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Colombia's Looming FTA with Canada is Bad News for U.S Wheat Exports

Report Categories:

Grain and Feed

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Report Highlights:

Unless the U.S-Colombia Free Trade Agreement (CTPA) is ratified, U.S. wheat will continue to decrease its market share in the Colombian Market. Canada's forthcoming tariff advantage is the main threat to U.S. wheat. In addition, tariffs on Argentine wheat were already reduced to zero in January 2010 due to preferences Colombia now grants to Mercosur countries. Small and medium millers' consumption preferences continue to shift to Canadian and Argentine wheat and the price band tariff for the U.S. is currently above 15%.

General Information:

Over the past two years, the U.S. wheat industry has faced a considerable reduction in its exports to Colombia. In order to enter the Colombian market, U.S. wheat faces tariffs that currently are over 15% due to the WTO-illegal price band system. Moreover, competitors such as Argentina and Canada are the main beneficiaries of the United States' diminishing market share; while two years ago, U.S. wheat marketing year (MY) exports to Colombia were valued at U$320 million, by 2010 MY exports reached a mere US$133 million.

Since 2008, Colombia has shifted its wheat imports from the U.S. to Argentine and Canadian suppliers. In 2008, U.S. wheat dominated the Colombian market, selling 1 million MT. However, in 2009, its market share was reduced to 46%, and in the first half of 2010, imports totaled 151,539 MT representing 27%, whereas Canada and Argentine imports were approximately 364,000 MT with 72% of the market share.

Due to Colombia´s associate member status in Mercosur, Colombian traders and millers have been able to buy Argentine wheat with zero tariffs. On the other hand, the current total tariff for the U.S. stands at 17% due to price band. Furthermore, shortages caused by Russia's drought will also impact market dynamics; in fact, recent wheat prices have increased 34% reaching US$267 per MT for Soft Red Winter (SRW), making U.S. wheat sales to Colombia for the second half of 2010 uncertain.

According to influential Colombian traders representing small and medium scale millers, they have decided to buy Canadian wheat for three main reasons. 1) Due to the quality of the Canadian wheat: Colombian millers are blending Canadian grain with Argentine grains. This blended product has characteristics that can be compared to U.S. wheat; 2) Importers report that Canadian wheat has less foreign matter, which suits their bakery and pastry clients´ demands; and 3) Major importers of U.S. product will only deliver large volumes of products. Small and medium millers require only minor quantities during the year (around 15,000 MT).