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# Colombia

# Grain and Feed Annual

# U.S. Grain Trade Shows Benefits from Free Trade

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**Report Highlights:**
In the second year of the U.S.-Colombia Trade Promotion Agreement (CTPA), U.S. rice exports exceeded the 82.5 thousand metric ton (TMT) with an additional 24 TMT beyond quota. In addition, U.S. corn trade values recovered from a dismal 2012, up 129 percent to USD171 million in 2013, but filled only 23 percent of the 2.2 million metric ton (MMT) tariff-rate-quota (TRQ) (for yellow corn). Low corn prices not only helped U.S. corn competitiveness, but also worked against Southern Common Market (MERCOSUR) competitors, where duties are conversely linked to prices. Also, the United States has recovered its position of preference as the primary source of wheat for Colombian importers.

**Executive Summary:**

In the second year of the CTPA, U.S. rice exports exceeded 82.5 TMT with an additional 24 TMT beyond quota. In 2013, U.S. corn trade values were up 129 percent to USD171 million, but only filled 23 percent of the 2.2 MMT TRQ (for yellow corn). Low corn prices not only helped U.S. corn competitiveness, but also worked against MERCOSUR grain trade, where duties are conversely linked to prices. Price competitiveness, combined with slow 2013 deliveries arriving after January 1, 2014, indicate that the 2.3 MMT TRQ for yellow corn will likely be filled well before the 2014 U.S. corn harvest. Also, the United States recovered its position of preference as the primary source of wheat for Colombian importers.

In marketing year (MY) 2013/2014, (yellow and white) corn production in Colombia is estimated to remain stagnant at 1.7 MMT with production not likely to change for MY 2014/2015. However, white corn area planted and yields will likely fluctuate upward due to the higher domestic prices for white versus yellow corn. White corn is primarily for food consumption and prices are more favorable to yellow corn, which is almost entirely destined for animal feed. Corn imports are expected to increase by 145 TMT, up three percent in MY 2014/2015 to 3.7 MMT as feed raw material demand strengthens and local production remains unchanged. Lower U.S. corn prices will lead to a gradual recovery of market share at the expense of MERCOSUR competitors. Colombian rice production is expected to remain unchanged at 1.3 MMT in MY 2013/2014, as lower rice yields have neutralized any increases in planted area. Continued contraband rice trade from eastern and southern borders, estimated to be from 300-500 TMT, continues to threaten rice farmer livelihoods, crowding out more and more domestic production. In 2014, the Government of Colombia (GOC) will not likely engage rice millers on better prices paid to growers, which could lead to further declines in planted area. Also in 2014, U.S. rice exports will easily fill the 86 TMT TRQ with additional shipments beyond quota. U.S. wheat will be able to take advantage of a marginal increase in Colombian wheat imports in 2014 at the expense of MERCOSUR, although Canada will continue to be a strong competitor.

**Commodities:**

Corn

Rice, Milled

Wheat

**Production:**

**Corn**

Corn production is expected to remain at 1.7 MMT in MY 2013/2014 with no changes in production for MY 2014/2015. In calendar year (CY) 2013 corn area planted decreased by 10 thousand hectares of both white and yellow corn with no expected changes for planted area in CY 2014. Less area planted notwithstanding, production remained unchanged in MY 2013/2014 thanks to favorable weather that enabled marginal yield gains. Domestic prices for white corn – the primary raw material for the food staple “arepa”, continue to be more favorable than yellow corn, primarily destined for animal feed. The Government of Colombia (GOC) has historically intervened in domestic prices for white corn to minimize grower risk due from price volatility. However, the GOC has not intervened since 2012 due to relatively stable price trends. Since 2010, the GOC has maintained a program encouraging domestic production of white and yellow corn titled *Plan Pais Maiz*, or Country Corn Plan. The Plan supports corn production through different mechanisms of subsidies, such as direct payments per hectare, transport discounts and additional funding for research and development to improve seed genetics. Nevertheless, free trade agreements, in particular with MERCOSUR, along with a strong peso, have favored expanded grain imports.

Corn production is divided into two commercial categories. First, there are medium and large scale industrial farms with contemporary management practices and full-time employees, applying the use of improved seed, including biotechnology, preventative chemical pest controls, and modern machinery for planting and harvesting. The other commercial category is comprised of small landholdings managed by typically one owner who may grow multiple crops within the operation. Industrial farms can achieve an average yield of five tons per hectare, while small scale farms produce an average of two tons per hectare. In 2013, industrial farm corn planted area was estimated to be 230 thousand hectares, or about nearly 50 percent of the total corn planted area planted. Yellow corn represents about 70 percent of the industrial farm planted area, or approximately 170 thousand hectares.

Corn planted area and production is expanding in the eastern plains of Colombia, called the *Altillanura* or *Llano*s. This region is considered to be the agricultural frontier for Colombia with millions of hectares of topographically flat grass lands. Currently, raising cattle is the primary agricultural pursuit of the region given poor, acidic soil quality. The GOC is working with Brazilian and other international researchers, including the U.S. Department of Agriculture's Natural Resource Conservation Service, to map soils and develop processes to transform the soil characteristics to be more suitable for row crops.

The estimated area in row crop production is approximately 30 thousand hectares, primarily corn and soybeans that is destined for swine and poultry feed operations in the region. Only about 30 percent of row crop production is marketed outside the region. Since 2008, corn area planted in the *Altillanura* has expanded significantly to 23 thousand hectares (or 56 thousand acres) with production increasing from 20 to 165 TMT in 2013.

The optimistic agricultural expectations for the *Altillanura* are currently in political limbo. Allegations that multinational companies and large-scale farm owners circumvented land purchasing laws on title transfer and landholdings have stemmed further investments in the region. In addition, investments in the potential of the land are tempered by the need for intensive, large-scale soil conversion, extremely deficient transport infrastructure and long distances to major domestic markets and maritime ports. As well, any development will greatly depend on improvements in security with narco-communist insurgents and other criminal actors remaining active in the region.

The GOC approves the planting of biotech corn, but destined only for animal feed. Colombian use of biotech corn is increasing with planted area expanding, but mostly on large-scale, industrial farms. Ninety percent of the total biotech corn planted area is in five departments: Valle, Cordoba, Tolima, Meta and Cesar. The table below illustrates the growth in biotech seed cultivation since GOC regulatory approval in 2007.

**Colombian Use of Biotech Corn Seeds**

| Year | Hectares | Change |
|---|---|---|
| | | |
| **2013** | 75,094 | 0.1% |
| **2012** | 75,046 | 27% |
| **2011** | 59,239 | 52% |
| **2010** | 38,896 | 131% |
| **2009** | 16,822 | 60% |
| **2008** | 10,489 | 52% |
| **2007** | 6,901 | |

Source: Colombian Institute for Agriculture and Livestock (ICA)

**Wheat**

Colombian wheat production is expected to decline to 15 TMT in MY 2013/2014. Domestic wheat production is primarily destined for wet milling and human consumption. Reports from the wheat milling industry indicate a general lack of supply of locally produced wheat. Wheat production is forecast to remain unchanged for MY 2014/2015.

**Rice**

Colombian rough/paddy rice production is expected to decline 66 TMT from 1.926 to 1.860 MMT in MY2014/15. In 2013, average grower prices increased 12 percent compared to 2012, stimulating an expansion of dry-land rice area planted primarily in the *Altillanura*. However, unique climate patterns in the eastern plains are not typically reflected in the other rice growing regions of Colombia. Rainfall in the eastern plains can be unpredictable with cloud cover negatively impacting photoperiod and reducing yields. The unpredictable weather will likely neutralize any potential yield gains as a result of expanded planted area. Other factors that impact all rice growing regions, such as production inefficiencies, slow technology adoption, high input costs, deficient infrastructure and the mitigation challenges of the lingering *vanamiento* fungus, are conditions that limit production capabilities in the *Altillanura.*

The Federation of Colombian Rice Growers (FEDEARROZ) is recommending that growers reconsider expanding area planted in CY 2014 due to the influx of contraband rice, primarily from Venezuela. In 2013, contraband rice inundated northern regions of Colombia, motivating the milling industry to increase stocks. As a result of significant contraband and carry-over, the GOC and milling industry announced that there will be no minimum purchase price paid to growers in CY 2014 year (see Policy section below).

**Consumption:**

Ninety five percent of corn imports are destined for animal feed with the remaining 5 percent for food use raw materials. About 10 percent of the local production is devoted to animal feed purposes, while the remaining 90 percent is for the food processing sector. About 50 percent of Colombian animal feed manufacturing is destined for the poultry sector, 40 percent for livestock and swine and the remaining 10 percent for aquaculture and household pets. Poultry meat is the preferred animal protein in Colombian diets, doubling in the last decade, with per-capita consumption at 47 pounds, followed by beef (38 pounds) and pork (10 pounds).

Traditional feed ingredients, such as corn, soybeans and soybean meal, remain popular with limited substitution. Nevertheless, the feed industry continuously investigates new formulations of their feed mixes and ingredients, such as wheat, yucca, dried distillers grains with solubles and other grain byproducts. The introduction of new feed materials depends on feedstock costs. Colombia historically grew a domestic variety of sorghum that was common in feed supplies, but has since declined due to the use of alternative grains and corn imports.

Colombia is one of the highest per capita rice consumers in Latin America at 90 pounds. Consumption trends will likely parallel population growth with demand remaining steady.

Wheat consumption will likely remain unchanged. Per capita wheat consumption is approximately 65 pounds. Wheat product destination and distribution patterns for the different sectors are as follows: bread (75%), pasta (15%) and the cookies and pastry industry (10%). The cookies and pastry sector has seen the most dynamic growth because of the Colombian snacks and confectionary industry expanding exports to the United States and Central America.

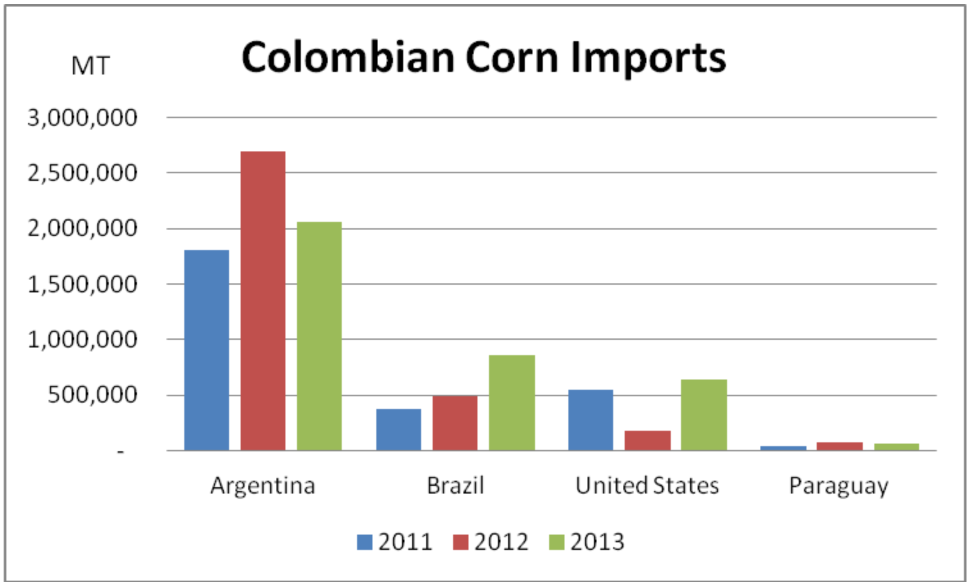
**Trade:**

In MY 2013/2014, corn imports will increase by 171 TMT to 3.5MMT. In 2013, Colombian imports of sorghum fell to 497 TMT, 20 percent lower than 2012. Low corn prices motivated the feed industry sector to primarily source corn instead of other grain substitutes such sorghum. Corn imports are forecast to increase to 3.66 MMT in MY 2014/2015 as import prices continue to decline while domestic production remains stagnant.

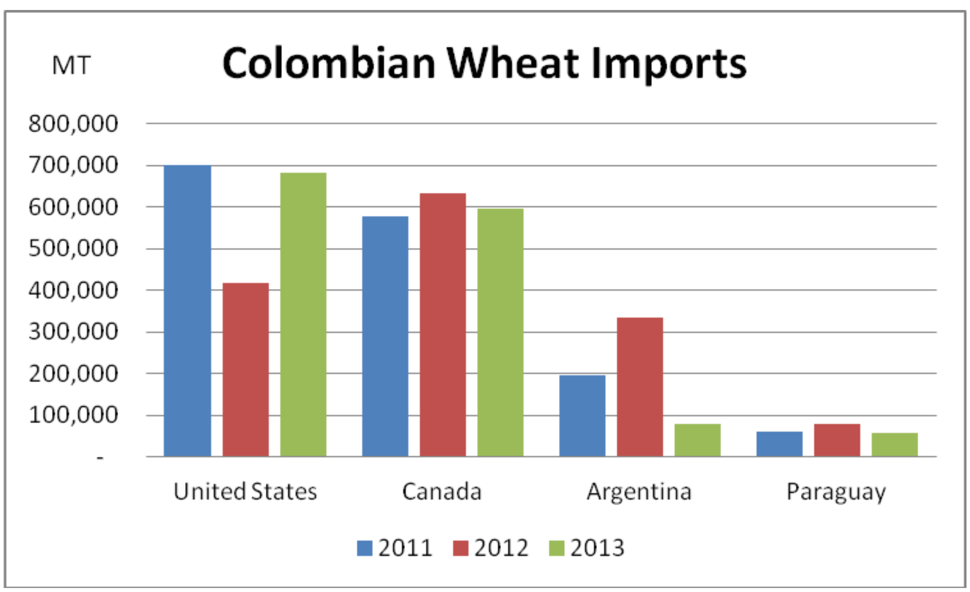
According to sources in the Colombian feed manufacturing industry, falling corn prices will greatly benefit U.S. corn trade, as input prices ostensibly influence purchasing decisions and, to a lesser extent, product quality. Price competitiveness, combined with slow 2013 deliveries arriving after January 1, 2014, indicate that the 2.3 million metric ton (MMT) U.S. corn quota for 2014 will likely be filled well before the next U.S. corn harvest. As of March 4, 2014, Colombian imports of U.S. yellow corn were 543 TMT in-quota, or about 23 percent of the total quota for 2014.

Despite the recent revival of U.S. corn trade to Colombia, corn import market share since 2009 has gradually shifted away from the United States to MERCOSUR, notably Argentina, and to a lesser extent Brazil. In 2008, U.S. corn held 80 percent of the Colombian import market share, declining significantly since to 13 percent in 2012. In 2013, U.S. corn recovered market share, up to 18 percent from a marginal 5 percent the year before.

The graph below illustrates the dramatic shift in market share comparing 2008, the high point for U.S. corn trade to Colombia, to recent years:




U.S. wheat market share has also recovered against primary competitors Canada and Argentina. U.S. wheat exports have had to play catch-up since the 2011 Colombia-Canada Free Trade Agreement eliminated duties on wheat imports for Canada a year in advance of CTPA implementation. This free trade “head-start” for Canada provided Canadian exporters an opportunity to strengthen trade relationships with Colombian millers at the expense of U.S. wheat. As well, industry sources indicate that the homogeneous quality of Canadian wheat is better suited to Colombian milling practices. In 2013, U.S. wheat captured about 48 percent of the Colombian import market share, primarily at the expense of Argentina and to a much lesser extent, Canada. The graph below illustrates the changes in export volumes for the various wheat exporters to Colombia since 2011:




Colombia’s rice imports, licit and elicit, are primarily from neighboring countries, Ecuador, Peru and Venezuela, averaging about 85 TMT since 2000. The 2013 TRQ for U.S. rice under the CTPA was

82,555 MT and was fully subscribed with some imports out of quota. The TRQ for 2014 is 86,270 MT. The first 2014 TRQ auction was held on February 3, 2014, resulting in awards for deliveries of 60,412 MT, or about 70 percent of the total 2014 quota. There will be two more auctions to allocate the remaining quota volume: June 5, 2014, for 12,540 MT; and, October 18, 2014, for 13,318 MT.

Illicit trade in agricultural products, particularly rice, is a serious concern of the GOC. To address the issue, the GOC established a special office to combat contraband trade and programs are in place to apprehend illegal products and detain those involved in smuggling. In a recent conference held by the Colombian Rice Industry Association, the head of the special office to address smuggling presented data on captures of illicit agricultural trade, including about 1,400 MT of contraband rice from Ecuador and Venezuela. Total illicit rice imports are estimated to be from 300-500 TMT annually.

In 2015, Colombia will open a new port on the Caribbean coast to initially handle bulk commodities with some facilities for container shipments. The storage capacity for bulk commodities is approximately 40 TMT. The port is located along the Gulf of Morrosquillo in the town of Tolu, Department of Cordoba. Tolu's is strategically located to service the city of Medellin and is 100 kilometers closer to Medellin than the next nearest port at Cartagena (container shipments) and about 200 kilometers closer than Barranquilla (bulk commodities and container shipments). Overland transport time will be reduced measurably and thus reduce transport costs. The Port of Tolu, when operational, will provide exporters additional options for moving agricultural products into Colombia.

**Stocks:**

The Colombian government does not maintain a policy for holding grain stocks; however, on an ad hoc basis, mostly for rice, the Ministry of Agriculture and Rural Development offers financial storage incentives for producers and millers to hold inventories. It is estimated that rice stocks at the end of CY 2013/14 will be about 235 TMT of milled rice, which represents close to two months of consumption.

There are limited carry-over inventories of corn and wheat given limited storage capacity throughout Colombia. The feed and milling industry retain grain inventories to satisfy ongoing operations. The feed and milling industry is estimated to manage a two month inventory supply to manage operations. Occasionally, the feed and milling industry will adjust inventories to react to upward fluctuations of international prices through excessive purchases and expansion of inventories. In 2014, this strategy will likely be applied to corn, where the U.S. corn quota for 2014 will be aggressively filled before the first half of 2014. Prices are expected to remain low therefore traders and feed industry importers are gaming the current zero-duty U.S. corn quota in anticipation of out-of-quota duties for U.S. corn later in the year and a continuation of high duties for MERCOSUR corn.

**Policy:**

The CTPA was implemented in May 15, 2012 and trade outcomes for U.S. corn and wheat have been underwhelming due to unfavorable market conditions. The CTPA phytosanitary protocol opened the market for imports of U.S. rough/paddy rice. However, imports of U.S. rough/paddy rice in 2013 fell to 8.5 TMT from 22.8 TMT a year before, shifting in favor of U.S. milled rice.

The table below illustrates the TRQ fill rates for yellow corn, white corn and rice:

| **2013 CTPA Tariff-Rate-Quota (TRQ) Fill Rates** | | |
|---|---|---|
| | **TRQ** | **Volume Imported** |

| | (MT) | (MT) |
|---|---|---|
| **Yellow Corn** | 2,205,000 | 514,359 |
| **White Corn** | 143,325 | 109,018 |
| **Rice** | 82,555 | 82,555 |

Source: DIAN Colombian Customs and Tax Agency

As a member of the Andean Community of Nations (CAN), Colombia applies a price band mechanism for all trading partners for major commodities. The CTPA, however, excluded the application of the price band mechanism for U.S. imports and applies a TRQ mechanism instead. The GOC still maintains the price band for other trading partners with no preferential trade arrangements to shelter local corn production from excessive import competition. The price band levies additional duties off of a 10 percent base duty when international corn prices are lower than the floor price and conversely reduces the base duty when international prices are higher than the ceiling price. This price band mechanism operates as a protective pricing policy when the global price is lower than the floor price, which increases the import duty. In recent years, with high global commodity prices, the price band mechanism has resulted in a converse scenario with near zero duties for imports from trading partners where the price band mechanism applies, such as MERCOSUR. In 2013, falling corn prices have benefited U.S. corn at the expense of MERCOSUR, whose duties have risen significantly, from 0-10 percent, while U.S. corn remained at zero duty within quota.

The CAN is late in publishing the price band floor and ceiling schedule for CY 2014/2015. However we expect the price band to duty to continue to increase for corn and rice. The table below provides the current band prices according to the CAN for select major commodities.

| ***Andean Price Band (APB) – Prices per Metric Ton (April 1 – March 31)*** | | | | |
|---|---|---|---|---|
| | **2012/2013** | | **2013/2014** | |
| | **Floor Price** | **Ceiling Price** | **Floor Price** | **Ceiling Price** |
| **Yellow Corn** | 233 | 284 | 260 | 316 |
| **White Corn 1/** | 231 | 281 | 252 | 320 |
| **Wheat** | 283 | 354 | 299 | 367 |
| **Rice 1/** | 505 | 651 | 575 | 691 |

1/ The APB was temporarily suspended with fixed duties for white corn (40%) and rice (80%)
Source: Andean Community of Nations and industry contacts

Colombia is a net importer of corn. Colombian corn production (white and yellow) comprises as much as 30 percent of total Colombian corn consumption. Yellow corn imports provide close to 90 percent of the feed industry's raw material input needs. As a result of this disproportion, the GOC established an import TRQ mechanism, called "MAC", to improve market conditions for grain imports with conditions tied to local purchases. The program allows grain imports at a reduced duty with a maximum 10 percentage point reduction off the total duty. The program also establishes a minimum import duty of 5 percent. The MAC operates through an auction that allocates corn import rights for traders who commit to purchase domestic production. Despite the tariff reduction, the MAC has been ineffective when international commodity prices are high and less duty is paid under the price band mechanism. In 2014, should corn prices remain low, traders sourcing MERCOSUR corn and/or out-of-quota U.S. corn may begin to use the MAC once again. The GOC has yet to make a decision to implement the MAC in CY 2014.

**Rice**

The Colombia rice growers association considers Colombia self-sufficient in rice production and this led the government to exert a stronger tariff policy on rice imports. Under the CTPA, there is an annual quota for U.S. rice that enters into Colombia free of duty. In 2013, the TRQ set at 82,555 MT completely filled. Colombia levies an 80 percent duty on U.S. rice imported out-of-quota; however, Colombian millers have imported rough/paddy rice under elevated, 80 percent tariff conditions due to favorable market conditions.

As a result of the rice grower strike at the beginning of 2013, the GOC invited rice growers and the rice milling industry to reach an agreement setting minimum prices to be paid to growers in the different producing regions. The agreement is in place until March 2014 and the milling industry will not sign an extension of the agreement, noting that contraband has significantly displaced domestic supplies in the northern part of Colombia. Contraband competition has forced the industry to excessively increase inventories more than necessary. FEDEARROZ published a column demanding that the government develop solutions to the contraband problem, strongly suggesting tighter border controls.

**Wheat**

The Colombian wheat milling industry is almost entirely supplied through imports. Implementation of trade agreements with Canada and the United States have established favorable trade conditions with duty free imports up to specified quotas.

**Production, Supply and Demand Data Statistics:**

| Corn Colombia | 2012/2013 | | 2013/2014 | | 2014/2015 | |
|---|---|---|---|---|---|---|
| | Market Year Begin: Oct 2012 | | Market Year Begin: Oct 2012 | | Market Year Begin: Oct 2014 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested | 535 | 490 | 540 | 480 | | 480 |
| Beginning Stocks | 709 | 709 | 591 | 541 | | 471 |
| Production | 1,720 | 1,690 | 1,750 | 1,755 | | 1,755 |
| MY Imports | 3,264 | 3,344 | 3,900 | 3,515 | | 3,660 |
| TY Imports | 3,264 | 3,344 | 3,900 | 3,515 | | 3,660 |
| TY Imp. from U.S. | 189 | 122 | 0 | 1,500 | | 2,200 |
| Total Supply | 5,693 | 5,743 | 6,241 | 5,811 | | 5,886 |
| MY Exports | 2 | 2 | 0 | 0 | | 0 |
| TY Exports | 2 | 2 | 0 | 0 | | 0 |
| Feed and Residual | 3,900 | 4,000 | 4,400 | 4,140 | | 4,270 |
| FSI Consumption | 1,200 | 1,200 | 1,200 | 1,200 | | 1,200 |
| Total Consumption | 5,100 | 5,200 | 5,600 | 5,340 | | 5,470 |
| Ending Stocks | 591 | 541 | 641 | 471 | | 416 |
| Total Distribution | 5,693 | 5,743 | 6,241 | 5,811 | | 5,886 |
| Yield | 3. | 3.449 | 3. | 3.6563 | | 3.6563 |

| Wheat Colombia | 2012/2013 | 2013/2014 | 2014/2015 |
|---|---|---|---|
| | Market Year Begin: Jul 2012 | Market Year Begin: May 2013 | Market Year Begin: Jul 2014 |

| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
|---|---|---|---|---|---|---|
| Area Harvested | 11 | 11 | 10 | 8 | | 8 |
| Beginning Stocks | 375 | 375 | 403 | 353 | | 322 |
| Production | 22 | 22 | 18 | 15 | | 15 |
| MY Imports | 1,507 | 1,387 | 1,500 | 1,420 | | 1,475 |
| TY Imports | 1,507 | 1,387 | 1,500 | 1,445 | | 1,475 |
| TY Imp. from U.S. | 697 | 605 | 0 | 720 | | 750 |
| Total Supply | 1,904 | 1,784 | 1,921 | 1,788 | | 1,812 |
| MY Exports | 1 | 1 | 5 | 1 | | 1 |
| TY Exports | 1 | 1 | 5 | 1 | | 1 |
| Feed and Residual | 90 | 10 | 90 | 10 | | 10 |
| FSI Consumption | 1,410 | 1,420 | 1,425 | 1,455 | | 1,495 |
| Total Consumption | 1,500 | 1,430 | 1,515 | 1,465 | | 1,505 |
| Ending Stocks | 403 | 353 | 401 | 322 | | 306 |
| Total Distribution | 1,904 | 1,784 | 1,921 | 1,788 | | 1,812 |
| Yield | 2. | 2. | 2. | 1.875 | | 1.875 |

| Rice, Milled Colombia | 2012/2013 | | 2013/2014 | | 2014/2015 | |
|---|---|---|---|---|---|---|
| | Market Year Begin: Apr 2012 | | Market Year Begin: Apr 2013 | | Market Year Begin: Apr 2014 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested | 433 | 433 | 450 | 450 | | 400 |
| Beginning Stocks | 28 | 28 | 85 | 135 | | 235 |
| Milled Production | 1,307 | 1,307 | 1,310 | 1,310 | | 1,300 |
| Rough Production | 1,922 | 1,922 | 1,926 | 1,926 | | 1,860 |
| Milling Rate (.9999) | 6,800 | 6,800 | 6,800 | 6,800 | | 6,800 |
| MY Imports | 300 | 350 | 325 | 350 | | 350 |
| TY Imports | 250 | 350 | 325 | 350 | | 350 |
| TY Imp. from U.S. | 0 | 91 | 0 | 85 | | 90 |
| Total Supply | 1,635 | 1,685 | 1,720 | 1,795 | | 1,885 |
| MY Exports | 0 | 0 | 0 | 0 | | 0 |
| TY Exports | 0 | 0 | 0 | 0 | | 0 |
| Consumption and Residual | 1,550 | 1,550 | 1,600 | 1,560 | | 1,560 |
| Ending Stocks | 85 | 135 | 120 | 235 | | 325 |
| Total Distribution | 1,635 | 1,685 | 1,720 | 1,795 | | 1,885 |
| Yield (Rough) | 4. | 4.44 | 4. | 4.28 | | 4.65 |