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# Colombia

# Grain and Feed Annual

# U.S. Corn Trade Hits Historic Levels

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**Report Highlights:**
U.S. corn exports to Colombia hit historic trade levels at 3.6 million metric tons (MT) in Marketing Year (MY) 2014 with a trade value of $861 million. U.S. corn dominated the Colombian market supplying 97 percent of imports, displacing export competitors from the Southern Common Market (MERCOSUR). The 2.4 million MT quota for calendar year (CY) 2015 under the U.S.-Colombia Trade Promotion Agreement (CTPA) will likely fill before July 2015. Higher duties on MERCOSUR corn under the Price Band System (PBS) of the Andean Community of Nations (CAN) continue to favor of sourcing U.S. corn.

**Commodities:**

Corn

Rice, Milled

Wheat

**Production:**

**Corn**

Corn production is expected to remain at 1.75 million MT in MY 2014/2015 with no changes in production for MY 2015/2016. In CY 2014, corn area planted decreased by 15,000 hectares (37,000 acres) of both white and yellow corn with no expected changes for planted area in CY 2015. However, the decrease in area has been compensated with a marginal recovery in yields to maintain production levels. Domestic prices for white corn, the primary raw material for the food staple "arepa", continue to be more favorable than yellow corn, which is primarily destined for animal feed. Since 2010, the Government of Colombia (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, the program has failed to demonstrate any significant impact on area planted or yields.

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, or about half the yield of a comparable U.S. corn farm, while small scale farms produce an average of two tons per hectare. In 2014, industrial farm corn planted area was estimated to be 235,000 hectares (580,000 acres), or about nearly 50 percent of the total corn planted area planted. Yellow corn represents about 75 percent of the industrial farm planted area, or approximately 175,000 hectares (432,000 acres).

Since 2008, corn area planted in the Colombian eastern savanna, or *Altillanura*, has expanded to 35,000 hectares (86,000 acres) with production increasing from 20,000 to 170,000 MT in 2014. Agricultural production in the *Altillanura* is primarily corn and soybeans that are destined for vertically integrated swine feed operations in the region. Only about 30 percent of row crop production is marketed outside the *Altillanura*.

The *Altillanura* region, comprising parts of the Departments of Vichada, Meta, Casanare and Arauca, is considered to be the agricultural frontier for Colombia with approximately 4-6 million hectares (10-15 million acres) of flat, arable grass lands. The potential of the region is often compared to the western *Cerrado* of Brazil. Currently, raising cattle is the primary agricultural pursuit of the region given poor, acidic soil quality. The GOC is currently collaborating with research organizations, including the Brazilian Agricultural Research Institute (EMBRAPA) and the International Center for Agriculture in

the Tropics (CIAT), to develop suitable seed varieties, map the region's soil characteristics, and develop processes to transform the soils to be more apt for row crops.

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.

The GOC's National Development Plan (NDP) for 2014-2018, currently being debated in the Colombian Congress, provides a special status for land use in the *Altillanura* that aims to resolve the legal issues regarding land tenure and support greater investment in developing more modern, industrial agriculture. As the NDP is debated, the *Altillanura* land issues still remain under public scrutiny.

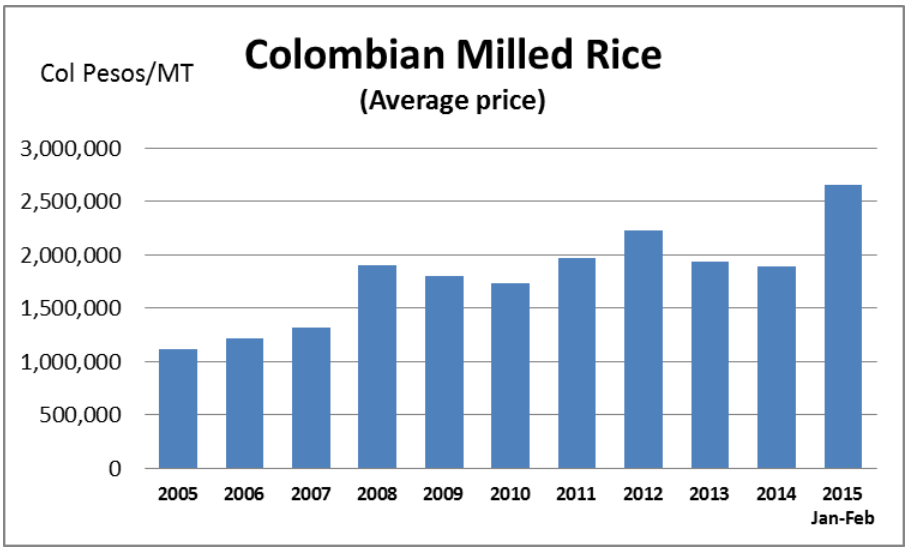
The GOC approves the planting of biotech corn, but only for animal feed. Colombian use of biotech corn is increasing with planted area expanding, but mostly on large-scale, industrial farms. Ninety percent of the total biotech corn area planted is in five departments: Valle del Cauca, Cordoba, Tolima,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

| | **Biotech Corn Usage** | | |
|---|---|---|---|
| **Year** | **Hectares** | ***Acres*** | **Change** |
| **2014** | 89,048 | *219,948* | 18.6% |
| **2013** | 75,094 | *185,482* | 0.1% |
| **2012** | 75,046 | *185,363* | 27% |
| **2011** | 59,239 | *146,320* | 52% |
| **2010** | 38,896 | *96,073* | 131% |
| **2009** | 16,822 | *41,550* | 60% |
| **2008** | 10,489 | *24,959* | 52% |
| **2007** | 6,901 | *17,045* | |

Source: Colombian Institute for Agriculture and Livestock (ICA)

**Rice**

Colombian rough/paddy rice production is expected to increase 130,000 MT to 1.98 million MT in MY2015/16. In 2014, the area planted fell by about 60,000 hectares (148,000 acres). As a result, rice production declined 132,000 MT. Reduced supplies at the end of CY 2014 put upward pressure on rice prices, increasing 53% since December 2014 (see graph below). This price surge is stimulating expanded planting and Post forecasts that area planted will recover to about 450,000 hectares (1.1 million acres) in MY 2015/2016.



Source: Colombian Rice Growers Federation (FEDEARROZ)

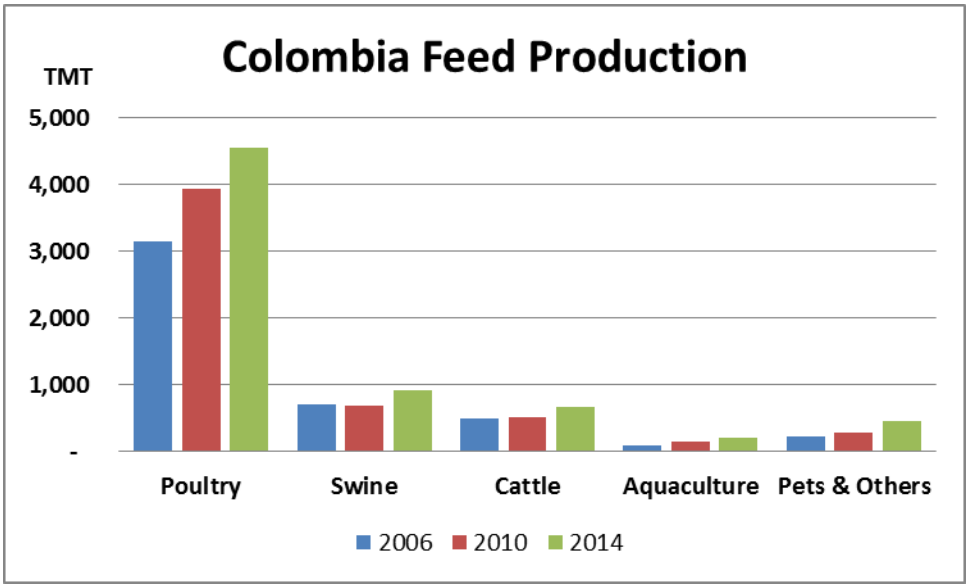
**Wheat**

Colombian wheat production is expected to decline to 15,000 MT in MY 2014/2015. 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 2015/2016 at 15,000 MT.

**Consumption:**

Ninety five percent of corn imports are destined for animal feed with the remaining 5 percent for human consumption. About 10 percent of local production is for animal feed while 90 percent is for the food processing sector. Approximately 67% of Colombian animal feed is for the poultry sector, 23 percent for both 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 (15 pounds).

The trends in feed demand determine grain feed production and imports in Colombia. The graph below illustrates feed consumption by sectors in Colombia with the primary consumer of grains being the poultry sector. However, other sectors are showing growth trends over the past few years. Colombia's sustained economic growth and the increase in the household income explain the growth in animal protein consumption. Feed demand will continue to grow, primarily in the poultry sector, as Colombia's economy remains strong and populations shift out of poverty into the low and middle income classes.



Source: Colombian National Industry Association (ANDI)

Traditional feed ingredients, such as corn, soybeans and soybean meal are the most prevalent feed raw materials. The feed industry, however, continues to investigate new formulations of their feed mixes and ingredients, such as wheat, yucca, and distillers grains. The introduction of new feed materials entirely dependent 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.

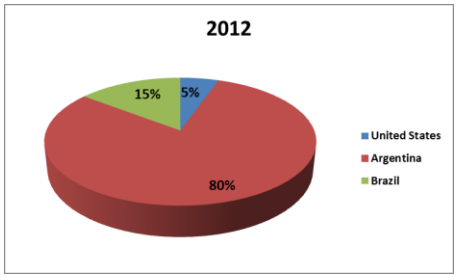
**Trade:**
In MY 2014/2015, Post forecasts total corn imports to reach 4.4 million MT with U.S. corn export volume hitting 4.0 million MT. In MY 2015/2016, Post forecasts total corn imports to increase by 50,000 MT to 4.45 million MT as feed demand increases and local corn production remains stagnant. Post forecasts U.S. corn exports remain at 4 million MT in MY 2015/2016. In CY 2014, Colombian imports of sorghum fell to 101,000 MT, 80 percent lower than CY 2013. Low corn prices motivated the feed industry to primarily source corn instead of other grain substitutes, such as sorghum or wheat.

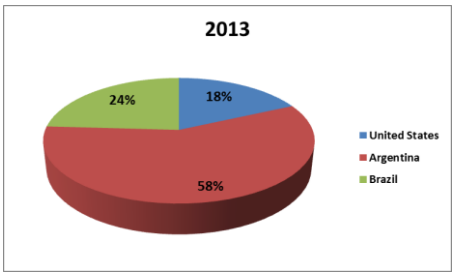
Falling corn prices are benefiting U.S. corn trade, as input prices heavily influence purchasing decisions for the food and feed sector and, to a lesser extent, product quality. In CY 2015, price competitiveness and the quota mechanism of first-come/first-serve will likely lead to the 2.4 million MT U.S. corn import quota filling before the first half of this year. As of March 5, 2015, Colombian imports of U.S.

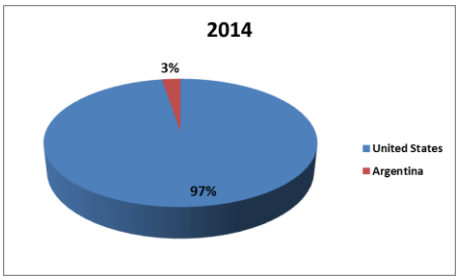
yellow corn were 981,000 MT, 40 percent of the total quota for CY 2015. As well, Colombia imported 69,000 MT of white corn or about 44 percent of the total 2015 quota.

In CY 2008, U.S. corn held 80 percent of the Colombian import market share, declining significantly to a low of 5 percent in CY 2012. Since 2012, U.S. market share increased to 18% in CY 2013, and then exploded to 97% in CY 2014 due to low corn prices and higher MERCOSUR duties.

The charts below illustrate the dramatic changes in market share over the past three years:




Source: Global Trade Atlas (GTA)

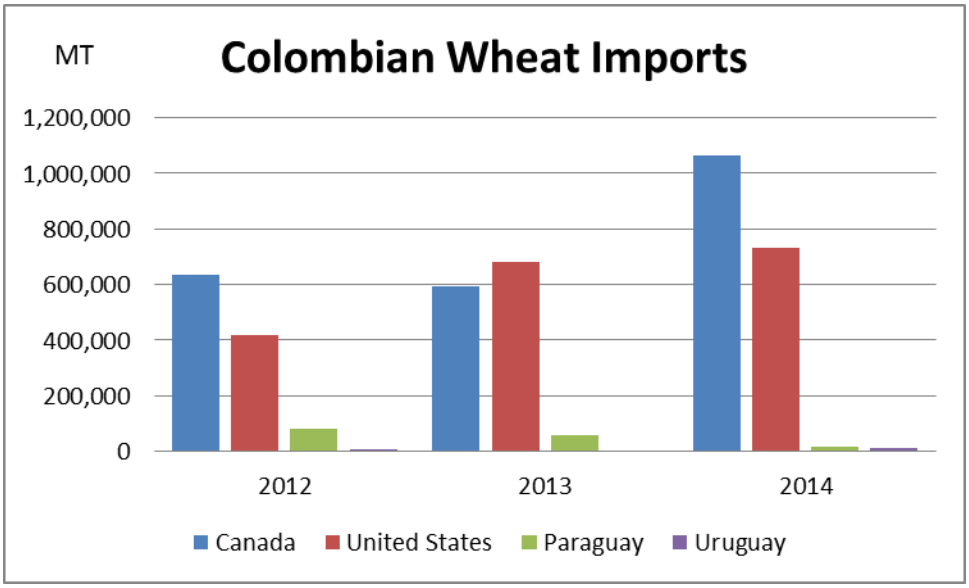
The CTPA CY 2014 TRQ for U.S. rice was 86,270 MT and was fully subscribed with some imports out-of-quota. The CY 2015 TRQ is 90,152 MT. The first 2015 TRQ auction was held on February 2, 2015, resulting in awards for deliveries of 63,131 MT, or about 70 percent of the total 2015 quota. As of March 5, 2015, 10,161 MT, or 12 percent of the total quota, was imported. There will be two more auctions to allocate the remaining quota volume: June 4, 2015, for 13,104 MT; and, October 15, 2015, for 13,917 MT. See the COL-RICE website for more details at: https://www.col-rice.org/.

Colombia's rice imports, licit and illicit, are primarily from neighboring countries, Ecuador, Peru and Venezuela. 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. Total illicit rice imports are difficult to estimate and remain between 300,000-500,000 MT annually.

U.S. wheat market share also recovered against Argentina; however, competition with Canada continues to be the most significant challenge to U.S. wheat. The Colombia-Canada Free Trade Agreement was signed a year before the CTPA. This free trade "head-start" 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 CY 2014, U.S. wheat captured about 40 percent of the Colombian import market share against Argentina and to a much lesser extent Paraguay and Uruguay.

Logistics issues can be significantly challenged as a result of fluctuations in imports and stocks. For instance, in MY 2012/13 there were delays in Canadian wheat exports due to weather and total Colombian wheat imports fell as a result. Industry, then, had to draw down stocks to meet production needs. In MY 2013/14, there was a surge in wheat imports as result of better Canadian weather and the Colombian milling industry was able to recover inventories.

The graph below illustrates the changes in export volumes for the various wheat exporters to Colombia in CY 2012 to 2014:




Source: Global Trade Atlas (GTA)

Colombian ports offloaded 8 million MT of grains in CY 2014, 7 percent higher than the year before. Corn represented about 51 percent of the total agricultural volume of grain imports. The Pacific coast port of Buenaventura was the most active port in Colombia for agricultural commodities. Logistics for handling import cargo continues to be a major issue in Colombia given that the growth in trade is not followed up by increased storage capacity at ports or improved inland transportation infrastructure. In CY 2014, Colombian ports were burdened with significant logistical challenges due to the first come/first serve mechanism that became a race to fill the U.S. corn TRQ. Importers had to cover the significant costs of delays at ports to offload vessels and move cargo inland as port storage facilities hit capacity. The GOC is investing in improving roads and private companies are investing in expanding port storage capacity to better manage cargo logistics and reduce overall costs of trade.

**Stocks:**

In CY 2014, low corn prices motivated excessive purchases and an expansion of inventories, filling the U.S. corn quota by June of that year. A repeat of 2014 is likely for 2015 as corn prices remain low and trade games for importers will continue as they plan deliveries in anticipation of a devalued Colombian peso, storage capacities, out-of-quota duties and higher duties for MERCOSUR corn.

The feed and wheat milling industries maintain limited carry-over inventories of corn and wheat given the high cost of stocks due to deficient storage capacity throughout Colombia. The feed and milling industries are estimated to maintain about a two-month inventory supply to manage operations, although overall, stocks have been gradually growing in recent years.

The Colombian government does not maintain a policy for holding grain stocks; however, on an ad hoc basis and 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 2015/16 will be about 140,000 MT of milled rice, which would satisfy about one month of domestic consumption.

**Policy:**

The CTPA was implemented in May 15, 2012 and trade outcomes for U.S. corn in 2014 have been outstanding. Wheat trade remains underwhelming due to competition from Canada. The CTPA opened the market for imports of U.S. rough/paddy rice under certain phytosanitary trade conditions. Imports of U.S. rough/paddy rice in CY 2014 increased to 13,300 MT from 8,800 MT a year before. The demand for rough/paddy rice, nevertheless, is tempered by strong demand for U.S. milled rice.

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

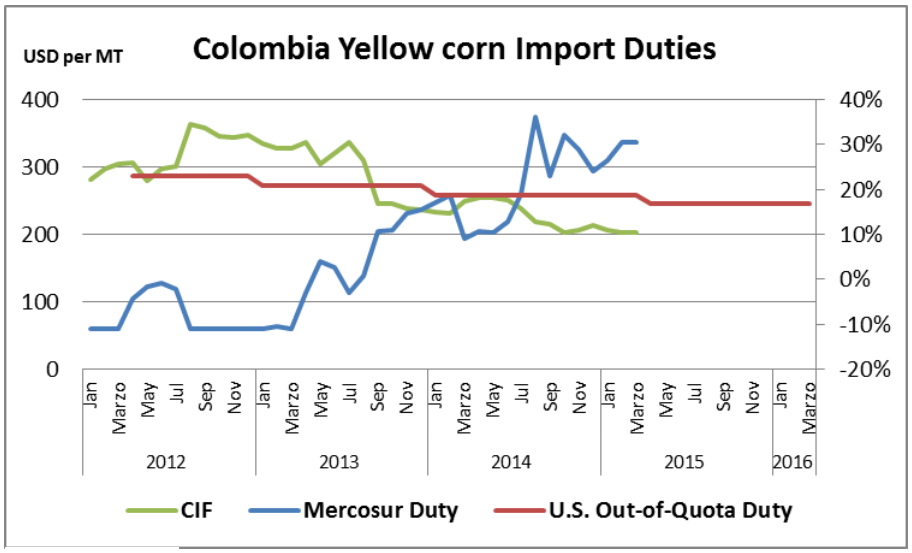
| **2014 CTPA Tariff-Rate-Quota (TRQ) Fill Rates** | | |
|---|---|---|
| | **TRQ (MT)** | **Volume Imported (MT)** |
| **Yellow Corn** | 2,315,250 | 2,315,250 |
| **White Corn** | 150,491 | 150,491 |
| **Rice** | 86,270 | 86,270 |

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, excludes 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 protect 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. Since 2013, falling corn prices have benefited U.S. corn at the expense of MERCOSUR, whose duties have risen significantly, from 0 to upwards of 30 percent in 2014, while U.S. corn benefits from zero duties within quota and an out-of-quota duty slightly below 19%.

The graph below illustrates the corn duty circumstances since July 2014. Out-of-quota duties for U.S. corn are lower than duties from MERCOSUR. This advantage will change if the corn CIF price hits

USD 245 per MT, which would lower the duty on MERCOSUR corn to 17%, the same as the out-of-quota duty for U.S. corn. If the CIF price increases further, MERCOSUR will have a tariff advantage.



Source: CAN

The table below outlines the current CAN Price Band floor and ceiling prices for select major commodities:

| *Andean Price Band (APB) – Prices per Metric Ton (April 1 – March 31)* | | | | |
|---|---|---|---|---|
| | **2014/2015** | | **2015/2016** | |
| | **Floor Price** | **Ceiling Price** | **Floor Price** | **Ceiling Price** |
| **Yellow Corn** | 269 | 328 | 278 | 334 |
| **White Corn 1/** | 264 | 338 | 277 | 347 |
| **Wheat** | 300 | 350 | 316 | 362 |
| **Rice 1/** | 575 | 627 | 536 | 610 |

1/ The APB was temporarily suspended with fixed duties for white corn (40%) and rice (80%)
Source: CAN

Colombia is a net importer of corn. Colombian corn production (white and yellow) can satisfy about 30 percent of total domestic consumption. Yellow corn imports provide close to 90 percent of the feed industry's raw material 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. However, the GOC has not implemented the MAC since 2013 and has yet to make a decision to implement it in CY 2015.

**Rice**

Under the CTPA, there is an annual quota for U.S. rice that enters into Colombia duty free. In CY 2014, the U.S. rice TRQ was 86,270 MT and was fully subscribed. Colombia maintains an 80 percent duty on

U.S. rice imported out-of-quota; however, Colombian millers have imported rough/paddy and also milled rice with an 80% tariff as a result of favorable market conditions.

In 2014, the GOC negotiated subsidies to the rice milling industry to improve storage facilities if they paid a set price to growers of approximately USD 40.00 per ton. In 2015, high rice prices and GOC budget constraints will likely end this agreement for the time being. Should prices fall later in 2015, the GOC may be called into negotiations with the rice milling industry and growers once again.

**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 | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| | Market Year Begin: Oct 2013 | | Market Year Begin: Oct 2014 | | Market Year Begin: Oct 2015 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested | 480 | 480 | 500 | 480 | | 480 |
| Beginning Stocks | 461 | 461 | 799 | 799 | | 899 |
| Production | 1,755 | 1,755 | 1,750 | 1,750 | | 1,750 |
| MY Imports | 4,333 | 4,333 | 4,200 | 4,400 | | 4,450 |
| TY Imports | 4,333 | 4,333 | 4,200 | 4,400 | | 4,450 |

| | | | | | | |
|---|---|---|---|---|---|---|
| TY Imp. from U.S. | 3,768 | 3,768 | 0 | 4,000 | | 4,000 |
| Total Supply | 6,549 | 6,549 | 6,749 | 6,949 | | 7,099 |
| MY Exports | 0 | 0 | 0 | 0 | | 0 |
| TY Exports | 0 | 0 | 0 | 0 | | 0 |
| Feed and Residual | 4,500 | 4,500 | 4,700 | 4,700 | | 4,800 |
| FSI Consumption | 1,250 | 1,250 | 1,250 | 1,350 | | 1,350 |
| Total Consumption | 5,750 | 5,750 | 5,950 | 6,050 | | 6,150 |
| Ending Stocks | 799 | 799 | 799 | 899 | | 949 |
| Total Distribution | 6,549 | 6,549 | 6,749 | 6,949 | | 7,099 |

| Rice, Milled<br>Colombia | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| | Market Year Begin: Apr 2013 | | Market Year Begin: Apr 2014 | | Market Year Begin: Apr 2015 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested | 450 | 450 | 400 | 390 | | 450 |
| Beginning Stocks | 85 | 85 | 120 | 120 | | 90 |
| Milled Production | 1,310 | 1,310 | 1,300 | 1,220 | | 1,350 |
| Rough Production | 1,926 | 1,926 | 1,912 | 1,794 | | 1,985 |
| Milling Rate (.9999) | 6,800 | 6,800 | 6,800 | 6,800 | | 6,800 |
| MY Imports | 325 | 325 | 350 | 350 | | 300 |
| TY Imports | 325 | 325 | 350 | 350 | | 300 |
| TY Imp. from U.S. | 102 | 102 | 0 | 200 | | 180 |
| Total Supply | 1,720 | 1,720 | 1,770 | 1,690 | | 1,740 |
| MY Exports | 0 | 0 | 0 | 0 | | 0 |
| TY Exports | 0 | 0 | 0 | 0 | | 0 |
| Consumption and Residual | 1,600 | 1,600 | 1,600 | 1,600 | | 1,600 |
| Ending Stocks | 120 | 120 | 170 | 90 | | 140 |
| Total Distribution | 1,720 | 1,720 | 1,770 | 1,690 | | 1,740 |
| Yield (Rough/Paddy) | 4.0 | 4.3 | 5.0 | 4.6 | | 4.4 |

| Wheat Colombia | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| | 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 | 10 | 10 | 8 | 8 | | 8 |
| Beginning Stocks | 403 | 403 | 595 | 401 | | 346 |
| Production | 18 | 18 | 15 | 15 | | 15 |
| MY Imports | 1,500 | 1,500 | 1,550 | 1,475 | | 1,485 |
| TY Imports | 1,500 | 1,500 | 1,550 | 1,475 | | 1,485 |

| | | | | | | |
|---|---|---|---|---|---|---|
| TY Imp. from U.S. | 0 | 767 | 0 | 750 | | 750 |
| Total Supply | 1,921 | 1,921 | 2,160 | 1,891 | | 1,846 |
| MY Exports | 5 | 5 | 15 | 15 | | 15 |
| TY Exports | 5 | 5 | 15 | 15 | | 15 |
| Feed and Residual | 90 | 125 | 60 | 100 | | 100 |
| FSI Consumption | 1,425 | 1,425 | 1,565 | 1,430 | | 1,450 |
| Total Consumption | 1,515 | 1,515 | 1,625 | 1,530 | | 1,550 |
| Ending Stocks | 401 | 401 | 520 | 346 | | 281 |
| Total Distribution | 1,921 | 1,921 | 2,160 | 1,891 | | 1,846 |
| Yield | 2. | 2 | 2. | 2 | | 2 |