary and phytosanitary regulations subsequent to the signing of the Agreement. Nor has this Institute stated whether the United States has duly complied with the standards set for the entry of its products into Colombia, or whether, on the contrary, it has been necessary to keep out any US products due to breach of the terms of the Agreement.

All this continues to be of concern for consumers of imported products and for the Colombian producers who could enter the US market, particularly when the institution responsible believes it is not within its competence to know the sanitary and phytosanitary rules issued by its trading partners.

Declines in prices and production expected

In order to estimate the likely impact of the FTA on Colombia's small-farm economy, Oxfam conducted a pioneering study in Colombia in 2009. This research estimated the impact that the Agreement could have on domestic prices and, consequently, how crop areas and production could change, especially those of products that sustain small-scale farmers. Furthermore, the study carried out a characterization of the small-farm economy, based on Colombian national household and agricultural surveys whose objective was to define the participation of small-scale farmers in national agricultural activity and the products on which they depend. Finally, from the effect on each of the individual product categories, the expected impact on the income of small-farm households was estimated.

The study found that the increase in imports of US products that compete with products of small-scale farmers would have a direct impact on domestic prices, with declines in those of all products, ranging from 15 to 55 percent. Therefore, a drop in harvested areas of between 19 and 77 percent was forecast, along with a decrease in production of between 18 to 54 percent. The projected impact on the income of small-farm households was also conclusive: the most vulnerable, accounting for 28 percent of the total, would see their income from agriculture fall between 48 and 70 percent.

Liberalization of trade with the United States does not benefit Colombian agriculture

Trade agreements between equals can benefit both parties by creating opportunities for access to new markets. However, when the negotiations take place between very unequal partners, rich countries tend to impose their conditions, obtaining significant advantages for their business sectors and transnational companies, to the detriment of developing country trading partners.

Colombia and other Latin American countries, such as Peru, were motivated to sign trade agreements with the United States to consolidate trade preferences - Andean countries enjoyed such trade preferences since 1991 as part of US illicit crop eradication policies. However, in exchange, these countries have accepted major concessions that may affect the sustainability of their development policies and also weaken regional integration processes in progress with other Latin American countries.

After analyzing the data available for the first nine months of the FTA, it is clear that the Colombian agricultural sector has lost out as a result of the Agreement. The outgoing Minister of Agriculture and Rural Development, Juan Camilo Restrepo, questioned the way the Agreement was negotiated, stating that the agricultural sector, "should not be, neither should it ever have been, if it was at some point, a wildcard to be played as a last resort in recent trade negotiations."

As a result of these unequal negotiations, US penetration in the Colombian market has been much more aggressive than that of Colombia in the US market. The value of sales of new products by the United States to Colombia exceeded considerably the value of the trade in the opposite direction. This has been reflected in a deterioration of Colombia's balance of trade with the US, both generally, and in the agro-industrial and agricultural commodity sectors.

By signing the Agreement, Colombia renounced its use of import tariffs, which had protected its productive sectors from a flood of cheap imports. As a result, its producers, including small-scale farmers, are forced to compete at a disadvantage with imports from the United States that receive substantial aid and subsidies at origin. In 2012, US farmers received about $6.8 billion in subsidies alone, a figure six times higher than the entire public investment in agriculture that year in Colombia.

The consequences of this unequal trade agreement have been quick to materialize. The deterioration in Colombia's agro-industrial and agricultural commodity balance of trade with the United States is seriously threatening small-scale production, especially in the case of dairy, rice, white corn, and pork, because of increased US imports and a fall in import prices. Furthermore, there are warning signs on compliance with provisions of the Agreement, as in the case of pork a lower tariff than that agreed in the FTA was applied for imports from the United States.

Oxfam's study confirms the forecasts warning of harm to Colombian agriculture as a result of the Free Trade Agreement with the United States and dashes Colombia's rosy expectations of enjoying access to the largest import market in the world. The Colombian government must now adopt a monitoring system that enables timely action to mitigate the adverse effects of the Agreement on small-scale farmers. Action is also needed to develop the productive capacity and competitiveness of the agricultural sector, particularly small-scale producers, and reverse the troubling trends that further undermine its viability.

The data and much of the statistical information and analysis used in this brief come from four studies commissioned by Oxfam and Planeta Paz over the past eight years:

- *Garay, Jorge Luis, F. Barberi, and I. Cardona, 2006, "La negociación agropecuaria en el TLC – alcances y consecuencias";*
- *Garay, Jorge Luis, F. Barberi, and I. Cardona, 2009, "Impact of the US-Colombia FTA on the small-farm economy in Colombia", available at http://www.oxfamamerica.org/publications/impact-of-the-us-colombia-fta-on-the-small-farm-economy-in-colombia/;*
- *Barberi Gómez, Fernando, 2012, "Estrategia de seguimiento de los efectos del TLC Colombia-Estados Unidos en la economía campesina"; and*
- *Barberi Gómez, Fernando, 2013, "La agricultura, los pequeños productores agropecuarios y el primer año de vigencia del Acuerdo de libre Comercio suscrito con Estados Unidos".*

The figure for subsidies in the United States is drawn from Environmental Working Group Farm Subsidy Database http://farm.ewg.org/region.php?fips=00000 accessed November 21, 2013).
The figure for public expenditure in Colombia ($1.161 billion) is taken from the Ministry of Agriculture and Rural Development, Proceedings of the Congress of the Republic 2012-2013.

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