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Privileged coal: the politics of subsidies for coal production in Colombia

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CONTENTS

1. INTRODUCTION

Colombia is one of the world's top five exporters of thermal coal (IEA 2016), and the coal mining sector is a core pillar of the national government's economic development policy. In recent years, however, the country has seen increased debate about the governance of the extractive sector (i.e. production of minerals, oil and gas) and the real costs and benefits of mining, particularly large-scale coal mining. This debate has played out in the media (Cock 2017; Ruiz Soto 2015), in academia (Suárez Montoya 2013; Henao et al. 2016) and in the policy arena (Sánchez Pérez 2012; El Tiempo 2014). It has focused on the lack of transparency in the governance of mining, on the participation of subnational authorities in mining-related decision-making, on the actual use of income generated by mining activities, and on the severity of mining's environmental and social impacts (Fierro Morales 2011; Dietz 2017).

As a result, the mining sector – including coal extraction – suffers today from decreasing support from the general public and some local governments who argue they do not receive enough of its economic benefits (Long 2017). This situation has contributed to a redesign of mining policy (MME 2016), and has encouraged the national government to become a member of the Extractive Industries Transparency Initiative (EITI) in an attempt to improve governance of the sector. Despite these changes, government support to the mining sector, including to coal mining, is increasingly a controversial subject in Colombia. For example, left-wing senator Jorge Robledo declared in 2011 that the tax system in Colombia was deliberately confusing and that important facilities had been assigned to the extractive sector (Notiagen 2011). Another key issue is whether the state is levying its fair share of resources (Rudas Lleras and Espitia Zamora 2013), a question that has been discussed by legislative representatives (Gaceta del Congreso 2014) and in the media (Portafolio 2012; Londoño Calle 2012).

Following the 2016 peace agreement with the Revolutionary Armed Forces of Colombia (FARC), the Colombian government turned to the question of how to finance the peace process. That year, the country's oil revenues had declined significantly, following a rapid decrease in global prices. To rebalance public accounts and address critical revenue shortages, the government promulgated a structural fiscal reform. Reform proposals focused on increasing the Value Added Tax (VAT) and reducing tax evasion, yet they largely ignored long-running fiscal support to sectors such as oil and mining, even though the restructuring or elimination of subsidies might have unlocked a source of additional government revenue.

The ways in which the government provides financial and other support for the extractives sector, and for coal mining specifically, is opaque at best. There is rarely explicit "subsidies" language in policy debates and academic literature, and the Columbian government's first two EITI reports (MME 2017; MME 2015a) make no mention of any subsidies to extractive industries. Indeed, in the Colombian and broader Latin American context, the word "subsidy" has acquired a rather negative connotation as a result of the industrialization and imports substitution (ISI) development strategy that dominated economic policy between the 1950s and 1980s. This economic development model was largely based on subsidies to domestic industrial production, and it has often been linked with a patrimonial allocation of state support and to the idea of protectionism (Garay Salamanca 1998). Therefore, in the current Colombian economic model, where neoliberal economic policy and rhetoric prevails (Gudynas 2013), the word "incentive" is used more often than "subsidy" in policy debates. Nonetheless, the Colombian government provides fiscal support and other support structures that benefit coal (and other) mining activities, and these remain remarkably resilient despite the fiscal reform and the public debate described above.

This paper is therefore interested in two things. First, we wish to describe some of the subsidy mechanisms that support coal extraction. To do this, we synthesize available information about various kinds of government support benefiting the sector and classify it according to the subsidies framework of the Global Subsidies Initiative (GSI 2010b; GSI 2010a). Transparency over subsidies is useful to inform future domestic debate on public finances and mining governance; it is also of broader interest to international discussions about tackling fossil fuel subsidies (OECD 2015).

Second, we wish to understand how the subsidies regime – and broader government support for the coal mining sector – has continued in the face of national fiscal reform and rising domestic debate about the mining sector. Here there are both "why" and "how" questions. Why is the government so supportive of coal mining, and why has the subsidies regime that benefits coal mining remained unchallenged? How have industry and government been able to protect the subsidies regime and deflect opposition to it? In Section 2 of this paper, we synthesize literature on the political economy of coal mining in Colombia, to draw together an overview of some of these dynamics that explain the why.

Our main interest, however, is to focus on the "how" questions. By analyzing how political factors and strategies of incumbent actors shape subsidies to coal extraction, we help fill a gap in the literature on societal transitions. Indeed, this literature typically emphasizes structural barriers that make change difficult (such as policy barriers and path dependencies) or how new "niches" might be nurtured (such as new technologies). It focuses rather less on understanding the strategies used by incumbent industries – or coalitions of industry and government – to actively reinforce the regime and prevent change.

After a brief overview of the coal sector and its socio-economic importance, we introduce the conceptual framework that guides our analysis, followed by some of the key subsidies to large-scale coal extraction. We then explore why and how these subsidies have been promoted. Finally, we illustrate our analysis with three key examples: the Plan Vallejo; a special income tax deduction for investment in real productive fixed assets; and a royalty rebate. These examples were selected based on the variety of political dynamics they illustrate at different stages in the lifetime of a subsidy.

2. THE ECONOMIC, SOCIAL AND POLITICAL ROLES OF COAL EXTRACTION IN COLOMBIA

Colombia produced roughly 85 million tons (Mt) of coal in 2015, corresponding to 1.5% of global production (British Petroleum 2017). Over 90% of it is high quality thermal coal from large-scale open pit mines in the La Guajira and Cesar departments (SIMCO 2016). Compared to many other major coal producers, Colombia consumes little coal domestically: it uses only 6.5% of its production, mainly for power generation and industrial use (IEA 2016). In 2015, virtually all the large-scale coal production in the La Guajira and Cesar departments was exported (SIMCO 2016).

In Colombia, the legal and institutional framework governing coal extraction is for minerals, whereas other fossil fuel extraction activities such as oil and gas fall under energy policy. Since 2000, large-scale coal extraction has been dominated by transnational and multinational companies, with three of them – Cerrejón, Drummond Ltd. and Prodeco – producing more than three-thirds of all Colombian coal (MME 2015a).

In 2015, coal mining represented about 1.3% of the country's gross domestic product (GDP) and 12% of exports (MME 2016). It thus plays an important role in improving the trade balance. The economic weight of coal extraction is particularly significant in the two main producing departments: in 2013, the industry contributed to 38% and 47% of the regional GDP in the César and La Guajira departments respectively (DANE and Banco de la República 2015a; DANE and Banco de la República 2015b).[1]

The extractives industry in general has also been a substantial contributor to the country's public finances, comprising about one-third of regular revenues in 2013 (Nieves Zárate and Hernández Vidal 2016). Most of that comes out of the oil and gas sector: in 2015, the sector was responsible for three-quarters of the extractive industry's contributions to the country's public revenues via taxes, royalties and other types of financial compensation (MME 2017). For royalties only, in 2014, 82% came from oil and gas extraction, compared with 15% from coal extraction, and 3% from other minerals (MME 2015b).

However, the wider economic impacts of large-scale mining are being questioned. Some highlight a lack of overall socio-economic development despite the extraordinary rents the commodity boom brought to the country (Torres et al. 2015; Rudas Lleras and Espitia Zamora 2013); others worry over the potential negative macro-economic effects of resource extraction (Torres González 2014). In a 2016 study commissioned by the Colombian Mining Association, 59% of the interviewed inhabitants of mining municipalities said their well-being would improve if no further mining activities were developed (Arteaga 2016)[2].

Serious concerns over the environmental and human security impacts of large-scale coal mining have also been raised. Issues with community (voluntary or forced) relocation and indigenous and afro-Caribbean communities' rights (Múnera Monte et al. 2014) have been highlighted, as well as air, water and soil pollution (Cardoso 20151201; Cabrera Leal and Fierro Morales 2013). Between 2000 and 2016, at least 179 social conflicts linked to the extractive sector (especially coal, gold and oil) have been registered (Valencia and Riaño 2017). In a 2016 survey carried out across ten important Colombian cities, 86% of respondents said mining is destroying the environment; still, 78% said they consider it essential for development (Rojas and Hopke 2016). While education and exposition to media play a role in influencing public opinion, their influence is very limited and further research is necessary to fully understand how public opinion on mining forms in Colombia (Rojas and Hopke 2016).

1 In 2015, more than 92% of coal was produced in the Cesar and La Guajira departments (SIMCO 2016).

2 While this view has slightly improved since then, distrust towards mining companies and the institutions responsible for governing extractive activities largely prevails (Arteaga 2017).

Coal production also plays an important part in the country's politics. Since the 1990s, the national government has based its economic policy on internationalization (the process of increasing integration into the global economy) and has embraced the extraction of natural resources as a main driver for development, thus facilitating the entry and operation of foreign financial and technological capital into the large-scale extractive sector (Vélez-Torres 2014). During this period, key mining actors reinforced their links with the national political elite (Sankey 2013), enabling the creation of a strong coalition between the national government, local elites and the mining sector under the administration of Álvaro Uribe (2002-2010) and Juan Manuel Santos (2010-2018). This coalition has been instrumental in shaping the subsidies regime for fossil fuels and minerals extraction.

3. CONCEPTUAL FRAMEWORK

So far, literature on fossil fuel subsidies has tended to focus on identifying and estimating them in different contexts (Gerasimchuk 2012; Koplow 2009), and on the environmental and welfare implication of removing them (Mundaca 2017; Wesseh et al. 2016). However, as it has become clear that reforming fossil fuel subsidies is extremely difficult even in contexts where they are clearly identified and deemed as inefficient and/or costly (Beaton and Lontoh 2010; Vagliasindi 2013), more attention has been paid to the politics of fossil fuel subsidies introduction, maintenance and removal (Lockwood 2015; Rentschler and Bazilian 2016). Indeed, for governments and other policy-makers, providing or removing subsidies responds to a wide range of economic and socio-political objectives (Oosterhuis and Umpfenbach 2014). At the same time, their existence or removal is accompanied by multiple discourses that strengthen or challenge their legitimacy (Victor 2009).

Understanding why and how subsidies are introduced, modified or eliminated thus requires a political economy lens. Political economy analysis helps explain the relationships between states, social groups, market forces, and civil society, and the processes and phenomena that change these relationships over time (Room 2001). It takes into consideration different views of power, from emphasizing cultural norms and discourse, to focusing on institutions, military capabilities or economic dominance.

Before exploring in more detail how subsidies to coal production have been introduced, maintained and removed, we must consider why there are subsidies in the first place. The politics of subsidies include both the demand for subsidies from typically well-organized groups of private actors as well as the supply of subsidies by government in the pursuit of specific policy goals (e.g. attracting foreign investment or fostering industrial development) (Victor 2009). In the Latin American context, the relationships between these two types of actors takes a particular form. Indeed, various authors have commented on the formation of an alliance between political elites and national and transnational extractive companies (Veltmeyer and Petras 2014; Levy and Newell 2002). In the energy transitions literature, this type of alliance between policy-makers, public officials and incumbent companies has been conceptualised as coalitions interested in maintaining the status quo and resisting fundamental change towards low-carbon economies (Geels 2014; Levy and Newell 2002; Unruh 2000). One practical example is the "minerals-energy complex" in South Africa, under which the backing of policy-makers has enabled capital accumulation by coal and other extractive industries (Fine and Rustomjee 1996).

Therefore, in this study of the Colombian case, we look at the political strategies used by an incumbent coalition of actors – comprising the national government, major coal extraction companies, and other mining companies – to introduce and maintain subsidies that benefit coal extraction. We explore the political strategies and factors behind coal subsidies by analysing the different forms of power at play in regime resistance against low-carbon transitions (Kern 2011; Geels 2014): discursive, instrumental and institutional. Discursive forms of power refer to the processes of elaborating and making public discourses, which shape not only what issues are being discussed (thus setting agendas) but also how those issues are discussed. The use of frames are key for identifying how subsidies are being legitimised. We can better understand how ideas and norms influence the introduction, maintenance and removal of subsidies by examining how the actors who promote or offer subsidies frame coal extraction and the benefits or "necessity" of government support. Instrumental forms of power refer to cases where actors use resources (such as positions of authority, money, access to media, personnel, or networks) to achieve their goals and interests. Institutional forms of power refer to how elements embedded in political cultures and governance structures (or socio-political factors) are mobilized or contribute to shape the subsidies regime.

4. OVERVIEW OF SUBSIDIES TO COAL EXTRACTION

Defining subsidies is a political exercise (see Box 1). We draw on the definition from the Global Subsidies Initiative (GSI 2010b; GSI 2010a), which builds on and expands the definition from the World Trade Organization's Agreement on Subsidies and Countervailing Measures. The GSI thus defines subsidies as preferential treatment in all forms (financial and otherwise) provided to selected companies, to one sector or product when compared with other sectors, or to sectors or products in one country when compared internationally. It distinguishes the following categories of subsidies to fossil fuel producers: direct and indirect transfer of funds and liabilities; government revenue foregone; government-provided or government-purchased goods or services; and income or price support.

Box 1: The politics of defining subsidies

Fossil fuel production subsidies have been increasingly criticized for distorting energy prices, for contributing to environmental damage, and for diverting large quantities of public finance away from clean energy investments and other key development sectors such as education (Whitley 2013; Bast et al. 2015). Calls for phasing out subsidies have multiplied. However, neither governments nor expert organizations – such as the Organisation for Economic Cooperation and Development, the International Energy Agency and the International Monetary Fund – agree on how to define fossil fuel subsidies (Gerasimchuk 2014; OECD 2010).

The challenges in defining subsidies have resulted in the emergence of varying methods to estimate subsidies to energy in general and to fossil fuel production specifically. Two main approaches can be distinguished. One builds on the benefits conferred on a specific group; the second uses a price-gap between the actual price and a benchmark price (Koplow 2009; Beaton et al. 2013; van Asselt and Skovgaard 2016).

The definition of a fossil fuel subsidy has implications of a political economy nature. Subsidies may go against free trade agreements, other kinds of bilateral and multilateral agreements, or the World Trade Organization's rules. Yet, governments implement subsidies with political and economic goals in mind, such as promoting exports, attracting foreign direct investment, or remaining in power. Strong vested interests then emerge around subsidies maintenance once they are put in place (Victor 2009). Therefore, despite encouraging statements – such as the 2009 pledge from G20 countries to phase out "inefficient" subsidies – the elimination of subsidies faces serious challenges in practice. That starts with their identification.

As different political and economic circumstances lead governments to implement a variety of measures to support fossil fuel energy, it is important to use a definition that reflects the diversity of mechanisms employed in each context (van Asselt and Skovgaard 2016). When considering the politics behind the introduction, maintenance and removal of subsidies – rather than just the scale of subsidies – a conferred-benefits approach is particularly appropriate. It helps identify and classify the type of existing measures and the mechanisms for their implementation, thus contributing useful information about the governance and politics of fossil fuel (production) subsidies.

Despite the lack of "subsidies" language in Colombia, there is a broad range of incentives to large-scale coal extraction, some of which can be considered subsidies (Rudas Lleras and Espitia Zamora 2013; Pardo Becerra 2016; Pardo Becerra 2014). Many of these are tax incentives, a form of indirect support. The Directorate of National Taxes and Customs reported 179 tax discounts for the mining sector in 2014 (Parra et al. 2014).

In this section, we provide a non-exhaustive account of subsidies that the large-scale coal sector benefits or has benefitted from, in order to illustrate the diversity of mechanisms used to promote the sector. In many cases, large-scale coal companies are conferred benefits because they belong to the wider mining or extractive sector. But it is worth noting that in some cases, subsidies are specific to the large-scale coal sector. The following examples also show that while some of the subsidies are conferred through legal or administrative measures that target the (coal) mining or extractive sectors explicitly (de jure), some other conferred benefits are more general economic incentives that have ended up serving the interests of the mining or coal industry disproportionally (de facto). Table 1 summarizes the subsidies presented in this section according to the GSI classification.

In terms of revenue foregone, the coal sector (and the rest of the mining industry) benefits from an exemption on departmental and municipal taxes. Departmental and municipal governments are prevented from generating additional tax income from coal exploitation and exploration (Pardo Becerra 2014). The mining industry, including coal, also benefits from a deduction for early amortization: mining exploration and development expenditures are written off within at least five years, and expensing of failed explorations is allowed.

Between 2004 and 2011, the sector disproportionally benefited from a special deduction in their income tax of 30% from the investment value of newly acquired real productive fixed assets (Rudas Lleras and Espitia Zamora 2013) (See Section 6.2). Further, a 1959 measure to stimulate exports, known as the Vallejo Plan, allows Colombian companies to claim total or partial exemption from customs duties (such as tariffs and VAT) when they import raw materials, intermediate inputs, capital goods and spare parts that are destined for the manufacture of export goods. The Vallejo Plan was intended to incentivize the manufacturing industry and promote non-traditional exports; however, it ended up disproportionally favouring the coal sector (see Section 6.1). In addition, the 2016 fiscal reform re-introduced the Certificate for Tax Rebate for the extractive sector; this credit can be applied to taxes on income, custom duties and other taxes.

Besides the tax expenditures described above, large coal mining also benefits from an exemption from special taxes because of its geographical proximity to the border with Venezuela. In 2001, a tax relief measure was introduced to support the economy of border areas, exempting liquid combustibles distributed by the national oil company Ecopetrol from VAT, import duty and a “global” tax on gasoline and diesel (a general tax on the consumption of gasoline and diesel in force between 1996 until 2013). This measure was initially supposed to be temporary, but was extended and modified on several occasions. In 2007, the exemption was restricted to “big consumers”, or those consuming on average more than 20,000 gallons a month. As a result, there were fewer beneficiaries from the measure; however, one of these was the large-scale coal industry. The subsidy was eliminated in 2010 as part of tax reform in the Santos’ administration.

The coal sector, like the rest of the mining industry, is also eligible to deduct royalties from its income tax (see Section 6.3). This measure cost the Colombian State more than COP 13 trillion (approximately USD 6.2 billion) between 2006 and 2012 (Congreso de la República 2014).

Some coal companies benefit from special conditions under the Private Property Recognition scheme, a legal provision establishing the royalty rate at 0.4% or more of the production value. This compares with the general minimum rate of 5% of the mining pit revenue for companies extracting up to 3 million tons annually; that rate is 10% for companies extracting more than 3 million tons annually. This special regime applies to certain mining titles issued by the state to private individuals during the nineteenth century (intended to boost mining). It did not include environmental, technical or economic obligations until 2011, when the 0.4% minimum royalty rate was introduced through a ruling by the Constitutional Court. Three of the 55 existing Private Property Recognitions are for coal (Pardo Becerra 2012), including one for a title owned by Cerrejón (Cerrejón 2010).

Regarding benefits from the provision of goods and services below market value, the mining sector receives special security and protection services by the Colombian government (CODHES 2011; Vélez-Torres 2014). This can take the form of providing information, escort and backing, as well as designing security protocols and managing dynamite stocks on site. Companies appear to be contributing to part of these costs but not all of them (Glencore 2015). This type of relationship between companies and the state is established formally in agreements between the Ministry of National Defence and the companies themselves (Sarmiento 2008). However, these contracts are mostly kept secret under the argument of preserving national security (Tierra Digna 2015). In 2011, about 12,000 army and navy personnel were reportedly protecting extractive operations (Mining Colombia 2011).

In the category of relief from normal costs and procedures, an example of a subsidy is the use of the "Project of National and Strategic Interest" classification. Private projects that are deemed strategic for the social and economic development of the country are eligible for special procedures relating to environmental licensing and land ownership applications (González Espinosa 2015). In 2015, at least two coal extraction projects benefited from the scheme: the second rail line transporting coal from the César department to the Caribbean ports, and the expansion of the harbours used by Drummond Ltd., Prodeco and Cerrejón (MME 2016).

Table 1: Examples of subsidies to coal extraction classified by subsidy category

Subsidy category	Subsidy type	Subsidy description	Beneficiary
Government revenue foregone	Tax expenditure	Exemption from departmental and municipal taxes (e.g., tax on industry and commerce)	Mining industry
		Special deduction in income tax for newly acquired real productive assets	Mining industry
		Deduction for anticipated investment amortisation	Mining industry
		Exemption from special tax on combustibles	Coal industry
		Various exemptions and deductions through Plan Vallejo	Coal industry
		Certificate for Tax Rebate	Extractive sector
	Reduced royalties payment	Royalties tax rebate	Mining industry
		Private Property Recognition Scheme	Specific case
Government-provided or government-purchased goods or services	Under-pricing of government-provided goods and services	Security and protection services	Specific case
Relief from normal costs and procedures	Exemption from government procedures normally followed by enterprises	Faster/easier licensing and title securing process through the Project of National and Strategic Interest classification	Specific case

These are only some key examples that illustrate the diversity of subsidies to the (coal) mining industry and the mechanisms used to confer them. However, it is possible that coal mining companies benefit from additional subsidies through special conditions negotiated directly in the contracts they signed with the state (Tierra Digna 2015).

5. THE POWER DYNAMICS BEHIND COAL SUBSIDIES IN COLOMBIA

In this section we describe the political factors and strategies by incumbent actors that explain the existence of a broad range of subsidies to the large-scale coal sector in Colombia. We do so by looking at the three forms of power introduced in Section 3: discursive, instrumental and institutional.

5.1 Discursive forms of power

Exploiting natural resources has been a key pillar of modernization efforts in Latin America since the 1950s, and remains an essential component of economic development models across the region, notably with the global boom in commodity prices in the 2000s (Veltmeyer and Petras 2014). The relationship between extraction and economic development has been a key narrative used by the region's governments to legitimize the existence of incentives to the extractive sector.

In Colombia, the development model shifted noticeably towards the extractive sector during the Uribe administration (2002-2010). A special role in fuelling economic development was given to both hydrocarbons and minerals extraction. The development of the energy and mining sectors, together with the democratic security policy,[3] was seen as the path for Colombia to become one of the leading economies in Latin America by 2019 (Insuasty Rodriguez et al. 2013). The government's discourse on the special role of the mining sector in Colombia's economic development was accompanied by statements on the need for foreign investment to fully develop Colombia's mining potential, and therefore on the need to increase the country's competitiveness by providing incentives to foreign investment.

During the first administration of Juan Manuel Santos (2010-2014), resource extraction maintained its central role, and was framed as one of the "locomotives of development" in the National Development Plan (NDP 2010). In this period, the government also increasingly used the concept of "responsible mining" (Santos Calderón 2014; Presidencia de la República 2013).

Since 2015, however, this metaphor was abandoned in response to the economic and legitimacy issues of the mining sector. A new "peace" frame was introduced: the national government now justifies the incentives given to the extractives sector by pointing to its expected contribution to funding the peace process and its associated social programmes (González Espinosa 2015).

This new frame not only ensures that the extractives sector is perceived as a key partner, or even an enabler, of the country's new development era after the peace deal with FARC. It also leads to distorted public perceptions about the actual importance of coal in Colombia's economy and its actual contribution to the state's income, as well as to the diffusion or suppression of some of the concerns raised about the sector's socio-economic impacts. As the leading mining industry, coal has benefited from being included in a broader mining and energy package that levels out the particularities and differences between minerals and hydrocarbons. For instance, the differences in terms of revenues generated and scope of payments between the hydrocarbons and the mining sector are considerable. The extractive sector paid COP 35 trillion (USD 18.5 billion) to the Colombian state in 2013, but only COP 2.3 trillion (USD 1.2 billion) was from the mining sector. Of that, 85% was paid by the three main coal companies: Cerrejón, Drummond and Prodeco (MME 2015a).

In summary, both the government and mining companies have relied on a discourse that links extractive industries with economic development to justify the allocation of special government support to the mining sector. Consequently, existing differences in how much different extractive industries contribute to public finances and economic development have become blurry. While

3 This policy aimed to re-establish internal order and to protect civilians from illegal, armed organizations, theoretically under a framework of rights and protections related to the rule of law. In practice, the policy privileged a conventional military approach (Mason 2003).

the same underlying logic – that extractives bring about economic development – has remained the main argument to justify subsidies to coal extraction, some nuances have emerged as domestic politics evolve and international commodity price cycles change.

5.2 Instrumental forms of power

A key political factor behind the maintenance of subsidies to the coal sector in Colombia is the strengthening of a broad constellation of actors that include mining business associations and others who benefit from the subsidies regime. Traditionally, lobbying through business associations has been an effective way for mining companies to secure significant subsidies for the sector, as described in Section 6. Until 2014, there were three main business associations defending mining interests: the Colombian Chamber of Mining, the Association of Large-Scale Mining Sector and the Miners' Association (Asomineros). However, they combined to create the Colombian Mining Association, in order to improve bargaining positions and communication to the general public. This fusion implies that the Colombian Mining Association now represents a very large portion of the mining industry, articulating and representing interests from operators, from producers and from the sector's goods and service providers.

As was the case with framing strategies, coal producers have partnered with the rest of the mining industry to benefit from a more powerful position when negotiating with the government. However, this partnering strategy also creates additional challenges for the large-scale coal sector: while facing its own reputational challenges, it now also indirectly faces criticism that was traditionally linked to other mining subsectors, such as the disastrous environmental impacts of mercury use in gold extraction. While the coal sector's strategy had been to keep a low profile to reduce financial and operational risks deriving from social acceptance issues (González Espinosa 2013), large companies are now increasingly engaging in communication activities, using the media to respond to accusations and improve their image.

The large-scale coal sector has also been involved in important partnership initiatives with public institutions, aimed either at improving the performance of the sector (like the EITI) or at engaging in social programmes (such as Alianza Social, a programme through which mining companies make voluntary commitments with the National Agency for Overcoming Extreme Poverty). These initiatives have been useful platforms for the sector to interact with key policy-makers at the national level. At the local level, coal companies and political leaders have historically been closely linked, including through the revolving-door channel (when policy-makers join industries they used to regulate and vice versa) or through political campaign financing (Transparencia por Colombia 2014). For example, several former governors and other local political leaders have had a long-standing relationship with Cerrejón, from when the state still had a stake in the company (González Espinosa 2013).

In short, coal companies have maintained strong ties with the public administration through a variety of channels, while also forming a stronger coalition with the rest of the mining sector through the creation of a unique business association. As will be discussed in Section 6, this contributes to a stronger bargaining position when negotiating government support. At the same time, coal companies have made efforts to improve their communications towards local populations and the general public. They have also heavily invested in corporate social responsibility to increase social acceptance, and by extension, justify the government support they benefit from.

5.3 Institutional forms of power

To understand government support to coal mining, including subsidies, we must consider Colombia's historical legacy of internal conflict and the Colombian state's weakness and lack of legitimacy among significant sections of the national territory and its population. In 1991, the country underwent a constitutional reform that sought to increase the presence of the state by devolving fiscal and political power to lower levels of government and expanding basic social services (Torres del Río 2015). These measures – together with defence efforts to deal with drug trafficking, paramilitary activities and guerrilla warfare – required considerable resources. The state thus needed revenues urgently and introduced successive fiscal reforms that prioritized rapid revenue production (or limited specific expenditures, such as regional transfers) instead of tax efficiency, a situation that has prevailed since the 1990s despite several attempts at structural reform (Olivera et al. 2010). Indeed, royalties became one of the most important public revenues in resource rich regions. In La Guajira, royalties reached an annual average of USD 23.6 million between 1985 and 2004; this amount increased along with production between 2005 and 2007 to an annual average of USD 105 million (FCFI 2009).

At the same time, conditions established in loan agreements with the International Monetary Fund in 1998 and 2003 led to a series of privatisations and restructuring of the state. In other Latin American countries, structural adjustments and pro-market economic policies aim to reduce the role of the state; Colombia, however, intended to use these measures to strengthen the state's administrative functions (Flórez Enciso 2001). This pursuit of short-term revenues partly explains why the economic policy of the 2000s prioritised the extractive sector and introduced incentives for mining. The thinking was that development of this sector would deliver a steady flow of rents for the state, as long as conditions were made attractive enough to foreign investors (Caballero Argáez and Bitar 2015).

Another key dimension here is the fragmentation of political parties and lack of programmatic discipline, a result of modifications in the Constitution of 1991 to political parties' representation in the Congress and also of powerful lobbying by interest groups (Pizarro Leongómez 2002). These political dynamics have favoured the expansion of nominal tax rates while simultaneously expanding tax exemptions (Salazar 2013). To ensure political support within the Congress, the government gave more and more benefits to specific sectors; at the same time, it created new distortionary taxes to obtain additional revenue. This all led to a highly unequal and ineffective tax system.

Thus, from an institutional perspective, two significant elements help explain the politics of subsidies to coal extraction: the need for revenues to ensure the State's territorial presence and control, and the fragmentation in the political system. Both have led to a governance framework and a tax regime favourable to the interests of the extractive sector.

Discussing the three forms of power – discursive, instrumental and institutional – separately helps identify analytically the specific dynamics at play in the Colombian context. In practice, they are intrinsically linked in supporting the introduction and continuance of subsidies, although the ways they combine vary according to the subsidies being examined.

6. POLITICAL FACTORS IN THE INTRODUCTION, MAINTENANCE AND REMOVAL OF SUBSIDIES

To illustrate the previous analysis, this section describes how the political dynamics introduced above have shaped the establishment, maintenance and/or removal of three subsidies that have highly benefited the Colombian coal industry.

6.1 The Plan Vallejo

Plan Vallejo was introduced under the Alberto Lleras Camargo administration at the end of the 1950s in response to a deep economic crisis characterised by a drop in the price of coffee, a crisis in foreign trade, structural unemployment, and a decades-long agrarian conflict. The Plan, combined with tighter currency controls and import restrictions, aimed to boost the transformation of imported raw materials and subsequent export, as well as expand Colombia's export capacity (Garay Salamanca 1998). This effectively represented a shift from the import substitution industrialisation model to a new model based on the promotion of non-traditional exports. As a result, non-coffee exports started to increase exponentially after 1967 modifications to the currency exchange policy (Amézquita Zárate 2009). This frame remains today: the Minister for Trade announced an expansion of the Plan at the end of 2016 with the aim of increasing exports from sectors other than mining and energy (Lacouture 2016).

The 1960s economic policy change was also the result of a significant shift in the country's politics. At that time, a political agreement known as the National Front (1958-1974) had emerged after years of bipartisan violence and military dictatorship, where the two main political parties (Liberal and Conservative) alternated power during four presidential terms. Under these special political circumstances, clientelism deepened (Leal Buitrago and Dávila Ladrón de Guevara 2010). The interests of the emerging bourgeoisie and old landowners converged in order to maintain the patrimonial order and keep generating high profits from coffee exports and industrial production. (Leal Buitrago 1996).

Although the Plan has gone through a series of modifications since its introduction, especially regarding its administration, its main terms (see Section 4) are still being applied five decades later. However, the definition of "non-traditional exports" has not been adjusted over time, even as the actual export mix has changed. As a result – and against the spirit of the initiative – the industry benefiting most from the policy has been coal mining. Along with the internationalization of Colombia's economy, the share of coal exports under Plan Vallejo increased from 3.2% in 1985 to 27.2% in 1990 (Garay Salamanca 1998). In 2015, over one-third of the exports made under the Plan were coal (Granada López et al. 2016).

The maintenance of Plan Vallejo was called into question by the World Trade Organization (WTO), whose Trade Policy Review Body identified the Plan as an export subsidy in 1996 and reported it to the Committee on Subsidies. Colombia was given until 2003 to phase out Plan Vallejo and other export-related incentives. Thanks to "heavy diplomatic artillery", the country was granted a three-year extension (El Tiempo 2002). After further negotiations, Colombia managed to keep the Plan for raw materials and services, although the country had to limit its scope with regards to capital goods and spare parts. Subsequently, during negotiations about a free trade agreement, the United States initially requested elimination of the Plan for raw materials. Once again, however, Colombia managed to keep it rolling; after negotiations, the trade agreement allowed Plan Vallejo to remain in place (El Tiempo 2005).

Pressure on the Plan not only came from outside but also from inside the country. In 2004, at a Presidential Summit of the Andean Community, President Uribe suggested dismantling Plan Vallejo if other Andean countries would do the same with similar instruments. This generated strong opposition, not only from the coal sector but also from other export sectors – such as flowers and textiles production – that rely heavily on the Plan's incentives to maintain their competitiveness (Correa 2014). This suggests that an important factor for the maintenance of the Plan is support and lobbying from these other industries through broader business associations such as the National Association of Exporters (Analdex).

In summary, discursive and instrumental strategies have been essential in ensuring that the industry keeps the conferred benefits despite both internal and external pressures. The strength of the discourse around the contribution of Plan Vallejo to Colombia's industrial development, along with effective lobbying from a coalition of exporting industries, has enabled the Plan to remain legitimate in a different economic model than the one in which it originated (i.e. industrialization by substitution of importations). This example also illustrates how a policy that was not designed as a subsidy to the coal sector became one as a result of changes in the domestic and global economic context.

6.2 Special income tax deduction for investment in real productive fixed assets

As described in Section 4, the Uribe administration introduced in 2003 a special income tax deduction for investment in real productive fixed assets. President Uribe, recognizing that the measure could incur significant fiscal costs, framed it as a way to stimulate foreign direct investment (FDI) and employment (Presidencia de la República 2003). The measure was meant to be temporary (only between 2004 and 2007), and counterbalancing fiscal measures were introduced simultaneously, such as the wealth tax. However, at the end of 2005, the subsidy was made permanent and the deduction percentage was increased from 30% to 40% starting in 2006.

The measure benefited extractive industries substantially, not least the coal sector. Data from the Dirección de Impuestos y Aduanas Nacionales (DIAN; National Taxes and Customs Directorate) show that between 2004 and 2010 the mining sector represented between 20% and 30% of the total fiscal cost of the measure (Parra Garzón 2006; Parra and Sierra Reyes 2008; Parra et al. 2010; Parra et al. 2014). In 2008, the overall measure's fiscal cost amounted to COP 3.8 trillion (approximately USD 2 billion) or more than 0.8% of GDP that year; 36.6% of that was attributed to the mining sector (Parra et al. 2010). Because of its high cost and doubtful marginal benefits, the incentive has been criticised for its inefficiency (Ríos Portilla 2009; Galindo and Meléndez 2010). Moreover, a recent study shows that the incentive actually had little influence in foreign direct investment in the mining sector (Ruiz-Vargas et al. 2016).

When the Santos administration came into power in 2010, it implemented a new fiscal policy that emphasized efficiency and transparency in tax collection without increasing taxes – in line with one of Santos' key promises during the presidential electoral campaign. Arguing that the special deduction had complied with its objectives and that more resources were necessary to address displaced population, and to finance the universalization of health services and a new employment formalization programme, the new government proposed to eliminate the special income tax deduction (Gaceta del Congreso 2010). This measure was one of the changes implemented through what has been called the 2010 "mini fiscal reform", which was promoted as a response to the country's deepening fiscal imbalance and to provide additional resources to address the catastrophic impacts of the 2010 heavy winter rains (Echeverry 2012). The Parliament accepted the elimination at the end of 2010.

This example illustrates how subsidies emerge not only from the demand of well-organized and powerful private interests, but also from the government's willingness to supply incentives for a diversity of reasons and its lack of alternatives to achieve its goals (Victor 2009). In the present case, Uribe's government opted for a costly measure, in order to boost investment and industrial development, in a context marked by (foreign) investors' fears about political unrest and infrastructure deficiency. Discursive strategies were thus very important for establishing and justifying the subsidy; however, its lack of efficiency and the need for additional resources to address a national emergency provided a strong rationale for the Santos government to press for the subsidy's suppression.

6.3 Royalties rebate

In 2005, the National Tax and Customs Directorate began allowing mining companies to deduct the royalties they pay from their income taxes. This measure was introduced in response to a formal request by Carlos Alberto Uribe, who was then the President of Asomineros. The business association argued that royalties are a cost for companies – although the Colombian Constitution establishes that royalties constitute a mandatory compensation to the state generated by the exploitation of non-renewable natural resources.

The decision marked a significant change in the institution's interpretation of Colombia's tax law, since it had itself responded negatively to the same request on two earlier occasions, in 1998 and 2004 (Proyecto de Ley 071 2014). In 2005, however, the National Tax and Customs Directorate argued that mining companies should be given the same treatment as the national oil company Ecopetrol and be allowed to discount royalties from their income taxes.

There have been at least four attempts to remove the subsidy since its introduction: in November 2011, when the Senate discussed the government take from mining activities; in 2012, when the Liberal Party led a proposal to reform the royalties system; in 2013, when a group of congressmen and academics submitted a simple invalidity action to the State Council, a lawsuit that challenged the legality of the process through which the measure was established; and again in 2014 through a legislative proposal from Senator Julio Guerra Sotto.

The lawsuit filed in 2013 was ultimately successful. In October 2017, the State Council cancelled the measure and the subsidy was removed (Morales Manchego 2017).

This example not only illustrates how powerful and well-organised private interests contributed to the introduction of a key coal production subsidy through instrumental strategies. It also shows how the mining sector, dominated by coal companies, have made use of institutional means to get new subsidies in place. It also raises questions about accountability and democracy in relation to the subsidy's introduction: despite the subsidy's significant impact on the state's spending capacity – and the resulting indirect impacts on the Colombian population's wellbeing – its adoption was made by a non-representative authority.

7. CONCLUSION

The Colombian case illustrates the diversity of subsidies that are provided to fossil fuel production and unpacks the interests and events shaping their creation and maintenance. It provides insights into the varied and innovative discursive strategies used by producers and governments to justify the existence of fiscal incentives. It also suggests that a powerful actor coalition exists in Colombia beyond the coal sector itself, including not only other minerals producers but also the national government and, in some cases, other export sectors. While relying mainly on traditional instrumental strategies to maintain and obtain subsidies, the coal industry has also made efforts to develop innovative framing strategies, with institutional support from the national government.

In Colombia, a complex set of objectives is being pursued by the government, not all of which relate to energy or natural resource sectors. The Colombian case highlights issues of democratic legitimacy and accountability in the establishment of subsidies, as evidenced by the example of the royalty rebate. When the Colombian Congress discussed the 2016 fiscal reform, there was significant debate about a VAT increase – a measure known for placing a high burden on the poorer segments of the population (Steiner and Cañas 2013) – but little was said about sectoral subsidies, such as those described here benefiting coal mining. The Congress did not critically discuss the actual socio-economic benefits of such subsidies or the opportunity cost of maintaining them. This is nevertheless a crucial matter within the context of the peace agreement's implementation. The process needs significant public resources, and peace is contingent on the wellbeing of and economic opportunities for Colombians in rural areas, which depend on how public resources are used.

Our analysis does not allow for inferring which political factors are most influential in absolute terms, but it suggests that different political factors are likely to take more or less prevalence at different stages in the lifetime of a subsidy. For instance, instrumental strategies are likely to be key for their creation, while institutional factors have been important for their maintenance. An issue that deserves further investigation is the level of influence of each political factor on various types of subsidies. This type of analysis would help guide future efforts for overcoming political barriers to subsidies removal.

Because of the complex political dynamics involved in the introduction and maintenance of coal production subsidies, such subsidies may prove difficult to change or remove – even if Colombia's socio-economic situation and its attitudes towards large scale mining change. Subsidy removal seems likely to result from addressing distinct political barriers simultaneously, including through weakening the framings used to legitimize a subsidy's existence; for example, efforts might draw attention to the fact that the goals and circumstances for which a subsidy was originally introduced have changed and may no longer be relevant. Political barriers might also be addressed by using alternative institutional channels for reform, including the judiciary, to overcome political inertia.

The Colombian case offers food for thought about how historically inherited political and social factors have influenced the governance of the extractive sector, including the provision and maintenance of subsidies. Many of these influential socio-political factors are shared with the rest of Latin America, as a result of the continent's historical processes of integration in the global economy. A historical comparative assessment of the Colombian case with other Latin American fossil fuel and minerals producers – such as Brazil, Chile, Venezuela and Peru – would provide interesting perspectives on how domestic and global political and economic factors have interacted to shape the current subsidies regime to fossil fuel extraction in these countries. Understanding these interactions will be essential to effectively combine domestic and global strategies for reforming fossil fuel subsidies.

The Colombian case also suggests that exploring the politics of fossil fuel subsidies helps in understanding broader questions, such as the impact of political fragmentation on fiscal reforms and public resources allocation, and the relation between resources governance and political decentralization. Indeed, in countries where resource extraction has become economically dominant, development and governance issues cannot be discussed without considering the political economy of extraction (Watts 2013; Bebbington 2008).

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