Colombian post conflict opportunities for trade and investment

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This Infocard provides a general overview of the Colombian post-conflict opportunities for trade and investment of the EU companies in Colombia.

The context of the Peace Agreement

The peace negotiations began four years ago between the Colombian government and the FARC, the main guerrilla of the country, in order to end an armed conflict of more than 50 years. One of the most strategic points of the negotiations refers to an Integral Agrarian Reform. It represents an opportunity to promote sustainable development in the Colombian countryside, which has suffered the effects of war, poverty and the abandonment of the State.

Under negotiation between the Government delegation and the FARC, 6 points were agreed upon: 1) Integral agrarian development policy, 2) Political participation, 3) Solution to the illicit drug problem, 4) Victims, 5) End of the conflict, 6) Implementation, verification and endorsement.

Benefits of the Peace Agreement for the Colombian economy

Several reports indicate that the economy could grow an additional 1.5% or more in peace conditions. For Fedesarrollo, among the greatest benefits of having a peaceful society the possibility of reducing expenses in security and defense must be highlighted. Such expenses represent actually close to 3.5% of GDP per year and those public resources would be dedicated...
to more productive activities in economic and social terms (infrastructure, education or public health).

In peace conditions, foreign investment could register an increase of 30% in Colombia. In agriculture, the countryside could produce 700,000 additional tons of food and it is expected that after 10 years, tourism will increase 30% in the country. Finally, more than 10,000 jobs could be created to attend the recovery and maintenance works of the tertiary road network in rural areas.

**Colombian post conflict financing**

According to the Congress of the Republic, the post-conflict will cost € 28,000M and the following funds have been articulated for its financing:

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3 The tertiary road network of Colombia is constituted by about 140,000 kilometers, of which only 60% (about 8,400 kilometers) is paved. Reducing the average time of displacement of agricultural production to the municipal capitals where the collection centers are located is a fundamental requirement to improve the agricultural productivity of the country.
Main economic sectors which will benefit from the Peace Agreement.

Several sectors of the economy can benefit from the implementation of the Trade Agreement within which agro-industry, tourism especially related to the environment and finally infrastructure. In this context, new business opportunities can exist for EU companies.

- **Food processing**

  The main opportunities refer to projects of traditional crops or livestock projects within the framework of the Agrarian Reform. For EU companies, the development of the Colombian countryside presents important business opportunities related not only to investment, but also to the possibility of increasing exports in the following areas: agricultural machinery, inputs (fertilizers, among others, which are mostly imported), new information technologies applied to the agricultural sector, agricultural insurance (almost non-existent at this time). Opportunities can also be presented in the production of renewable energy from some agricultural waste.

  Since the peace agreement focuses mainly on the agricultural sector, Colombia will have for the first time, the opportunity to develop its enormous potential in this sector. Some projects are already being implemented.

  The area cultivated in the country is 7 million, while the area planted with grass is 32 million and could be used to harvest more food. Taking into account the location of the country, Colombia has various thermal floors with heights above sea level ranging from 0 m.s.n.m. (> 24 °C) up to 4,000 m.s.n.m (<6 °C). This plurality of landscapes, and climatic diversity allow the sowing of a wide variety of crops and forest products. According to the FAO, "Colombia is one of the seven countries in which the development of food production must be concentrated in the future."

  The Rural Reform focuses on four main themes, namely:

  1. The use and access to land, to encourage agricultural production and formalize rural property, updating cadastral information.
  2. Special Development Programs with a Territorial Approach in the territories that require priority attention.
  3. National Sector Plans for the reduction of rural poverty, the improvement of agricultural productivity and investment in infrastructure (tertiary roads, risk and drainage systems, electrification and digital connectivity in the countryside).
  4. Special food security system and nutritional, which seeks to improve food production and strengthen local and regional markets, among others.
In this context, some projects are being developed through Corpica\(^4\) such as the “Cocoa for Peace” program, or animal genetic improvement programs in the most affected by the conflict areas. The latest will allow producers to have better animals, more productive and able to improve the economic conditions of families. Other programs to substitute crops are related to the areas where the conflict has had the greatest impact and there is a greater number of hectares sown with illicit crops.

Another great field opportunity has to do with the development of markets for organic products. According to the UNCTAD (United Nations Conference on Trade and Development), the world trade of organic products reached nearly 45,000 million dollars with an annual growth rate of 10\% offering excellent prospects for countries like Colombia. The technical assistance and the necessary inputs for the development of greater organic production can present another great opportunity for EU companies.

- **Tourism and environment**

Tourism will be one of the key sectors for the development of the country as well as the regions and their communities and finally, for the actors disengaged from the conflict.

According to the latest report from the Ministry of Industry, Commerce and Industry (MinCIT), in the first four months of the year, Colombia registered an increase of 43.1\% in the number of international travellers compared to the same period of the previous year. Between January and April 2017 Colombia received 1,987,989 travellers, 598,685 more than in the same period of 2016.

The implementation of the peace agreements will represent an opportunity to assess the environmental potential of the Colombian regions affected by the armed conflict. In Colombia, and generally in Latin America and the Caribbean, tourism is very much linked to the environment. According to a UNDP report that highlights the region as a superpower in

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\(^4\) Corpica is a decentralized public entity with mixed participation. Its main objective is to contribute to the technical change of the agricultural sector [http://www.corpoica.org.co/](http://www.corpoica.org.co/)

biodiversity, close to 70% of international tourists visit at least one protected natural area in the region and tourism sector is tightly linked to the environmental potential of the country³.

The challenge for tourism companies is to offer quality services with international standards as do other countries in the region such as Peru and Mexico. Some important EU groups are already present in Colombia such as the French group Accor or the Spanish hotel chain NH. Next to those large investments, there are much more modest initiatives implemented by natural persons or small companies in the EU that propose hotels, cabins, restaurants or complete tourist packages offered in the territory of the European Union with a more ecological approach.

- **Infrastructure**

Colombia has a significant lag in terms of infrastructure⁶. The government is aware that the mere fact of allowing better access to land is not enough to get out of poverty and achieve the sustainable development of the countryside. As such, the concept of integral access was incorporated, that is, access to land accompanied by public goods such as infrastructure and land adequacy, tertiary roads, irrigation and drainage districts, electrification and internet connectivity.

The development of a tertiary network roads, which will complement the Fourth Generation (4G) highway project designed by President Juan Manuel Santos⁷, should allow Colombia to **obtain a competitive advantage in international trade for its products**, particularly for the food processing sector.

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1. [http://www.latinamerica.undp.org/content/rblac/es/home/library/environment_energy/latin_america_and_the_caribbean/biodiversity/superpower.html](http://www.latinamerica.undp.org/content/rblac/es/home/library/environment_energy/latin_america_and_the_caribbean/biodiversity/superpower.html)

2. Global Competitiveness Index
   - Out of 160 countries, Colombia ranks 110th
   - Rank 13 out of 19 countries in Latin America

3. Logistic Performance Index
   - Out of 160 countries, Colombia ranks 94th
   - 60% of world economies have a better logistic performance than Colombia

4. See our Elanbiz info card at: [https://www.elanbiz.org/documents/20182/43477/El+programa+de+cuarta+generacion+de+concesiones+viales+en+Colombia/61a7e542-5764-415e-6581-a659a2f0f60](https://www.elanbiz.org/documents/20182/43477/El+programa+de+cuarta+generacion+de+concesiones+viales+en+Colombia/61a7e542-5764-415e-6581-a659a2f0f60)
For more information about business possibilities in the post-conflict context, we recommend to read the ICEX report “Colombia in peace. Challenges and opportunities of the Colombian post-conflict”.

**Tax incentives adopted by the government**

An effective implementation of the peace agreement requires private investment and companies that generate formal employment. In order to achieve this objective, the Colombian Congress has defined two very important mechanisms in the framework of the latest tax reform:

- **Incentives for the location of companies in 350 municipalities specially affected by the armed conflict.** For this purpose, the Law 1819 of 2016 provides for an income tax exemption for the first 5 years for small and medium-sized companies (2017-2021), then 25% of the normal rate (2022-2024) and finally 50% of the rate (2015-2017), until the normal rate is paid after 2028. Large and medium-sized companies must pay 50% of the normal income tax rate during the first five years (2017-2032), then 75% of the rate (2022-2027), until paying the normal rate from the year 2028.

- **Tax discount for infrastructure works:** Companies that have the obligation to pay taxes, can choose to pay half of these and allocate the difference / or remaining amount to the construction of infrastructure (such as schools for example).

**How does the EU contribute to create business opportunities in Colombia?**

The European Union is supporting a sustainable implementation of the peace agreement by promoting the increase of production standards with satisfactory working conditions and the protection of Colombian biodiversity and the environment.

In addition to the support provided by the Trust Fund for peace, the Trade Agreement allows better access to the Colombian market for EU companies. In agriculture, an agreement on trade

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in organic products is being negotiated. It will offer good opportunities both for EU producers and for Colombian companies. Finally, the European Investment Bank plans to provide important support for infrastructure works.

1. EU Trust Fund for Colombia.

The EU Trust Fund is managed by the European Commission and is set to have close to €95 million at its disposal, from the EU budget and from contributions of 19 EU Member States (Croatia, Czech Republic, Cyprus, France, Germany, Hungary, Italy, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Spain, Sweden, the United Kingdom, Slovakia, Slovenia).

The Trust Fund mainly focuses on: Rural development at a local level (projects aimed to improve land ownership, to provide organizational support to producers, to articulate public-private initiatives in rural areas, to support sustainable development including substitution of illicit crops, female entrepreneurship, food security and access to basic services) and in the reinforcement of the presence of the State and reconstruction of the social fabric in areas of conflict (strengthening of capacities of governors and Municipal Mayor’s Offices, promotion of the participation of civil society organizations, promotion of the participation of women). As a complement to these actions, resources may be allocated for the provision of specialized technical assistance in areas that are required.

In accordance with the Constitutive Agreement of the Trust Fund, only the EU Members donors, the Colombian Government and the European Commission are allowed to propose actions. The Colombian government has been designed as the Trust Fund Partner. Thus each proposed action must be presented by the Manager of the Trust Fund to the Colombian government for its approval, before to be presented to the Operational Committee.

In accordance with this Agreement, the rule of nationality and origin applicable to the EU external financial instruments contributing to the Trust Fund apply for the eligibility of actions.\(^\text{11}\)

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11 See Art 2.3.1. y 2.3.2. del PRAG – Procedures and Practical Guide according to which legal persons which are effectively established in a EU MS or in Colombia, as the beneficiary party of the actions financed by the Trust Fund can apply. In the same manner, goods supplied in the framework of the actions funded by the Trust Fund must originate from the territory of a EU MS or from Colombia as the beneficiary. [https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/procedures-and-practical-guide-prag_en](https://ec.europa.eu/europeaid/funding/about-funding-and-procedures/procedures-and-practical-guide-prag_en)
2. The Trade Agreement.

- The Trade Agreement improves the Colombian market access for EU companies.

The EU-Colombia/Peru Trade Agreement is a Fourth Generation Agreement. It not only facilitates access to the goods market by eliminating tariffs on EU and Colombian products, but it also provides access to services markets and investments. Additionally, it allows participation in the public procurement processes of both parties.

Thus, the Agreement facilitates EU exports of machinery, equipment and supplies which can enter free of custom duty or with a reduced tariff according to their tariff classification\(^\text{12}\). The Agreement also facilitates the provision of services from the European Union within the framework of technology transfers, etc.

- The Agreement provides for an effective protection of the geographical indications belonging both to the EU and to Colombia/Peru.

The Annex XII of the Agreement includes a wide list of geographical indications (GIs), especially for EU denominations. In fact, it only foresees two Colombian denominations, compared to more than one hundred for the EU. Note that the development of GIs is relatively new in Colombia, while it has been for decades in Europe. The development of GIs in the Colombian countryside will open up important business opportunities for both investors and local producers.

3. Negotiations to reach a bilateral agreement on organic products

The negotiations began in the framework of the visit to Colombia of Mr. Phil Hogan, European Commissioner for Agriculture and Rural Development in February 2016 and should end soon. With this instrument, a wider market will exit for organic farmers since administrative burden for business will be reduced. Consequently, more organic products will be available to consumers. The agreement on trade in organic products between the EU and Colombia will be based on the mutual recognition of the respective production rules and control regime as equivalent.

\(^\text{12}\) The “Ask the Expert” service of the ElanBiz platform provides tailored answers according to the HS code of your goods.
4. Specific support of the EU in infrastructure

The loan plan of the European Investment Bank (EIB) amounts to 400 million euros13 for the realization of infrastructure projects, especially during the post-conflict. Indeed, rural development and the improvement of the competitiveness of the Colombian agricultural sector are closely linked to the existence of an efficient transport infrastructure.

Recommendations for EU companies

- It is important to analyze previously and carefully the local market.
- We recommend to look for specialized advice through bilateral chambers, commercial offices of the member countries of the EU or Colombian entities in the sector.

Links of interest

- Text of the EU-Colombia/Peru Trade Agreement
- Delegation of the European Union in Colombia
- Office of the high Commissioner for Peace
- Colombian Post Conflict Ministry
- Colombian Reintegration Agency

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