

The Decrease in Palm Oil Prices is Perceived more Seriously in Colombia due to Revaluation

In this 2012-2013 economic situation, phenomena such as the reduction in oil palm international prices and the persistent revaluation of the Colombian peso have been combined in order to adversely affect the performance and profitability of the oil palm sector and, eventually, the income of producers

This situation requires a rethinking of the sectoral public policy and a greater effort from companies, aimed at counteracting these phenomena, in order to contribute maintain the competitiveness of the domestic agro-industry.

As for the first phenomenon, it should be noted that in February 2011 the international price for Crude Palm Oil (CPO) CIF-Rotterdam reached all-time high of US \$1,292 per tonne. Since then and until the end of 2012, this price experienced a sharp decrease of about 37%. This decline in CPO international prices is related to surplus production and accumulation of stocks from both Indonesia and Malaysia.

Although the descent in prices corresponds to an adjustment, after atypical price increases that occurred between 2008 and 2012 as a result of structural changes in international food markets, it is necessary to set alerts, since, as will be seen below, this decline combined with the peso revaluation has a severe effect on the income of companies and the competitiveness of the fruit and crude oil.

Towards the future, even international experts on the subject, do not reach consensus on their predictions about the behaviour of international

prices - an aspect which reveals the uncertainty surrounding the future of the sector.

The impact of this price fall is exacerbated by the revaluation of the Colombian peso, further reducing the income of the sector. High prices served to mitigate and conceal to some extent the impact of revaluation, but the mentioned decrease in the nominal exchange rate again reveals its harmful effect on domestic production, particularly that segment of tradable goods that depends on prices established in dollars.

When comparing the evolution of the real exchange rate between 2002 and 2012, a sharp appreciation of the Colombian peso of about 37% is observed. In that regard, whereas ten years ago the average real exchange rate was around \$2,800, in 2012 it dropped to \$1,790.

Thus, the peso revaluation phenomenon is cause for genuine concern for both the agricultural sector and all those that produce tradable goods and services, since it makes them less competitive.

In the case of palm, this is a significant impact since the agro-industry is labour intensive, and labour is more costly in dollars if compared with the value of this same resource in competitor countries of Colombia in the palm oil global market. Thus, it is estimated that while the average daily wage per worker in oil palm cultivation in the country amounts to 24.8 dollars, in Malaysia it is 11.4 and in Indonesia, 4.7. As a complement and consistent with data from LMC (2011), the relative weight of labour costs over the total costs of oil palm cultivation reaches

40% in the case of Colombia, whereas for Malaysia and Indonesia, the corresponding percentages amount to 35% and 34%, respectively. It is this negative scenario that led several experts to affirm that Colombia suffers symptoms of Dutch disease, which, as it is known, is the result of the revaluation caused by both foreign investment in extractive sectors such as mining and hydrocarbons, and its export boom.

However, neither the Bank of the Republic nor the National Government has openly and duly recognized the suffering of this economic illness that deteriorates the competitiveness of the industry and agriculture.

Unfortunately, neither in the area of health or economics does suffering disappear by simply denying what is causing it or by the absence of a diagnosis.

In this sense, and by examining the Colombian economy symptomatology, it is evident that the country is facing a severe process of deindustrialization: while in the early 1980s the industrial sector accounted for nearly 25% of GDP, this percentage decreased to 15% ten years ago and has currently fallen below 12%. The other side of this reality is the boom of the mining and energy sector, whose weight in the economy increased from 3% to 8% over the last decade and whose exports account for 70% of the Colombian sales basket in the international market.

On the other hand, revaluation in Colombia is not due to improvements in competitiveness, considering that in an area as important as infrastructure, underdevelopment becomes one of the critical bottlenecks limiting the best use of possibilities for our integration into the world economy.

While improvement in the levels of trust and security in the country has contributed to attracting foreign direct investment, the fact is that the massive influx of dollars is concentrated in the mining and energy sector and affects, by way of revaluation, other sectors, such as agriculture and industry,

which are labour intensive. These sectors experience higher labour costs, being labour a fundamental input since it is non tradable. Many actors within these activities could be under threat of bankruptcy, even operating at normal price levels. As a complement, the loss of Colombian competitiveness contrasts with the devaluation of local currencies in our direct competitor countries in palm oil production. To that effect, between November 2011 and the same month in 2012, Indonesia and Thailand had increases of their nominal exchange rate equivalent to 6% and 2%, respectively. Devaluation during the mentioned period has been especially marked in Brazil, where the nominal exchange rate between the real and the dollar has experienced a 20% increase. During the same period, the Colombian peso has appreciated by 5%.

For the reasons set out, Fedepalma calls on the National Government and the Republic Bank coming to an agreement on a foreign exchange management policy that facilitates the momentum of productive sectors, such as agriculture and industry, and strengthens its favourable impact on the growth of the Colombia economy.

While awaiting for a more favourable foreign exchange policy for both the industrial and agricultural sectors, and in the face of the economic situation described, what can oil palm growers do? Do they just have to give up and wait for better market scenarios? Fortunately, the answer to these questions is encouraging. Even though the behavior of international prices and exchange rate is beyond their control, oil palm growers can act decisively in the productivity front, a field where there is still a long way to go.

Thus, the average goal for the sector is to increase productivity levels in at least 50%, by the systematic and widespread incorporation of technologies for high yield crops, currently available, and the adoption of good practices at all levels.

It is notable in this context the implementation of an appropriate agronomic management

considering geographic information systems, efficient water resource management, land improvement, and of course, sanitary control measures, is highlighted. In this context, the role played by technical assistance and audit units of oil palm clusters, or the like, is of paramount importance

Likewise, it is important to reiterate that a clear management of good international prices, that tends to make the investments required by the production process to increase its competitiveness, is fundamental in the face of the high volatility that characterises them.

It is therefore imperative for oil palm growers, beyond resignation and waiting for favourable market conditions, the willingness to be constantly and decisively working to overcome the barriers that limit the current levels of productivity. It is the success in this task, together with the proper administration of favourable international price situations, which will allow the oil palm agro-industry to consolidate its position as a world-class sector, and the benefits of the activity to be translated into economic, social, and environmental well-being for the people who have made from this crop their main source of income.

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