



# FTA Between Colombia and the United States: A New Challenge to Improve the Competitiveness of the Oil Palm Sector

Colombia began an economic opening process since the end of the nineteen-eighties, becoming more evident over the last ten years after signing Free Trade Agreements -FTA- with various countries and economic blocks, resulting in changes in the country's economic and trade policy. We must recall that the negotiation process for the FTA with the United States took place between 2004 and 2006 and adjustments were made to the initial agreement on environmental and labor matters in subsequent years. It finally came into force six years later, on May 15 2012. Clearly the economic and trade changes fostered by these FTA are not disengaged from the new reality of the Colombian oil palm agroindustry, and consequently they have become a challenge for our economic sustainability.

Since the US is one of the world's main producers and exporters of oleaginous seeds, oils, and fats, the FTA with this country is especially relevant for our productive activity. As a result of this trade agreement, Colombian oils and fats, including palm oil and its derivatives, have gained access to the US since the month of May without paying any tariffs; on the other hand, Colombian tariffs for imports of oils and fats from the US will be gradually cut back in a period of five years, concluding in 2016.

The better access conditions for oils and fats coming from the US will have a moderate impact on the sector's revenues in that the domestic palm oil production will have to compete with substitute oils and fats at lower import costs, mainly of soy and its derivatives, especially when international prices are low. It is also true that accessing the US market without paying tariffs, a market of 300 million people, implies new possibilities for our agroindustry as we can benefit

from market opportunities in the food industry such as palm – olein and stearin fractions, lards, margarines and special fats; and in non-food uses, such as palm biodiesel and biodegradable detergents, amongst others. Additionally, the FTA with the US may generate incentives for foreign investment in different links of the palm oil's value chain. This could strengthen it and generate industrial platforms in lines such as renewable power and oleochemistry, which would signify greater market opportunities for the Colombian palm oil and its derivatives.

The trade changes faced by the oil palm growers are not an exclusive consequence of the commitments undertaken through the Free Trade Agreements. They are also the result of an inwards opening in the sector derived from its growth over the last two decades. Since 1989, the agroindustry has achieved an exportable surplus of palm oil as the production is larger than the local demand, both for edible and non edible uses. Colombian palm oil is present in international markets because palm oil producers are allocating their surplus product in these new markets.

This new trade conditions require the palm oil agroindustry to become more competitive to survive and succeed in this new reality. Producers need to increase their productivity. The concept of competitiveness has variables controlled by the producers, and others that are not. Fedepalma insists on the importance of working towards high yield plantations, because the fruit and oil productivity are some of the most important factors in the reduction of unit production costs. In this field, although some producers are doing a good job, there are still many growers with poor productive yields, and they require action to reduce their productivity gaps. Failing to

do so will result in economic difficulties and the feasibility of their plantations will be jeopardized, especially if the price of palm oil declines in the international market.

Clearly the significant revaluation of the Colombian peso to the Dollar deteriorates the sector's revenues, both in the domestic market when competing with increasingly low-priced imports of oils and fats, and in the export market when constantly receiving less pesos per dollar associated to exported volumes. This also drains the sector's competitiveness as it raises the prices in relative terms of non-negotiable items such as labor.

Prices for palm oil, and for commodities in general, are at a historical peak. This provides a relief for those oil palm growers who are not competitive, because even with those conditions, they are still receiving a positive economic return. However, what will happen when the prices fall again, knowing that the prices are characterized by their volatility?

As a result of the above the Colombian oil palm sector is working to become a world class one. Together with the other links of the productive chain, and with the support of the National Government –in the Productive Transformation Program (PTP) - they are analyzing the competitiveness of the oils and fats productive chain to identify and develop actions required to boost this activity.

The production coming from all new oil palm plantations in Colombia is directed to the ex-

port market, since the domestic market is already served by the existing plantations –Even the palms required to serve a higher biodiesel blend are already planted. In line with the new trade reality, it is mandatory to examine and assess the competitiveness of all the palm oil production units including their operation scale, the location of the plantations, the treatment plants; as well as their distance from the target markets, soil features, technical assistance, the technological package used, and the potential high yields, which are all crucial to reach a competitive agroindustry

The organization of this activity around nuclei and taking advantage of economies of scale is very important. Additionally, the responsible use of natural resources, added to correct labor practices with a sense of corporate responsibility, will be highly relevant in these new conditions of business.

More favorable conditions are necessary for the well-functioning of the oil palm agroindustry, especially in matters such as security, fair investment conditions, infrastructure, exchange rate, and further support from the state. However, we cannot forget, that in the end, it is oil palm growers with their daily activities who have to work to be competitive and ensure the economic sustainability of our business. May the FTA with the United States be a call for our agroindustry, and each one of its producers, to improve its competitiveness.