

Colombia

The impact of the international subsidies on Colombian cotton production

This document aims to assess the impact caused by international subsidies on the most important variables involving cotton production in Colombia.

As it has been shown by different reports of the Secretariat of the International Cotton Advisory Committee (ICAC), internal assistance to producers, export subsidies and other aid measures have had a strong influence on international prices for cotton fibers. Actually, the market is signed by a sharp deterioration of international prices and their volatility.

Because cotton is considered as a strategic product, and an important source of hard currency for governments, of seasonal employment and income for agricultural laborers and farm owners, producing countries historically have intervened in cotton production, its processing and marketing through diverse policies such as maintaining price levels and incomes, by means of tariffs, overcharges, or direct export subsidies.

Some countries point out that subsidies and trade barriers contribute to the volatility of prices and have an adverse effect on the volume of cotton production in other countries. Subsidies depress international cotton prices and force other countries that do not apply subsidies to bear the burden of adjusting to depressed prices, as is the case in Colombia.

In this sense, in those countries where farmers enjoy sizable support, the area under cultivation has grown steadily. On the other hand, in those countries where producers do not have government support or it is scant, the cultivated area has declined.

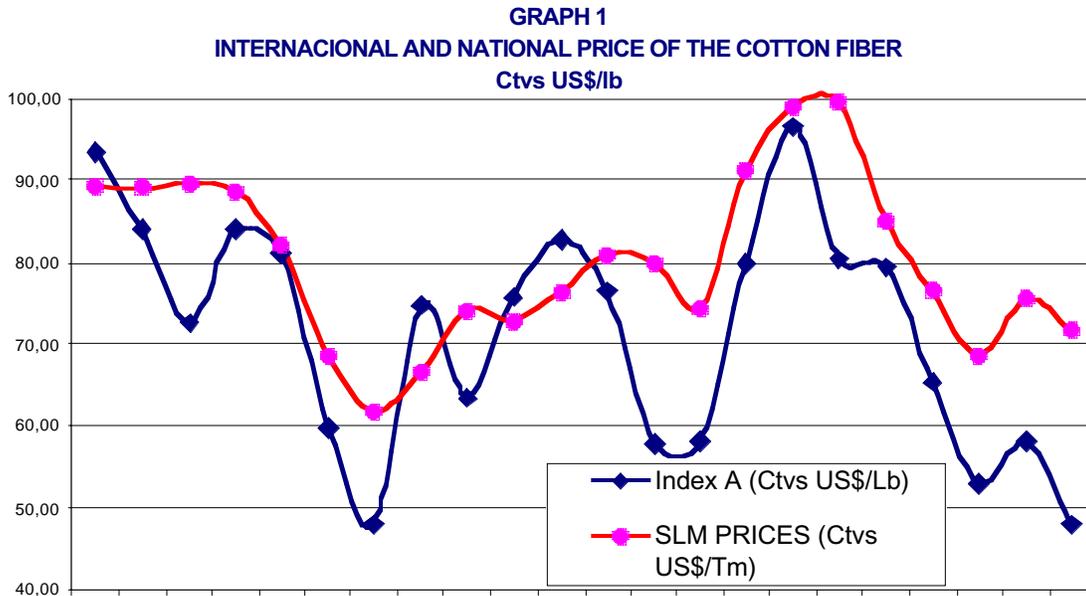
ICAC data establishes that diverse aid granted to producers and marketers, while somewhat reduced, still continues at an important level. In 1997/98, 28% of worldwide cotton exports enjoyed government help. This percentage decreased to 20% in 1998/99. United States and China stand out for the amount of their support amounting to a combined total of US\$158 millions in 1998/99.

Regarding direct subsidies to production, in 1998/99, 53% of world production benefited from price support or income programs. In that year, out of 76 cotton producing countries, 8 implemented support programs to increase cotton production: Brazil, China, Egypt, Greece, Mexico, Spain, Turkey and USA. In total these 8 countries granted US \$5.4 billion in aid. Mexico spent US\$15 million while China granted US \$2.7 billion.

The relationship of international and Colombian prices

Depressed international prices directly affected national cotton prices. Graph

1 shows a strong relation between the behavior of international prices of cotton fiber (measured by Index A) and the prices paid to Colombian producers for the same cotton fiber (quality SLM). (See Annex 1).



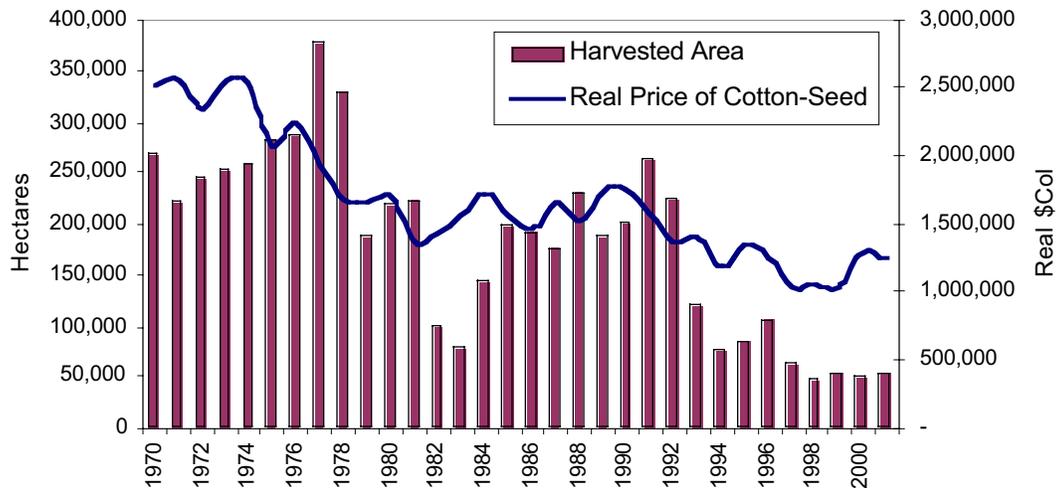
Domestic prices act in the same direction of international prices and the differences of magnitude between those two is not so important, after all Colombia was always involved in the world market. In fact, Colombia until the year 1992 was a net exporter of cotton fiber to world markets with competitive prices.

The marked fall in international prices was transferred simultaneously to the prices paid to the producer in Colombia. Between 1991 and 2001 the prices paid to the producer of Colombian cotton fell US\$78 per ton for cotton-seed, representing a fall in prices of 11%. But, during the period 1995-2001, when the sharpest contraction of international prices occurred, Colombian producers sold their cotton for US\$836 per ton in 1995 while in year 2001 they invoiced US\$614 per ton, a fall of 27% in those two years.

Impact on harvested area and on cotton production

Low international prices of cotton fiber were transmitted almost immediately to the Colombian producer and then had a direct impact on the harvested area and cotton production in Colombia.

**GRAPH 2
HARVESTED AREA AND REAL PRICE PAID TO THE
COLOMBIAN COTTON-SEED PRODUCER**



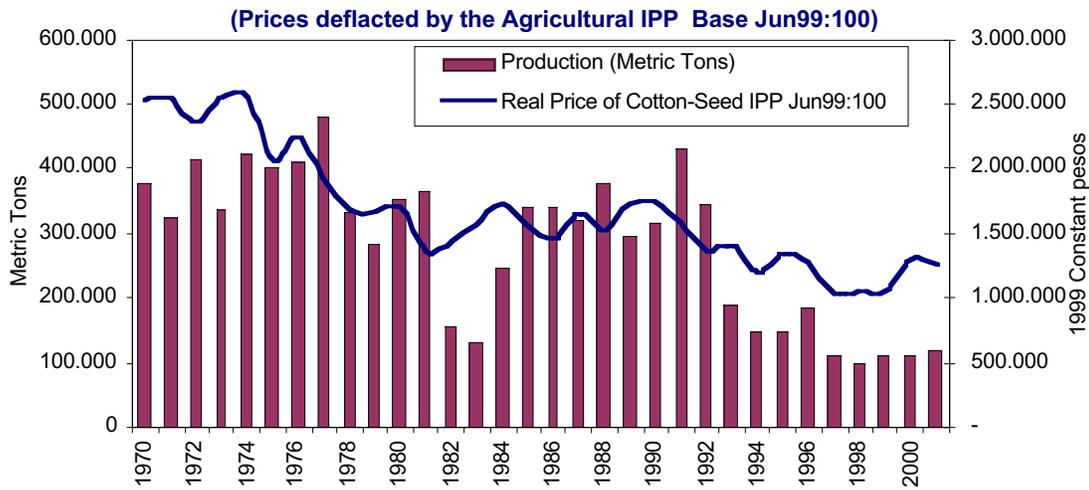
It is obvious that a strong relationship exists between the harvested area and the real prices paid to the Colombian producer. As shown in graph 2, a fall in the prices leads, with a lag of one year, to a fall in production and vice versa. The fall in the harvested area has become more evident since 1991, when 262.160 hectares were harvested. In 2001 only 53.071 hectares were cultivated, a decrease of more than 209.000 hectares, which means a fall of over 80% of the previous area (see Annex 1).

In fact, given the relationships explained among the different variables, a strong relationship can be confirmed between the fall in international cotton prices and the harvested area in Colombia. This means that a fall in international prices explains the collapse of local cotton production.

The same effect may be seen in cotton production. Between 1991 and 2001 production falls by 315.545 tons of cotton-seed and -115.525 tons of cotton fiber, that is to say a decrease of 73%. In this last year only 116.724 TM of cotton-seed or a equivalent of 42.000 TM of fiber were produced (Graph 3 and I Annex 1)

While the area diminished more than proportionally, the yields for hectare increased from 1.6 TM in 1991 to 2.2 TM in the 2001. This situation is explained by the displacement of the higher cost producers whom did not absorb the decrease of their revenues, and by the new technologies and practices in the crop management introduced during the 90s by the farmers and promoted by the Minister of Agriculture in partnership with the Confederation of Cotton Growers of Colombia, CONALGODON, as was reported in 1998 to the ICAC plenary meeting in Bolivia.

**GRAPH 3
PRODUCTION AND PRICES PAID TO THE COTTON-SEED PRODUCER
IN COLOMBIA**

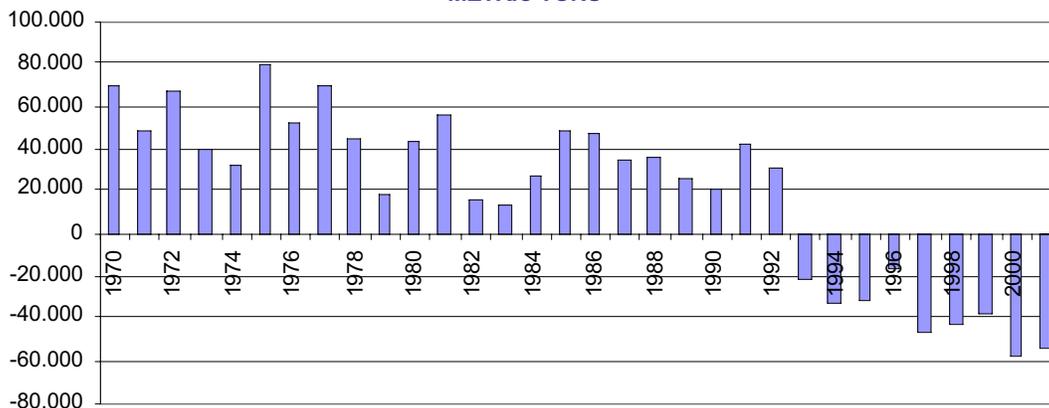


Effects on the Trade Balance

Until 1992, Colombia was a net exporter of cotton fiber. The annual average of exports, between 1970 and 1992, were of 44.000 TM that represented about the 58% of the total apparent Colombian production.

Since 1993 Colombia changed from being an occasional importer of small quantities, to replace some seasonal inadequacies or of specific requirements, to become a net and increasingly dependent of the purchases abroad to supply industry. In the 2001, 53,583 TM were imported, a demand amount that represents 56% of the apparent consumption of the country (Graph 4, I Annex 1).

**GRAPH 4
TRADE BALANCE OF THE COTTON FIBER - COLOMBIA
METRIC TONS**



The growing dependence on imports is the result of the reduced national production of cotton that diminished because of low international prices, as shown earlier.

In consequence, the trade balance in cotton fiber from the year 1993 has been in deficit. The cost of this deficit, in the year 2001, was the sum of US\$59,9 millions, which Colombia had to pay.

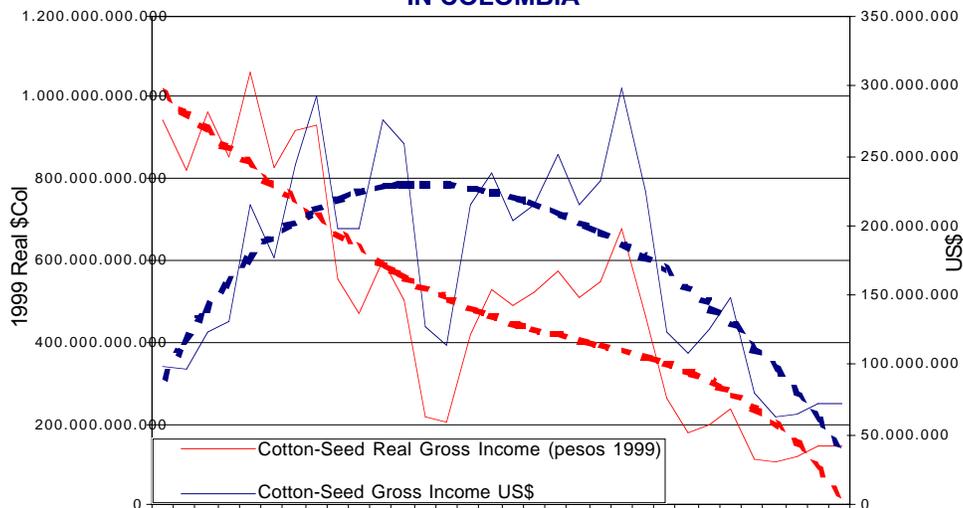
The difference in the decade between the value of exports and imports of cotton fiber it grew to the sum of US\$399,8 millions. This figure represents the cost in foreign currency that it cost Colombia to become an importer of the cotton fiber.

Effect on the gross revenues of the producers

The gross income received by the cottonseed farmers has diminished dramatically, mainly since 1991. From that date up to 2001 the lost revenues amounted to more than US\$227,5 millions that represents a fall of 76% between these two years. In real pesos the fall of income has been more marked. Between 1991 and 2001 the fall in revenues was of 79%.

The decrease in gross revenues received by the producers, between 1991 and 2001, correspond more to the reduction of production than to the diminished real prices paid to producer. This means that cotton production is a very elastic product, that is to say that before a fall in real prices, production responds more than proportionally to that fall. In fact in this lapse 1991-2001 the elasticity price of production is bigger (2.6) than in the period 1970-2001 (1.6). (See Annex 2).

**GRAPH 5
GROSS REVENUES RECEIVED BY THE COTTON PRODUCERS
IN COLOMBIA**



This is because lower prices are no longer able to replace production costs and, in consequence, a greater number of producers leave production. In fact in this last lapse more than 209.000 hectares were lost from production, which represents a fall of more than 80% of the harvested area.

The distribution of these losses was not symmetrical among the diverse agents that participate in the cotton seed-production in Colombia (I Annex 3).

Indeed, given the high percentage of wages in the cost structure of cotton in Colombia, the salary earners were those more affected in the decrease of the harvested area. The lost incomes between 1991 and 2001 were estimated at a figure over US\$75,8 millions (annexes 3 and 4).

The sales of agricultural inputs (seeds, herbicides, fertilizers, insecticides) used in cottonseed production decreased more than US\$52,9 millions. The revenues for capital use and earth rents registered a decrease of over US\$42,2 millions.

The ginning of cottonseed diminishes greatly when production is falling. If we consider that the cost of the harvesting per hectare is approximately US\$174, the lost revenues for this activity went up, between 1991 and 2001, to US\$26.3 millions.

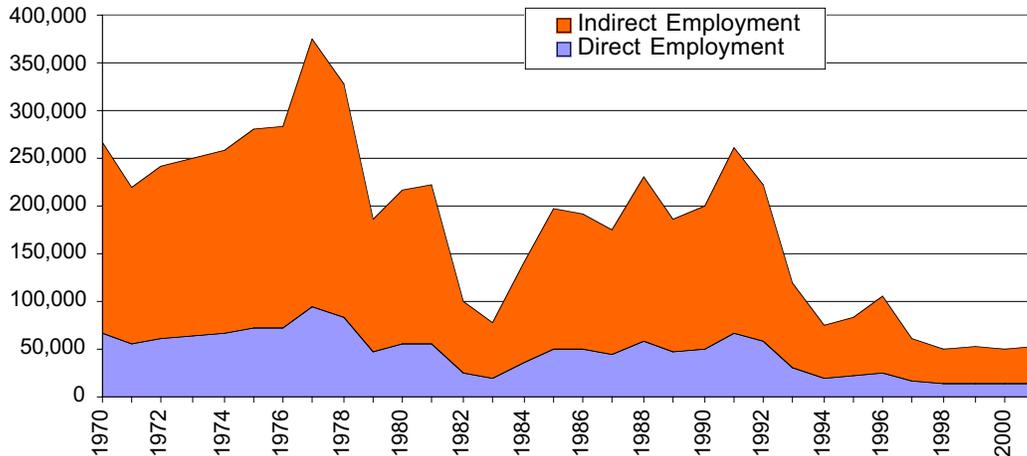
The same applies to the use of machines and tools whose revenues diminished US\$6,9 millions. The use of services for cotton production such as energy, fuel, energy, irrigation and others suffered a decrease of more than US\$23 millions.

Effects on employment and wages

As cotton is a semi annual crop, it is, in the short run, an excellent employment generator, except in the season when it is not cultivated it offers other agricultural options, as happens in areas like Córdoba and the Interior where the farmers successfully rotate their lands with corn crops. There are also alternatives of crop rotation, such as rice in the departments of Huila and Tolima.

While area cultivated with cotton diminishes, the direct employment generated by this activity falls. Indeed, while in 1991 65.540 direct employments and 196.620 indirect employments were generated, ten years later only 13.268 and 39.803 were generated, respectively. In this lapse, then, the industry lost 209.089 employments as a result of the decrease in cotton production without finding alternative uses in legal activities.

GRAPH 6
DIRECT AND INDIRECT EMPLOYMENT GENERATED BY THE
COTTON PRODUCTION



Total lost

As a result of the fall in international prices, the Colombian agricultural sector was deprived of direct revenues of US\$227,4 millions, and lost receipts of another US\$339,8 millions, in the fall of 1991-2001 that is a total lost of US\$567,2 millions. This figure equals 4.7% of the agricultural GDP in one year.

While those producing of cotton in the developed countries received subsidies above 0.50 dollars the pound, the developing countries with comparative advantages in the production, but with scarce maneuver margins to grant subsidies, face both a production crisis and a deterioration of social conditions in their rural areas.

In the case of Colombia the situation has been dramatic. The crop areas reduction has displaced a very important number of manpower that has not found feasible productive alternatives in substitution of cotton production, or the same level of incomes that were achieved in the cotton cultivation before the avalanche of subsidies, distorted the prices in the international markets.

Then, the loss of revenues in the cotton cultivation and the lack of an economically equivalent alternative of substitution became a binomial that depressed the economic situation of the rural areas, it increased - to levels never registered before - the unemployment indexes, and it has constituted in a new factor of displacement of big rural masses, increasing the expulsion caused by the violence and insecurity that have been enthroned in the field, as consequence of the fight against the drug traffic and the drug dealer-guerrilla.

The competition of the prices distorted in the international market has had serious effects in the well-being of our farmers, it has increased the levels of rural unemployment dramatically, it has consolidated an undesirable atmosphere of insecurity, It has, also, left thousands of people without alternative of a legal life being forced to abandon its traditional crops and in many cases having to devote to other unlawful activities, such as illicit crops to survive.

Government Support

In order to avoid the complete disappearance of the cotton cultivation, the Colombian government was forced to grant direct payments supports, to transfer resources for storage and to compensate the price deficiency. During the period 1997-2002, it spent about US\$23,4 millions in supports (I Annex 5).

Equally, due to the trade distortions the Colombian Government has been forced in the last years to divert resources from the budget, usually dedicated for the development of the country (highways, hospitals, education, health, etc.), with a negative impact for the national economy.

Conclusions

1. The subsidies policies by developed countries are the main causes of the cotton crisis in Colombia. Contrary to other countries of the hemisphere, cotton production in Colombia for several decades was incorporated in the world market. In fact, until 1993 Colombia was a net exporter of cotton and, in consequence, prices were at international levels. Additionally, Colombia exhibits productivity in cotton at similar levels to the world averages, and even superior to those reported by some of the biggest world producers. In this sense, the trade liberalization at the end of the eighties didn't produce substantial changes to the commercial rules of cotton in Colombia.
2. The drop in the international prices that are transmitted, more or less automatically, to the prices to the national producer of cotton, are not able to guarantee enough revenues to secure the cotton growers permanence in the activity. Due to the high elasticity price of the cotton production in Colombia, the price reduction led to a decrease of the production more than proportionally to the fall of the prices.
3. International subsidies supporting production and cotton exports in the world have lead to important economic and social losses for Colombia. The loss in revenues in activities directly related to cotton rose to US\$567,2 millions in the period 1991-2001, and budget expenditures between 1997 and 2002, were about US\$23,4 millions. The first figure represents 4,7% of the agricultural GDP of one year.
4. A total of 209.000 hectares were lost to cultivation and annually a total

produced. Colombia passed from being a net exporter to becoming a net importer so that now, imports represent 56% of the apparent consumption.

5. The social cost and damage in the labor market was very high. A total of 209.809 direct and indirect employments, that represent 1.42% of the national labor force in the year 2000, were lost. Given the high participation of labor within the cost structure of cotton, the salary earners and the low-income journeymen were the most affected.
6. Colombia possesses a long tradition in cotton production and it is adjusted to the patterns of international production, so it is reasonable to expect a quick recovery of this activity, if international prices were increased or subsidies eliminated. Given the high price elasticity of the production, for instance a price of 70 cents per pound of fiber, would lead quickly to an increase in the cultivated area from 53.071 hectares to 105.822 hectares, and if the yields were kept in the 2.2 Metric tons/ha level, production would increase from 116.724 tons to 232.745 tons. The decrease in production didn't conform to a loss in competitive advantage in the business of cotton; it is the result of distorting policies beyond the reach of the producers or of the national government. A world without subsidies is the ideal for those producing cotton in Colombia.

The Colombian Position

Colombia reiterates its position expressed in the 60^a Plenary Meeting of the International Advisory Committee of the Cotton (CCAC) in Zimbabwe, on the urgency of striving for the elimination of all government distorting measures of trade and the production of cotton fiber, in particular because of the damage that is caused to developing countries, to the less favored classes of the rural population

For further information on the Colombian position, a copy of the Colombian declaration in Zimbabwe is attached.

Acknowledgements

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Delegate to the WGGM
For Colombia

DECLARATION OF COLOMBIA
60TH PLENARY MEETING OF THE INTERNATIONAL COTTON ADVISORY COMMITTEE

Victoria Falls, Zimbabwe September 2001

Colombian Cotton Farmers have fully played the Good Game of Open Trade, but market distortions and an unlevelled playing field exacerbates the farmers and the efforts of developing countries

In this 60th Plenary Meeting of the International Cotton Advisory Committee (ICAC), the Government of Colombia would like to reiterate the importance of removing all measures that distort both trade and production of cotton fiber, due to its harmful effects on developing countries, and in particular, on the least favored classes of the rural population.

As we articulated in our statement of 1998, given in Bolivia, our cotton cropland fell from 250,000 hectares in 1990/91 to 52.000 in 1997/98, noting the main reasons for this reduction as:

- The change of the economic model; from an import - substitution and protectionist standpoint, to a free trade model in agriculture.
- A sharp drop in international prices.
- The substantial competition of highly subsidized cottons in the international arena.
- And a strong Colombian currency.

However, due to optimistic expectations regarding a positive outcome of Negotiations on Agriculture of the incorporated agenda of the World Trade Organization (WTO), our industry focused on improving competitiveness, by implementing the best sustainable agricultural practices and techniques, aimed at increasing yields and reducing costs. Though the industry was successful in reaching the goal it set forth, our farmers have been crippled in light of the failure to level the field and create an indiscriminate environment for agricultural trade in the WTO. This unfortunate fact was first evidenced in Seattle, and is now present in Geneva. Our farmers are victims of the pervasive international practice of subsidizing production and exports. Today, Colombia only boasts a mere 45.000 hectares in production, which yield some 34,000 tons of lint, but if the *status quo* remains, we might very well disappear from the cotton production map.

Some developing countries felt they had obtained a great victory with the special and differentiated treatment resulting from the Uruguay Round, which extended their deadlines to reduce tariffs and subsidies, and decreased the percentage reduction of their commitments. However, we soon realized that the inequities between WTO Member countries persisted. Since the level of protection and subsidies of developed countries more than exceeds those granted by developing countries, they continue to distort trade in their favor. In this sense, it is clear that enhanced special and differentiated treatment provisions must be established across all areas where necessary in order to address the needs of developing countries.

Developed countries have barely, if at all, reduced their subsidies vis-à-vis those granted a decade ago, while simultaneously maintaining strict protectionist practices, through a combination of tariffs and import quotas. These countries have also introduced new non-tariff barriers, such as the sanitary, phytosanitary and ecological restrictions. These conditions simply display the fact that the rules of agricultural - international are not the same for all.

As it was expressed by the Cairns Group members recently in Punta del Este, Uruguay, in an increasingly globalized world with a rules-based multilateral trading framework, the time is well overdue to bring agriculture fully under the WTO, so that producers may compete fairly

on the basis of their comparative advantage, establishing a fair and market-oriented agricultural trading system.

Several studies prepared by the Secretariat of ICAC on Production and Trade Policies Affecting the Cotton Industry, confirm that trade distorting measures continue unchanged or have in fact increased in the last decades, in spite of all the efforts made during the Uruguay Round to liberalize trade for agricultural products and livestock.

Last year, we noted that the measures applied by the United States were unfair due to their influence on international markets. In 1998/99 the U. S. granted a total of 1,596 million dollars (U.S. 27.8 cents per lb.) in direct subsidies to farmers and exporters, and in 1999/00 a total of 2,240 million dollars (U.S. 31.4 cents per lb.), equivalent to 53% and 54% of the international price respectively last year. The averages for the Cotlook A Index for those years were 52.8 and 58 cents of a dollar per lb. However, recent report by the ICAC indicates that the U. S. granted a total 4,000 million dollars for the 1999/00 crop that is twice as much as the estimated value. This year's prediction for direct assistance is estimated in US\$759 million dollars. Hopefully it will remain at this level.

We have also mentioned how generous subsidies in some countries are, for example, in 1998/99, 1999/00 and 2000/01 Spain paid 88.8, 74.9 and 85.5 U.S. cents per lb. Greece, granted 76.7, 67.6 and 57.9 U.S. cents per lb., respectively. These subsidies have a direct impact in production and exports. As shown in the tables, the market place distortions have benefited the countries with cash support programs, while the free trade system is in bankruptcy.

Exports of Cotton Lint

Thousands of Metric Tons

Country/crop	1980/81	1990/91	2000/01
Colombia	57	39	2
Greece	13	86	255
Spain	4	30	25

Imports of Cotton Lint

Thousands of Metric Tons

Country/crop	1980/81	1990/91	2000/01
Colombia	2	2	58
Greece	60	17	15
Spain	44	83	38

Source: ICAC – World Cotton Trade Demand - 2001

Also, last year, we noted that specifically in the case of cotton, the result of free trade was a decrease of more than 217,000 hectares no longer being cultivated, and about 121,400 fewer tons of fiber produced. This in turn, had an adverse effect on Colombia's balance of trade of close to US\$166.5 million, due to a decrease in exports of US\$85.7 million and an increase in imports of US\$80.7 millions. Even worse off are the 12,400 small farmers who went out of business and more than 200,000¹¹ workers who lost their jobs. This year, 2001/02, we have gone down to an estimated 45,000 hectares. In summary, while other countries with resources have become strong cotton exporters, Colombia has become a net importer of cotton in the span of a decade.

While developed countries are getting over 50 U.S. cents per lb. in subsidies, we are dealing with our country's worst economic crisis. Colombia is experiencing an unemployment rate well over 20% in the urban areas and above 50% in some rural areas, with austere budget disciplines agreed upon with the International Monetary Fund and the World Bank. Furthermore, there are no resources with which to support our agricultural sector. Our

Cotton cropland in the 70s was as large as that of the European Union. While they have managed to increase their acreage, yields and production, through the Community Agricultural Program (CAP), our industry is about to vanish.

Disloyal competition in international trade has gravely affected our farmers and has dramatically increased rural unemployment, leaving thousands with no alternative for survival. In light of the harsh reality of the Colombian farmer, many have seen themselves forced to abandon their traditional crops in order find their livelihood in illegal crops and other activities outside the law.

The Colombian experience shows the direct need to put an end to unfair competition and protectionist measures but is not an isolated case, for we are not the only country affected by these protectionist and trade distortive practices. Agricultural exporting developing countries as a whole feel the effect of having to compete on a field that is tilted against them, resulting in unemployment, poverty and growing misery that are providing for an unmanageable and potentially dangerous social situation.

Again, we would like to bring Mr. Michael Camdessus here, former director of the International Monetary Fund, IMF who stated: "The greatest problem of our times is poverty. When we consider how much the world economy has progressed we find it even harder to accept poverty. The growing differences between the rich and the poor in many countries and the gap between the rich nations and the more impoverished is morally outrageous, it represent a waste of resources and is socially explosive. We know now that it is not enough to increase the size of the pie; the way in which it is distributed is profoundly relevant in the dynamic growth of world development. If the poor are abandoned and left without hope, poverty will erode our social structures, generating confrontation, violence and civil unrest".

The fact that more than 3 billion people in the world face a struggle for survival with a daily income of less than two dollars, of which 1.3 billion don't even receive one dollar a day and live in absolute misery, is a great threat to world stability. It is our understanding that as long as the unfair and inequitable practices in trade continue, countries, governments and international agencies have the responsibility of exercising their power to level out the playing field of the social and economic agents. The richer more developed countries must have a vision and be aware that in a globalize economy, what happens to the smaller, poorer and more remote countries will end up affecting their comfortable existence.

Agricultural reform is of great importance to the world's developing countries, distortions in world markets for agricultural products undermine the ability of many developing countries to create strong agricultural sectors and achieve sustained economic growth. Better market access in a world free of trade-distorting practices is essential for promoting development and eliminating poverty in developing countries, permitting them to increase their incomes and realize to a greater extent their comparative advantage in agriculture.

Considering the aforementioned, let us call on this consultative body of Member Governments to make a recommendation addressing the pressing need to remove all measures that distort international trade and cotton production, such as high protection levels, export subsidies and distorting domestic support. We make this request here today, as we have done so in accordance with what we have sought through the CAIRNS Group, and other countries present at this meeting, have been asking for regarding trade negotiations at the WTO for several years now. We need an agreement with a profound reform, which is indispensable for world agricultural trade and for the large rural population living in developing countries. This way, all Members of this organization will be assured fair and equitable treatment. We believe that cotton should be granted the same treatment as manufactured goods, so as to level the playing field for all participants, so that unfair practices can be signaled out when they occur and all countries and their products are treated equitably and justly.
