Currency Appreciation: Underlying Disruptor of the Agricultural Sector

The country as a whole has witnessed the profound dissatisfaction and unrest among farmers, as a result of the many issues affecting agriculture and livestock activities. In some cases, they have chosen to set up demonstrations and protests in their attempt to get the National Government to come up with support measures and solutions to their problems.

Among the most important causes of their discomfort, farmers point to the following: high cost of inputs; unfair competition and smuggling; high logistic costs aggravated by precarious and insufficient infrastructure; marketing challenges (in relation to inputs as well as end products) given the large number of intermediaries in the distribution chain; the lack of access to farming loans and high financial costs; and, last but not least, diminishing income.

All this, added to price volatility characteristic of agricultural products, increased competition from imported goods, and appreciation of the exchange rate, creates a structural problem that threatens sustainability and boils down to loss of profitability for the entire sector. This is nothing but a combination of increased production costs and diminished income from the sale of agricultural products. However, what is apparently not evident to our farmers is that lower margins are due to a large extent to the fall in the price of the Dollar, a situation that has not been addressed decisively by the Government.

For a sector exposed to growing competition from imported goods, and which encompasses subsectors with a focus on diverse activities and exports, revaluation is at the root of this complex situation, to the extent that it does not only result in diminished revenues from sales in the domestic market as a result of competition from cheaper imported products, but also diminished income from exports.

With a 38 % appreciation over the past decade, the most aggressive ever experienced in the country, and with the establishment of the Free Trade Agreement with the United States at a time when the exchange rate was 400 pesos higher than today, the agricultural landscape cannot be the same. Overcoming this difference required significant increases in competitiveness over the same period of time in order to help mitigate the effects of such differential. However, none of this is reflected in the World Economic Forum comparative results for Colombia, that show that the country is lagging behind and appears among the most marginal positions in terms of infrastructure, labor costs, institutions, and innovation.

The appreciated exchange rate increases the cost of non-tradable inputs, namely those that have to be acquired locally. The fact of the matter is that competing against a revaluated dollar means also that those sectors that have decided to tread the path of formalization of rural jobs have faced significant increases in labor costs over the past decade. Wages measured in dollars have increased by close to 180 %, imposing serious limitations on competitiveness.

As for oil palm growers, they have been experiencing cost increases given that 60 % of their cost structure corresponds to non-tradable inputs such as labor, energy, and transportation services. The dire consequence of all this is that, with increasingly higher labor costs, our products are comparatively more costly and sales in domestic and foreign markets are increasingly less profitable.

Such being the state of affairs, it is worrisome to think that any measures adopted by the National Government in response to the current situation of unrest might not include a clear policy aimed at establishing a more competitive exchange rate, which is in fact the crux of the problem in the agricultural sector.