



Discussion Paper 3 – Colombia’s Scrapping Incentives

This discussion paper is provided as an update to the OECD in the context of the ongoing accession reviews of Colombia, following BIAC’s 2014 statement on Colombia’s business environment. The views expressed herein are based on inputs received from a number of BIAC members and do not necessarily reflect a final BIAC position. Additional issues may be raised at later stages throughout Colombia’s accession process to the OECD.

I – Update of the main issue

Successive Colombian governments have set and enforced several laws designed to incentivize the scrapping of old trucks as a condition to issue new truck licenses, thereby creating considerable distortions on the market. To keep the amount of trucks in circulation constant, the government currently provides two options for entrepreneurs wishing to register new trucks to either scrap one or more vehicles of equivalent weights or to buy in the market a “scrap certificate” from another vehicle that has been scrapped.

Since the government also offers a financial compensation of USD 35.000 approximately as an incentive to entrepreneurs owning a tract truck wishing to “retire” from business, the market is obliged to offer a higher price in order to retain the scrap certificate, leading to most scrap applications to be resold in the informal market.

As a result of consecutive strikes by truck unions, the 1:1 scrapping-for-new licensing rule was introduced in 2003 and undergone many iterations to pressure the government to rule in benefit of truck unions at expenses of trade.

Because this practice has driven the market to escalating levels of corruption with fake certificates, the administration in charge of issuing licenses experiences significant delays for new registrations approvals and incentive payments.

II – How the issue impacts business and society

As a result of these practices and barriers, imports of heavy vehicles in Colombia have collapsed—destroying over USD 860 million in CIF trade—while the price of freight has remained constant. The transport costs in the country have remained constant despite a growing need for lower costs for freight, especially considering the growing commodities and manufacturing sectors of the country. Eliminating the 1:1 policy rule to open the market would be a step in the right direction, while maintaining the incentive program.

The truck scrapping policy also affects the Colombian population as the quality of the air is lowered by emissions from old trucks that stay in circulation because of the cost of the incentive. This distortion can also be found in the case of the consumption tax applied to imported vehicles over USD 30,000 in value that prevents the entry of the newer, safer and cleaner vehicles into the country.

III – Why it matters for trade policy

As the country has clearly been successful in implementing various measures to improve its attractiveness to foreign investors, the current uncertainties around this specific policy issues are a cause of great concern for business: several investors have cancelled investments in Colombia, and other businesses are considering closing down their local operations as a result of this policy.