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Ecuador

Grain and Feed Annual 2014

Ecuador Promotes Increased Production to Save FOREX

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Report Highlights:

Ecuador's consumption of wheat, corn, and rice are anticipated to increase in line with population growth. At FAS Quito we find Ecuador dependent on imported wheat, mainly from Canada and the United States. Domestic production of wheat, corn, and rice are being actively promoted by the government in order to lessen reliance on costly dollar denominated imports. We forecast marketing year (MY) 2014/15 imports of wheat at 590,000 metric tons (MT) and of corn at 175,000 MT. We do not see much in the way of rice imports, if any, occurring in MY 2014/15 barring a serious bout of foul weather. However, Ecuador is establishing an 80,000 MT emergency rice stockpile for such an eventuality.

Executive Summary:

FAS Quito forecasts Ecuador's wheat production in marketing year (MY) 2014/15 (July/June) to reach only 9,000 metric tons (MT), largely unchanged from our earlier MY 2013/14 estimate. Ecuador currently is an insignificant producer of wheat, almost totally dependent on foreign wheat imports. FAS Quito forecasts Ecuador's wheat imports in MY 2014/15 at 590,000 MT, dropping some 10,000 MT or about 2 percent from our earlier MY 2013/14 estimate of 600,000 MT. We attribute the drop to Ecuador imposing new import and utilization requirements on flour millers.

FAS Quito forecasts Ecuador's corn production in MY 2014/15 (May/April) largely unchanged at 1.25 million metric tons (MMT) from our MY 2013/14 estimate. The MY 2013/14 estimate of 1.25 MMT however represents a new record high. We attribute the upward trend in production to the government requiring food and feed manufacturers to buy up local production; import permits are reportedly only being issued after local purchases have been made and documented. FAS Quito forecasts Ecuador's corn imports in MY 2014/15 at 175,000 MT, up some 32,000 MT or about 22 percent compared to our MY 2013/14 estimate of 143,000 MT. We foresee Ecuador sourcing more affordable corn whenever it can from regional providers in order to limit outflows of foreign exchange.

FAS Quito forecasts Ecuador's milled rice production in MY 2014/15 (April/March) at 787,000 MT, up some 20,000 MT or an increase of around 2.6 percent compared to our MY 2013/14 estimate of 767,000 MT. We attribute increased production to the availability of new, improved rice varieties. The planting season started on time this calendar year. We anticipate the first harvest in late April, and barring unexpected bad weather a good harvest. With rice production increasing, Ecuador is moving away from imports. At FAS Quito we forecast little to no rice imports by Ecuador in MY 2014/15. We do however see a niche export market opportunity for specialty rice varieties such as basmati, sushi-style rice (i.e., white, short-grain rice), risotto, wild rice, and parboiled rice.

Production:

FAS Quito forecasts Ecuador's wheat production in marketing year (MY) 2014/15 to reach only 9,000 MT, largely unchanged from our MY 2013/14 estimate. Ecuador is an insignificant producer of wheat, almost totally dependent on foreign wheat imports.

Wheat Ecuador	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jul 2012		Market Year Begin: Jul 2013		Market Year Begin: Jul 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	11	11	11	11		11
Beginning Stocks	32	32	102	102		106
Production	9	9	9	9		9
MY Imports	646	646	600	600		590
TY Imports	646	646	600	573		580
TY Imp. from U.S.	186	186	0	172		190
Total Supply	687	687	711	711		705
MY Exports	0	0	0	0		0
TY Exports	0	0	0	0		0
Feed and Residual	95	95	105	105		105
FSI Consumption	490	490	495	500		480
Total Consumption	585	585	600	605		585
Ending Stocks	102	102	111	106		120
Total Distribution	687	687	711	711		705
1000 HA, 1000 MT, MT/HA						

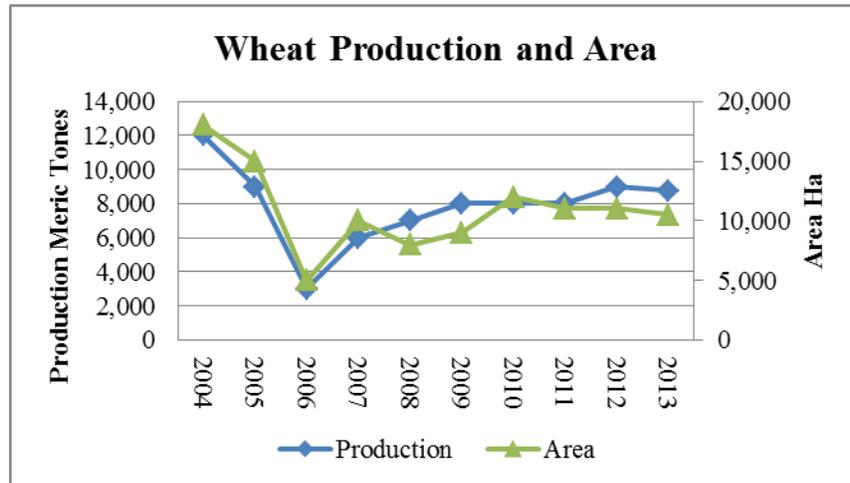
Ecuador's domestic wheat production has declined steeply since the 1970s. As recently as the 1990's, the country produced some 30,000 MT of wheat per year on some 37,000 hectares. Low yields, combined with soil quality problems and compounded by the lack of high-quality seed have motivated producers to exit wheat production over time. Another key factor has been previous governments' subsidization of wheat imports to counteract inflation during the 1970s oil-boom years; leading to a drop in consumption of more expensive domestic wheat in favor of more affordable imports. Currently some 11,000 hectares remain dedicated to wheat production, yielding about 1.2MT/hectare or an amount largely unchanged from the 1990s' yield levels.

FAS Quito finds that in order to shield consumers from international commodity price volatility as well as staunch the outflow of foreign exchange from Ecuador's dollarized economy, the government is providing incentives to farmers to plant more wheat for local consumption. Since 2008, the government has provided farmers in the central and northern highlands with subsidized fertilizers, government-backed loans, as well as improved wheat varieties.

Ecuador's Agricultural Research Institute (INIAP) in July 2010 released three new wheat varieties (including INIAP Vivar 2010, San Jacinto, and a barley variety); these are the first new varieties released since the early 1990s when Cojitambo was made available. These varieties were developed with the assistance of the International Maize and Wheat Improvement Center (CIMMYT).

The new varieties will reportedly yield 5.5MT/hectare, a five-fold increase compared to current yields. Sources indicate that the new varieties, specifically adapted to highland weather conditions will also be resistant to leaf rust (i.e., brown rust) and stripe rust (i.e., yellow rust). Ecuador anticipates that the

protein content to be above 13 percent. To date however there are reportedly no significant plantings with these new varieties.



At FAS Quito, we find that only about 2,000 MT of Ecuador’s current domestic wheat production is made available to local millers. The bulk of the national production, some 7,000 MT is sold locally in small, rural towns near production areas.

Citing the size of the market and bakers’ preference for high-quality imported wheat, most millers we have spoken with doubt that the government’s efforts to increase wheat self-sufficiency are sustainable. Previously the government had sought to force millers to purchase the full domestic production prior to issuing import permits; this onerous requirement was eliminated in 2010.

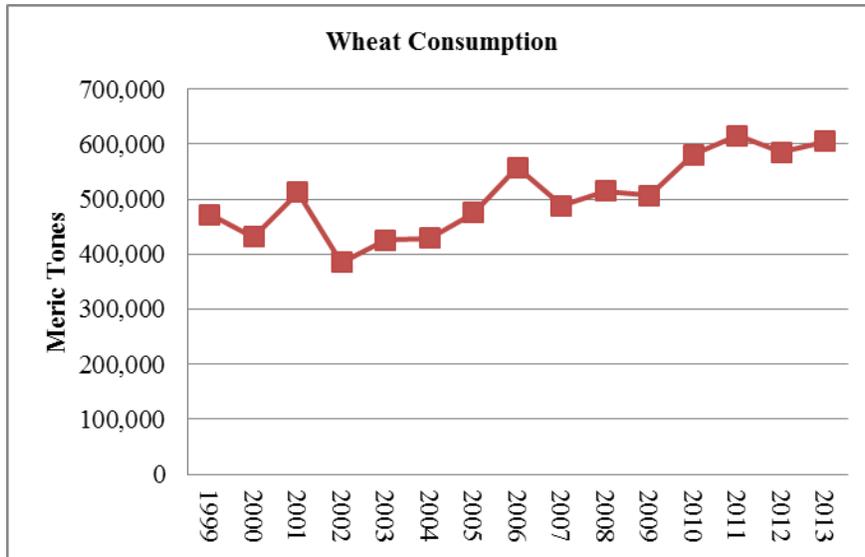
Consumption:

FAS Quito forecasts Ecuador’s wheat consumption in MY2014/15 at 585,000 MT, dropping 20,000 MT or slipping some 3 percent compared to our earlier MY 2013/14 estimate. We do however attribute the slight increase in MY 2013/14 wheat consumption levels, now up some 5,000 MT, to more stable international wheat prices. We find that this has allowed a return to somewhat more traditional pre-2008 (global food price crisis) bread consumption patterns. The price of the common bread roll, the one which most Ecuadorians consume, however remains since January 2011 set at an artificially low price of \$0.12.

At FAS Quito, we forecast per capita wheat consumption at about 38 kilograms/annum in MY 2014/15; based on a population of 15,439,429 (Central Intelligence Agency, July 2013 estimate). We do however see per capita wheat consumption dropping compared to previous years as a result of the government requiring millers to now blend locally produced banana flour with flour milled from imported wheat. Ecuador is seeking to reduce (and ideally invert) its overall trade deficit by requiring greater utilization of local product content. It also wishes to reduce its dependency on key commodities such as wheat, which drain U.S. dollars from the country’s dollarized economy.

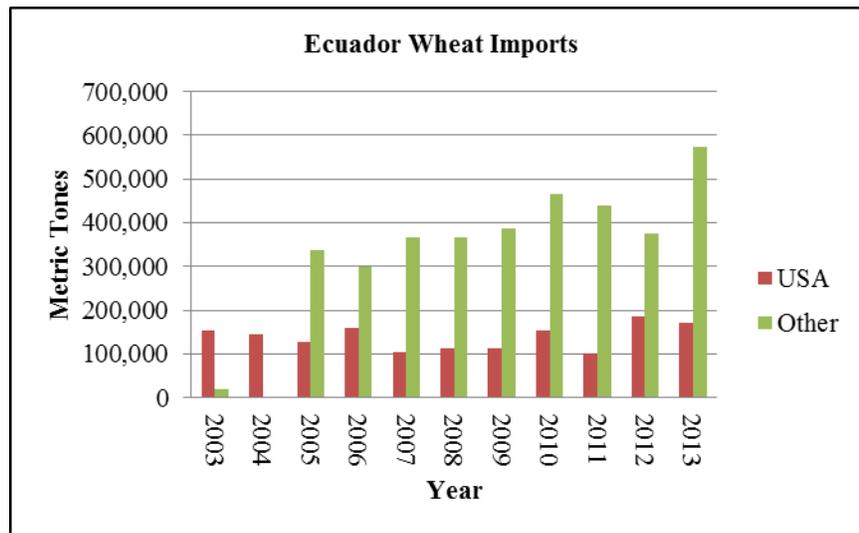
Imported wheat is utilized in significant quantities as a feed ingredient by Ecuador’s shrimp farmers. With over \$1.8 billion in shrimp exports in CY 2013, Ecuador is one of the world’s largest shrimp exporters; the United States alone imported a record \$655 million worth of Ecuadorian shrimp last year.

Ecuadorian shrimp farmers aim to boost production to meet growing global demand. At FAS Quito, we forecast that in MY 2014/15, Ecuador will use about 105,000 MT of feed wheat; of which roughly 80,000 MT will be utilized by shrimp farmers.



Trade:

FAS Quito forecasts Ecuador’s wheat imports in MY 2014/15 at 590,000 MT, dropping some 10,000 MT or about 2 percent from our earlier MY 2013/14 estimate of 600,000 MT. We attribute the drop to Ecuador imposing new import and utilization requirements on flour millers.



Ecuador utilizes primarily imported wheat in bread and pasta manufacturing. We understand that imports of hard wheat are higher than imports of soft wheat; the import ratio of hard to soft wheat is around 2.3:1. U.S.-origin wheat’s import market share slipped from 33 percent in 2012 to about 30 percent in 2013; Canada is currently Ecuador’s main wheat supplier.

Policy:

At FAS Quito, we find that Ecuador’s attempts to substitute wheat imports with increased local production as less than effectual. Despite the introduction of three new cultivars, the first since the 1990s, no new plantings have yet to occur with these supposedly higher yielding varieties.

President Rafael Correa (2007-present) announced on January 18, 2014, and reiterated again on January 25, that Ecuador will condition millers’ wheat import permit volumes to their purchases of domestic Ecuadorian banana flour. The government aims to reduce Ecuador’s reliance on foreign wheat imports by 5 to 10 percent; forcing local millers to supply (bread) bakers with a wheat and banana flour blend. Initially this blend will contain 5 to 10 percent local banana flour content. Government officials openly confirm that they seek to reduce imports. We are told that there are government plans to establish two new large banana flour processing facilities. Ecuador is also in discussions with a Costa Rican firm for opening a third banana flour processing plant.

In December 2013, Ecuador’s Foreign Trade Council (COMEX) extended zero-tariff preferential treatment for wheat through December 2014. Wheat imports nonetheless still are subject to the Andean Price Band System’s (APBS) variable levy.

As a marker commodity within the APBS, wheat formerly was assessed a 10 percent basic tariff plus an additional variable levy that fluctuated with international reference prices. Ecuador did however phase out wheat from its price band system by July 2001 as part of its World Trade Organization (WTO) commitments. Subsequently in 2003, Ecuador and the other Andean countries included wheat in the price band system; citing the obligation to do so due to their Andean Community commitments. The Andean Community (Bolivia, Colombia, Ecuador, and Peru) sets floor (threshold) and ceiling prices for wheat, which are currently \$299/MT and \$367/MT.

Ecuador maintains bilateral trade agreements with Peru and Chile, and regional trade agreements with the Latin American Integration Association (ALADI). In 2004, Ecuador reached a tariff liberalization agreement with the Southern Common Market (MERCOSUR); implemented in April 2005. Wheat benefits from special treatment within MERCOSUR. Tariff preferences are granted on the total duty, which is comprised of the *ad-valorem* (basic) duty plus the Andean Price Band System’s variable levy. In 2007, the trade partners agreed to the following tariff reductions.

HTS	Product	Paraguay/4	Uruguay/2	Argentina/3	Brazil/3	Mexico/1	United States and Canada
1001.1090	Wheat, durum	42%	99%	15%	15%	8%	0%
1001.9020	Wheat, other	42%	99%	15%	15%	8%	0%

/1 Under ALADI

/2 Uruguay will have reached zero tariffs on wheat by January 1, 2009

/3 Argentina and Brazil will have reached zero tariffs on wheat by January 1, 2018

/4 Paraguay will have reached zero tariffs on wheat by January 1, 2015

Commodity – Corn Production:

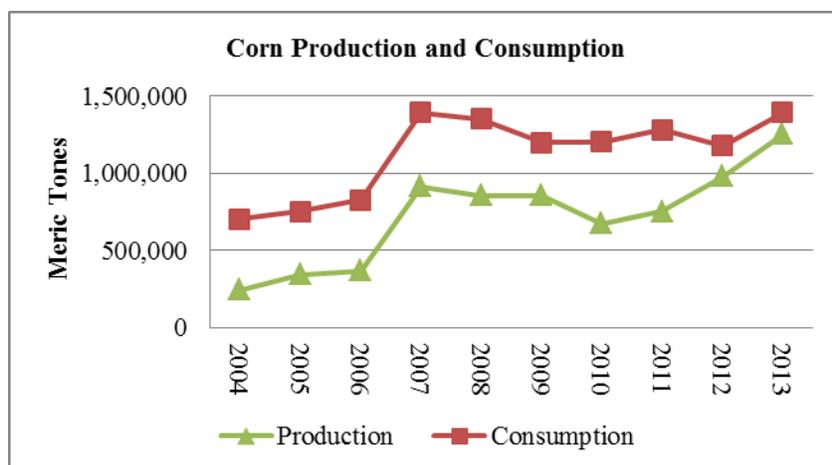
FAS Quito forecasts Ecuador’s corn production in MY 2014/15 largely unchanged at 1.25 MMT from the MY 2013/14 estimate. The MY 2013/14 estimate of 1.25 MMT however represents a new record high. We attribute the upward trend in production to the government requiring food and feed manufacturers to buy up local production; import permits are reportedly only being issued after local purchases have been made and documented.

The government is requiring that the price paid for local corn match or exceed the cost-insurance-freight (CIF) cost of imported corn. Sources comment that the requirement will remain in place for the foreseeable future as means of fomenting domestic production. Prior to this requirement domestic corn production had fluctuated widely; despite 2007’s record high of 913,000 MT.

Corn Ecuador	2012/2013		2013/2014		2014/2015	
	Market Year Begin: May 2012		Market Year Begin: May 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	315	315	340	300		290
Beginning Stocks	117	117	64	64		66
Production	980	980	1,100	1,250		1,250
MY Imports	147	147	350	143		175
TY Imports	146	146	350	131		125
TY Imp. from U.S.	0	0	0	0		0
Total Supply	1,244	1,244	1,514	1,457		1,491
MY Exports	5	5	5	1		1
TY Exports	0	0	5	1		1
Feed and Residual	1,100	1,100	1,300	1,300		1,350
FSI Consumption	75	75	75	90		100
Total Consumption	1,175	1,175	1,375	1,390		1,450
Ending Stocks	64	64	134	66		40
Total Distribution	1,244	1,244	1,514	1,457		1,491

1000 HA, 1000 MT, MT/HA

At FAS Quito, we are expecting yields of about 3 MT/hectare in marketing years 2013/14 and 2014/15. We are attributing higher yields to the growing use of higher-yield seeds.



Consumption:

FAS Quito forecasts Ecuador's corn consumption at 1.45 MMT in MY 2014/15, up some 60,000 MT or almost 4.5 percent above our earlier MY 2013/14 estimate of 1.39 MMT. We estimate MY 2013/14 corn consumption up 18 percent compared to the previous marketing year. We attribute the upswing in consumption to the availability of more affordable corn prices.

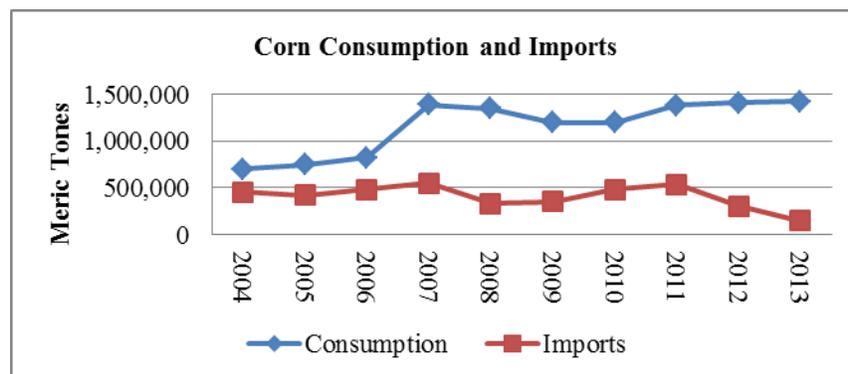
Demand for corn is strong. Local feed meal production, which includes corn as one of its main ingredients, has grown from 576,000 MT in 1995 to over 2.75 MMT in 2013; with demand growing with a compound annual growth rate (CAGR) of 9.6 percent [CAGR 1995-2013]. We estimate that 70 percent of local feed production is utilized by the national poultry industry; 13 percent in turn is absorbed by the aquaculture sector and 10 percent taken up by pork producers.

At FAS Quito we find that corn consumption is largely dependent on the demands of the animal feed sector, along with the availability of lower-priced corn substitutes. The poultry sector has been growing at about five percent/annum over the past couple of years. Per capita consumption of poultry meat is now estimated at 35 kilograms/annum. The poultry flock in 2013 is estimated at 245.5 million birds, broken down into 8.5 million egg layers and 237 million broilers. We foresee however local egg production declining due to neighboring Colombia's more competitive egg production costs.

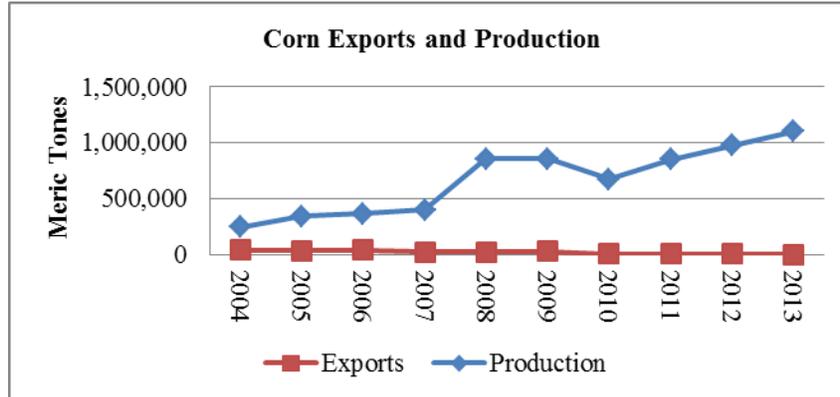
Trade:

FAS Quito forecasts Ecuador's corn imports in MY 2014/15 at 175,000 MT, up some 32,000 MT or about 22 percent compared to the MY 2013/14 estimate of 143,000 MT. We foresee Ecuador sourcing more affordable corn whenever it can from regional providers in order to save scarce foreign exchange reserves.

Despite strong demand for corn, imports are on a downward trend. Prior to the Correa administration's determination to slow (and eventually eliminate) imports through the substitution of increased domestic production, imports filled about half of Ecuador's corn needs.



Ecuador is a minor exporter of corn, primarily shipping to neighboring Colombia white and yellow corn for human consumption as well as some corn for animal feed. However with high prices being paid domestically, there is little price incentive at present to export corn.



Policy:

Corn imports are assessed a 15 percent *ad-valorem duty* (charged against the CIF value), plus the APBS variable levy. The Andean Community set floor and ceiling prices for yellow corn are currently at \$260/MT and \$316/MT. The variable levy for corn currently remains at 13 percent; corn faces as a result import duties of 28 percent. Upon accession to the WTO, Ecuador bound its tariffs (including the additional APBS levy) for corn at 45 percent. In addition, Ecuador maintains a worldwide corn tariff-rate quota (TRQ) of 19,600 MT at 25 percent tariff rate. This TRQ normally fills whenever international corn prices drop, and the APBS increases corn duties beyond 25 percent (15 percent *ad-valorem* + a variable levy over 10 percent).

The government does not provide any formal subsidies or economic assistance programs to promote yellow corn production. The Ministry of Agriculture, Livestock, Aquaculture and Fisheries does however aggressively encourage domestic production by requiring corn importers to buy up local production prior to authorizing import permits.

During the Andean Community-MERCOSUR trade talks, Ecuador negotiated bilateral tariff reductions with Argentina, Brazil, Paraguay, and Uruguay. The tariff reductions apply only to the *ad-valorem* duties as the APBS is maintained for corn. The Ecuador-MERCOSUR agreement entered into force on April 1, 2005; phasing out tariffs for most cereals (including corn) over the next 14 years.

Country of Origin	First Liberalization	Full Liberalization
Argentina	3-year grace period 2005-2008, followed by a 10% reduction starting in January 2008.	By 2018, 100% liberalization
Brazil	In 2008, a 10% reduction; 15% in 2009.	A 5% yearly reduction from 2009 to 100% by 2018.
Paraguay	In 2007, a 40% reduction until 2012.	By 2018, 100% liberalization
Uruguay	In 2007, a 50% reduction until 2013.	By 2018, 100% reduction.

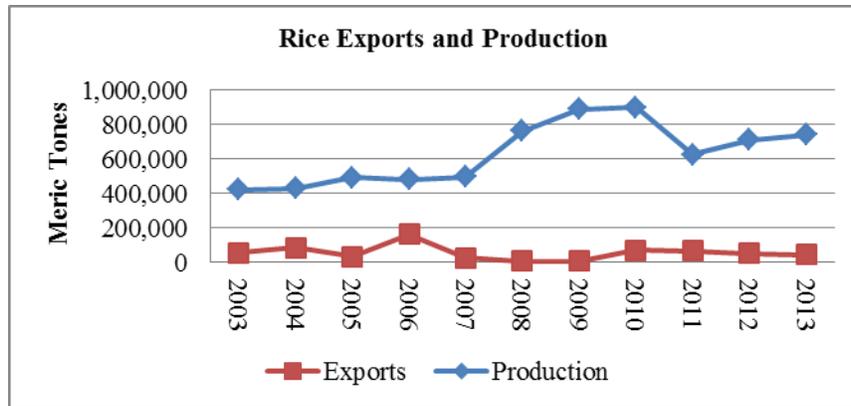
**Commodity – Rice
Production:**

FAS Quito forecasts Ecuador’s milled rice production in MY 2014/15 at 787,000 MT, up some 20,000 MT or an increase of around 2.6 percent compared to our MY 2013/14 estimate of 767,000 MT. We attribute increased production to the availability of new, improved rice varieties. The planting season started on time this calendar year. We anticipate the year’s first harvest in late April, and barring unexpected bad weather a good harvest season.

Rice, Milled Ecuador	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	371	371	360	380		390
Beginning Stocks	26	26	85	85		69
Milled Production	800	800	850	767		787
Rough Production	1,270	1,270	1,349	1,278		1,312
Milling Rate (.9999)	6,300	6,300	6,300	6,000		6,000
MY Imports	44	44	0	0		0
TY Imports	20	20	0	0		0
TY Imp. from U.S.	0	0	0	0		0
Total Supply	870	870	935	852		856
MY Exports	75	75	75	43		50
TY Exports	50	50	75	43		50
Consumption and Residual	710	710	760	740		760
Ending Stocks	85	85	100	69		46
Total Distribution	870	870	935	852		856
1000 HA, 1000 MT, MT/HA						

Ecuador by utilizing new, improved rice varieties is able to obtain at least two harvests per year in areas under irrigation. Producers are benefitting from a combination of high international prices, government subsidized inputs, and strong demand.

Rice production occurs in the coastal lowlands, which flood during the November-April rainy season, but remain humid throughout the rest of the year. Production varies with rainfall, with the second (larger) harvest coming in following the end of the rainy season (i.e., May-June). Only a third of the acreage is planted during the summer months, limited mainly by access to irrigation. While large-scale farmers can afford expensive irrigation and equipment, the majority (i.e., 75 percent) of Ecuador’s rice farmers are poor. The latter farm plots averaging 5 hectares, with yields of about 2.5 MT/hectare.



Consumption:

Rice is a staple food in Ecuador with most of the domestic production consumed locally. AT FAS Quito, we forecast total consumption to reach 760,000 MT in MY 2014/15, up 20,000 MT or an increase of almost 3 percent compared to the MY 2013/14 estimate. We attribute the increase to natural population growth. Per capita consumption is an estimated 5 kilograms/month.

FAS Quito finds that domestic rice is marketed through wholesalers in 45- kilogram sacks; small stores in turn sell to consumers by the kilogram. Prices vary depending on the marketing channel. The 45- kilogram wholesale sack of domestic rice in 2013 went for about \$42, but retail sales fractioned out by the kilogram will drive up the value of the sack's content to around \$57. Rice continues to be largely sold by the sack or alternatively by the kilogram. However, with the expansion of modern supermarkets sales of 2-5 kilogram branded rice sacks now account for 15-20 percent of total retail rice sales.

Trade:

With rice production increasing, Ecuador is moving away from imports. At FAS Quito we forecast little to no rice imports by Ecuador in MY 2014/15. We do however see a niche export market opportunity for specialty rice varieties such as basmati, sushi-style rice (i.e., white, short-grain rice), risotto, wild rice, and parboiled rice.

Ecuador exports rice to Colombia. Exports to Colombia in MY 2013/14 alone accounted for 27,000 MT or about 63 percent of total exports. Ecuador also exported about 15,000 MT of milled rice to Cuba during the same period through a government-to-government agreement.

Policy:

Rice imports are politically sensitive. The Correa government is actively promoting rice self-sufficiency by maintaining the APBS, as well as controlling exports and imports. The current APBS sets a floor price of \$575/MT and a ceiling of \$691/MT. At FAS Quito we find that rice imports are levied an *ad-valorem* tariff of up to 68 percent. The Ministry of Agriculture authorizes both export and import permits; it also acts as the authorized exporter of existing reserves. The government aims to establish a permanent emergency stock of some 80,000 MT of rice to improve national food security.

FAS Quito finds that Andean Community members are assessed a zero-tariff, as well as are not subject to the Andean Price Band System. However, a ministerial decree is nonetheless necessary before an import permit is authorized. Other Latin American countries have been granted *ad-valorem* tariff preferences under the ALADI, but they are however still assessed the APBS variable levy following scale in the table below.

HTS	Description	United States and World	CAN	Peru	Chile	ALADI				
						Paraguay	Uruguay	Argentina	Brasil	Mexico
1006.1090	Rice, Paddy	20%	Zero	Zero	15%	15%	7.5%	15%	15%	15%
1006.2000	Rice, Brown	68%	Zero	Zero	20%	20%	10%	20%	20%	20%
1006.3000	Rice, Milled	68%	Zero	Zero	20%	12%	10%	20%	20%	20%
1006.4000	Rice, Broken	25%	Zero	Zero	20%	20%	10%	20%	20%	20%

Note: Although Peru is part of the Andean Community, it has signed a bilateral agreement with Ecuador that includes preferences on rice. Similarly, Chile has also negotiated a bilateral trade agreement with Ecuador.