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As FTA Implementation Approaches, US Grains Positioned to Recover and Further Expand Market Share

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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 demand. In 2011, the share declined sharply to 21 percent. U.S. corn exports to Colombia declined from 2.9 million tons in 2008 to 551,000 tons in 2011, down 2.4 MMT. Colombia's rice production is expected to rebound in MY 2012/13 after a year of poor yields. Although Canada's FTA with Colombia entered into force in October 2011, the U.S. remained as the number one supplier of wheat to Colombia in CY 2011. The US/Colombia FTA, expected to be in force during the second half of 2012, will level the playing field for U.S.

Grains.

Executive Summary:

In MY 2011/2012, Colombian Corn production is estimated to increase 17 percent (250,000 tons) to 1.7 million tons due to government support for the expansion of commercially produced corn. Corn production is also expected to increase to 1.83 million tons in the upcoming 2012/2013 marketing year. Strong local prices for corn will also encourage growers to increase planted area. Corn imports are expected to increase by 100,000 tons, 2.7 percent in MY 2012/2013 to 3.75 million tons as demand strengthens. Rice production is forecasted to increase by 5 percent to 1.5 million tons in MY 2012/2013 after a year of poor yields due to phytosanitary problems in the fields. If the Rice Smut SPS issue is not resolved with the Colombian government, imports will continue to be supplied by neighboring countries and in that case, smuggling would continue. Wheat imports are expected to increase along with population rate growth, which will maintain wheat per-capita consumption.

The Colombian market for U.S. corn and wheat has decreased dramatically in favor of Mercosur countries and Canada in the last three years. The U.S. corn market share declined from 80 percent in 2008 to 21 percent in 2011, due mainly to the preference Colombia granted to Mercosur under the 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.

Commodities:

Corn

Rice, Milled

Wheat

Production:

Corn

Colombian corn production is expected to increase to 1.7 million tons in MY 2011/2012, and it is forecasted to increase by 130,000 tons to 1.83 million tons in MY 2012/2013. In calendar year 2011 yellow corn planted area increases by 35,000 hectares due to the better corn prices relative to other crops and the support coming from the Colombian government through the “Plan Pais Maiz” – The Corn Country Program. Under this program, the Ministry of Agriculture set a target of 250,000 hectares of yellow corn (commercially produced), to be planted by 2015, with annual increases of 30,000 has. In 2011, the program’s first year, area surpassed the amount set, reaching 169,000 hectares. The Colombian Grains Growers Association (Fenalce) is confident that they will reach the goal set for the coming years.

In Colombia corn production is divided into two groups: commercially produced and traditional produced. The first group is comprised of farms managed under entrepreneurial practices, using commercial seeds (including biotech seeds), with preventative pest control applications, using machinery for planting and harvesting, and using full-time employees. The traditional group is of small farm areas managed by its owner that divides the land with other crops. It is calculated that commercially producing areas can reach a 5.0 average yield while

traditional produce only 2.0 tons per hectare. Colombian commercially produced corn area is calculated at 265,000 hectares representing nearly 50 percent of the total corn area planted, and yellow corn represent 63 percent of this commercially producing area, totaling 165,000 hectares.

Colombian corn production is under expansion in the eastern plains region of Colombia called the “Altiplanura”. There are numerous projects emerging in this area with corn and soybeans. A private project is also being developed with 12,000 hectares of yellow corn. The production of corn and soybeans, with which corn is rotated, is processed into feed for swine production, which is part of a vertically integrated project. This region is seen as the area where future agricultural expansion will happen in Colombia. However, larger areas need to be recovered for production, and more infrastructure is needed, since these areas are located far from main marketing and consumption centers.

Colombian overall use of biotech seed is increasing and the planted area of biotech acreage is expanding. Biotech corn seed use is increasing and the area planted is distributed into five departments (states): Valle, Cordoba, Tolima, Meta and Cesar. These five departments comprise 90 percent of the total planted area using biotech corn.

Colombian Use of Biotech Corn Seeds		
Year	Hectares	Change
2007	6,901	
2008	10,489	52%
2009	16,822	60%
2010	38,896	131%
2011	59,239	52%

Source: ICA, Colombian Agrarian Institute

Wheat

Colombian wheat production is expected to increase to 23,000 tons in MY 2011/2012, due mainly to increases in productivity as weather improves. Also, the price increases will help to increase planted area, although the natural market for local production is wet milling for human consumption. Local wheat production is forecast to maintain similar production levels in the upcoming 2012/2013 marketing year. The industry is committed to purchase all the locally produced wheat offered to them.

Rice

In MY 2011/2012, Colombian rice area is expected to increase by 12 percent to 470,000 hectares, and paddy rice production is expected to increase by 157,000 tons to 2.19 million tons. Rice areas are expected to expand mainly in the eastern plains as a response to higher local price and government support.

Although these factors stimulated an increase in area, a new SPS issue in Colombia had a major impact on yields over the past year. A combination of mite, fungus and bacteria, known in the Colombian Rice Industry as *Vaneamiento*, impeded the development of the rice grain. According to the Colombian industry, the problem has been spreading southward from Central America. This condition is caused by high rainfall combined with high temperatures. The result was 4.6 tons per hectare yields, down from the 4.9 tons per hectare that was expected. Yields were impacted in particular where higher temperatures occur, as in the case of the department of Tolima, where the North of the state suffered a 20% loss in yields and the Southern portion as in the 40% loss range. The forecast for MY 2012/2013 is for rice production to increase to 2.2 million tons of paddy rice, a 5 percent increase, due to return to a higher productivity as more normal weather is returning since “la Niña” weather phenomenon comes to a close. In the case that La Nina does not take its course, the SPS problem of *Vaneamiento* is expected to persist, and will adversely affect yields and production.

Consumption:

Corn consumption in Colombia is divided between 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 38 kg of milled rice a year.

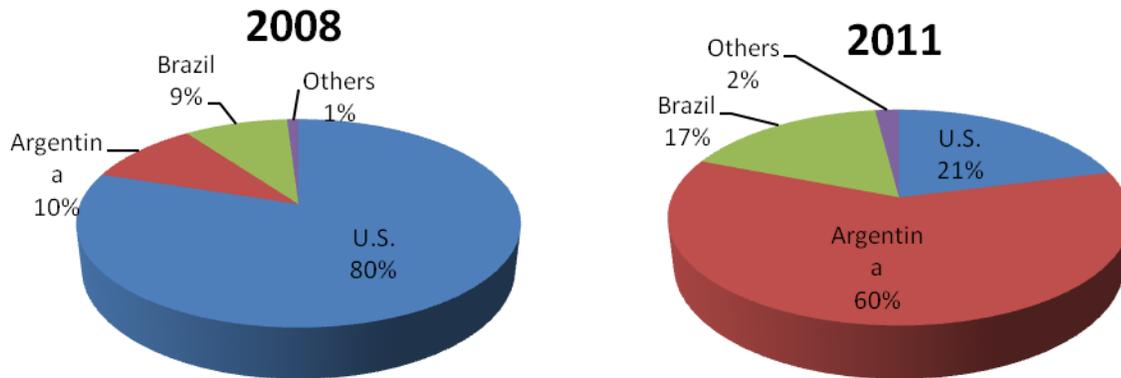
Overall, wheat consumption is expected to remain unchanged, according with the industry. The wheat distribution among the different sectors is calculated as follows: bread production demands 75 percent of the wheat, the pasta industry demands 15 percent, and the cookies and pastry industry the remaining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

Trade:

In MY 2011/2012, total Colombian corn imports are expected to reach 3.6 million tons, which represents a 16 percent increase compared from the year before. This expected increase reflects mainly the shift back from sorghum to corn on the imports grain basket composition. In effect, in CY 2011 Colombian corn imports decline from 3.6 million tons to 3.1 million tons from CY 2010, while sorghum imports increased from 168,000 tons to 472,000 tons. This partial substitution of sorghum for corn occurred because the price difference per ton between sorghum and corn doubled in 2011 to \$65, and the feed industry worked its feed formulation to balance the price differentials. The corn prices also continued affected by the road transportation difficulties

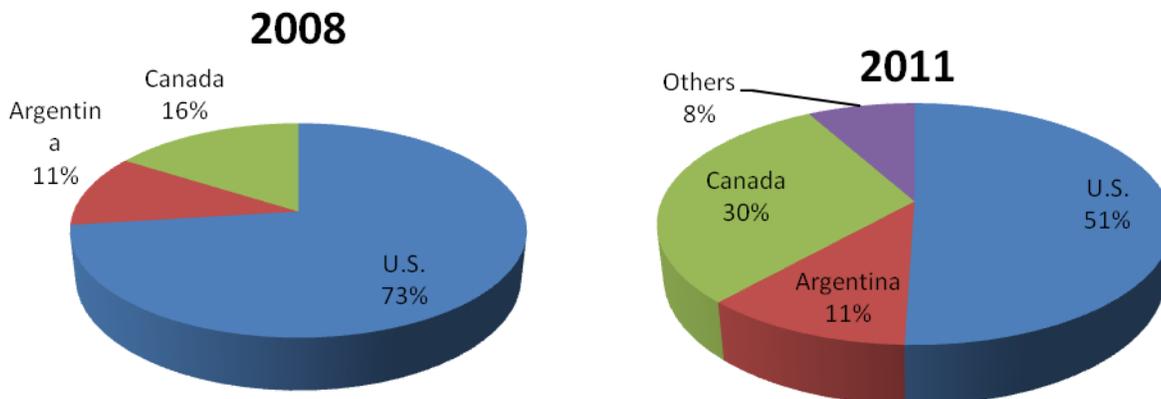
caused by rains. In fact, the department of Santander, which produces around 25 percent of the total Colombian poultry production, has been suffering interruptions in their grain supply by two consecutive years. Corn imports are forecasted to return to 3.75 million tons in MY 2012/2013.

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 21 percent in 2011.



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 seventh year of implementation.

The Colombian Wheat trade has also shifted against U.S. and this time in favor of Canadian wheat, with the implementation of the free trade agreement in October 2011. The Colombia-Canada free trade agreement eliminated 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 to US 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. Due to the “vaneamiento” rice disease, rice production in year 2011 was lower than the normal average and for 2012 it is expected that the Ministry of Agriculture will announce a rice quota for paddy rice. The quota would be imported only from the Andean community countries (mainly Ecuador and Peru), as has been designated several times in the past. According to local sources, smuggling continues, and although the real volume is unknown, a rough calculation ranges 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 and rice 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.

The Local producers associations calculate the product import-parity-price which is published to be use for producers to negotiate their crops.

Price of US Corn imported at Local Market March 8, 2012 (\$ per ton)	
CBOT, March contract	253.37
Base	25.39
FOB	278.8
CIF	305.3
Duty 1/	5%
Exchange rate	1,773.88
Price at Bogota Place	407.97
Price at Bogota Place	388.24

1/ Duty under MAC TRQ mechanism

Source: Colombian Grains Producers Association (FENALCE)

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. In 2011 the government granted a rice storage subsidy program. The inventories stored at the end of the year supply the market at the beginning of the following year making inventories reach

its lowest by April-May. It is estimated that rice stocks at the end of MY 2012 will be just 30,000 tons of milled rice lower than the previous 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 decisions are made to expand their inventories as imports are anticipated.

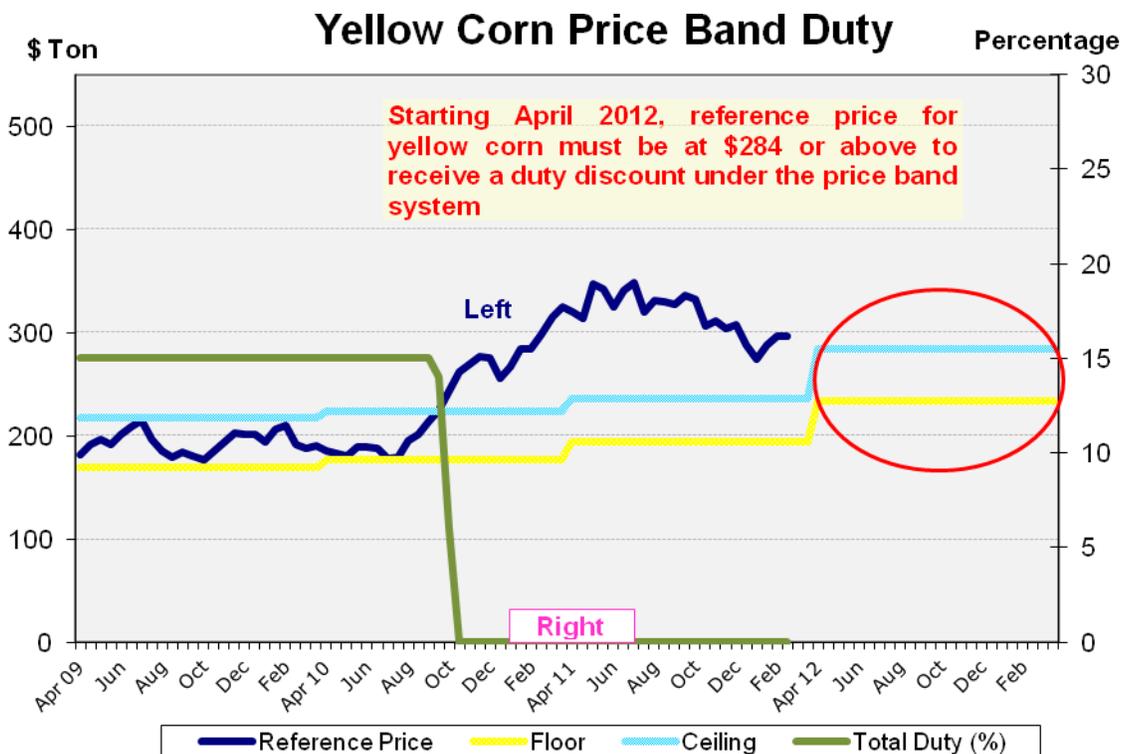
Policy:

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 10 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.

<i>Andean Price Band – Prices per ton (April 1 – March 31)</i>				
	2011/2012		2012/2013	
	Floor Price	Ceiling Price	Floor Price	Ceiling Price
Yellow Corn	194	236	233	284
White Corn 1/	193	237	231	281
Wheat	249	319	283	354
Rice 1/	441	600	505	651

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

This year, starting April 1st, the corn floor and ceiling prices of the price band will increase to a new high. This will impact the duty for corn imported from the US since the duty will be reduced only if the international corn prices are above \$284 per ton (see the graph below).



Source: Ministry of Agriculture

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 international commodity prices are high due to the price band mechanism. In fact, the duty under the price band mechanism to be applied during the first half of March for corn imports would normally be zero, but due to the MAC it is 5 percent. This 5 percent applies to corn imported from the U.S. while corn imported from Mercosur countries pay a 1.7 percent duty due to the preference received under the Colombia Mercosur agreement of 66 percent.

Colombian TRQ (MT) under MAC						
	2010		2011		2012	
	Set	Allocated	Set	Allocated	Set	Allocated*
Yellow Corn	2,600,000	1,719,448	2,040,000	737,195	2,000,000	474,600
White Corn	123,000	65,500	80,000	65,500	100,000	40,000
Soybeans	300,000	232,890	300,000	232,890	300,000	122,766

*As of March 2012

Source: Ministry of Agriculture and Colombian Mercantile Exchange

Overall, Colombian corn production (white and yellow) makes up 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 2012, the duty preference in favor of Mercosur increased to 66 percent, a 6.6 percentage point duty reduction on the 10 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 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	2012	2013
Yellow Corn	66 %	71 %
Soybeans & Soybean meal	66 %	71 %
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. Colombian Rice growers are asking the government for tighter controls of the borders to prevent rice smuggling. The Colombian Agrarian Institute (ICA or APHIS equivalent) claims 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, and the industry has requested that the government reduce the import duty. As a result, the duty was reduced from 15 to 10 percent.

Production, Supply and Demand Data Statistics:

Corn Colombia	2010/2011	2011/2012	2012/2013
	Market Year Begin: Oct 2010	Market Year Begin: Oct 2011	Market Year Begin: Oct 2012

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	515	515	535	535		565
Beginning Stocks	1,042	1,042	796	429		579
Production	1,450	1,450	1,550	1,700		1,830
MY Imports	3,504	3,137	3,900	3,650		3,750
TY Imports	3,504	3,137	3,900	3,650		3,750
TY Imp. from U.S.	536	536	0	900		2,300
Total Supply	5,996	5,629	6,246	5,779		6,159
MY Exports	0	0	0	0		0
TY Exports	0	0	0	0		0
Feed and Residual	4,000	4,000	4,200	4,000		4,200
FSI Consumption	1,200	1,200	1,200	1,200		1,200
Total Consumption	5,200	5,200	5,400	5,200		5,400
Ending Stocks	796	429	846	579		759
Total Distribution	5,996	5,629	6,246	5,779		6,159
1000 HA, 1000 MT, MT/HA						

Rice, Milled Colombia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Apr 2010		Market Year Begin: Apr 2011		Market Year Begin: Apr 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	420	420	470	470		450
Beginning Stocks	213	213	45	45		30
Milled Production	1,503	1,323	1,666	1,430		1,500
Rough Production	2,210	1,946	2,450	2,103		2,206
Milling Rate (.9999)	6,800	6,800	6,800	6,800		6,800
MY Imports	109	109	135	155		130
TY Imports	125	125	100	120		130
TY Imp. from U.S.	0	0	0	0		0
Total Supply	1,825	1,645	1,846	1,630		1,660
MY Exports	0	0	0	0		0
TY Exports	0	0	0	0		0
Consumption and Residual	1,780	1,600	1,760	1,600		1,600
Ending Stocks	45	45	86	30		60
Total Distribution	1,825	1,645	1,846	1,630		1,660
1000 HA, 1000 MT, MT/HA						

Wheat Colombia	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jul 2010		Market Year Begin: Jul 2011		Market Year Begin: Jul 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	12	12	14	12		12
Beginning Stocks	262	262	232	232		245
Production	20	20	23	23		23
MY Imports	1,349	1,349	1,400	1,400		1,400
TY Imports	1,349	1,349	1,400	1,400		1,400
TY Imp. from U.S.	767	767	0	600		770
Total Supply	1,631	1,631	1,655	1,655		1,668
MY Exports	4	4	5	5		5

TY Exports	4	4	5	5		5
Feed and Residual	20	20	20	80		80
FSI Consumption	1,375	1,375	1,385	1,325		1,345
Total Consumption	1,395	1,395	1,405	1,405		1,425
Ending Stocks	232	232	245	245		238
Total Distribution	1,631	1,631	1,655	1,655		1,668
1000 HA, 1000 MT, MT/HA						