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Colombia: End Of Cocaine Industry Profits May Result In Economic Devastation

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On Sept. 4, the eve of President Bush's nationwide drug policy broadcast, Colombian President Virgilio Barco sent Bush a letter warning that Washington's stand on world coffee quotas could devastate the Colombian economy. Barco blamed "a lack of political will by the United States" for the coffee problem, which could also undermine Barco's efforts to eradicate cocaine production and trafficking in Colombia. Barco said the collapse in July of a International Coffee Organization's quota agreement has resulted in a steep price decline that may cost producer countries $4 billion over the next year. Losses to Colombia, the world's second-largest producer after Brazil, could reach $400 million. In comparison, Bush promised a total $260 million in his Sept. 5 speech to Colombia, Peru and Bolivia for anti-drugs aid in 1990. Low coffee prices on world markets could force the Colombian government to cut subsidies to coffee growers. Some analysts are convinced some growers would then turn to coca leaf cultivation as an alternative source of profits. Coffee accounts for one-third of Colombian exports. Barco pointed out that coffee prices had plummeted by 50% in two months to "the lowest level (in real terms) since the Great Depression." In his letter, Barco called for an "emergency plan" to reactivate the old quota system from next month through September 1990 while immediately launching negotiations aimed at reaching a new world coffee pact to take effect Oct. 1, 1990. The ICO, comprised of 74 producer and consumer nations, had maintained relative price stability for 27 years. On July 4, the pact collapsed and Colombia blamed US "intransigence." Washington supported a proposal for higher quotas for the producers of "other milks," one of the three categories of coffee. Colombia produces "super mild" coffee, Brazil and some African countries "mild" brands, and Central America and a few other South American nations the so-called "other milks." The US-supported proposal would have reduced Colombian quotas but would have had the greatest impact on Brazilian exports. Although Colombian representatives said they were willing to accept limited quota reductions, they opposed higher quotas for other milks in solidarity with Brazil. According to Copley News Service, Barco's letter to Bush received front-page treatment throughout Colombia, and fueled anti-US sentiment. In its Sept. 11 issue, the New York Times reported that both government and independent economists in Colombia say that an abrupt halt to the drug trade would result in a four to five-year deep recession. In 1988, drug trade profits totaled $4 billion, more than 300% the $1.2 billion expected this year from coffee exports. The Times cited government and independent economists who estimate that as much as $1.5 billion in drug trafficking profits circulated in the Colombian economy last year, equivalent to 20% of the country's total export revenues. An estimated 300,000 of Colombia's 32 million people may be directly or indirectly employed in the cocaine business, and up to 1.2 million may benefit from the proceeds. Fernando Tenjo Galazza of the Department of National Planning, was cited as follows: "If the narcotics trafficking stopped suddenly it would be like having a coffee crisis and oil crisis at the same time." Colombia would need substantial aid from the US and other countries to recover from a recession induced by cutting off cocaine profits. Unidentified economists cited by the Times said Colombia would expect US support for renovating the ICO, and a reduction and import restrictions. Bogota would also likely request easier terms on foreign debt repayment.
Debt service on Colombia's $16 billion debt absorbs 42% of export revenues. Drug traffickers often use fictitious names and dummy corporations under which they have extensive investments in Colombian industries, construction, agriculture and livestock. The Times cited Jorge Enrique Varagas, deputy director of the Department of National Planning, as saying that cocaine money has distorted the economy. In the past three years, he said, drug money has caused the price of real estate and homes to double. Since drug traffickers pay cash, said Varagas, the finance industry has suffered. According to the Times, the Colombian government has not yet developed a plan aimed at coping with the loss of cocaine income. (Basic data from Copley News Service, 09/08/89; New York Times, 09/11/89)

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