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U.S. Grains Losing Market Share in Massive Proportions

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Report Highlights:
U.S. corn has dramatically lost market share in Colombia. In 2008, U.S. corn supplied 80 percent of Colombia's corn needs. In 2010, the share sharply declined to 20 percent. U.S. corn exports to Colombia declined from 2.9 million tons in 2008 to 900,000 tons in 2010, a significant 2 million tons lost in this period. Colombia has a free trade agreement with Mercosur in place, which grants a 60 percent duty preference for corn imports from Mercosur. Canada's FTA with Colombia should be ready for implementation by June 2011 and is expected to take what remains of the U.S. market share of wheat. The free trade agreement between Colombia and the United States will level the playing field for U.S. grains.

Executive Summary:

In MY 2010/2011, Colombian Corn production is estimated to decline by 160,000 tons, 9.9 percent, to 1.45 million tons due to the damage caused by the extreme rainfall. A recovery to 1.6 million tons, 10.3 percent, is forecasted for the following 2011/2012 MY as weather conditions are expected to return to more normal patterns. Higher local prices for corn and rice will also encourage growers to increase planted areas. Corn imports are expected to decline by 50,000tons, 1.4 percent in MY 2010/2011 to 2.6 million tons as production recovers. Rice production is forecasted to increase by 9 percent to 1.5 million tons in MY 2011/2012. Due to the pending SPS issue with the Colombian government, imports are expected to be supplied by neighboring countries and smuggling will continue. Wheat imports are expected to stay at the same level since local consumption remains stagnant.

The Colombian market for U.S. corn and wheat has reduced dramatically in favor of Mercosur countries and Canada in the last two years. The U.S. corn market share declined from 80 percent in 2008 to 20 percent in 2010, due mainly to the preference Colombia granted to Mercosur under their Free Trade Agreement with the Mercosur countries. The U.S. wheat market share declined from 73 percent in 2008 to 44 percent in 2010 in favor of Canada and it is expected that Canada will gain more market share when the Colombia-Canada free trade agreement is implemented later in 2011.

Commodities:

Corn
Rice, Milled
Wheat

Production:

Corn

Colombian corn production has been impacted by the “Niña” weather phenomenon, which caused flooding in several areas of the country and affected approximately 35,000 hectares of corn and other coarse grains. Corn production is expected to decline 10 percent in MY 2010/2011 to 1.4 million tons, however it is forecasted to recover to 1.6 million tons in MY 2011/2012, under the assumption that weather conditions will improve. In addition, higher international corn prices, which are reflected in local increasing corn prices, will stimulate the expansion of corn planted areas.

Colombian corn production is under expansion in the eastern plains region of Colombia called the “Altillanura”. A private project is being developed with 12,000 hectares of corn. The corn production is processed into feed for swine production, which is part of the project. This region is seen as the potential region for Colombian agricultural expansion. However, larger areas need to be recovered for production, and infrastructure needs to be in place, since these areas are located far from main marketing and consumption centers.

Colombia is using biotech seeds for corn, and the planted area of biotech acreage is expanding. In 2010, 38,896 hectares were planted with 6 different biotech seeds. The planting area has the following distribution by departments (states): Valle 10,658 hectares, Cordoba 9,340 hectares, Tolima 6,600 hectares, Meta 6,168 hectares and Cesar 1,743. These five departments comprise 88 percent of the total planted area using biotech corn.

Colombian Use of Biotech Corn Seeds – Year 2010		
Technology	**Hectares**	**Share**
Yieldgard	1,822	5%
Roundup Ready	2,758	7%
Yieldgard x RR	9,437	24%
Herculex I	15,984	41%
Herculex I x RR	7,787	20%
Bt11	1,108	3%
Total	38,896	

Wheat

Colombian wheat production is expected to decline to 20,000 tons in MY 2010/2011, due to the impact of excess water from the flooding. Colombian wheat production is sold mainly to small local processors for local wet milling for human consumption. Local wheat production is forecast to maintain the same production level as MY 2011/2012. Price is not a determining factor for increasing the wheat area in Colombia since the milling industry is not the natural market for local production. However, the industry is committed to purchase all the locally produced wheat.

Rice

In MY 2010/2011, Colombian rice area declined to 420,000 hectares and the price increased. The main reason was that 20,000 hectares planted were impacted by the extreme rainfall which lowered yields. These two factors explain the drop in planted area in MY 2010/2011. However, the forecast is for an increase in area planted to 450,000 hectares stimulated by current higher prices and possibly better weather conditions. Production will increase along with area to 2.5 million tons in MY 2011/2012.

Consumption:

Corn consumption in Colombia is divided into the food and feed industries. Ninety-Five percent of the corn imported goes to the feed industry and the remaining 5 percent to human consumption. As much as 10 percent of the local production is devoted to feed production while the remaining 90 percent is for human consumption. It is calculated that 50 percent of Colombian feed production is used by the poultry sector, 40 percent by livestock and swine and the remaining 10 percent by aquaculture and pets. Poultry meat is the first meat in per-capita consumption in Colombia, calculated at 21 kg followed by beef at 19 Kg and pork meat at 5 kg per-capita.

The feed industry continuously looks for new formulation of their feed mix and ingredients such as wheat, yucca, DDGS, and other grain byproducts are gaining popularity. The percentage of these new products depends on their cost at the time of processing. The substitution of traditional products is still low.

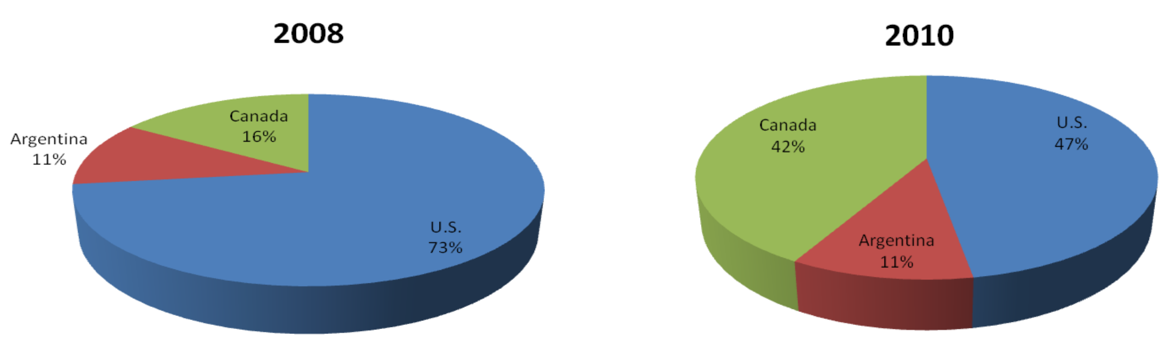
Rice consumption has been near stagnant, and the government, along with the producers, estimates the per-capita consumption at 39 kg of milled rice a year.

Overall, wheat consumption is expected to remain unchanged, according with the industry. The wheat distribution among the different sectors is calculated as follows: bread production demands 75 percent of the wheat, the pastas industry demands 15 percent, and the cookies and pastry industry the remaining 10 percent. The pastry industry is seen as the most dynamic due to its continuous efforts to increase exports.

Trade:

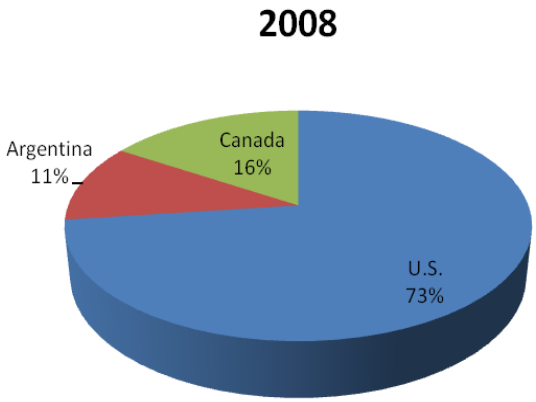
In MY 2010/2011, total Colombian corn imports are expected to reach 3.6 million tons, which represents a 1. 4 percent decline compared from the year before. This reduction reflects difficulties in transporting grains due to the damage caused to roads by the extreme rainfall, rather than a lower demand from the feed industry. In fact, the department of Santander, which produces around 25 percent of the total Colombian poultry production, has been suffering by interruptions in their grain supply. The transport infrastructure is undergoing construction and the grain supply is expected to return to normal in early 2012. Corn imports are forecasted to return to 3.65 million tons in MY 2011/2012.

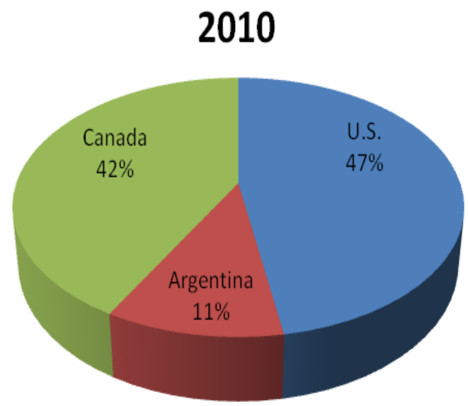
Colombian corn imports have dramatically shifted from the U.S. to Mercosur. In 2008, the U.S. corn share was 80 percent of the Colombian market and dropped to 20 percent in 2010.



The shift in the country’s suppliers is mainly explained by the preferential treatment granted to Mercosur countries under the Colombian- Mercosur Free trade Agreement that entered into its sixth year of implementation. This trend will continue unless the U.S.-Colombia Free Trade Agreement is ratified.

The Colombian Wheat trade has also shifted against U.S. and this time in favor of Canadian wheat, although the free trade agreement is expected to enter into application during the second half of 2011. The Colombia-Canada free trade agreement will eliminate the duty on wheat imports from Canada.





The Colombian duty on rice imports from countries outside the Andean Community is 80 percent. This duty, acts as a barrier for rice imports. However, when a shortage in locally produced rice supply is expected the Ministry of Agriculture allows the industry to import a rice quota. For 2011, the Ministry of Agriculture announced a rice quota of 40,000 tons of paddy rice which can be imported only from the Andean community countries (mainly Ecuador and Peru) between April and May. It is forecasted that rice inventories during the first half of 2011 will be lower than previous years. This situation can open the window for the government to extend the import quota during this year. According to local sources, smuggling continues, and although the real volume is unknown, a rough calculation ranged from 100,000 to 250,000 tons of milled rice.

Prices

Colombian corn and rice producer associations calculate an Import Parity Price on a daily basis, which is equivalent to an imported corn price traded into a local market. This price includes freight, duties, insurance, and other local costs such as transportation from port to local market. The price later reflects planting decisions, since high international corn and rice prices will lead to an increase in the local price, motivating growers to expand areas. It is forecasted to happen in MY 2011/2012 grain crop.

Source: CCI – Minagriculture

For wheat production, there is a price set up in advance for the industry to purchase the local production supply. This price is announced twice a year for locally produced wheat. The last price announced was $346 per ton.

Stocks:

The Colombian government does not have a policy for holding stocks. However, when needed, particularly for rice, the Ministry of Agriculture puts in place a storage incentive to hold inventories at the end of the year when the main crop is harvested. The inventories are generated at the end of the calendar year when the largest rice harvest completed. End-of-the-year inventories are held by producers as follows according to their departments (states):

Distribution of Rice Inventories at the end of the Year	
Meta-Casanare	60 %
Tolima-Huila	25 %
Norte de Santander	4%
Atlantic Coast	3%
Others	8%

It is estimated that rice inventories for the first half of 2011 will be lower than the previous five years.

Corn and wheat inventories are considered working inventories. The feed and milling industry stores enough to maintain their cost-effective production. It is calculated that the industry maintains no more than two months of working inventories. Sometimes, the industry inventories react to strong increases or expectations of increases of international prices and make decisions anticipating imports and expand their inventories.

Policy:

The Colombian government protects its local corn production. To do so, corn is included into the price band mechanism of the Andean Community (CAN). The Price Band levies additional duties on the 15 percent basic duty when international corn prices are lower than the floor price and conversely reduces the basic duty when reference prices are higher than the ceiling price. This Price Band Mechanism operates as a protective policy when the reference price is lower than the floor price by increasing the import basic duty.

Andean Price Band – Prices per ton (April 1 – March 31)				
	2010/2011		**2011/2012**	
	Floor Price	**Ceiling Price**	**Floor Price**	**Ceiling Price**
Yellow Corn	176	223	194	236
White Corn 1/	177	227	193	237
Wheat	233	308	249	319
Rice 1/	394	560	441	600

1/ The PBD were temporarily suspended for these products. White corn has 40 % duty and Rice 80 % duty

Source: Andean Community

Imports of yellow corn supply close to 90 percent of the feed industry's needs. Given their need for imports, the GOC established an import TRQ mechanism (MAC) under which an amount of grain imports is allowed at a reduced duty with a maximum of 10 percentage point reduction on the total duty. The MAC also sets up a minimum import duty of 5 percent for imports out of the MAC quota. This mechanism operates through an auction that allocates corn import rights to those that offer to purchase local corn production. Despite the tariff reduction, the MAC is ineffective when the international commodity price is high due to the price band mechanism. In fact, the duty under the price band mechanism to be applied during the second half of March for corn imports would be zero, but due to the MAC it is 5 percent. This 5 percent applies for corn imported from the U.S. while corn imported from Mercosur countries pay a 2 percent duty due to the preference received under the Colombia Mercosur agreement of 60 percent.

Colombian TRQ (MT) under MAC					
	2009		2010		2011
	Set	Allocated	Set	Allocated	Set
Yellow Corn	2,300,000	1,904,275	2,600,000	1,719,448	2,040,000
White Corn	50,000	20,000	123,000	65,500	80,000
Soybeans	200,000	272,390	300,000	232,890	300,000

Source: Ministry of Agriculture and Colombian Mercantile Exchange

Overall, Colombian corn production (white and yellow) covers as much as 30 percent of total Colombian corn consumption, making Colombia a net corn importer. Until 2008, even though the Colombia-Mercosur agreement was in place, the MAC mechanism has favored corn imports from the U.S. However, the increased duty preference for imports from Mercosur has virtually eliminated that advantage. Starting in 2011, the duty preference in favor of Mercosur increased to 60 percent, a 9 percentage point duty reduction on the 15 percent common external duty, while corn imports from the U.S. pay the full duty. The duty preference that favors imports from Argentina and Brazil will remain the most important competitive factor against U.S. corn, at least in the short term, while the U.S-Colombia free trade agreement (CTPA) is ratified and implemented.

Due to the trade agreement with Mercosur countries, the duty preference applied are as follows:

Duty Preference for Imports from Argentina and Brazil		
Product	**2011**	**2012**
Yellow Corn	60 %	66 %
Soybeans & Soybean meal	60 %	66 %
Wheat	100 %	100 %

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. Currently, an 80 percent duty is levied on rice imported from the U.S. Rice growers are asking the government for tighter controls of the borders to prevent rice smuggling. The Colombian Agrarian Institute (ICA) claimed that the fungus rice smut (Tilletia) was found in a 5,000 MT shipment in April, 2009 resulting in its rejection and forcing the rest of the quota to be received under methyl bromide treatment. The paddy rice market is closed pending a Pest Risk Assessment (PRA) for Tilletia.

Wheat

The Colombian wheat milling industry's inputs are almost completely sourced by imported wheat and due to this situation, the industry has requested that the government reduces the import duty. As a result, the duty was reduced from 15 to 10 percent. The industry however, expects the government to lower the duty even more or eliminate it completely in the coming days.

Production, Supply and Demand Data Statistics:

Corn Colombia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	550	550	515	515		540
Beginning Stocks	882	882	1,042	1,042		891
Production	1,610	1,610	1,570	1,450		1,600
MY Imports	3,651	3,651	3,600	3,600		3,650
TY Imports	3,651	3,651	3,600	3,600		3,650
TY Imp. from U.S.	876	876	0	600		600
Total Supply	6,143	6,143	6,212	6,092		6,141
MY Exports	1	1	0	1		1
TY Exports	1	1	0	1		1
Feed and Residual	3,900	3,900	4,100	4,000		4,000
FSI Consumption	1,200	1,200	1,200	1,200		1,200
Total Consumption	5,100	5,100	5,300	5,200		5,200
Ending Stocks	1,042	1,042	912	891		940
Total Distribution	6,143	6,143	6,212	6,092		6,141

1000 HA, 1000 MT

Wheat Colombia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jul 2009		Market Year Begin: Jul 2010		Market Year Begin: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	15	15	15	12		12
Beginning Stocks	210	210	244	244		274
Production	26	26	26	20		20
MY Imports	1,406	1,406	1,350	1,410		1,420
TY Imports	1,406	1,406	1,350	1,410		1,420
TY Imp. from U.S.	656	656	0	650		300
Total Supply	1,642	1,642	1,620	1,674		1,714
MY Exports	3	3	5	5		5
TY Exports	3	2	5	5		5
Feed and Residual	20	20	20	20		20
FSI Consumption	1,375	1,375	1,375	1,375		1,385
Total Consumption	1,395	1,395	1,395	1,395		1,405
Ending Stocks	244	244	220	274		304
Total Distribution	1,642	1,642	1,620	1,674		1,714
1000 HA, 1000 MT						

Rice, Milled Colombia	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Apr 2009		Market Year Begin: Apr 2010		Market Year Begin: Apr 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	469	469	420	420		450
Beginning Stocks	259	259	210	210		45
Milled Production	1,512	1,512	1,269	1,370		1,500
Rough Production	2,520	2,520	2,115	2,283		2,500
Milling Rate (.9999)	6,000	6,000	6,000	6,000		6,000
MY Imports	39	39	65	65		85
TY Imports	15	15	150	150		150
TY Imp. from U.S.	0	0	0	0		0
Total Supply	1,810	1,810	1,544	1,645		1,630
MY Exports	0	0	0	0		0
TY Exports	0		0	0		0
Consumption and Residual	1,600	1,600	1,500	1,600		1,600
Ending Stocks	210	210	44	45		30
Total Distribution	1,810	1,810	1,544	1,645		1,630
1000 HA, 1000 MT						