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FEATURED Q&A

Will Gov't Subsidies Save Colombia's Coffee Growers?

Colombian President Iván Duque is pledging to provide assistance to coffee growers amid low international prices for the crop. // File Photo: Colombian Government.

Q **Amid low international prices for coffee, Colombian President Iván Duque said April 13 that his government will give coffee growers $32 million in additional subsidies and aid for tree replacement. The announcement followed Duque's pledge to provide coffee farmers some $50 million in aid, an amount that the growers said was insufficient. Will the government's pledges to coffee growers meaningfully help the sector? What factors are keeping international coffee prices low? What are Colombian growers' prospects for being able to sell the crop at higher prices in the future?**

A **Andrés García Peláez, director at FTI Consulting:** "Colombia has a long history of supporting coffee growers through subsidies, yet these have become as much a political issue as a financial one. While Colombians have an identity defined by coffee, the reality is that the commodity has become much less important to the country's economy. In 1997, coffee made up 19 percent of Colombia's exports. By 2017, this number was less than 7 percent. Yet, 600,000 Colombian families still sustain themselves by harvesting the product. Differentiation will be key. Competing in low-quality grains is an unsustainable option for Colombia's industry. Instead, the country must continue to position itself as a producer of high-grade beans. For instance, between 2012 and 2015, the department of Antioquia successfully deployed the program 'Specialty Coffees' that educated small coffee growers in the production of high-end coffee beans. While it reached only a small percentage of the population, these beans sell at higher prices. Unfortunately, commercial differentiation will not be enough. Building

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Some 1,300 Migrants Flee From Mexico Detention Facility

The migrants, mainly Cubans, broke out of the overcrowded Siglo XXI detention facility in Chiapas State. More than half of them later returned.

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Cuba Calls Bolton 'Pathological Liar' Over Agents Claim

Cuban Foreign Minister Bruno Rodríguez blasted U.S. National Security Advisor John Bolton over Bolton's claim that the Caribbean nation has 20,000 agents in Venezuela.

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Nicaraguan Bank Sanctioned by U.S. Shuts Down

Nicaragua's Bancorp shut down after the United States imposed sanctions against it, calling it a "slush fund" for President Daniel Ortega. The bank said it employed 106 people.

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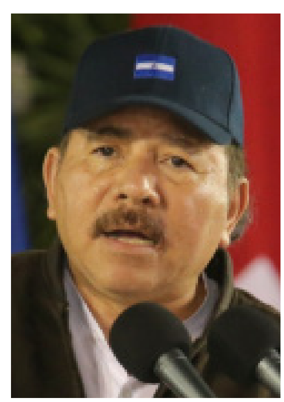


Ortega // File Photo: Nicaraguan Government.

POLITICAL NEWS

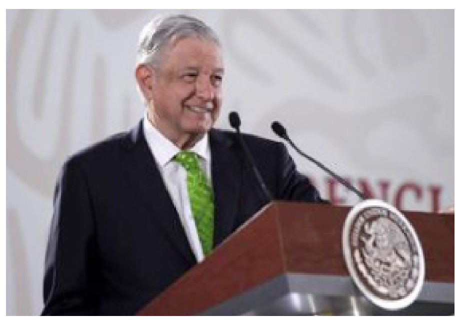
Some 1,300 Migrants Escape From Mexico Detention Facility

Some 1,300 migrants, mainly Cubans, on Thursday night broke out of an overcrowded detention center where they were being held in southern Mexico, Reuters reported. About half of the migrants later returned to the Siglo XXI facility in Tapachula, in Chiapas State, but 600 others remain unaccounted for, according to Mexico's National Migration Institute. Haitians and Central Americans also were among those who escaped from the detention center, Mexican daily newspaper Reforma reported. Agents inside the detention center were not armed, and "there was no confrontation," the migration institute said, the Associated Press reported. Federal police carrying riot shields attempted to take control of the situation as the Cubans' angry family members gathered outside the building. The relatives said their family members were being held in unsanitary and overcrowded conditions, in some cases without enough food or needed medicines. Though some 1,300 people broke out of the center, the facility's capacity is listed at 1,000. Mexico has been under increasing pressure from U.S. President Donald Trump to stem the flow of migrants heading north in hopes of entering the United States. Trump recently threatened to close the U.S.-Mexico border if Mexico did not do more to stop the caravans of migrants making their way through the country. Trump on Wednesday reiterated his threat to close parts of the border. While most migrants trekking through Mexico toward the United States are from Guatemala, El Salvador and Honduras—the "Northern Triangle" countries of Central America—Cubans have joined caravans and now number about 1,000 in Chiapas, Mexican officials have said, Reuters reported.

Approximately 1,300 people escaped from the facility, but its capacity is listed at 1,000.

Mexico's Lower House Passes AMLO's Education Reform

Mexico's lower house of Congress has approved education reforms that President Andrés Manuel López Obrador says would reverse his predecessor's landmark 2013 overhaul, The Wall Street Journal reported Thursday. The bill will now go to the Senate, where López Obrador's Morena Party and its allies need at least some opposition support to reach the two-thirds majority required to amend the Constitution. Former President Enrique Peña Nieto's education reform introduced mandatory teacher-performance evaluations, which the new proposal would eliminate. López Obrador's bill would maintain a merit-based system for teachers to obtain jobs and promotions but still allow Mexico's teachers union, the largest in Latin America with 1.7 million members, to distribute as much as half the new teaching jobs among its members, The Wall Street Journal reported. Peña Nieto's reforms weakened the union by opening the possibility of obtaining teaching jobs to candidates who are not union members or students of official teacher colleges. López Obrador on Thursday celebrated the lower chamber's approval of the proposed reform, blasting the previous overhaul as being part of a "neoliberal" agenda, El Universal reported. "Those measures were imposed by foreign organizations—the fiscal, labor, energy and education reforms … They were used to



López Obrador // File Photo: Mexican Government.

NEWS BRIEFS

Cuba Labels Bolton 'Pathological Liar' Over Claim About Agents

Cuba's foreign minister on Thursday labeled U.S. National Security Advisor John Bolton a "pathological liar" over his claim that the Caribbean nation has some 20,000 agents stationed in Venezuela, the Associated Press reported. Speaking to reporters in Havana, Foreign Minister Bruno Rodríguez said most of the Cuban personnel in Venezuela are medical workers. Cuba's government challenged the White House to provide proof of the allegation.

Twenty-Five Venezuelan Migrants Missing After Boat Sinks in Caribbean

Authorities searched the Caribbean on Thursday for 25 missing Venezuelan migrants after their boat sank on its way to Trinidad, the Associated Press reported. At least nine others on the boat, which left Venezuela on Tuesday, were found alive in the water. The Venezuelan government is leading the search within that country's waters, and the Trinidad and Tobago Coast Guard is assisting, an official from Trinidad said. The manifest listed 25 people on the boat, but authorities determined at least 34 had boarded the vessel, he added.

Uruguayan, Colombian Firms to Export Medical Marijuana to Europe

Two firms will become the first in Latin America to export medical marijuana products to Europe, the companies announced Wednesday, the Associated Press reported. Uruguay-based Fotmer Life Sciences and Colombia's Clever Leaves will begin sales of cannabis extract and dried marijuana flowers to Germany, which they said was Europe's largest market, with an estimated 700,000 users of medicinal marijuana products. The announcement did not offer a monetary estimate or a start date.

fool and manipulate [us]," he said, adding that the education overhaul's goal was privatization, rather than improving the quality of education.

BUSINESS NEWS

Nicaraguan Bank Sanctioned by U.S. Shuts Down

A Nicaraguan bank with ties to President Daniel Ortega's government has shut down as a result of sanctions imposed by the administration of U.S. President Donald Trump for alleged financial misdeeds on behalf of Venezuelan state oil company PDVSA, the Associated Press reported Thursday. Bancorp earlier this week requested permission from Nicaragua's banking regulator for "early voluntary dissolution," saying that the "bank is unable to continue doing business due to the sanction," according to a letter dated April 22 and signed by Luis Bárcenas, Bancorp's legal representative, Reuters reported. Eduardo Holmann Chamorro, one of the bank's three directors, told the AP on Wednesday that the regulator had accepted the request. "Unfortunately, Bancorp disappears, and 106 employees are out in the street," Holmann said, adding that the bank is solvent and deposits would be returned to its clients. U.S. National Security Advisor John Bolton last week announced new sanctions against Bancorp, calling it a "slush fund" for Ortega, as well as sanctions on the president's son, Laureano Ortega, for "vast corruption," Reuters reported. The U.S. administration had already sanctioned the bank for its links to Venezuela. Bancorp was founded in 2014 as a subsidiary of Alba de Nicaragua, or Albanisa, a consortium managed by Ortega loyalists created through an oil agreement between Venezuela and Nicaragua seven years earlier, the AP reported. PDVSA holds a 51 percent stake in Albanisa, while Nicaragua's state oil company Petronic owns the remaining 49 percent. [Editor's note: See related Q&A in the March 19 issue of the Latin America Advisor.]

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awareness and reputation will be key to assure that buyers worldwide understand the differentiation and value-added behind these grains. To solve this issue Colombian growers face a significantly more daunting task: they must persuade a broad set of local and global stakeholders that Colombian specialty coffee is in fact special. The clock on this issue is ticking. Colombians might soon come to realize that coffee is no longer that special for the economy, and the popularity of coffee subsidies could soon face an uphill battle."

A **Christopher London, assistant professor of international affairs at The New School in New York:** "Investing in the renovation of coffee fields is the conventional approach to market challenges in the coffee industry. While this can temporarily increase yields for individual farmers, it will also be accompanied by increased production costs. Depending on the ratio between yield, cost and price, investment in field renovation may not lead to any gains at all. In fact, it could even lead to a decrease in farmers' net income. The terms-of-trade are at the root of the challenges that are facing the industry. With the C Market below a dollar, renovation can't make up the revenue shortfall, especially in countries such as Colombia that already have high yields relative to industry averages. What countries like Colombia need to do is to think back to the 1970s. The Juan Valdez campaign raised consumer consciousness regarding coffee as an agricultural product. While this was certainly an idealized image, it did lead consumers to think about what they were consuming. A second factor in the 1970s was the International Coffee Agreement and its global price stabilization framework. In the absence of some mechanism of price stabilization, investments in the industry are at best rearguard actions; they will not change the underlying fundamentals. While it is not likely for an inter-governmental mechanism such as the International Coffee Agreement to be instituted, nevertheless the industry must put an effort into circumventing the C Market. So long as traders and speculators control the price, farmers in Colombia and across the tropical world will never have control over their destinies."

A **Roberto Steiner, research associate at Fedesarrollo in Bogotá:** "Coffee growers in Colombia have yet to adapt to an undisputable fact: international coffee prices are low and only the most productive and competitive producers are viable. On account of important regional differences, some coffee growers in Colombia produce with good yields (i.e. output per hectare) but at extremely high costs; others produce at reasonable costs but with very low yields; and many produce at reasonable costs and with good yields. Unfortunately, policy decisions regarding subsidies are based on comparing the international price with the costs of production of those facing the highest costs. In so doing, the most efficient producers receive a subsidy they do not need, and the most inefficient ones are artificially kept viable, all of this at a huge fiscal cost. Support for the coffee sector should be very limited in size on account of fiscal restrictions and take into consideration that many other agricultural sub-sectors are also struggling; it should not be granted in the form of supplementing the international price but rather as aid for tree replacement; and it should be available to all coffee producers, certainly not excluding the smaller ones as

> **"International coffee prices are low and only the most productive and competitive producers are viable."**
> **—Roberto Steiner**

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happened with the ill-designed, expensive and regressive PIC program of 2012."

A **Andy Webb-Vidal, CEO of Latin iQ, a business risk consultancy:** "Coffee growers are suffering because coffee prices on international markets have fallen to their lowest point in 14 years, and this is a consequence of coffee supplies growing at a much faster pace—notably from Brazil—than rising global demand. Colombia is simply a victim of market fundamentals. President Iván Duque can find money to support farmers, but government subsidies are never an indefinite solution. Fortunately, the Colombian Coffee Growers Federation is fully aware of this, and in recent weeks it has begun examining the option of unshackling the price of Colombian exports from the futures prices quoted on the New York commodities exchange. The argument is that the surge in supply of lower quality Brazilian beans has dragged down with it the price of higher quality Colombian beans, and so by exiting the exchange-determined price, Colombia can independently secure a better premium. However, the coffee market is significantly commoditized, and there is a limited number of buyers willing to pay a premium for higher quality, so you risk losing demand. There is no easy solution, and the federation needs to think outside the box. There could be greater longer-term strategic potential in focusing on the progressive changes in consumers' preferences, for example branding or certification mechanisms that have successfully differentiated homogeneous commodities by their country of origin and their ethical standard of production, not unlike the concept of conflict-free diamonds."

> **"Colombia is simply a victim of market fundamentals."**
> **— Andy Webb-Vidal**

A **Andrew J. Wight, Medellín-based science journalist:** "The industrial-scale coffee operations in Brazil and Vietnam mean the global coffee price, listed on a commodity exchange in New York, often has more to do with news coming out of these two countries than it does the costs of production in Colombia. Colombia, which is overwhelmingly a country of small-holders on tiny parcels of land, isn't likely to overcome that major systemic challenge by small-scale tree replacements and one-off payments. Industry experts say that Colombia has good prospects for increasing its share of specialty coffee and earning a premium on the current price. However, this is not a panacea, because higher quality and reporting standards could mean increased overhead or investment for small farmers who are already struggling. Something that these measures don't really address is the increasing age of Colombia's coffee growers. With the average age of a coffee grower now over 50, generational change and structural reform will be needed before the outlook for coffee is brighter. There has been some rumbling in recent years about the implementation of a form of mechanical harvesting to help address this, but roll-out does not appear to have been rapid or widespread. However, these are global industry trends. Farmers in Africa, Asia and other parts of Latin America are also facing similar issues. Overall, this latest infusion of funds isn't likely to move the needle in terms of the industry's future."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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