# Protecting "sensitive" agricultural products in Colombia: a political economy approach

María Angélica Arbeláez | Sebastián Higuera | Roberto Steiner | Sandra Zuluaga[1]

***Abstract***

*As part of a comprehensive structural reform agenda, in the early 1990s Colombia undertook an important trade liberalization program, mainly through a reduction in tariffs. In the last two decades the widespread use of non-tariff barriers and other trade protection measures have partially reversed the liberalization effort, particularly for some agricultural products considered to be sensitive. It is also the case that Colombia stands out as the one country in Latin America in which agriculture severely under-performed during the decade of high commodity prices, with a sectoral policy focused on protection rather than on providing public goods. Of course, a country´s trade policy does not happen in a vacuum but is, rather, the result of complex political interactions among diverse interest groups. To shed light on the political economy of protection of sensitive agricultural products in Colombia, we analyze the cases of rice and sugar, two highly shielded products that weigh heavily on household´s consumption baskets and are part of complex value-added chains. Our analysis of secondary sources and more than 20 semi-structured interviews allow us to better understand the "why" of trade protection. We identify winners and losers and discuss the channels of influence of key players, including agricultural producers and their organizations, the food-processing industry, large economic conglomerates, congress, the media, and some highly politicized ministries. We also discuss the compensation mechanisms used in the few liberalization episodes that have taken place, including prominently the TPA with the U.S. We argue that agricultural producers are well-organized and supported by pressure groups such as "Dignidades" and carry more political weight than consumers --who seldom oppose agricultural protection-- and the downstream industry --whose counter lobby is weaker than producers' lobby.*

***Resumen***

*Como parte de una amplia agenda de reformas estructurales, a comienzos de los años noventa Colombia emprendió un importante programa de liberalización comercial, enfocado principalmente en la reducción de aranceles. En las dos últimas décadas el uso extendido de barreras no arancelarias y de otras medidas de protección ha reversado parcialmente el esfuerzo de liberalización, en particular para algunos productos agrícolas considerados sensibles. Colombia también se destaca como el único país de América Latina en el que la agricultura tuvo un desempeño mediocre durante la década de precios altos de los productos básicos, con una política sectorial enfocada más en la protección que en la provisión de bienes públicos. Por supuesto, la política comercial no ocurre en el vacío, sino que es, más bien, el resultado de complejas interacciones políticas entre diversos grupos de interés. Para arrojar luz sobre la economía política de la protección de los productos agrícolas sensibles en Colombia, en este documento analizamos los casos de arroz y azúcar. Ambos están fuertemente protegidos, pesan mucho en las canastas de consumo de los hogares y forman parte de complejas cadenas de valor agregado. El análisis de fuentes secundarias y de más de 20 entrevistas semiestructuradas nos permite entender mejor el "por qué" de la protección comercial. Identificamos ganadores y perdedores y discutimos los canales de influencia de jugadores claves, incluyendo productores agrícolas y sus organizaciones, la industria procesadora de alimentos, grandes conglomerados económicos, el Congreso, los medios de comunicación y algunos ministerios altamente politizados. También discutimos los mecanismos de compensación utilizados en los pocos episodios de liberalización que se han llevado a cabo, incluyendo especialmente el TLC con EE. UU. Mostramos que los productores agrícolas están bien organizados, apoyados por grupos de presión como las "Dignidades", y tienen más peso político que los consumidores --quienes suelen no oponerse a la protección agrícola-- y que la industria procesadora --cuyo contra cabildeo es más débil que el cabildeo de los productores.*

*Protecting "sensitive" agricultural products in Colombia: a political economy approach*
*Protegiendo productos agrícolas "sensibles" en Colombia: un enfoque de economía política*

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# I. Introduction

In 1990 Colombia transitioned from an import substitution model to a more liberalized framework, the so called "*Apertura Económica*". The main pillars were a reduction in tariffs and an aggressive integration strategy. Notwithstanding some progress, after three decades of having launched the liberalization effort, Colombia remains a rather closed economy. According to the UN (COMTRADE), in 2018, per capita imports barely reached US $1.000, much lower than in Chile (US $4.000) and Mexico (US $3.720) and lower than in Argentina (US $1.470), Peru (US $1.340) and Ecuador (US $1.350). A similar picture emerges in the case of exports, with exportable supply heavily concentrated in fuels and mining. In the Latin American context, only Venezuela fares worse in this regard.

The 1990s reform failed to correct in a significant manner the anti-export bias of the import substitution policy it replaced. The manufacturing sector faced a significant tariff reduction, but non-tariff barriers (NTBs) and other protectionist measures have been put in place in several sub-sectors[2]. Protection is particularly pronounced in some agricultural sub-sectors via tariffs and NTBs, and they have been either excluded from trade agreements or obtained long tariff phase-out periods (Nieto *et.al*, 2016 and García *et. al*, 2014). During 1991-2015 transfers from consumers to agricultural producers were particularly high in refined sugar, rice, milk and poultry. Interestingly, the Trade Promotion Agreement with the U.S. (TPA) was the one scenario in which the liberalization process, albeit gradually, was intensified for so-called "sensitive" products.[3] Although several "sensitive" products were granted the longest tariff reduction periods, eight years after the treaty entered into force one can already observe changes in the preferential access conditions of U.S. products to the Colombian market. Undoubtedly, this situation has posed a competitive challenge for several of these sectors, a challenge that has been approached differently by each one of them.

Stein, Jeff Frieden, and Jorge Cornick, whose comments we greatly appreciate. We received valuable suggestions from Luis Fernando Mejía and other participants at Fedesarollo's weekly seminar. We are also very appreciative of the many persons who agreed to be interviewed (see Appendix 1). All opinions expressed are ours and should not be interpreted as representing the opinions of our interviewees.

[2] According to Perffeti and Botero (2018), during 1992 – 2008, non automatic licencing, technical restrictions to trade, and price-control measures were the main NTBs applied to both agriculture and agroindustry.

[3] An agricultural product is deemed "sensitive" if it has the strategic importance of generating rural employment while legally occupying the territory, and is highly vulnerable to imports (Fenalce, 2006). This last concept helps determine the sensitivity of a product based on the existence of subsidies and systematic support for its production in a trading partner.

Importantly, sectoral business associations have tried to exclude the agricultural sector from tariff reduction commitments in subsequent trade negotiations with other countries and regions.

To be sure, Colombia´s complex geography and weak transport infrastructure does not facilitate international trade. Road density and paved roads are low compared to Latin America, railways are limited and navigability in the river network highly restricted (IDB, 2015). The quality of infrastructure is also weak. As a result, transportation costs are nearly twice those in Brazil and almost six times those in Peru (Yepes *et al*., 2013). Successful exporters such as the fresh-cut flower sector pay the most expensive freight per mile of any transported load in the world (Arbeláez, *et al*., 2012). This situation not only complicates trade; it empowers those who hold protectionist views and deem the local market as their main priority. Although Colombia is a land rich country, it is one of the few in the region that did not take advantage of the recent agricultural commodity price boom,[4] and protectionist trade policy is certainly related with sector's under-development.

In most middle-income countries an argument put forward when justifying protection to agriculture is that it is the inevitable consequence of protectionism in rich economies. In Colombia this argument is strengthened by the notion that 50 years of guerrilla warfare have brought misery to millions living in the countryside and made agriculture a challenging activity. While the security situation has certainly been a menace in some regions, it has been used as an argument in support of protection by a wide range of actors in the agricultural sector, even by some barely affected by the security situation.[5]

The "*Apertura*" process has been the subject of several academic endeavors from a political economy perspective (Cepeda, 1994; Urrutia, 1994; Beaulieu; 2000; and Edwards and Steiner, 2000 and 2008). While numerous studies have documented *the extent of protection* of agriculture (OECD, 2015; García, *et al.,* 2014; Anderson and Valdés 2008; Jaramillo, 2002) and a few have analyzed *the effects of protection* on sectoral performance (Perfetti and Botero, 2018), not much has been written on the political economy of agricultural trade policy ---

4 While in Argentina, Brazil and Peru the agricultural sector grew on average 3%, 3.5% and 4% during 2004-2014, respectively, in Colombia it expanded at an annual rate of only 1.8%.

5 Not to mention that the drug trade has made "money laundering" a huge business, with smuggling the main vehicle for these purposes. Some sectors use the politically powerful if economically weak argument that unfair competition from smugglers justifies protection. Many people in business have claimed that higher tariffs are an important element in the fight against smuggling, in particular in textiles and footwear: ((https://www.portafolio.co/negocios/empresas/brahma-pisa-fuerte-tiendas-propias-85050; https://www.portafolio.co/negocios/empresas/discusion-aumento-aranceles-sector-calzado-90322); http://elnuevosiglo.com.co/articulos/5-2013-agridulce-los-aranceles-para-calzado-y-textiles).

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i.e. on *"why" the protectionist trade policy in place*. While García *et al.* (2014) and Reina *et al.* (2011) analyze the adoption of protectionist measures that benefit certain groups, and Urrutia (1991) and Langebaek (2002) discuss the private sector´s role in the policy-making process, they do not identify potential winners/losers or the use of compensation mechanisms. This project attempts to fill that gap by focusing on two products, rice and sugar. Along with others such as milk, poultry and palm oil, rice and sugar have been among the most protected and weigh heavily in the consumer basket. We will also analyze the TPA negotiations identifying the role played by private and public sector actors, members of congress and U.S. actors in the one meaningful effort to somewhat reverse the protection of certain "sensitive" products.

The paper is organized as follows. The second section describes trade policy following the 1990s liberalization effort. We place emphasis on agriculture, describe the protection mechanisms and illustrate the sector's under-performance. The third section addresses the political economy of protection of some "sensitive" products. We identify the actors involved in the trade policy-making process and discuss the political economy issues surrounding the protection of two important products, rice and sugar. We devote the last section to explaining how a more liberalized outcome with respect to rice and sugar as well as other sensitive products was reached in the TPA. The final chapter provides conclusions.

## II. Three decades into "Apertura", trade liberalization remains elusive

The liberalization policy implemented in the early 1990s sought to correct the failures of an import substitution model that had fostered concentrated property structures, low productivity, little innovation and an anti-export bias. Liberalization comprised reducing tariffs, eliminating quantitative restrictions (QRs), simplifying procedures and negotiation of many trade agreements (Hommes *et al.*, 1994). The Ministry of Foreign Trade (MoFT)[6] was established to coordinate and execute trade policy, with Incomex responsible for dealing with unfair trade practices[7]. Several entities assumed technical and administrative responsibilities and there now is a complex institutional framework, making coordination difficult and presumably facilitating capture by interest groups (García, *et al*., 2015).

[6] In what follows, MoFT stands for the Ministry (or the Minister) of Foreign Trade; likewise, MoF for the Ministry (or Minister) of Finance; MoA for Agriculture; MoH for Health.

[7] Since the 60s, Incomex had been in charge of managing import licenses. QRs were the main policy instrument, tariffs having a lesser role (García, *et al*., 2014).

The MoFT prioritized an agenda that sought active participation in the multilateral trade agenda as well as regional integration. The most significant processes of integration were the strengthening of the Andean community, the negotiation with Mexico in the context of the Group of Three (with Venezuela), and the deepening of an agreement with Chile. Since the late 90s Colombia has signed 14 integration agreements, those with the U.S. and the EU the most important. Arrangements with Mercosur and the Pacific Alliance[8] are also relevant, while there are 13 Investment Agreements in force.

Measures taken at the beginning of the 90's reduced from 43% to 3% the tariff positions subject to QRs (Hommes *et al*., 1994), while the average tariff fell from above 40% in the 1980s to 11.7% in 1992 (Echavarría and Gamboa, 2001). The liberalization process resulted in a sharp reduction of tariffs (Table 1): in 2011 the average nominal tariff fell to 8.6% and is now close to 6%. However, high dispersion prevails, some sectors remain heavily protected while other forms of protection are prevalent.

**Table 1.**

**TARIFF EVOLUTION IN COLOMBIA**

| Year | Average Simple Tariff | Surcharge | Tariff + Surcharge | Max. Tariff | Weighted Tariff | Standard Deviation |
|---|---|---|---|---|---|---|
| 1950 | 40 | | 40 | n.d. | n.d. | 10 |
| 1959 | 43 | | 43 | n.d. | n.d. | 28 |
| 1964 | 48,7 | | 47 | 400 | 64 | 48 |
| 1965 | 47 | | 47 | 400 | 65 | 48 |
| 1968 | 48 | 4 | 52 | 400 | 68 | 47 |
| 1970 | 47 | 4 | 51 | 450 | 68 | 46 |
| 1972 | 47 | 4 | 51 | 380 | 66 | 45 |
| 1973 | 48 | 4 | 52 | 350 | 62 | 37 |
| 1974 | 31 | 4 | 35 | 350 | 35 | 22 |
| 1976 | 28 | 8 | 36 | 200 | 29 | 20 |
| 1979 | 26 | 8 | 34 | 150 | 26 | 18 |

8 With Peru, Chile and Mexico.

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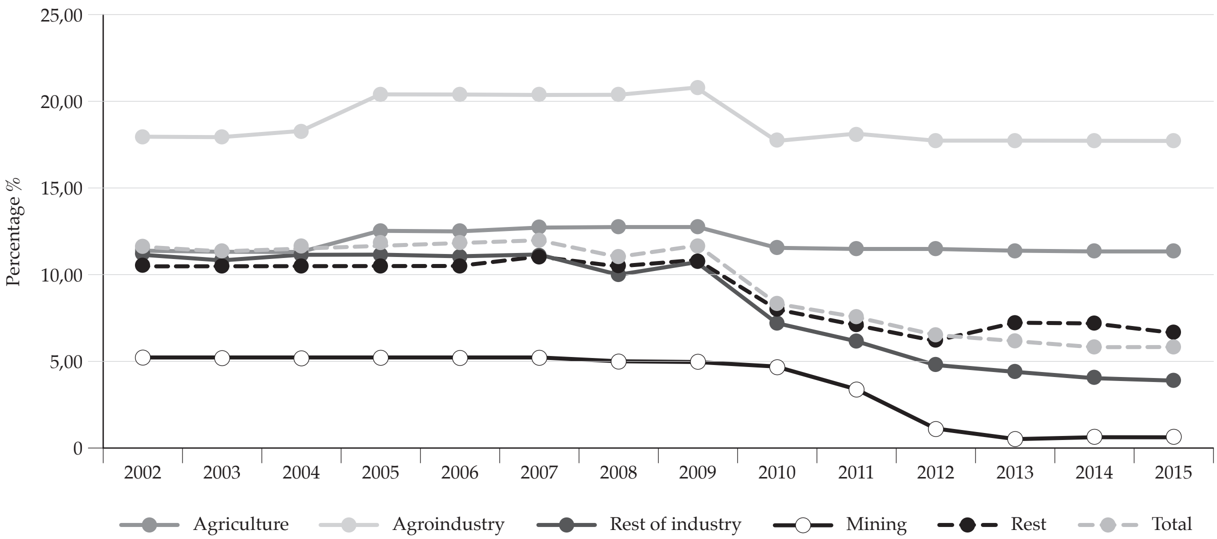
| Year | Average Simple Tariff | Surcharge | Tariff + Surcharge | Max. Tariff | Weighted Tariff | Standard Deviation |
|---|---|---|---|---|---|---|
| 1980 | 26 | 8 | 34 | 150 | 24 | 18 |
| 1981 | 26 | 8 | 34 | 150 | 25 | 19 |
| 1983 | 34 | 8 | 42 | 198 | 32 | 24 |
| 1984 | 42 | 7 | 49 | 200 | 40 | 30 |
| 1985 | 31 | 15 | 46 | 200 | 34 | 17 |
| 1988 | 27 | 18 | 45 | 200 | 31 | 17 |
| 1989 | 27 | 18 | 45 | 200 | 29 | 17 |
| 1990 | 23 | 13 | 36 | 100 | 25 | 14 |
| 1991 | 17 | n.d. | n.d. | 75 | 19 | 13 |
| 1992 - 1994 | 12 | n.d. | n.d. | 40 | 12 | 6 |
| 1995 - 1997 | 12 | n.d. | n.d. | 35 | 12 | 6 |

Source: García *et al.* (2014)

**Figure 1.**

**AVERAGE SIMPLE TARIFF BY SECTORS**




Source: Perfetti and Botero (2018).

The reduction in tariffs was important in manufacturing (different from the food industry) and in mining, in particular since 2010. Between 2002 and 2015 agriculture and agroindustry remained highly protected, with average nominal tariffs of 12% and 18.8%, while the average nominal tariff for the non-agricultural industrial sector was 8.5% according to Oviedo, *et.al.* (2018) and Arbeláez *et al.*, (2019) (Figure 1). "Sensitive" products such as sugar, beef, rice, and milk have had much more protection on account of a price band system (PBS in what follows) and in some cases because of the application of very high fixed tariffs. Table 1 shows the average tariff resulting from the PBS, which applies to countries other than the U.S. Considering tariff rates resulting from these mechanisms, the average nominal tariff for 2002-2015 was 12% for agricultural products and 20.3% for agroindustry. When taking into account imports entering with preferences from trade agreements, tariffs are of course lower. Perfetti and Botero (2018) show that during 2002-2015, the average effective tariff on agricultural goods was 4.7% and on agroindustry of 5.2%.[9] It is important to bear in mind that most of these preferences are linked to tariff quotas, so the effective tariff applies to a rather small volume of imports[10]. As can be seen in Table 2, outside these quotas, tariffs that result from the PBS or high fixed rates certainly make imports expensive.

**Table 2.**

**TOTAL TARIFFS RESULTING FROM PBS (%)**

| Marker Product | 2002 - 2015 | 2016-2019 |
|---|---|---|
| Chicken pieces | 96,3 | 178,8 |
| Milk powder | 67,6 | 98,0 |
| White rice | 74,7 | 80,0 |
| Yellow corn | 15,8 | 49,2 |
| Raw sugar | 28,8 | 44,1 |
| White sugar | 24,8 | 43,9 |

9 For products with price bands, the average effective tariff is higher: husked rice (32.1%), pork (13.6%), dairy products (12.1%) and sugar (6.9%).

10 During 2002-2013 the average import penetration ratio was 7.6% for palm oil, rice 6%, sugar 7.5%, meat of chicken 4.5%, and milk 0.8%, with higher levels for some years, but never exceeding 15%. In contrast, soybeans, soybean oil, barley and corn are primarily supplied with imports.

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| Marker Product | 2002 - 2015 | 2016-2019 |
|---|---|---|
| White corn | 32,9 | 40,0 |
| Soybean | 11,2 | 35,8 |
| Soy oil | 16,9 | 30,1 |
| Palm oil | 17,1 | 30,0 |
| Pork meat | 22,1 | 23,7 |
| Wheat | 9,1 | 21,8 |
| Barley | 11,6 | 17,6 |

Source: DIAN, biweekly information

It is worth noting that the decline in tariffs from *Apertura* was partially offset by an across-the-board increase in NTBs (García, *et al.*, 2014). Although, the number of NTBs is an imperfect proxy for the protection they provide, some sectors traditionally shielded from competition – i.e. agriculture and agroindustry-- achieved more protection with new measures. Other sub-sectors in manufacturing that exhibited lower protection with the decline in tariffs after *Apertura*, also obtained protection with NTBs (Table 3).

According to García *et al*. (2014), during the Uribe administration (2002-2010) the granting of benefits to specific groups deepened when the percentage of sub-headings having NTBs increased from 63% to 78%. The purpose was to protect specific sectors affected by a strong currency and foreign competition. In manufacturing, tariff changes and NTBs benefited textiles & apparel, footwear, plastic, leather, food products, motor vehicle parts and furniture, even breaching commitments under the WTO. These sectors have been very active in the use of trade defense mechanisms, especially against China.[11] Based on a survey, Melendez and Perry (2010) show that the percentage of textile & apparel firms benefiting from protection against competition went from 20% before 2000 to 45% since.

[11] In 1999 a special safeguard or safeguard by reason of disruption regulation was issued, among other reasons as a more agile mechanism to confront China. This rule is less strict in terms of causes for application than the general rule and applies to imports of any origin provided the requested tariff increase does not exceed the level consolidated by Colombia in the WTO when the investigation involves a member country.

Table 3.
**NTB COVERAGE RATIO***

| | 1991 | 1992 | 1993 | 1994 | 1996 | 1997 | 1999 | 2001 | 2003 | 2005 | 2006 | 2008 | 2012 | 2013 | 2014 | % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **27** | **34** | **46** | **53** | **59** | **62** | **64** | **63** | **78** | **77** | **77** | **76** | **76** | **78** | **78** | **189** |
| **Consumption goods** | **19** | **30** | **50** | **61** | **68** | **73** | **75** | **72** | **80** | **81** | **81** | **81** | **82** | **83** | **83** | **337** |
| Non - durable | 19 | 35 | 61 | 71 | 80 | 86 | 88 | 88 | 92 | 92 | 93 | 92 | 92 | 93 | 93 | 389 |
| Durable | 17 | 18 | 27 | 37 | 41 | 43 | 44 | 35 | 52 | 53 | 54 | 55 | 58 | 59 | 59 | 247 |
| **Raw materials and intermediate goods** | **41** | **49** | **63** | **68** | **73** | **76** | **77** | **77** | **85** | **83** | **84** | **81** | **81** | **85** | **85** | **107** |
| Fuels and lubricants | 45 | 39 | 40 | 59 | 67 | 67 | 67 | 72 | 100 | 100 | 100 | 96 | 77 | 77 | 77 | 71 |
| For agriculture | 30 | 70 | 94 | 97 | 99 | 99 | 99 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 233 |
| For the industry | 41 | 48 | 62 | 67 | 72 | 75 | 76 | 76 | 84 | 82 | 83 | 80 | 80 | 85 | 84 | 105 |
| **Capital goods** | **8** | **10** | **10** | **18** | **21** | **21** | **25** | **21** | **60** | **59** | **60** | **59** | **57** | **58** | **58** | **625** |
| Construction materials | 20 | 26 | 28 | 41 | 42 | 42 | 42 | 36 | 63 | 62 | 62 | 55 | 48 | 50 | 51 | 155 |
| For agriculture | 7 | 7 | 5 | 8 | 14 | 15 | 15 | 11 | 48 | 46 | 46 | 47 | 25 | 25 | 25 | 257 |
| For the industry | 4 | 5 | 5 | 9 | 10 | 10 | 16 | 16 | 57 | 56 | 56 | 57 | 58 | 58 | 58 | 1350 |
| Transport equipment | 11 | 14 | 16 | 33 | 51 | 51 | 54 | 35 | 75 | 71 | 75 | 73 | 71 | 71 | 71 | 545 |

Note:* Calculated as the share of imports of a certain category of products subject to NTB's.
Source: García, *et.al* (2014).

Protection to manufacturing sub-sectors, combined with other forms of public support, has been the result of the influence of different actors whose effectiveness varies across administrations. According to Meléndez and Perry (2010), the cumulative support through policy instruments, has been very much determined by lobbying and has remain concentrated in the same hands over time, policies rarely being horizontal. It is still the case, however, that agriculture and agroindustry remain the most protected sectors, with negative effects on productive chains and consumers, as we discuss below.

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Extensive research has been devoted to understanding the drivers of agricultural protectionism and distortions, and to explaining why agriculture is more protected than manufacturing, in particular in rich countries. According to Swinnen (1994, 2009) there is a positive relationship between agricultural protection and economic development and protection is higher when farm incomes fall. According to the author, structural economic changes have an impact on agricultural policy since they modify the costs and benefits of protection, and thus the government's political incentives in the policy making process. It also changes the intensity of political activity and interest groups´ ability to organize and influence the government. If agricultural income grows less relative to other sectors, (or the share of farmers income shrink), the cost of protection is lower for the rest of the society, which facilitates the government's granting of protection. In addition, farmers look for government support and increase their willingness to support politicians. This situation creates political incentives both on farmers and politicians to extend government transfers in exchange for political support. In addition, the reduction in the number of farmers makes their organization less costly and therefore increases the effectiveness of their lobbying. In this context, the government is more likely to support those sectors with comparative disadvantages rather than those with comparative advantages.

There is empirical evidence in support of the negative relationship between the share of agriculture (i.e. number of farmers) in the economy and agricultural protection, explained by the increase in the effectiveness of their political organization and the perception of lower political costs of protection. For instance, Honma (1993) finds that the shrinkage of the agricultural sector makes opposition to agricultural protection more diffused and lobbying more concentrated. He also finds evidence that agricultural protection is inversely related to agriculture´s relative productivity in relation to industry. Along the same lines, Olper (1998) finds that agricultural protection is countercyclical to market conditions and is positively related to the level of comparative disadvantage in agriculture, with protection being greater in country´s with a smaller number of farms. Similarly, Dutt & Mitra (2009) find that a decline in the share of employment in agriculture is likely to be accompanied by an increase in agricultural protection as agricultural workers and landowners will find it easier to organize and mitigate the inherent free-rider problem of lobby formation. There is also evidence that when the share of food in consumer expenditure decreases, agricultural protection increases since the opposition of consumers also declines (Swinnen, 2009).

In Colombia, the share of agriculture has been dropping steadily, particularly since the late 80s (from 17% of GDP in 1990 to 6.2% in 2018). The share of food in the consumption basket has also fallen from 28.2% in 2010 to 15.1% in 2019, according to CPI weights, just as agricultural employment as a share of total employment has declined, from 19.5% in 2002 to 16.3% in 2018. In addition, according to ANIF (2017), the subemployment rate (controlling for informality) in agriculture has been very high (84.2% in 2017) while labor productivity of agriculture with respect to the U.S. has been particularly low (Arbeláez *et al*, 2019).

During the last two decades, agriculture has underperformed the rest of the economy. This mediocre growth is in contrast to what happened in most of the Latin American region. Labor productivity in agriculture has been much lower than in other sectors and although it has increased in time, the gap remains. A telling indicator of lack of dynamism is the inability to develop new export products—i.e. different from those having a long tradition (Arbeláez *et al*, 2019).

Trade policy for most commercial agriculture products has shown an important degree of inertia, not significantly changed by the *Apertura* process. Political reasons and the existence of important producers that consolidated their crops as suppliers to industry during the import substitution strategy phase, help explain this inertia. The 1993 Agricultural Law reflects a mid-point between dismantling *Apertura* in agriculture and maintaining it with the adoption of several provisions to address private sector requests (Jaramillo, 2002). In the interviews conducted for this study it became evident that, for different reasons, there is the widespread view that there is a "historical debt" with the rural sector –the most affected by civil unrest, by a very deficient transportation infrastructure and by distortionary trade practices in other countries. From that perspective, trade protection is an "easy way" to pay for that "historical debt" –i.e. raising tariffs and NTBs is more expeditious and less of a fiscal burden than providing for public goods.

Parts of the agricultural sector have remained protected either through tariffs or via special treatment in trade agreements –in particular with tariff-rate quotas and safeguards with the exception of the trade negotiation with the U.S., as mentioned above.[12] Since the early 90s, a group of "sensitive" products has been subjected to "special treatment"; the main policy instrument a PBS introduced in 1992, harmonized with Ande-

[12] Safeguards for products deemed to be sensitive have been included in several FTAs by means of the Special Agricultural Safeguard (SEA), defined as urgent measures in response to rapid increases in imports that affect or threaten to affect domestic production (OMC, s.f.). A tariff surcharge can be temporarily imposed if imports exceed a pre-determined level, or imports might be outright restricted. During 1999-2013 safeguards were applied 5 times, mainly in response to strikes by farmers (OECD, 2015).

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an countries.[13] Although the purpose of the PBS was to stabilize domestic prices, it could generate a protectionist bias.[14] Despite criticism from analysts and agroindustry, the system is still in force for some products and for others it has been replaced with ceilings or fixed tariffs, in both cases with higher tariffs than for the rest of agriculture (Oviedo, *et al*., 2018). The 1990s reform was complemented with price stabilization funds meant to promote exports and with crop absorption agreements and minimum guarantee prices for products deemed to be sensitive.[15] The protectionist bias in favor of agriculture becomes more evident with the growing use of NTBs, mainly of a regulatory nature. According to Perfetti and Botero (2018), in agriculture they went from 1.255 in 1992 to more than 4000 in 2006, and this trend has persisted over time.

As shown in Arbeláez *et al* (2019), support to agriculture has increased continuously, reaching 1.3% of GDP in 2015 - 2017, in Colombia one of the countries providing more assistance .[16] A large part of aid takes the form of distorting market price support (MPS)[17] and border measures, the provision of public goods lagging behind[18]. Transfers from consumers and taxpayers to agricultural producers were particularly high in refined sugar, maize, rice, milk, pork and poultry, mainly because of their MPS levels.

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13 The system, which delivers a variable tariff, initially included 8 products but was subsequently expanded to 13 and to close to 150 derivative tariff lines or substitute products at any given time. The main products covered by the PBS were meats (pork and chicken), vegetable oils, wheat, dairy products, corn, rice, barley, soy and sugar, as well as their derivatives and substitutes.

14 Several analyses have shown that protection afforded by this mechanism exceeded the distortions caused by subsidies (Guterman, 2008; and Perfetti and Botero, 2018).

15 Stabilization funds for meat, milk & dairy products, cotton, cocoa, sugar and palm have been created. In 2003 crop absorption agreements were replaced by the Mechanism for the Administration of Agricultural Import Quotas (MAC).

16 Total support to agriculture in OECD countries as measured by the TSE has declined from 1.3% of GDP in 1995-1997 to 0.7% in 2015-2017 (OECD, 2018).

17 In accordance with the OECD definition, MPS refers to transfers from consumers and taxpayers to agricultural producers from policy measures that create a gap between domestic market prices and border prices of a specific agricultural commodity, measured at the farm gate level.

18 Junguito *et al.* (2014) estimate that 90% of public funds going to agriculture are in the form of direct subsidies to producers, only 10% provided as "public goods". In Brazil 70% of support is via public goods.

Table 4.

**SINGLE COMMODITY TRANSFERS (AS % OF GROSS RECEIPTS)**

| | 1991 - 1995 | 1996 - 2000 | 2001 - 2005 | 2006 - 2010 | 2011 - 2015 | 2016 - 2017 | Average |
|---|---|---|---|---|---|---|---|
| Rice | 27 | 58 | 57 | 49 | 63 | 57 | 51 |
| Maize | 41 | 39 | 36 | 34 | 30 | 51 | 37 |
| Refined Sugar | 33 | 52 | 49 | 30 | 25 | 12 | 36 |
| Milk | 48 | 52 | 19 | 20 | 25 | 7 | 31 |
| Poultry | 36 | 29 | 11 | 25 | 29 | 2 | 24 |
| Pork | -13 | 15 | 9 | 40 | 30 | 27 | 17 |
| Beef | 6 | 15 | 23 | 13 | 3 | 0 | 11 |
| Oil Palm | 7 | 11 | 25 | 10 | 4 | 5 | 11 |
| Eggs | 1 | 7 | -1 | 13 | 12 | 12 | 7 |
| Coffee | 7 | 1 | 9 | 6 | 8 | 0 | 6 |
| Plantain | 0 | 0 | 0 | 5 | 4 | 7 | 2 |
| Banana | 0 | 0 | 0 | 5 | 4 | 7 | 2 |
| Flowers | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Note: Total value of subsidies and other transfers from consumers/taxpayers to agricultural producers. Estimates include price stabilization funds, commercialization funds, productive alliances and incentives.
Source: OECD (2018) & Perffeti & Botero (2018).

Many highly protected products are important generators of employment, feature that probably strengthens the political influence of these sub-sectors. On the other hand, rice, sugar, poultry and milk weigh heavily in the consumption basket and have a low price-elasticity of demand, providing comfort to producers that their claims for protection are not self-defeating, higher prices leading to lower revenue. The weight of protected products is particularly high in poorest households (close to 25%) and much higher than in several other countries that also provide significant price support to agriculture (Table 5)[19].

[19] García et al. (2018) and Forero and Higuera (2018) found, through simulations of a CGE model, that protection in agriculture and agroindustry, measured from both tariff and non-tariff barriers, induces high costs in terms of economic welfare, especially in the poorest households. Both analyzes consider the fact that protected sectors, such as rice, employ low-income individuals who could benefit from protection, but given the high cost of food, it ends up reducing their well-being.

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Table 5.

**WEIGHT IN THE FOOD CONSUMPTION BASKET (%)**

| | Rice | Sugar | Poultry | Milk | Oils and fats | Total weight | Medical care* | Culture and Recreation* |
|---|---|---|---|---|---|---|---|---|
| Colombia (total) | 6,2 | 1,4 | 4,7 | 5,9 | 3,4 | 21,5 | 0,5 | 1,8 |
| Colombia (poorest households) | 8,2 | 1,5 | 4,9 | 6,2 | 3,6 | 24,4 | 0,3 | 1,1 |
| Mexico | 0,7 | 1,2 | 6,1 | 6,1 | 1,4 | 15,5 | 2,8 | 2,9 |
| United States | 0,9 | 2,0 | 2,5 | 1,6 | 1,6 | 8,5 | 8,5 | 5,7 |
| Japan | 2,0 | 1,1 | 1,4 | 1,5 | 0,5 | 6,5 | 0,4 | 1,0 |
| Switzerland | 0,4 | 0,3 | 3,4 | 4,2 | 2,3 | 10,6 | 15,1 | 8,9 |
| Turkey | 1,5 | 1,5 | 3,6 | 2,7 | 2,2 | 11,5 | 2,6 | 3,4 |

Note: Based on each country's CPI
Source: Authors' calculations.

Rice and sugar are particularly interesting case studies because both have been historically among the products with the highest levels of support, although recently the relative level of the SCT indicator for sugar has declined, and they both involve a multiplicity of actors beyond producers and consumers --the milling industry in the case of rice, the food & beverage industry in the case of sugar. While similarities are interesting, important differences are also worth highlighting. For instance, while sugar production takes place in one region and producers are mostly large landowners, rice is produced in several regions, generally by small farmers who face a concentrated milling industry.

## III. The political economy of protection of some "sensitive products"

The seminal paper on the political economy of trade policy, one that has provided the foundation for numerous studies, is, of course, Grossman and Helpman (1994). According to their model, trade protection is the result of interest groups lobbying politicians through different activities --including political contributions -- which also help maximize politicians' welfare. In this approach, governments are not seen as passive executors of a trade policy that maximizes social welfare but, rather, as actors interacting with organized interest groups to maximize an objective function in which social welfare is but one element. Another important finding is that organized sectors (those with active political lobbying) are more effective than unorganized sectors, and therefore receive higher protection and face lower import penetration. Thus, an organized exporter is able to "buy" an export subsidy while an organized import-competing industry is able to "buy" protection.

Cadot *et al*., (2004) made a contribution that is useful in order to better understand protection throughout the production chain, including the relationship between farmers and agribusiness. The authors extended GH´s original model and introduced the idea that all sectors are organized and have lobbying capacity, which gives the rise to "counter lobbying" by sectors that are not the direct beneficiaries of trade protection. In this scenario, the equilibrium pattern of protection results from the net effect of these opposing forces. However, although different interest groups may have similar lobbying capacity, they also have different incentives to counter lobbying. The authors find that the net political power of fully processed industries is greater than that of intermediate goods and are, therefore, more likely to obtain more protection. This finding provides empirical support to the notion that protection escalates with the degree of processing, both in agriculture and manufacturing. However, the incentives to lobby in manufacturing and agriculture differ, and farmers in rich countries have higher incentive to seek protection –which explains that agriculture is more protected than manufacturing.

There is the perception that food and processing agribusiness companies are few and concentrated and that it is therefore easier for them to organize, while farmers are more dispersed. In such a situation, lobbying by industry should be more effective than that of farmers. On the other hand, based on Olson's (1965) collective action hypothesis large farmers are better at overcoming collective action problems and can be more effective in their lobbying activities. In sum, the protection pattern throughout the production chain is not only dependent on the lobbying capacity of interest groups but also on the incentives for counter lobbying.

With regard to the role of consumers, in the political economy literature, in general, consumers and voters are viewed as passive actors that do not engage in political activities because it is difficult for them to organize and there is little incentive as the returns in such an engagement are low. However, a new stream of literature has found that the general public, consumers, taxpayers and voters, who are affected by agricultural protection, are rather active actors who, if anything, tend to favor these protectionist policies. Moon and Pino (2018) show that the importance attached to national food security, family farms, environmental sustainability and multifunctionality of agricul-

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ture makes the majority of U.S citizens supportive of agricultural protection. In the same vein, Naio and Kume (2011) find that consumers in Japan oppose food imports; their "sympathy" for farmers makes them willing to accept high-priced agricultural products.

Aversion to inequality also explains support for protection. According to Lu *et al.*, (2012) individual preferences over trade policy are shaped by considerations of others' income. Individual citizens and policymakers care not only about how trade policy affects their real incomes but also how it affects others' incomes, supporting policies that promote income equality. Through surveys in China and the U.S. the authors provide evidence that individual policy opinions about sector-specific trade protection depend on the earnings of workers in the sector. They find that, due to inequity aversion, government policies tend to support industries that employ lower-earning, less-skilled workers more intensively.

In what follows and taking into account these key concepts found in the theoretical and empirical literature, we identify the actors involved in the trade policymaking process in Colombian agriculture and then move into the specific cases of rice and sugar. For both sectors we analyze, from a political economy perspective, the determinants of trade policy. In the last section we explain how a more liberalized outcome with respect to rice and sugar as well as other sensitive products was reached in the TPA. The analysis is based on secondary information and on the main issues that emerged from several semi-structured interviews.[20]

## A. Main Institutions and Actors

### 1. Government and the institutional framework

As part of the liberalization process undertaken in 1991, a comprehensive law established that the "foreign trade sector" would comprise a group of public entities and the private sector and created several coordination instances. In the public sector, the Consejo Superior de Comercio Exterior (CSCE) led by the President is the advisory body in charge of defining policies; the MoFT implements them and leads trade negotiations[21]. The CSCE had a preponderant role in the early 90s but has faded over time. Treaties must be presented to Congress jointly with the Ministry of Foreign Relations. Ministries such as Agriculture, Health and the Environment are involved in specific areas.

[20] In Appendix 1 we list all the persons interviewed for this project.

[21] Additionally, the AAA Committee is the technical body where the main recommendations regarding tariff changes, safeguards, TRQs and other commercial measures are taken. These recommendations are subsequently approved by the CSCE.

In the context of the case studies in this paper, a prominent role has been played by the MoA. In sharp contrast to the technical nature of other public agencies, --i.e. the MoF, the National Planning Department, the Central Bank and the MoFT-- the prevalence of career politicians in the higher echelons of the MoA has been notorious. When the ministry has not been headed by a career politician, it has generally been led by an ex-president of one of the sectors´ business association, creating conditions for capture by vested interests. This situation worsened in the last decade due to the increase in the MoA´s budget, partly to execute compensation mechanisms derived from the TPA. The MoA administers significant financial resources, employs a huge number of people and has ample regional coverage. For example, while the personnel of the MoA in 2015 was close to 1000 and almost 5450 under its preview, the MoFT had 300 employees and almost 1243 under its preview: the personnel of MoA and the entire agricultural sector is almost 4 times higher than the personal of the MoFT and its attached agencies . In addition, while the budget of the the MoA and its attached agencies amounted $2,705,424 million pesos in 2017, the MoFT and its attached agencies had $949,561 million pesos: that is, the total budget of the MoA is almost three times higher than the total MoFT and commerce budget (Arbeláez *et al.*, 2019).

Interviews conducted with former officials of the MoFT and academics suggest that the MoA, being highly politicized and generally lacking technical capacity, is easily captured by the private sector. Its views on trade policy have almost always been geared towards protecting importable commercial products rather than opening markets. Apparently, the policy changes that occurred during the first half of the 90s, if anything, empowered the protectionist wing within the agricultural sector.

The 1991 reform created a coordinating instance, the *Comisión Mixta de Comercio Exterior*, made up of the CSCE and private sector representatives. In 1999 it became the *Comisión Mixta de Comercio Exterior y Competitividad*, with the participation of the ministries of Labor, Health & Social Security and representatives of labor unions and academia. According to Javier Díaz, President of Analdex, the Comisión Mixta is rarely convened and coordination is weak. In 2006, during the TPA negotiations, the government created the *Sistema Nacional de Competitividad* with a similar purpose to that of the Comisión Mixta, but with a greater scope in its membership.

## 2. *Business*

Private business can influence trade policy from three different levels: (a) large firms acting individually; (b) business associations at the sector level; and (c) business consortiums having interests in companies operating in different sectors.

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Diverse interests prevail within many sectoral business associations. Three revealing cases are ANDI, ANALDEX and SAC[22]. These organizations, particularly the first two, are comprised of firms and sub-sectors that do not necessarily share a common view with regard to trade policy. SAC is extremely active in lobbying for protection and some of its sub-sectoral associations –i.e. Asocaña, Fedegan, Fenavi and Fedearroz-- have been successful in maintaining protectionist measures.[23] On the other hand, given that in many sub-sectors that do export the domestic market remains its most relevant, even exporting sub-sectors might have a rather protectionist view with regard to trade policy.

Another dimension of how businesses are organized is as entrepreneurial groups –the so-called *cacaos*, or "big-shots", consortium of firms in different sectors with common ownership. In their discussion of compensation mechanisms used by President Gaviria to facilitate the passing of his 1990-1991 reform program, Edwards and Steiner (2008) argue that cacaos negatively affected by certain reforms –i.e. trade liberalization compromising profitability of import-competing businesses— benefited from the privatization of the mobile phone business.[24] Today, large business organizations exert significant control over the media (Table 6). As we discuss later, recently one of these groups played a critical role in derailing the government´s attempt to tax sugar-sweetened beverages.

Finally, the *Consejo Privado de Competitividad*, a think-tank sponsored by private business, interacts with government, private sector, academia and other organizations that promote productivity & competitiveness. It was created in order to articulate the positions of different actors and to advocate for cross-cutting interests rather than particular ones. It has always supported a liberalized and non-distortive trade regime. However, its success in coordinating positions along the productive chains has been rather limited.

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22 ANDI is Asociación Nacional de Empresarios (previously of Industriales); SAC is Sociedad de Agricultores de Colombia; ANALDEX is Asociación Nacional de Exportadores.

23 Asocaña is Asociación Agroindustrial de Caña; Fedegan is Federación Colombiana de Ganaderos; Fenavi is Federación Nacional de Avicultores de Colombia; Fedearroz is Federación Nacional de Arroceros. In section III.B and III.C we will refer in some detail to Fedearroz and Asocaña, the most important business associations for the products we have selected as case studies.

24 Rettberg (2003) provides evidence that although in 1996 it became evident that President Samper (1994-1998) had received campaign contributions from a drug cartel, he was able to remain in office thanks to support from the *cacaos*.

Table 6.

**THREE "CACAOS" (BIG SHOTS) PLAY AN ACTIVE ROLE IN THE MEDIA**

| Conglomerate | Sectors | Media |
|---|---|---|
| Luis Carlos Sarmiento Angulo | Finance<br>Agro industry: rice seeds, cattle, rubber, Palm Oil<br>Infrastructure<br>Hotel industry<br>Mining<br>Energy and gas | El Tiempo<br>Portafolio<br><br>ADN<br>City TV |
| Grupo Santodomingo | Manufacturing<br>Finance<br>Transportation industry<br>Agro industry: cereals and oilseeds<br>Commerce | El Espectador<br>Caracol TV<br>Blu Radio |
| Organización Ardila Lulle | Agro industry: refined sugar, biofuels, agro chemicals<br>Beverage industry<br>Automotive industry<br><br>Sports | RCN Televisión<br><br>RCN Radio<br>NTN 24<br>Diario La República<br>Mundo FOX |

Source: Author's research.

### 3. *Labor unions and Dignidades Agropecuarias*

On trade matters, while labor organizations opposed the 1990-1991 liberalization effort, they were not vocal actors (Edwards and Steiner, 2008). However, the TPA negotiations drove them to organize two national strikes. Their actions, jointly with U.S. labor unions, delivered a side agreement on labor rights protection but did not affect the liberalization outcome. While unionization in agriculture is low (less than 3% in 2016), the politicization of agriculture has become significant. In August 2010 some 4000 rice producers convened in order to "protest for the dignity of rice producers ", demanding higher prices, limits to imports and contraband, and resources for R&D. Soon after, and with the intention of establishing the *Movimiento por la Dignidad Cafetera*, in 2012 some 700 coffee growers gathered in Riosucio, Caldas. In 2013 thousands of farmers took part in one of the largest protests in memory, the National Agriculture Strike. It was called to reject the TPA and denounce lack of government support, poor

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working conditions, low prices and the strengthening of the peso.[25] In the context of the strike, the National Agriculture Dignity Movement was established.[26] If anything, the *Dignidades* phenomenom suggests that traditional trade unions had become quite ineffective. Protests and strikes are now common. Of note is the fact that in 2017 the *Dignidad Arrocera* demanded the re-negotiation of the TPA, fair prices, incentives for storage, and attention to the high costs of production.

## 4. *Congress*

Congress consists of two chambers, the Senate and the House of Representatives. Senators are elected in a nation-wide district, Representatives in regional ones (under proportional representation). The over-representation of departments were agriculture and cattle-raising is important is evident in the Senate. In the 2014 elections, Cordoba and Sucre, where cattle-raising is dominant, provided 5 and 6.6 senators per million inhabitants, respectively. This is in sharp contrast with Bogotá. While 20% of the population lives in the capital city, in the 2014-2018 Congress only 8 senators (out of 102) were born there. Interestingly, departments with an agricultural vocation have higher participation in congressional than in presidential contests. In 2014, 64.4% of voters in Sucre participated in the elections for Congress, only 38.8% in the Presidential contest (just a few weeks afterward). In Córdoba the relevant numbers are 58.3% and 36.1%. In contrast, Bogotá voters participated more actively in the presidential election (48.3%) than in the one for the Senate (35.5%).

Congress has the authority to enact laws related to the regulation of foreign trade, the modification of tariffs and rates, and the customs regime. Through so-called “Leyes Marco” (*Framework Laws*), it defines the objectives and criteria to which the government must abide when drawing up bylaws. Regarding an FTA, it exercises political control at two moments. During the negotiation phase it may require ministers and the negotiating team to report on the progress of negotiations. When the treaty has been signed, it is submitted to its approval, not having the authority to modify it. The Constitutional Court, in turn, has to opine that no commitments agreed to in a treaty are contrary to the constitutional order. According to some interviews, discussions in Congress regarding the substance of FTAs are

[25] In 2014, after conversations with the MoA, the Dignidad Arrocera movement managed the establishment of a mandatory price range for millers, differentiated by region.

[26] Comprised of Dignidad Arrocera (rice), Dignidad Cacaotera (cocoa), Dignidad Papera (potatos), Dinigdad Cafetera (coffee), Acopaneleros (brown sugar), the Cordoba and Mojana’s Salvation Movement and the Movimiento por la Defensa de la Ganaderia (cattle raising).

generally weak. However, as discussed later, the role of Congress in trade agreements intensified with the TPA, where specific participation channels were put in place[27].

### B. *The political economy of rice protection*

Rice has been among the products with the highest levels of protection through the PBS and on account of minimum guarantee prices. Rice constitutes an interesting political economy case study in which the sector´s influence arises from there being thousands of medium and small growers throughout several regions who capture most of the price differential generated by the tariff on paddy rice. However, it is worth noting that protection to growers explains only part of the difference between the world price and the price paid by Colombian consumers. Indeed, the oligopolistic nature of the milling industry, coupled with the very high tariff on white rice, allow millers to fully transfer to retailers the cost of the protection afforded to rice growers. Consumers pay prices that account not only for the protection given to growers and to the costs associated with an oligopolistic and heavily protected milling industry, but also for the costs arising from an inefficient commercialization chain. This characteristic of large margins between the last stage of the production process and the final consumer is inherent to the commercialization of diverse agricultural goods in Colombia. In 2014 the *Misión para la Transformación del Campo* estimated margins of more than 80% in some products. It is worth noting that in some agricultural sectors protection is often requested so as to compensate for the low participation that producers have in the price paid by consumers. This also applies to the case of rice, were, in addition, it is argued that growers face a highly concentrated milling industry. The price differential between the mill and the final consumer suggests that there is scope for producers and millers to appropriate an additional portion of this margin, if they are able to reach the final consumer. Fedearroz´s strategy to participate in industrial and commercialization activities points in that direction.

#### 1. *Sector characterization*

According to data from the MoA, in 2015 rice accounted for 5% of total agricultural production and 12% of the harvested area, the fourth product in importance after coffee, palm oil and corn. Data from the 2016 census undertaken by Fedearroz and other sources illustrate the main characteristics of the sector:

27 The relationship between the private sector and Congress is quite opaque. In spite of several attempts, Congress has yet to regulate lobbying activities. There is no registry of lobbying firms and no well-defined rules regarding issues such as conflict of interest, although some transparency has been achieved in the critical topic of private sector financing of political activities.

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- Most of the rice cultivated is mechanized (570.802 Ha in 2016), with rain-fed rice being the most widespread form of cultivation while manual rain-fed rice has a marginal participation (15.030 Ha in 2013).

- There are more than 16.000 mechanized rice producers. In 2013 there were 16.971 manual dry rice producing units, with a production level of around 27.000 tons –i.e. bread-to-catch crops with very low productivity.

- Although there are large-scale crops, small & medium producers predominate. Average size of a production unit is less than 10 hectares, with some 63% of producers as tenants.

- There is great regional disparity in productivity; importantly, between 2007 and 2018 output expanded in areas of relatively low productivity (Table 7A).[28]

- Colombia´s average yield for 2000-2017, while higher than the world average, is significantly lower than that of Peru and the U.S. (Table 7B).

- Import penetration has been low, with an average of 7% before 2015 and of 12% for 2015-2017 (Table 7C). It is expected that imports will increase as a result of market access commitments derived from the TPA (see Section D).

Main actors in the rice value-added chain are growers, mills and a heavily populated distribution chain[29]. Rice growers are members of Fedearroz and mills are part of Induarroz, which operates under ANDI´s umbrella[30]. This productive chain is characterized by a high concentration in the milling activity. There were eight important mills in 1996, down to only two today (Molinos Roa and Arroz Diana), with a few of small and medium size[31]. According to data from Superintendencia de Sociedades, in 2018 Molinos Roa accounted for 33,4% of total sales of the rice milling sector and Arroz Diana for 32,8%.

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28 According to Fedearroz, the decline in yield is explained by the increase in sowing in the rain-fed system, which is less productive; by an expansion of the crop to less suitable areas; by a greater proportion of tenant producers which have low investment levels; and a shortage of combined machines.

29 In addition to traditional retailers, some producers and millers are occasionally involved in wholesale distribution. In some cases mills sell rice to packaging companies who, in turn sell to the commercialization channels. In other cases, mills pack and sell to the commercialization channels themselves.

30 15 companies from the miller sector are associated in Induarroz.

31 In 2015 Molinos Roa merged with Flor Huila, two large companies belonging to a family group, and the Roa Flor Huila Organization was established.

## Table 7.

### RICE PRODUCTION, YIELDS AND IMPORTS

### A. Yields by Region

| Region | Weight in production 2007 | Yield 2007 (ton/ha) | Weight in production 2018 | Yield 2018 (ton/ha) |
|---|---|---|---|---|
| Huila | 9% | 6,9 | 6% | 7,2 |
| Tolima | 31% | 7,6 | 20% | 7,2 |
| Norte de Santander | 6% | 6,3 | 6% | 5,9 |
| Casanare | 13% | 5,5 | 34% | 5,7 |
| Meta | 17% | 5,6 | 14% | 4,0 |
| Others | 24% | 3,5 | 21% | 4,0 |
| **Colombia*** | **100%** | **4,0** | **100%** | **4,4** |

### B. Yield evolution by country

| | Rice | |
|---|---|---|
| | Average Yield | Importance in World Production |
| Country | 2000-2017 | 2000-2017 |
| China | 65,1 | 22,3% |
| United States | 78,7 | 1,1% |
| India | 33,2 | 16,6% |
| Brasil | 43,1 | 1,3% |
| Peru | 71,5 | 0,3% |
| Colombia | 46,9 | 0,3% |
| **World Average** | **36,7** | |

### C. Paddy rice penetration (tons)

| | Production | Imports | Imports/Production |
|---|---|---|---|
| 2000-2004 | 2.276.103 | 126,686 | 6% |
| 2005-2009 | 2.202.021 | 151,893 | 7% |
| 2010-2014 | 1.908.810 | 113,875 | 6% |
| 2015-2017 | 2.396.465 | 296,521 | 12% |

Source: A) Agronet – MADR; B) Faostat; C) Fedearroz & Agronet.
Note: Yields are defined as tonns per hectare.

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## 2. *The political economy of rice trade policy*

Since the launching of *Apertura* in 1991, rice growers have managed to persuade the government to introduce protectionist policy measures, including the signing of a voluntary agreement with Venezuela in 1992 in order to limit exports (Jaramillo, 2002) and the establishment in 1996 of a regime to control imports. Rice was covered by the PBS from 1991 till 2003, when the mechanism was replaced by an 80% fixed tariff. The average tariff resulting from the PBS had been 52.8% between 1998 and 2003. In 2004 the tariff was increased and several phytosanitary NTBs were introduced.

Until 2005 the rice sector was very active in requesting safeguards against Andean countries since rice has a tariff preference of 100% with those countries. During 1994-2004 rice stands out as one of the products with the highest number of investigation applications for dumping and safeguards (Reina and Zuluaga, 2005). Defensive measures imposed at that time were concentrated in the Andean market, most imports coming from Ecuador. In recent years non-tariff measures and non-compliance by Colombia with commitments with Andean countries have been the mechanisms used to restrict imports.[32]

If local prices are compared with those of other producing countries, it is clear that tariffs have had an impact, particularly after 2006 (Figure 2A), coinciding with having gone from the PBS to the 80% fixed tariff. On average, between 2009 and 2018 the differential between international and domestic prices for paddy was 76%; for white rice it was 108% when compared with the U.S. and 139% when compared with Thailand (Figure 2B-5C). This comparison shows a larger differential for white rice, indicative of the relative ability of millers to capture rents. For both paddy and white rice, the differentials have been falling on account of the downward trend in domestic prices (Figure 2D), in part the consequence of the increase in production and more recently because of imports from the U.S.[33]

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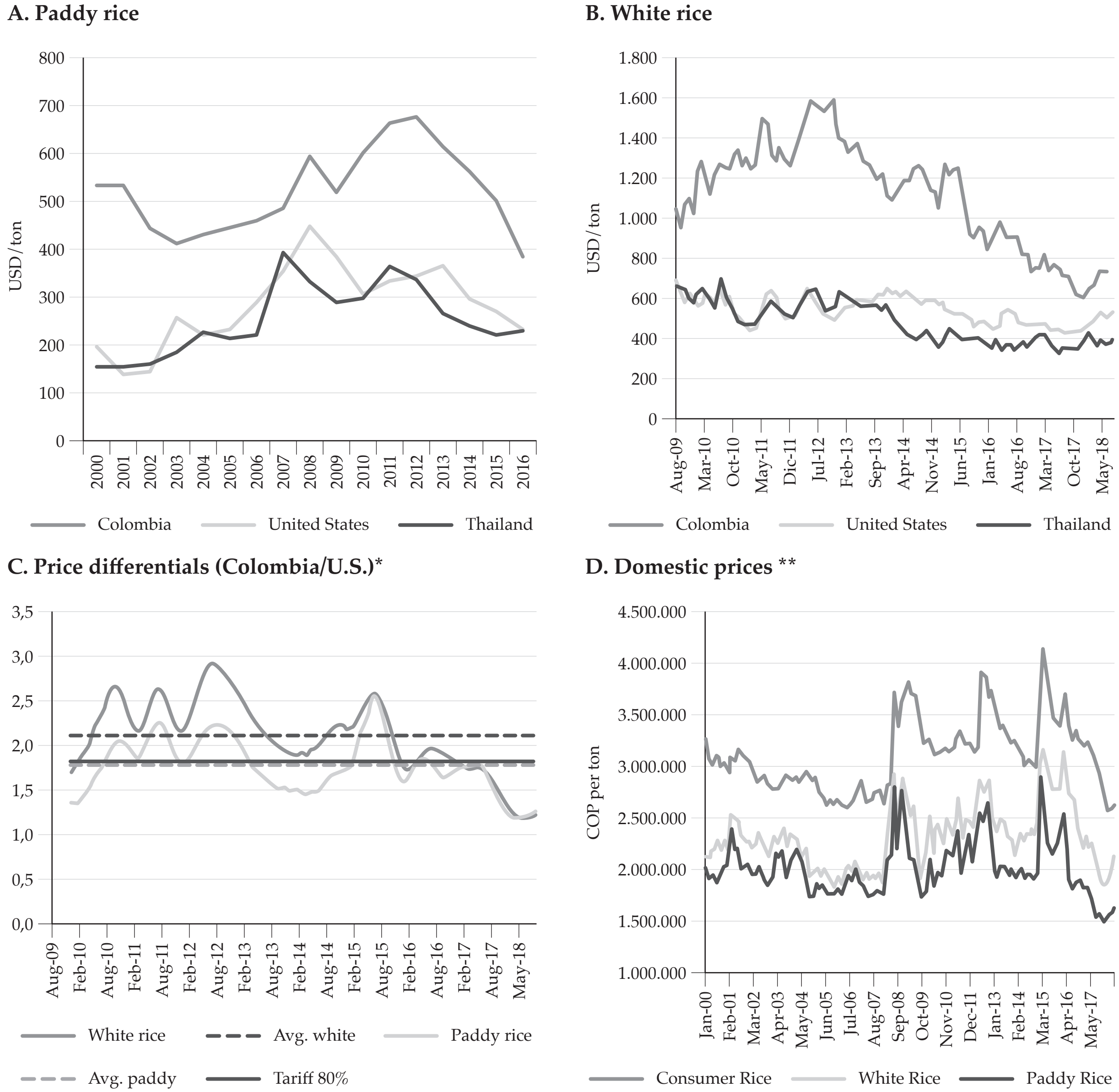
32 Colombia has been challenged for breaching the access commitments in trade agreements with the Andean countries and Mercosur. Colombia has limited the issuance of phytosanitary certificates to imports from Ecuador and Peru, in effect blocking access to purchases from these countries. In 2017 the Andean Court of Justice allowed Ecuador and Peru to impose a 10% tariff on Colombian exports as retaliation for the country's non-compliance. Once the Andean countries retaliated in products from other industrial sectors, a very sensitive issue for the MoFT, the practice had to be corrected. Appendix 6 in Arbeláez *et al* (2019) shows the NTBs that Colombia applies to rice, according to the methodology developed by UNCTAD.

33 Although the volume of tariff quotas that come from U.S., and those recently approved for Ecuador and Peru are still not significant compared to national production, our intuition is that when the market is opened, smuggling also increases. The latter can be quite significant, presumably affecting prices.

**Figure 2.**

**RICE PRICES (IN CONSTANT TERMS)**




*Note: All prices are expressed in white rice equivalent.*

** Five month moving average of the original series.*

*** Consumer prices are an average of white rice prices in supermarkets, stores and market places.*

Source: A. FAO not adjusted by PPP), B, C, D. Authors' calculations based on Fedearroz – Creed rice

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There is a strong controversy within the rice value-added chain, one that does not focus on trade issues. Growers seek tariff protection because the productivity of some of them is low, in a context in which the milling industry is equally protected and able to transfer tariffs to consumers. The milling industry has clearly expressed that its main interest is that the market be allowed to operate without government intervention as it considers that minimum guarantee prices do not allow them to take advantage of price changes arising from market conditions, while sending signals inducing growers to increase production which does not result from changes in productivity, generating a vicious circle in which the government must eventually intervene with more support, including for storage and commercialization. As shown in Figure 2C, since 2015 the differential between the domestic and the U.S. price has been falling for both paddy rice and white rice, while the difference between the two ratios has been closing. This can be explained by the fact that the very high domestic prices for paddy that prevailed until 2016 eventually delivered a significant domestic over-supply and later a decline in prices.

Rice growers often argue they face very adverse conditions owing to the oligopolistic structure of the milling industry, to which at certain junctions they add the impact of smuggling, reinforcing their case for protection. In 2004 the competition authority, the *Superintendencia de Industria y Comercio* (SIC) ascribed to the MoFT investigated several mills for infringement of competition, allegedly by having entered into agreements to fix the price of paddy rice[34]. The investigation ended in 2005 with the imposition of hefty fines. Later, in 2012 the SIC opened an investigation to Roa and Florhuila mills for influencing the consumer price of white rice and in 2015 imposed a fine for that practice. The entity established that mills under investigation granted discounts to distributors and retailers of white rice and forced them *not* to transfer those discounts to the final consumer, under the threat of ending their commercial relationship. Evidently, the milling industry exercises the power derived from its structure, and this is used by growers as an argument to command "support for the small guy".

Beyond this controversy in the productive chain, what stands out is that growers and millers have managed to obtain high levels of protection. In this process, growers have been particularly influential, with millers adopting a more passive stance, presumably because the tariff structure for rice has no impact on their effective protection and on account of their ability to transfer any inefficiencies arising from protection to con-

[34] Indeed, the constitutional mandate of the SIC is to guarantee and protect competition.

sumers. Interviews with academics and former government officials evidenced two sources of influence from growers. The first arises from the structure of the sector (small & medium size producers scattered throughout the country), representing the potential threat of paralyzing vast regions through strikes. In fact, since 2010 the *Dignidad Arrocera* movement has opted for *de facto* means to express their views and demands and since 2014 rice growers have carried out several strikes to oppose competition from the U.S. and complain about low prices. During the first semester of 2018, under the threat of another strike, the government entered conversations regarding the adoption of a minimum purchase price. At the beginning of the Duque government in August of 2018 the issue was once again discussed; the government and producers finally agreed to adopt a plan to reduce production instead of adopting a minimum price, due to the recovery of producer prices with respect to 2017.

Another source of influence of rice growers has to do with the so-called “revolving door” between the producer´s association and government. Several ministers of agriculture had been presidents of production associations, including Fedearroz, and ministers of agriculture are a particularly important channel of influence for large producers. Of course, Congress, given the agricultural vocation of many of its members, has always defended the interests of rice farmers, although most of the interviewees agreed that the role of Congress is secondary to the channels of influence stemming from the relationship of Fedearroz with the MoA and by movements such as *Dignidades*.

The increase in the MFN tariff rate undertaken in 2003 is an interesting episode to illustrate the power of Fedearroz, with the support of the MoA. In December of 2003, almost simultaneously with the start of the TPA, Colombia modified the tariff for rice and an annual tariff quota of 75,118 tons was introduced. The measure established a fixed MFN tariff of 80% for imports outside the quota, while the quota would enter with the tariff resulting from the PBS[35]. In 2003 the MoA found, in the country´s agenda to comply with WTO commitments, a window of opportunity to increase protection. Colombia had to modify its crop absorption policy in order to adapt it to WTO regulation. The change consisted in establishing a Mechanism for the Administration of Agricultural Import Quotas, a preferential tariff quota providing more certainty and transparency to importers. In doing so, Colombia could modify the tariff on rice and justify the change before the FTAA countries. The MoA presented the measure to the *Comité de Asuntos Aduaneros y Arancelarios* a few weeks before FTAA negotiations began.

[35] In 2005 the MFN tariff of the quota was set at 70% and reduced to 0% starting in 2008. The extra quota tariff MFN remains at 80%. Currently, this tariff treatment is different only for the U.S. under the TPA and for Andean countries under the CAN.

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According to some of our interviewees, the argument with which the MoA initially justified the measure had to do with the fact that the PBS was not fulfilling its protection purpose. However, other interviewees pointed out that this measure was part of a defensive strategy that the MoA orchestrated in 2003, presumably with the approval of some sectoral business associations, to increase tariffs before having to deliver a base tariff in a possible FTAA negotiation at that time, or with the U.S. later, in case the FTAA initiative collapsed. Juan Ricardo Ortega, Deputy MoFT in 2004, mentioned that he attended a coordination meeting of Andean countries in Lima in which Colombia´s MoA proposed reforming tariff policy not only for rice but for agriculture in general, with a markedly protectionist view.

The FTAA eventually stagnated and in 2004 Colombia began negotiating the TPA with the U.S. on the basis of a new (higher) tariff for some agricultural products, including rice. Adopting the maximum consolidated level was a discretionary decision by Colombia; as expected, this reform was badly received by the U.S. negotiating team which expressed its annoyance for what it described as a "re-armament for the negotiation". In practice, this was an ex-ante compensation mechanism that certainly diminished domestic opposition to the TPA. For rice producers this measure was a very important achievement. Fedearroz's position is reflected in a statement by its president to the *Vanguardia Liberal* daily in 2015: "the removal of that 80% import duty would ruin everything that is being implemented to catch-up and compete openly in international markets."

## C. *The political economy of support to sugar*

Sugar protection has been the result of well-organized producers/farmers capable of effectively lobbying the government and politicians through, among others, campaign contributions and political support, and other groups of interest less organized and weakly counter lobbying producers.

### 1. *Sector characterization*

Colombia is among the main producers of sugar, but its output (2.3 million tons in 2016) is well below that of the two major players: Brazil (39 million tons) and India (25 million tons). Sugar cane has the largest volume share in total agricultural production (24.812.000 tons in 2015, almost 50% of agricultural production) and represents 4.7% of total harvested area (206.567 hectares in 2015), the sixth product in importance by area after coffee, palm oil, corn, rice and plantain. According to FAO, Colombia, together with Peru, is among the countries with the highest yields per hectare.

Production is concentrated in the department of Valle del Cauca. Historically, mills cultivated the product in large areas they owned. By the 1990s, however, they had adopted a scheme based on suppliers. Today, 25% of the land planted with sugarcane belongs to mills, the remaining 75% to cane growers.[36] The mills use a contract that allows them to exert control of around 50% of the cultivated area (Cepal, 2002).[37] The political clout of the sector is enhanced when thousands of small & medium size suppliers rather than a few big landowners are involved in production. In 2017 some 56% of production was sold in the domestic market, 27% exported and 17% destined for ethanol production. In interviews for this study it became clear that exports and biofuels are important to manage surplus production.[38] More than 50% of output sold domestically is consumed by households, the rest is used as raw material in the food & beverage industry. The sugarcane agro-industrial chain includes 2750 growers, 13 mills, 6 bioethanol distilleries, 12 electric power cogeneration plants, 2 paper producing companies from sugarcane bagasse and 1 sucro-chemical company. In 2017 the main export markets were Peru, U.S., Ecuador and Chile.

Large economic groups own several sugar mills and concentrate around 65% of sales. They include the Manuelita group, a *multilatina* organization with interests in sugar, bioethanol, palm oil, fruits & vegetables, and aquaculture; the Riopaila group, with businesses in sugar, alcohol and palm oil; and the Ardila Lulle Group, leader in the production of soft drinks and vertically integrated with three of the largest sugar mills. This last group did not originate in the sugar business. In a move much praised by the sugarcane business association, the Ardila Group invested in this sector in order to access the main raw material for its soft drink industry. Additionally, this group has ample presence on TV, radio and the written press (see Table 6).

Since 1959 sugar cane producers are represented by the Sugar Cane Producer´s Association (Asocaña). Its activities include advising affiliates on market, social, legal and economic issues; coordinating the sector’s position in trade negotiations; and managing the Price Stabilization Fund, FEPA[39]. It is composed of all the mills and a significant number of growers. The association´s activity has allowed the sector to become one of the most organized, very active in research & technology

[36] According to Asocaña, the average size of farms is 63 hectares, 69% having less than 60 hectares.

[37] These contracts include schemes like lease agreements, accounts in participation, contracts of suppliers in administration, generating medium-term relationships with cane growers.

[38] Colombia has put in place a policy geared towards fostering the production and use of biofuels – diesel from palm oil or ethanol from sugar. Notwithstanding the fact that this policy has merit along several dimensions –including environmental issues and the diversification of energy sources—it is quite evident that the introduction of the biofuels policy in the first half of the previous decade coincided with the dire situation of the sugar industry at the time.

[39] For details on FEPA see Appendix 3 in Arbeláez *et al* (2019).

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through Cenicaña (R&D) and Tecnicaña (training & technology transfer)[40]. The sector is recognized for its contribution to progress in its area of influence (Arbeláez *et al*., 2010, Nuñez, *et al.*, 2018).

## 2. *The political economy of sugar trade policy*

Mainly on account of the severe distortions that characterize the international market, Colombia´s sugar industry has developed in a highly protected environment. These distortions originate mainly from large producing countries that, on account of their support policies, generate huge supply surpluses. In addition, the international market operates under a complex system of quotas in most importing countries that, at certain junctures, make it difficult to absorb these surpluses. As was described above, sugar has been covered by the Price Band System and also benefits from the FEPA. Analysts and the food processing industry have criticized its protectionist bias. At the center of the debate is the timeframe with which the price band adjusts to reflect global price trends --floor and ceiling prices of the band are averages for the previous 60 months. In the opinion of sugar producers, the mechanism does not isolate them from international price signals; those in the downstream of the productive chain think otherwise.

Agricultural Law of 1993 created Price Stabilization Funds, FEP´s, with the purpose of promoting exports by compensating producers (in this case the mills) for the differential between the domestic and the international price, the former including tariff protection, thereby making them indifferent as to selling in either market. FEP´s obtains funds from producers during favorable market conditions (defined as "cessions") and provides them with "compensations" when conditions are adverse. An important criticism laid on these mechanisms is that their operation influences market conditions to the extent that they can be used to exchange sensitive information among producers. In fact, this was one of the central issues in the competition authority´s 2012 investigation of FEPA. In 2016 some adjustments were made to FEPA´s information management policy. As established by the Agricultural Law, FEPA has a steering committee conformed by the MoA, the MoFT, 7 members represent sugar producers and 4 cane growers.

Some of our interviewees expressed the view that although the PBS and the stabilization funds

[40] In 1961 several of the mills joined to establish Ciamsa, a company dedicated to the international commercialization of sugar. Dicsa, which is no longer in operation, commercialized sugars within the country for uses in the animal feed industry, by liquor producers and in the sucro-chemical industry.

were designed as transition mechanisms in order to stabilize prices rather than to restore protection, the estimation methodologies and parameters actually used were adapted to meet both stabilization *and* protection objectives. Besides, as in other sectors, sugar has numerous NTBs which not only increases prices but, in some cases, virtually close the market.[41] An example in this regard was the requirement, in place during 2009, mandating that all sugar imports be done through the port of Buenaventura (in the Pacific Coast), making imports from Brazil virtually impossible.

To respond to the food processing industry´s complaints regarding the anti-export bias of the tariff policy, in 1993 the sugar mills created the joint exports mechanism according to which mills sell sugar to the food processing industry at international prices (i.e. without tariffs) if it will be used in products destined for exports. However, according to the food processing industry, this mechanism only attacks part of the problem. Products like sweets, cookies and chocolates that are produced for the domestic market must still use sugar purchased at a (much) higher price than the international price. This affects their competitive position vis á vis imported final products, in as much as the latter are not covered by the price band and were liberalized in FTAs signed by Colombia. Trade policy for sugar has been managed with the same criteria used for other products of commercial agriculture, even though sugar is an exportable good. While the tariff resulting from the PBS has fulfilled its stabilization purpose (in times of rising international prices the tariff is reduced, and vice versa), in some instances it has reached levels close to 100% (Figure 3).

When comparing the international price with an estimate of the domestic price ex-mill (which considers the tariff resulting from the PBS), it is evident that there is a differential between the two, which has been expanding especially since 2011 (Figure 4).

[41] For details on NTBs see Appendix 7 in Arbeláez *et al* (2019).

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**Figure 3.**

**WHITE SUGAR INTERNATIONAL PRICE AND COLOMBIA'S TARIFF RATE**


Source: Asocaña.

**Figure 4.**

**DOMESTIC AND INTERNATIONAL SUGAR PRICES**


Source: Asocaña. Domestic price is an Ex-mill price of a FEPA survey

For the last two decades, the impact of raw materials prices covered by the PBS on the competitiveness of the food industry has been the subject of a heated debate between the actors in the different productive chains and between the ministries of agriculture and foreign trade --the former taking sides with the agriculture sectors, the latter supporting the enhancement of competitiveness of the value chain. In the case of sugar, a key element in this discussion is its share in the cost structure of the sweets, confectionery and chocolate industry, a topic over which there is no consensus.[42] As will be seen in Section D, this dispute has been present in trade negotiations, particularly during the TPA negotiation.

The productive chain of sugar-confectionery, sweets and chocolates illustrates a political economy game involving powerful actors: a sugar industry that exhibits high yields and a processing industry which is among the most dynamic in exports, with significant growth since the mid 90s.[43] The controversy within this production chain shows that the interests of sugar mills have generally prevailed on account of: i) the importance of sugar for socio-economic development of Valle del Cauca. This has been recognized in the sector´s impact assessments as well as in Congress, where it has been highlighted by left-wing senator Jorge Robledo when referring to the fines imposed by the competition authority to Asocaña and sugar mills and during the debate on the tax on sugar-sweetened beverages (more on both later); ii) the ties that sugar mills have with the political class on account of campaign financing; and ii) the fact that there are very important firms, such as Postobon, that are vertically integrated with sugar mills, therefore with low incentives to counter lobby.

Having said this, measures have been adopted to address some of the most salient distortions. Since 2015 some aspects of FEPA´s operation and of the methodology for calculating cessions/compensations have been reviewed as a result of the fines imposed on the industry. In 2015 the government established a 70% ceiling on the tariff resulting from the PBS. As a result of this decision, the

42 Espinal *et al*., (2005) mention that sugar has a 26% share in the cost of candies. Leibovich (2014) presents information based on the 2007 input-output matrix according to which intermediate sugar purchases in confectionery represent 19% of production costs and 10.9% in chocolates. Piedrahita and Reina (2016) indicate that in the case of Nutresa –one of the most important downstream producers-- sugar´s participation in costs is 30% for chocolate for hot drinks, 20% in sweet cookies, 10% in ice cream and 8% in chocolates. Information provided by Asocaña gives account of a sugar participation of 6.95% in the cost structure of the sugar and chocolate sector, based on the 2009 I-O matrix. Asocaña also has made its own calculations for some products in which the sugar share in costs does not exceed 16%.

43 Within the agro-industrial exports group, confectionery products are particularly dynamic. Sweets and chocolates, which represented 1.8% of agro-industrial exports in 1991-1995, reached 8.8% in 2011-2015 (Perfetti, *et al*., 2018).

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resulting tariff has fallen from an average of 82% in 2015 to 55% in 2018. Despite these changes, in the interviews we undertook it became evident that the processing industry not vertically integrated considers that sugar producers were able to maintain their privileged conditions at the expense of industry, whose expectation is to have domestic prices that follow much more closely the international price.

### 3. *Episode. In 2015, the competition authority fined Asocaña and 12 mills for cartelizing in order to block imports and ordered a revision of FEPA*

**Main actors:** The Superintendence of Industry and Commerce (SIC),); MoA; Asocaña, Ciamsa, Dicsa and 12 sugar mills under investigation; firms requesting the investigation.

According to the SIC[44], in 2010 the Deputy MoFT referred a letter from manufacturers of *bocadillo* (a popular artisanal sweet) complaining about the negative impact on their activity of the sharp increase in sugar prices and the insufficient supply of the raw material. Later, Coca Cola FEMSA, Bavaria, Nestlé, Bimbo de Colombia, Compañía Nacional de Chocolates, Compañía de Galletas Noel, Meals and Casa Luker --the most important national and multinational companies in the productive chain-- requested an investigation of the sugar market on account of what they claimed to be anti-competitive practices. The claimants argued that FEPA´s operation was going beyond determining cessions/compensations and was in effect being used to restrict competition.

In 2012 an enquiry was formally opened, under the following charges: (i) Asocaña and 12 mills were investigated for entering into an agreement to assign production quotas; (ii) Asocaña, Ciamsa, Dicsa and 12 mills were investigated for entering into an agreement to prevent or obstruct the entry of third parties to the market. The enquiry concluded in 2015 with the imposition of fines for corporate cartelization with the purpose of obstructing or restricting the entry of third parties to Colombia´s market.[45] The SIC found evidence that imports from Bolivia, Guatemala, El Salvador and Costa Rica had been restricted. In addition, it ordered a review of FEPA in order to ensure that it did not serve as an instrument to regulate production quotas or supply in the local market.

What is interesting for our purposes is that although this episode did not have an impact on the PBS, it touched on two key aspects. First, the restriction (and for all practical purposes, the im-

44 Resolution 5347 of 2012.

45 Resolution 80847 of 2015, pg 4 and 187.

possibility) to import on account of binding NTBs; second, the effect that FEPA had on regulating supply. While the investigation did not have a direct impact on sugar prices, it brought to the forefront the debate on the conditions of competition in the market and set a precedent for the operation of other stabilization funds, some of which, like the one for palm oil, have also been questioned in the same sense as FEPA.

After the imposition of fines, the methodology for estimating stabilization operations was modified and an information management policy was adopted. Both reforms were developed within the framework of the FEPA Steering Committee. The information management policy discriminates information as public, semi-private, private and reserved, and establishes the conditions for its delivery and dissemination. In the interviews we undertook it became evident that the processing industry does not perceive significant corrections of the problems that have characterized this market.

This episode illustrates how different actors approach the political economy game. Plaintiffs managed to transfer part of the debate to a technical area. Although the demand was not related to price bands, it touched on the topic of prices in the domestic market and on FEPA´s impact over it. In addition, plaintiffs took the issue out of the sphere of business organizations, several of our interviewees having pointed out that ANDI had not been effective in finding a solution to the conflict among the actors in the value-added chain.

Within the government, the issue of value-added chains has been a matter of much debate between the ministries of agriculture and foreign trade. According to entrepreneurs we interviewed, while the MoFT generally has the upper hand on technical issues, on account of political considerations the MoA usually manages to impose its point of view. Bringing the debate to the SIC, broke with that dynamic. Asocaña and the sugar mills investigated questioned the SIC for favoring the interests of large economic groups and multinational companies. The SIC replied that obstructing imports impacted consumers --intermediate or final-- and that its mandate was to promote efficiency. The composition of the plaintiff group, including multinational corporations, was convenient to address an episode that reflected the difficult relationship among different actors in the production chain. Producers sought support from the MoA in explaining the nature of the FEPA and questioned that public officials, who act as members of FEPA´s Committee, were not investigated. Additionally, they challenged the SIC´s jurisdiction to investigate FEPA, a government intervention mechanism. The SIC pointed out that although it did not have authority to fine FEPA administrators, it could order that its operation be amended.

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### 4. *Episode: tax on sugar-sweetened beverages*

Although this episode is not directly related to trade policy, we analyze it in order to illustrate the mechanisms of influence of the sugar industry.

**Main actors:** MoH, MoF, Congress, the soft drinks industry[46], the media, sugar cane producers, sugar mills and ANDI.

Within the context of the 2016 Tax Reform, Colombia´s MoH and MoF raised the possibility of taxing sugar-sweetened beverages. The reform contemplated applying a $300 tax per liter of sugar-sweetened beverage, approximately 20% of its commercial value. The purpose of the tax was to reduce consumption while generating revenue for the health sector. The discussion regarding this tax was quite heated; the sugar-sweetened beverage industry firmly opposed it and the project did not even reach the floor of the Congress.

Reputed scientists and public health academics supported the proposed measure. On the other hand, opposition to the tax was relentless and included the soft drinks industry, sugar mills, sugarcane producers and large trade associations such as Fenalco (representing the retail sector) and ANDI (representing manufacturing). Those in opposition argued that taxation would reduce sales and profits of sugarcane growers and retailers and would directly affect the production chain, with direct implications on output and employment. They also argued that public health issues such as obesity and overweight are due mainly to lack of exercise rather than to sugar consumption.

Even before the tax was included in the initial text of the tax reform proposal, various stakeholders were lobbying against it. The carbonated beverage industry met with MoH Alejandro Gaviria on various occasions, voicing the argument that taxation would have severe negative consequences on the industry[47]. It is worth mentioning that, as was reported by the NY Times, neither Coca Cola nor Pepsi visibly opposed the tax, leaving the spotlight to Postobon.[48] U.S. companies, rather than taking a lead on account of supposedly "carrying a big stick", stood on the side-lines as "free-riders" of the strong opposition undertaken by a locally-owned and very powerful economic consortium.

[46] Colombia´s soft drinks market is dominated by two groups. The Ardila Lulle Group owns 5 brands that in 2017 controlled 50% of the market, with Postobon alone having a 26% market share. Its main competitor, CocaCola – FEMSA, is foreign-owned and in 2017 had a 42% market share.

[47] A small group of economists and public health experts supported the industry's lobbying against the tax.

[48] https://www.nytimes.com/es/2017/11/13/colombia-impuesto-bebidas-azucaradas-obesidad/.

Lobbying against the tax increased after the government submitted draft legislation to Congress. In early December 2016 Congress summoned a public hearing in which various senators, from different political parties and ideologies, argued against the tax. Some supported the soft-drinks industry, others sugarcane producers and several the labor unions. Once the MoH finalized his presentation of the proposal, a member of congress told him that “I have never in the history of the Congress witnessed such strong lobbying as the one against this reform”. Later that night, the Minister would be informed that the tax had been removed from the tax reform proposal.[49] Indeed, in a previous meeting held by MoF Cárdenas with the speakers of Congress regarding the entire tax reform proposal, there was a unanimous and inflexible opposition to the sweetened-beverage tax and members of congress conditioned their support for the reform package to the removal of this tax.

The tax proposal not only received no political support whatsoever, it actually gave rise to the most unexpected of bed-fellows. The right-wing Centro Democrático party took a strong stance against the initiative arguing that sweetened-soft drinks only have limited impact on obesity and that, furthermore, the tax would heavily affect the poor. Centro Democrático’s views were very much in agreement with those of the vociferous and highly influential leader of the left-wing Polo Democrático party who also argued that the tax would mainly affect the poor who would see a reduction in their consumption of other products, including healthy ones. Both parties expressed the view that the purpose of the tax was not to reduce consumption but rather to hike fiscal revenue.

According to the MoH during the time of these discussions, several media outlets played a key role in lobbying against the project, specifically those under the control of the Ardila Lulle Group. This conglomerate includes many businesses potentially affected by the proposed tax, including Postobon (the biggest sweetened beverage company) and three sugar refineries. Importantly, as already mentioned, the Ardila Lulle Group owns RCN (a huge radio and TV conglomerate) and La Republica newspaper. During the period in which the tax reform was discussed[50], RCN systematically questioned the proposal put forward by the MoH. Headlines such as “Taxes to sugar-sweetened beverages will affect employment” or “Increasing rejection towards the tax proposal on sugar-sweetened beverages” were recurrent. Over the radio, RCN and La FM (owned by RCN) consistently went against the proposal. These sta-

[49] Conversation with Alejandro Gaviria, MoH at the time of the proposed reform (August 17, 2018).

[50] For easiness of access, our analysis is based on material published by the news organizations in their web page between the second semester of 2016 and the first semester of 2017.

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tions published in the Internet 10 texts in reference to the tax, 8 of which harshly questioned it. In television, RCN also attacked the proposal. Of the 27 TV entries, 18 were negative, only 2 mentioning potential benefits of the proposed tax. In comparison, Caracol TV, RCN´s main competitor, intervened much less in the public debate, generally in a neutral manner. Regarding the written press, La Republica criticized the tax proposal while, in contrast, the two most important daily´s (El Tiempo and El Espectador, both part of important business conglomerates not involved in the sugar or the sweetened beverage industry) had a neutral if not favorable view with regard to the proposed tax. Finally, there were a few Op-Ed pieces in newspapers not related to the aforementioned economic group in which some analysts also opposed the tax reform[51].

Interestingly, the competition and consumer-protection authority, having played a key role in the process that fined the sugar industry on account of cartelization practices, this time around sided with the beverages industry and against consumers. In particular, with Resolution 59176 of September/2016, it ordered ASOCIACIÓN COLOMBIANA DE EDUCACIÓN AL CONSUMIDOR to suppress a TV ad according to which consuming sugar-sweetened beverages negatively affected health. According to the SIC, the ad provided no verbal or visual scientific evidence supporting claims of the high sugar content of the beverages alluded to or of the incidence of sugar on the pathologies mentioned. In November 2017 the Constitutional Court upheld an April 2017 Supreme Court ruling ordering the SIC to revoke Resolution 59176. According to the Constitutional Court´s ruling, "timely access to this type of information facilitates protection and prevention on health matters by acknowledging plausible risks associated to the consumption of these products while enabling consumers to freely choose the products they wish to consume".

### D. *Political economy issues in the Colombia - U.S. Trade Promotion Agreement*

There is ample empirical evidence supporting the notion that major external changes or crisis trigger significant policy reforms. According to (Rausser, Swinnen and Zusman 2010), crises may be needed to change the status quo and to break the power of interest groups that are embedded in the institutions. Edwards and Steiner (2000) argue that in the case of Colombia the ambitious structural reform program launched in late 1990 –and which included significant attempts at trade liberalization-- was

[51] The following articles in *Portafolio* are worth mentioning: by Andrés Espinosa "Perverse and regressive tax on sugar-sweetened beverages" (April 5, 2016) and "Regressive and confiscatory tax on sugar-sweetened beverages (November 22, 2016); by Mauricio Botero "Taxes in Baby-sitting mode" (July 8, 2016).

facilitated not by an "economic crisis" but rather by severe political and institutional turmoil.

After strong diplomatic efforts by the administration of President Uribe, in August 2003 U.S. Trade Representative, Robert Zoellick, announced its government's disposition to start negotiating free trade agreements with Colombia, Peru and Ecuador. That was the result of a series of simultaneous events. From the Colombian perspective, the interest in the agreement had to do with: i) the stagnation of the negotiations of the FTAA; ii) the proximity of the expiration date (2006) of the Andean Preference Act and Drug Eradication (ATPDEA) which gave several Andean products preferential access to the U.S. market[52]; and iii) the fact that other Latin-American countries had signed or were in the process of signing an FTA with the U.S.[53] From the U.S. perspective, interest in the FTA had to do with: i) after more than a decade of unilateral preferences, it was in its interest to negotiate full agreements in order to access these markets in more favorable conditions; ii) the Bush administration was committed to advancing free trade under the umbrella of "competitive liberalization", strongly promoted by Zoellick; and iii) the Trade Act of 2002 authorized President Bush to finalize the free trade agreement with Chile and to start negotiations with Singapore and Central America.

Negotiations between the two countries began in 2004. The TPA was signed on 2006, ratified by the Colombian Congress in 2007 and entered into force on May 2012.[54] The TPA marked a milestone in trade policy in the agricultural sector since, for the first time in decades, so-called "sensitive" products were subjected to liberalization, albeit with long tariff elimination schedules. While the consolidation of ATPDEA preferences through the TPA benefitted cut flowers, textiles and apparel & leather products, in principle the big losers were rice, corn, and poultry products[55]. Sugar producers also consider they lost given the asymmetrical liberalization in favor of the U.S.

The TPA was approved despite the strong opposition of traditional agricultural producers and

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52 The ATPDEA was enacted in 1991 to encourage Bolivia, Colombia, Ecuador and Peru to reduce coca cultivation and drug trafficking. The Act authorized the U.S. President to grant tariff preferences to qualifying products in order to foster trade and help these countries develop and strengthen legitimate industries. It was expanded in 2002 and became ATPDEA, granting free access to almost 5,600 products. The program highly benefitted Colombian exports, although its temporary nature (subject to renewals) prevented producers from taking full advantage of it. Around 40% of Colombian exports entered via this program)

53 In particular, Central American countries, Chile and Peru.

54 It took almost six years to get U.S. Congressional approval of Colombia´s TPA.

55 *Portafolio*, May 19, 2011 and *Dinero*, May 23, 2011.

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associations at the highest levels of government and in Congress, having pushed for their products to be excluded from the agreement, as had been the case in previous agreements signed by Colombia[56]. There are four elements behind this outcome: i) under pressure from the U.S. and from some exporters and ATPDEA beneficiaries[57], President Uribe decided to move forward with the agreement[58]; ii) compensation mechanisms were used to garner the support of sectors opposed to the agreement; iii) the MoFT and the chief negotiator were convinced of the benefits of the TPA; iv) negotiations were structured in a way that granted full control to the MoFT in all sectors, including agriculture.

A relevant question has to do with whether the complex relationship between Colombia and the U.S. mediated by the financial aid provided to Colombia to fight drugs and terrorism through the Plan Colombia[59], could have influenced the outcome of the TPA and differentiated Colombia's TPA from other free trade agreements. On the one hand, it is evident that Colombia has been a strategic partner of the U.S. and, at the time of the negotiations, the "Política de Seguridad Democrática" of President Uribe was aligned with the U.S. global policy against terrorism. On the other hand, in the early 2000s the relationship between the two countries experienced difficulties mainly related with human rights issues in Colombia and with doubts in the U.S. Congress regarding the effectiveness of Plan Colombia in fighting drugs and terrorism. Indeed, in different occasions President Bush had to obtain waivers from Congress in order to avoid the reduction of financial aid[60].

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56 With the exception of those signed with Andean countries and Mercosur.

57 In a 2002 MoFT Survey regarding opinions on advancing free trade talks with the U.S., the President of Asocolflores opined that "This is the most important market with which we have the greatest linkages and geographical proximity. Furthermore, the U.S. is interested in negotiating with us now". http://www.mincit.gov.co/publicaciones/10601/respuestas_al_cuestionario_sobre_el_tratado_de_libre_comercio_con_estados_unidos.

58 The first meeting between Zoellick and President Uribe to formally discuss the FTA agreement between the two countries took place in Bogotá on August 6th, 2003. In this meeting Zoellick revealed the U.S. interest to reach an agreement similar to that recently signed with Chile, with no products excluded from tariff liberalization and with tariff phase-out periods of maximum 10 years. Uribe didn't accept the U.S-Chile FTA path. However, 6 days later Zoellick told farmers gathered in Des Moines, Iowa, that Uribe assured him that he would accept the elimination of all tariffs to agricultural products and other trade restrictions if the two countries decided to initiate negotiations towards an FTA (Espinosa and Pasculli, 2013).

59 Through Plan Colombia, launched in 1999, the U.S. provided financial aid to Colombia to increase its military capacity in the fight against drugs. After the failure of the peace process with the FARC guerrilla movement under the administration of President Pastrana, financial resources were also oriented towards combating terrorism, very much in line with the U.S. global agenda against terrorism.

60 "Colombia y Estados Unidos: Desafíos de una Alianza", Policy Parer 6, part of the Project "La inserción de Colombia en un sistema internacional cambiante" launched in March 2003.

In this context, there are two aspects that could have influenced the TPA outcome, working in opposite directions: Colombia´s strategic importance for the U.S. in fighting drug-trafficking and terrorism and Colombia´s dependence on financial aid through Plan Colombia. In our review of the different FTAs signed by the U.S. we did not find evidence supporting the notion that either of these two particularities of the bilateral relationship affected the results of the trade agreement finally agreed upon. The treatment the U.S. gave Colombia was neither more "generous" than in other agreements nor was it more stringent. In virtually all of them all agricultural products were subjected to gradual liberalization.

### 1. *The role of specific actors*

In terms of scope, the TPA was the most comprehensive agreement signed by Colombia. It eliminated tariffs on goods and, for the first time in a bilateral agreement, removed barriers to services and dealt with customs administration and trade facilitation, technical barriers to trade, government procurement, investment and intellectual property rights, as well as two topics of especial relevance: labor and environmental protection. More actors actively participated in the negotiation than in previous agreements and an arsenal of communication channels was created in order to involve as many stakeholders as possible, in order to legitimize the agreement. The government ascribed particular importance to the domestic support of the agreement and to creating the conditions for its approval when submitted to Congress. According to Jorge Humberto Botero, the MoFT at the time, the negotiation was segmented: while the chief negotiator dealt with the U.S., the Minister worked with in Colombia, interacting with civil society, regional interests, Congress and political parties. The Minister was active with regional chambers of commerce which are very influential as they have the capacity to undertake technical studies and lobby members of Congress, with whom he also intensively worked with.

To be sure, the strategy used by the government was effective in mitigating the opposition to the agreement and the TPA marked a milestone in the government's relationship with actors such as Congress, the Constitutional Court, trade unions and NGOs, who had not participated actively in previous trade negotiations. Congress had to approve the treaty, with no possibility of amending it. To diminish the risk of non-approval, the Government created a formal mechanism, "Cuarto de Acompañamiento del Congreso", that allowed congressmen to follow up on the negotiations and have first-hand information on their evolution. According to some interviews, in the first rounds of talks several Congressmen participated, but were not very active and attendance gradually diminished.

However, some members of Congress were very active in the follow-up of the agreement and

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were vocal about the potential negative effects for some sensitive products. It is relevant to note that after the TPA was signed, the Director of the Liberal Party and former President, Cesar Gaviria, commissioned Senator Cecilia Lopez, a member of his congressional delegation, a technical study in support of the Party's opposition to the bill. The aim was to push for the re-negotiation of some products or at least to commit the government to advancing with compensation mechanisms for those most affected. However, at the last minute, when the bill was presented to Congress, Gaviria announced that his party would support the TPA as it was. In our conversation with her, Cecilia Lopez expressed the view that Gaviria went against the traditional protectionist view of his own party presumably because "he received an important last-minute call". One can speculate that the call came from President Uribe himself who, notwithstanding Gaviria´s party opposition to trade liberalization, was confident the former President was persuadable on account of having launched the *Apertura* process in the early nineties.

The private sector actively participated during both the preparation process and the negotiations themselves and became heavily involved in the design of the matrices with Colombia´s negotiating position. It also attended the so-called "cuarto de al lado", a formal mechanism created to ensure private sector involvement and an appropriate *fora* for lobbying in an organized way. In addition, the private sector created a Technical Secretariat within the Consejo Gremial Ampliado so as to have an interlocutor with the negotiating team and the ministers. All these formal channels did not prevent business from using direct channels of communication with the ministers and even the President. For instance, according toformer MoFT Jorge Humberto Botero, the big economic groups ("cacaos") interacted directly with the President.

The MoFT conducted the negotiations, led by the minister and a chief negotiator with full support of the President. Representatives of different ministries were present in the negotiations, in particular Agriculture and Social Protection, but all "thematic tables" were led by a representative of the MoFT. That helped the Ministry exercise control over the negotiation and was critical in moving them forward, particularly regarding the agriculture sector. Since the very beginning, the ministers of Agriculture and of Social Protection, who acted in unison, opposed the agreement and might even have used strategies to sabotage it. According to chief negotiator Hernando José Gómez, "the negotiation within the government was by far much more difficult than that with the private sector". These ministers' position was highly conditioned by the interests of some agricultural producers and by the domestic pharmaceutical industry who exercised strong influence directly with the government at the highest levels. Their influence was so strong that according to Hernando José Gómez, the MoFT had difficulties in hiring competent experts to lead the negotiation of the "agricultural table" as many were afraid of retaliation.

Free access to the Colombian market for so-called sensitive agricultural products, coupled with the elimination of the price band system, was of particular interests to the U.S.[61] At the same time, the position of Colombia´s MoA was to exclude these products and maintain the PBS. Another critical issue for the U.S. was intellectual property rights, Colombia´s Minister of Social Protection seeking to protect domestic pharmaceuticals. Negotiations were particularly complex in these two areas, the last ones to be agreed upon.

Initially, in the TPA negotiations Colombia classified agricultural products according to their sensitivity: i) hypersensitive, which included chicken leg quarters, rice, yellow corn and red beans; ii) sensitive, composed of pork and beef, soy and corn oils, sorghum, soy, cassava, powdered milk, dairy products, soy flour, glucose, fructose, wheat, barley and pet food; and iii) easy tradable which included livestock, fruits, legumes, vegetables, flowers, cotton, candy products and chocolate, among others. The Colombian position was rather offensive with regard to refined sugar, seeking ample access to the U.S. For the ATPDEA beneficiaries, the goal was to consolidate the preferences they already enjoyed.

The position of the MoA was inflexible to the point where it blocked the negotiations between the two countries. It was only after direct intervention by the President, mediating between the different ministers, and the arrival of a new more pro-openness MoA (Andrés F. Arias), that negotiations resumed. In the end, agricultural issues were negotiated directly by the new Minister and the chief negotiator.

## 2. *The outcome*

Sugar was a complex issue during the negotiation. While Colombia wanted a high TRQ to access the U.S. market and glucose to be excluded from the TPA, the U.S. excluded sugar from the agreement[62] (the only exclusion) and requested preferential access to the Colombian glucose market. In the end, the U.S. granted Colombia a TRQ of 50,000 tons with a yearly increase of 750 tons and Colombia granted a gradual tariff phase-out of 15 years for both sugar and glucose[63] (Table 8). This was per-

[61] The U.S. requested that all products should be included in the agreement and they all should end with no tariff. Therefore, the instruments in which Colombia had room for maneuver were the phase-out period and the use of tariff-rate quotas (TRQ) and special safeguard clauses (Espinosa and Pascualli, 2013).

[62] The exclusion means that Colombian sugar will never have a preferential treatment to access the U.S. market, with the exception of the TRQ which has a tariff of cero.

[63] It began in 2012 and will reach full liberalization in 2027.

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ceived by sugar producers and associations as an asymmetrical agreement in favor of the U.S.

It is worth noting that sugar had been excluded from all previous trade agreements[64] but this outcome was not feasible with the U.S. as a counterpart, despite producers influence at the highest level of Government and in Congress. Sugar had even been excluded in the agreement with Mercosur signed prior to the TPA, also during the Uribe administration.[65] According to Juan Ricardo Ortega, who at the time was Deputy MoFT, President Uribe "was directly involved in the negotiating position of the agricultural sector" and, for instance, "gave instructions to exclude sugar from the agreement".

The TPA negatively affected manufacturers of products with high sugar content since their exports to the U.S. would have to share the same (low) TRQ while, simultaneously, sugar remained protected during a long 15-year phase-out period. According to interviews with industry producers not vertically integrated with sugar producers, although in the "cuarto de al lado" sugar producers and agroindustry had reached a pre-agreement on the position to be presented to the U.S., the final outcome was more favorable for sugar refiners than for the food-processing industry.

Rice was one of the last products to be negotiated. While Colombia wanted to exclude it from the TPA, access to the Colombian market was critical for the U.S. In the end, and as an exchange for the exclusion of sugar by the U.S., Colombia achieved a very long tariff phase-out scheme for rice, with 19 years in total with 6 years of grace, as well as a special safeguard clause. However, Colombia also granted a TRQ of 79,000 tons for imports of U.S. rice, which increases every year (Table 8)[66]. As in the case of sugar, with few exceptions rice had been excluded from all trade agreements signed by Colombia.[67] Given the size of U.S. production, this constitutes a significant change in trade policy of rice and poses new challenges for producers who see the need to increase their productivity in order to face U.S. competition. The tariff will start declining in 2019 and will reach cero in 2031. Other sensitive products were also subject to a gradual tariff phase-out for the first time in a free trade agreement, some of them with special safeguard clauses (Table 8).

64 With the exception of the Comunidad Andina de Naciones (CAN)

65 Sugar was included in the agreement with the European Union with long phase-out periods and was excluded in the Pacific Alliance due to a request from Mexico.

66 Given the increase in the TRQ rate, in 2017 imports from the U.S. were 98,000 tons.

67 It was included in the agreement with Mercosur, giving gradual access to Uruguay. In the trade agreement with the European Union negotiated after the TPA, rice was once again excluded.

Table 8.

**SENSITIVE PRODUCTS**

| | Base Tariff | Tariff Phase-out | TRQ (Ton) | TRQ Annual Increase | Special Safeguard* |
|---|---|---|---|---|---|
| Rice | 80% | 19 years (6 years grace) | 79,000* | 4.5% | 120% of TRQ |
| Poultry and leg-quarters | 70%-164.4% (leg-quarters) | 18 years (5 to 10 years grace) | 26,000 (leg-quarters) 400 (poultry) | 3% - 4% | 130% of TRQ |
| Dairy products | 20% - 33% | 11 to 15 years | 100 - 500 | 10.0% | |
| Sugar and Glucose | 28% - 47% | 15 years | | | |
| Fresh beef meat and offal | 80% | 10 years | 2,000 (Fresh meat) 4,400 (offal) | 5.0% | 140% of TRQ (Fresh meat) |
| Beans | 60% | 10 years | 15,000 | 5.0% | 120% of TRQ |
| Corn, corn products and sorghum | 15% - 28% | 8 to 10 years | 8,000 - 2 millones (yellow corn) | 5% - 8% | |
| Soybean Oil | 24% | 10 years | 30,000 | 3.0% | |

* An automatic safeguard clause is triggered when import volumes exceed x% of the TRQ

At the very end of the negotiations, and influenced by the problems that PBS were causing at the WTO and in other fora, the mechanism was eliminated with the U.S. This is an unprecedented issue, as for the first and only time Colombia gave up the use of PBS[68], and in that move the pro-openness orientation of the negotiators played a critical role.

## 3. *Compensation mechanisms*

As Colombia opened its market for the first time to "sensitive" products, gave up the PBS and accepted an asymmetrical negotiation for sugar, the Government offered a series of compensation mechanisms under the umbrella of the "Agenda

68 Price bands were not eliminated in other trade agreements such as with Canada and the EU.

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Interna" launched only two months after negotiations began, a program aimed at providing the private sector with both public goods and mechanisms to help enhance competitiveness.[69] Those mechanisms were vital for the government to garner the support of the private sector, in particular from agriculture. One very important initiative for the agricultural sector was Agro Ingreso Seguro (AIS)[70]. According to Cecilia López, the private sector and agricultural associations "allowed themselves to be bought with this mechanism". In her opinion, "the emergence of AIS lowered the level of the debate in Congress".

The Agenda Interna and AIS failed to fulfill the private sector´s expectations and discomfort among "sensitive" agricultural products still persists. As a result, ever since the TPA was negotiated they have opposed the inclusion of these products in trade agreements and often organize protests requesting the re-negotiation of previous ones.[71] As a general note, it can be argued that the lack of delivery of compensation mechanisms exacerbates protectionism and anti-export bias.

There was also a general perception in the agricultural sector that the TPA was unfavorable for them, while benefiting manufacturing—i.e. they bore the cost of consolidating ATPDEA. As pointed out by Olga Lucía Lozano, a former vice minister of MoFT, "there is TPA trauma in the agricultural sector. They feel they were the big losers and feel they already paid the bill" and therefore seek agreements, for instance with China and Korea, in which agriculture might benefit in order to compensate the costs of the TPA.

Another compensation element was the creation of a mechanism to administer the rice tariff quota through an Export Trading Company (ETC) which provides growers with resources to enhance productivity. The ETC is composed of trade associations representing the rice industries of both countries as well as the six U.S. Rice

[69] As a key part of the Agenda, conceived under the Regional Development Plans, each region identified sectors in which to prioritize productive development projects. Some 60% of the 293 productive plans selected corresponded to agriculture and agroindustry. Rice and sugar's proposals were particularly relevant for two departments, Tolima and Valle del Cauca.

[70] The program sought a better insertion of agriculture in international markets through different trade negotiations. Palm oil, livestock and coffee producers were the most benefited, as they received 44% of the loans of the Incentive for Rural Capitalization. Rice producers received 7.3%, distributed amongst 778 projects. Sugarcane producers received 2.3%, distributed amongst 94 projects (the second highest per beneficiary). The program was designed to last a long time but was terminated in 2011 as a result of accusations of public resources misuse.

[71] In the trade agreement signed with the European Union sensitive products such as corn, rice, meat, poultry were excluded. Sugar and dairy products were included, with long phase-out periods.

Research & Promotion Boards. Fedearroz participates on behalf of Colombia. The mechanism will remain in place until the tariff quota ceases to operate and the market is opened.[72] The resources derived from the ETC are used to improve productive aspects and have somewhat realigned the relative power of the different actors in the productive chain. Fedearroz is complementing this strategy with a white rice commercialization program it plans to implement with supermarkets and through the opening of more than 20 stores in order to capture part of the commercialization margin currently appropriated by millers and retailers.

The substitution of the PBS for fixed tariffs and the inclusion of some agricultural products (like beans and beef) in the latter special treatment, implied an increase in tariffs not only for the negotiation with the U.S. but also for the MFN tariff, while facilitating the negotiation of sensitive products. As mentioned before, in the specific case of rice this reform resulted in a flat tariff of 80%, much higher than that resulting from the PBS.

## IV. Conclusions

Despite the liberalization policy that took place in the nineties, part of the agriculture sector remains highly protected. This has induced and supported a weak performance of several sub-sectors, the major concern being that the cost of this trade policy is borne by consumers --particularly the poorest households, who pay high prices for goods that heavily weight in the consumption basket—and by downstream producers in the value chain.

The TPA was the first time in which sensitive products were liberalized, albeit gradually, an unprecedented outcome that imposes important challenges in terms of enhancing productivity and competitiveness. This achievement was aided by the use of compensation mechanisms of various types --including the increase in protection for some products prior to the tariff reduction program, the adoption of an aid program and incentives to farmers, and a broad agenda of national and regional policies that sought to improve competitiveness. Unfortunately, the most relevant compensation mechanisms fell short of expectations. This lack of delivery set a bad precedent and could have strengthened the voice of those who call for more protection.

72 The ETC manages the quota through an auction in which interested U.S. exporters participate. Benefits obtained from the auction are shared between producers of the two countries and in Colombia are being used for Fedearroz to provide technical support and were also recently used to build storage and milling plants in various zones of the country.

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The protectionist policy stance is the result of political interactions that have not changed much since the *Apertura*. The interviews conducted for this study made it clear that in order to generate a change in this dynamic, it is necessary that interventions in agriculture be focused on delivering public goods rather than in direct support of producers.

The protectionist bias has persisted to a large extent due to highly politicized agricultural institutions which for the most part lack technical capacity, starting with the MoA and replicated in subordinated entities. This has favored the capture of public policy by powerful sectors that seek to maintain protection. Interviewees for this study perceive the MoFT as a technical entity, but with a limited scope when dealing with agriculture. As a result, a protectionist vision of the sector prevails. Our analysis of rice and sugar show that when a more technical public institution like SIC becomes involved, critical issues such as consumer protection and promotion of free markets and competition are better upheld.

The "sensitive" agricultural private sector is well organized in associations that exercise strong influence at all levels, including Congress, and in some instances is supported by pressure groups such as "Dignidades". Economic groups also play a critical role and, as in other countries, their influence is particularly strong when they control the media. Given the case studies chosen, we highlighted the role played by only one of the large economic conglomerates, but it is important to bear in mind that, unfortunately, other large business organizations also exert significant control over the media.

Several interviewees pointed out that the formal channels for government and private sector coordination are in many cases inoperative, favoring informal channels such as direct communication of businessmen, associations and economic groups with the government, at the highest levels. Instances such as the *Comisión Mixta de Competitividad y Comercio Exterior* should become the prevailing coordination forum between the public and the private sectors, as well as with other relevant actors. Interviewees also drew attention to the negative impact that the institutional architecture has on coordination within the government, generating inefficiencies and contradictory policies, which in turn open spaces for the capture of policies by the private sector. The institutional framework governing trade policy is complex, hampering trade and making it particularly vulnerable to the influence of private interests.

# V. Appendices

## APPENDIX 1.

### SEMI-STRUCTURED INTERVIEWS

| Name | Profile |
|---|---|
| Jorge H. Botero | Former Minister of Foreign Trade |
| Carlos G. Cano | Former Minister of Agriculture; former president of SAC; former president of National Federation of Rice Growers |
| Rosario Córdoba | President of the Private Council on Competitiveness |
| Javier Díaz | President National Association of Foreign Trade (Analdex) |
| Juan José Echavarría | Former deputy minister of foreign trade; Director of the 2015 project on a tariff reform proposal |
| Carlos Ignacio Gallego | President of Grupo Nutresa |
| Alejandro Gaviria | Former Health Minister |
| Hernando José Gómez | Former Negotiator of the US-Colombia FTA |
| Miguel Gómez | Former congressman; former director American Chamber of Commerce in Colombia |
| Silverio Gómez | Director of ANDI´s Industrial Rice Chamber |
| Harold Éder | President of Ingenio Manuelita S.A |
| Rafael Hernández | President of Rice Growers Federation |
| Rudolf Hommes | Former Finance Minister |
| Ana María Ibañez | Academic expert on land concentration and informality |
| Roberto Junguito | Former Minister of Agriculture and of Finance |
| José Leibovich | Independent consultant on agriculture & trade |
| Cecilia López | Former Minister of Agriculture and former Senator |
| Olga Lucía Lozano | Former Deputy Minister of Foreign Trade |
| Juan Carlos Mira | President of the Sugarcane Growers Association |
| José Antonio Ocampo | Former Minister of Agriculture; Director of the Mission for the Transformation of Agriculture 2014 |
| Juan Ricardo Ortega | Former Deputy Minister of Foreign Trade |
| Juan José Perfetti | Former deputy Minister of Agriculture; Independent consultant on agriculture & trade |
| Carlos E. Piedrahita | Former president Grupo Nutresa |

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