



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

**Date:** 2/19/2008

**GAIN Report Number:** EC8001

## Ecuador

### Grain and Feed

### Annual Report

### 2008

**Approved by:**  
Eugene Philhower  
U.S. Embassy

**Prepared by:**  
Rene A. Alarcon

---

#### **Report Highlights:**

High international prices will have an effect on Ecuador's grain production. Wheat, although produced in very small quantities, will double production to 6,000 MT. Corn production is likely to increase by almost 10 percent, and rice farmers estimate a production growth of 5 percent. Although production will grow, these increases are not sufficient to cover the demand or to make up for the current price opportunity. Several factors, including weather conditions, price regulations and export bans are complicating the agricultural scenario in Ecuador.

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Quito [EC1]  
[EC]

---

<b>Table of Contents</b>	<b>Executive Summary</b>	<b>3</b>
<b>WHEAT</b>		<b>4</b>
Production		5
Consumption		5
Trade		6
Policy		7
<b>CORN</b>		<b>8</b>
Production		9
Consumption		10
Trade		10
Policy		11
<b>RICE</b>		<b>13</b>
Production		14
Consumption		14
Trade		15
Policy		15

## Executive Summary

Wheat production in Ecuador is likely to increase to 6,000 MT as farmers are motivated by high international prices. This production level, however, is insufficient to meet the current demand. Imports are estimated to decrease to 470,000 MT because of sharp increases in prices and a predicted 10% contraction in demand of bread and wheat flour products. On average, U.S. wheat exports to Ecuador in the period 1997-2007 were 157,000 MT/year, while Canada exported 281,000 MT/year (or 79% more).

Corn production is expected to grow by 9.5 percent in MY 2007 440,000 MT due to a key factor: high world prices. This market circumstance provides an opportunity for local farmers to grow more corn, as they know that the government will promote a high absorption price for the 2008 harvest. Overall annual consumption is expected to reach 912,000 MT due to the rapid growth of the feed meal compound industry and increased production of poultry, eggs, pork and shrimp. Post projects corn imports to fall slightly to 490,000 MT in MY 2008.

Rice production will increase by 5 percent to 520,000 MT in MY 2008 (Jan-Dec). Despite high international prices and sustained demand for Ecuadorian rice by Colombia, post estimates a small growth in production. This is due, for the most part, to adverse climatic conditions during the first two months of 2008 and the disincentive of export bans in place since late 2007.

## WHEAT

## PSD Table

Country

Ecuador

Commodity

Wheat

(1000 HA)(1000 MT)(MT/HA)

	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008
Area Harvested	5	5	5	5	5	5	0	0	10
Beginning Stocks	85	14	85	50	26	50	50	18	50
Production	3	3	3	3	3	3	0	0	6
MY Imports	443	520	443	450	515	450	0	0	450
TY Imports	443	553	443	450	540	450	0	0	470
TY Imp. from U.S.	41	0	41	0	0	0	0	0	100
Total Supply	531	537	531	503	544	503	50	18	506
MY Exports	5	1	5	0	1	0	0	0	0
TY Exports	5	1	5	0	1	0	0	0	0
Feed Consumption	40	40	40	40	50	40	0	0	45
FSI Consumption	436	470	436	413	475	413	0	0	423
Total Consumption	476	510	476	453	525	453	0	0	468
Ending Stocks	50	26	50	50	18	50	0	0	38
Total Distribution	531	537	531	503	544	503	0	0	506
Yield	0.6	0.6	0.6	0.6	0.6	0.6	0	0	0.6

## Import Trade Matrix

Country

Ecuador

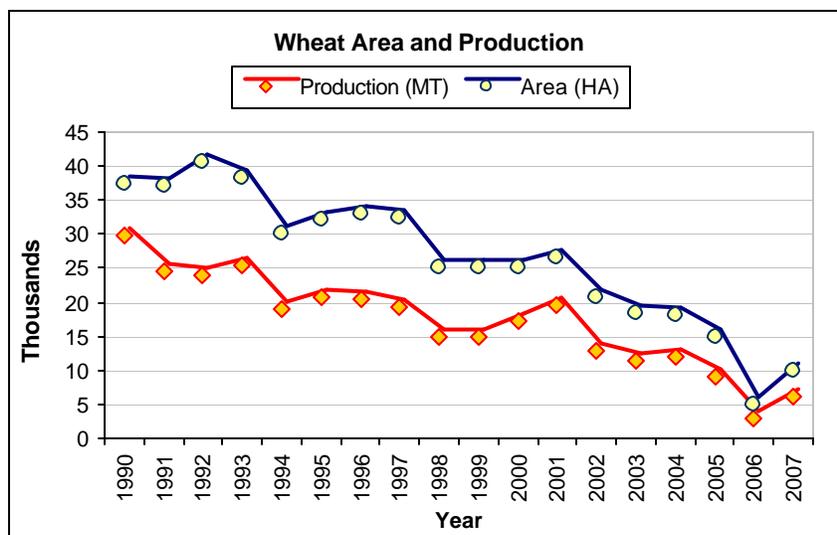
Commodity

Wheat

Time Period	Jan-Dec	Units:	MT
Imports for:	2006		2007
U.S.	97817	U.S.	103357
Others		Others	
Canada	354588	Canada	281961
Argentina	56829	Argentina	82295
Ukraine	25020		
Total for Others	436437		364256
Others not Listed	19735		0
Grand Total	553989		467613

## Production

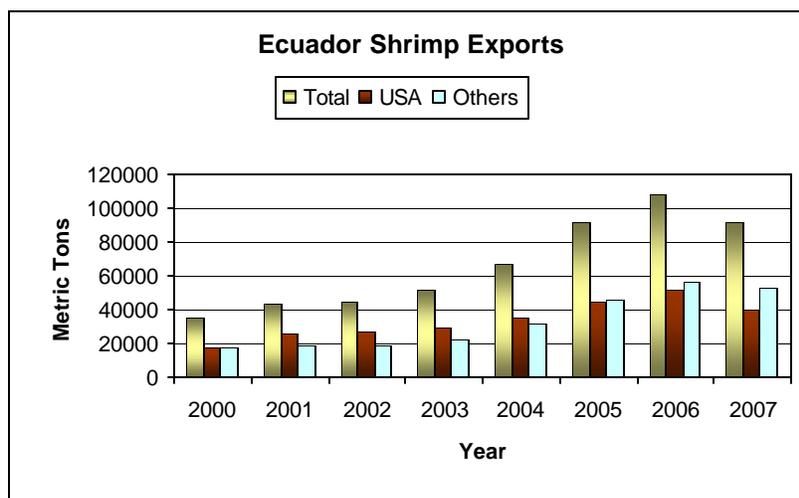
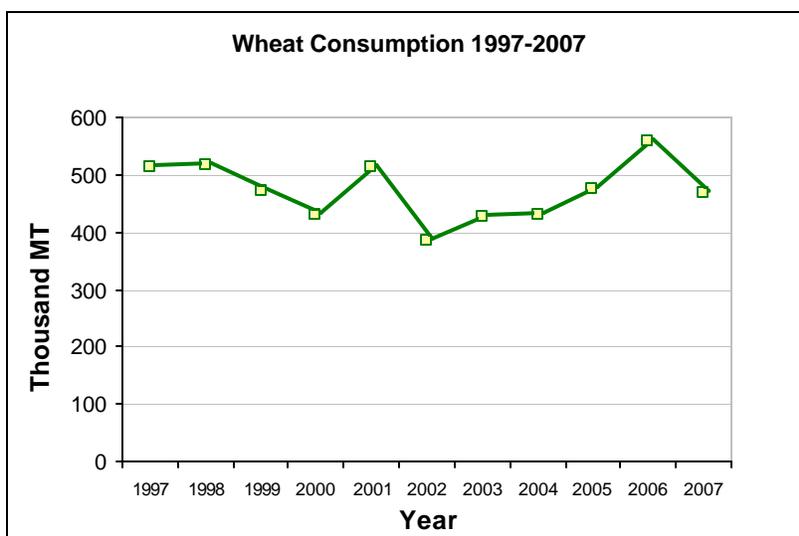
For the past 17 years, wheat production in Ecuador has declined steeply. In 1990, Ecuador produced 30,000 MT in 37,000 harvested hectares. Since then, unproductive yields, poor quality and low prices paid for local wheat contributed to a reduction of production to only 3,000 MT in MY 2007. However, as international prices for wheat continue to increase, groups of Ecuadorian farmers in the northern and central highlands are shifting towards planting wheat for local consumption, especially by the animal feed industry. Our estimation is that this switch towards producing wheat (from potatoes or legumes) will bring production up to 6,000 MT and 10,000 Ha in MY 2008.



## Consumption

Fluctuating international prices and growing bread prices in Ecuador will have an effect in the forecast consumption of wheat in MY 2008. Ecuador will demand approximately 470,000 MT of wheat. In the period 2002-2007, the demand for wheat had experienced an average 10 percent annual growth due mainly to nutritional habits (people eat bread twice a day and consider pasta as a staple), and by the government's efforts to broaden school feeding programs that currently include over one million children. However, we are looking at an overall 10 percent contraction this year unless the government of Ecuador continues to subsidize production of wheat flour for human consumption.

Demand of wheat for feed is also expected to decrease as aquaculture production and exports have slowed down during the past year. In MY 2008, approximately 40,000 MT of wheat will be directed to feeding purposes. Shrimp and tilapia farms have been main users of wheat for feed. However, falling shrimp exports (down 17 percent last year) and higher international prices will lead to a contraction in the use of imported wheat. Therefore, aquaculture users are likely to absorb the increased local production of wheat and replace the rest of their demand with other inputs.



**Trade**

Ecuador’s wheat imports are expected to decrease from our previous estimation of 515,000 MT in MY 2007 to 470,000 MT in MY 2008. This forecast is only 2.6 percent over the average of the period 1997-2007. Reduced imports are explained by high international prices and a contraction of local demand for bread and pasta.

The United States continues to lose its market share in Ecuador. On average, U.S. wheat exports to Ecuador in the period 1997-2007 were 157,000 MT/year, while Canada exported 281,000 MT/year (or 79% more).

Since Ecuador basically uses wheat for bread and pasta, imports of hard wheat are, on average, higher than soft wheat by a 6 to 1 ratio (4.5 to 1 in 2007). According to buyers, hard Canadian wheat is more reliable for milling and slightly lower in price than comparable U.S. wheat. For the same or lower price, Canada ships wheat with higher protein and gluten, as well as lower dockage, thereby explaining Ecuador’s preference for Canadian wheat.

Argentina also registered significant exports (82,000 MT in 2007), becoming an important competitor for both Canada and the United States. Millers have imported Argentine wheat mainly because of its slightly lower price.

### Policy

In order to address rising bread prices, the Government of Ecuador (GOE) proposed lowering tariffs for wheat and flour, and providing subsidies to wheat millers starting in October 2007. Local flour prices (averaging \$22 per 50-kilo bag in 2006) rose to \$26 and \$30 in July and September 2007. Increased bread prices, a staple for Ecuadorians, pushed the government to threaten the local milling industry with importing flour at reduced tariffs. After intense negotiations, wheat millers and the GOE agreed to a subsidy of \$3.50 per hundredweight sack paid in cash to millers with the condition that they maintain a price to the baker of \$22 per hundredweight. Millers expressed their concern with the proposal, notionally because the total price of \$25.50 per bag was lower than the current market price. Nevertheless, the subsidy was implemented and remained in place through the end of 2007. Both parties are currently negotiating its continuity.

Wheat is a marker product under the Andean Price Band System (APBS), with basic duty of 10 percent plus an additional variable levy, depending on international reference prices. In July of 2001, the Government of Ecuador phased-out wheat from the price band system as part of its WTO commitments. However, Ecuador re-included wheat in the price band in August of 2003 arguing an obligation to do so by Andean Community commitments. For the period April 2007-March 2008 the variable levy remained zero because of high world prices, thus average final APBS tariffs on wheat were 0% for most of 2007.

In addition, Ecuador has bilateral trade agreements with Peru and Chile, and multilateral trade agreements with ALADI (Latin American Association of Integration). In 2004, Ecuador reached a tariff liberalization agreement with Mercosur (Argentina, Brazil, Paraguay and Uruguay). Implementation of these agreements in Ecuador started in April 2005. Wheat has special treatment under the agreements with Mercosur, thus tariff preferences are granted over the total duty, which is comprised of the ad-valorem (basic) duty plus the Andean Price Band variable levy. In 2007, trade partners have the following tariff reductions:

HTS	Product	Paraguay/4	Uruguay/2	Argentina/3	Brazil/3	Mexico/1	U.S. and Canada
10011090	Wheat, durum	42%	99%	15%	15%	8%	0%
10019020	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.

## CORN

## PSD Table

Country

Ecuador

Commodity

Corn

(1000 HA)(1000 MT)(MT/HA)

	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Area Harvested	118	118	118	128	128	128	0	0	140
Beginning Stocks	106	139	106	101	109	101	66	69	74
Production	365	365	365	400	400	400	0	0	440
MY Imports	500	450	500	500	430	495	0	0	500
TY Imports	500	483	500	500	470	550	0	0	490
TY Imp. from U.S.	438	404	438	0	360	546	0	0	480
Total Supply	971	954	971	1001	939	996	66	69	1014
MY Exports	45	45	45	35	40	17	0	0	35
TY Exports	45	36	45	35	35	17	0	0	35
Feed Consumption	750	725	750	825	750	830	0	0	835
FSI Consumption	75	75	75	75	80	75	0	0	77
Total Consumption	825	800	825	900	830	905	0	0	912
Ending Stocks	101	109	101	66	69	74	0	0	67
Total Distribution	971	954	971	1001	939	996	0	0	1014
Yield	3.0932	3.09322	3.09322	3.125	3.125	3.125	0	0	3.14286

## Import Trade Matrix

Country

Ecuador

Commodity

Corn

Time Period	Jan-Dec	Units:	MT
Imports for:	2006		2007
U.S.	403884	U.S.	548000
Others		Others	
Argentina	79435	Argentina	4500
Total for Others	79435		4500
Others not Listed	0		0
Grand Total	483319		552500

## Export Trade Matrix

Country

Ecuador

Commodity

Corn

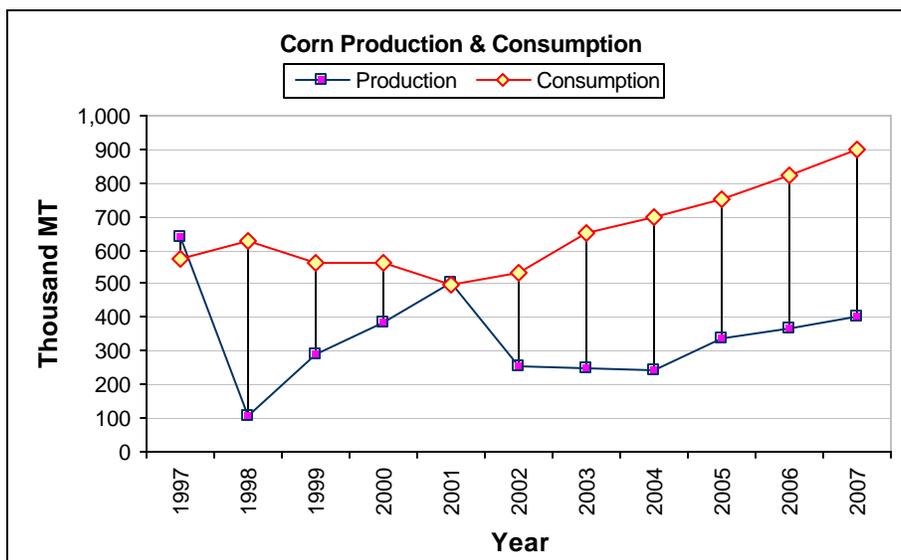
Time Period	Jan-Dec	Units:	MT
Exports for:	2006		2007
U.S.	5	U.S.	0
Others		Others	
Colombia	36152	Colombia	17000
Total for Others	36152		17000
Others not Listed	20		1000
Grand Total	36177		18000

## Production

Post estimates that corn production will increase by 10 percent to 440,000 MT in MY 2008. This level of production is the third highest of the period 1997-2007. The growth is explained by continued increases in world corn prices, which have been seen by farmers as an opportunity to produce and sell more corn locally. In addition, the Government of Ecuador and certain feed meal compounders have made efforts to motivate production of corn and other commodities whose prices continue to increase.

Since 1995, corn production has shown a very unstable behavior with a record high of 638,000 MT in 1997 and a record low of 107,000 MT the following year. However, in the last three years, production has shown a sustained growth that can be explained by two key factors: the government's effort to require purchase of local production before imports are allowed and a guaranteed purchase price at least equal to the corn CIF import cost. These programs will continue to be enforced by the current Government of Ecuador, and the Ministry of Agriculture has pledged additional support with credits and other forms of assistance.

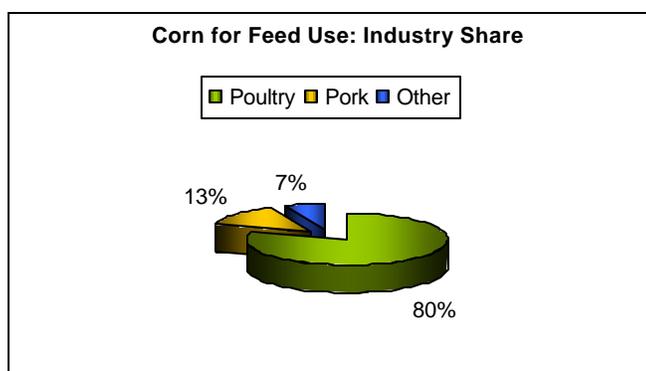
Yields remain low with an average of 3 MT per hectare. This is because the winter planting and harvest season (80 percent of the annual production) is highly dependent on rainfalls during November through January. If rainfalls are too scarce or too abundant, large cultivated areas are lost to droughts or floods in the lower altitude production areas. Another factor is the lack of irrigation systems and very limited access to credit for inputs such as certified seeds and agrochemicals. A number of initiatives by the poultry industry are supporting efforts to improve yields by providing certified seeds, extension services and inputs to a growing number of farmers in return for the purchase of their production at market prices. In the long run, this will support the improvement of corn production yields.



## Consumption

Ecuador's corn consumption continues its sustained 10 percent average growth rate since 2002, and is expected to reach 912,000 MT in MY 2008 (90 percent of which is used by the animal feed industry). The increased demand is explained by the feed industry's 6 percent annual growth rate, along with significant annual growth in the poultry and egg industry (8 percent) and higher per capita consumption of poultry meat in Ecuador (20 Kg/year). Feed meal production had an important growth in the past 12 years, from 576,000 MT in 1995 to 1.9 million MT in 2007.

The poultry industry, with a total population of 125 million chickens per year, and an annual sales growth rate ranging from 5-10 percent, consumes 80 percent of the feed corn every year. This industry produces 200,000 MT of poultry meat, and approximately 75,000 MT of eggs per year. Another sector showing interesting growth is pork, with a population of 1.7 million pigs per year, and which now consumes 110,000 MT/year of corn.

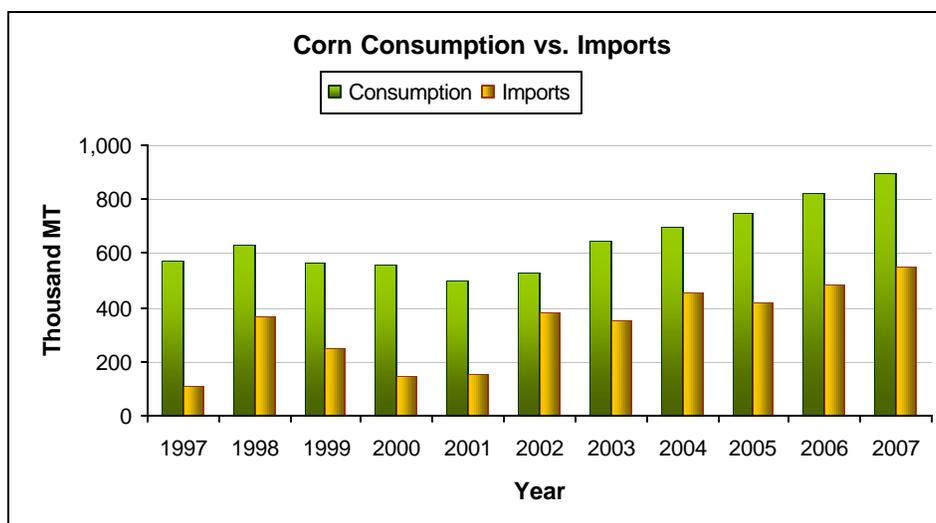


## Trade

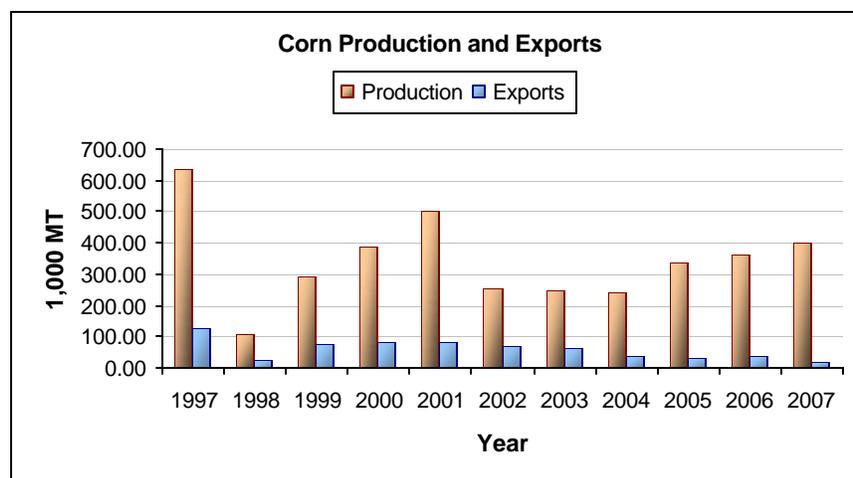
In CY 2007, total corn imports reached a record of 552,500 MT. Ninety-nine percent of these imports came from the United States, with the remainder provided by Argentina. Ecuador's feed industry prefers U.S. corn to others because of its lower foreign material content, faster delivery to Ecuadorian ports and lower transportation costs. Imports for MY 2008 are expected to remain constant at 500,000 MT. Although consumption continues to grow, the greater demand is likely to be met by increased local production.

Our prior estimation of 360,000 MT corn imports from the US was based on a growing trend of imports from Argentina. This trend, plus higher corn prices in the U.S. lead us to believe that Argentina would keep gaining market access as our sources confirmed that Argentine corn had been showing lower prices than its American counterpart.

Corn imports represent a high percentage of Ecuador's total consumption. In the period 2000-2007, Ecuador imported, on average, 52 percent of its corn needs with a minimum of 150,000 MT and a maximum of 552,500 MT. The animal feed industry considers that Ecuadorian corn is of better quality than imported corn. However, Ecuador is obliged to import large quantities of this product for two reasons: the local product is more expensive than its imported counterpart and Ecuador's production does not meet demand. In fact, corn production registers a deficit since 1997, and the demand is not likely to be met in the near future. Imports will continue with variations depending on local conditions and prices.



Ecuador exports corn to Colombia in order to satisfy that country’s southern border demand of corn for human consumption. Most exports are made by land, in trucks, and at high prices usually paid to farmers in cash. In the past ten years, exports averaged 64,000 MT and have taken place during the peak of the winter harvest season (May-June). Ecuadorian corn is used in Colombia to make “arepas” due to its suitability for such purpose. Total year exports to Colombia in CY 2007 decreased to 17,000 due to increased local absorption and higher corn prices paid locally. Exports are likely to recover to 35,000 MT in MY 2008.



**Policy**

Corn imports are assessed 15 percent ad-valorem duty (over CIF), plus a variable levy applied under the Andean Price Band System (APBS). Under this system, the ad-valorem tariffs are adjusted (increased or reduced) depending on the correlation between international reference prices at the time of import, and set floor and ceiling prices. The Andean Community set floor and ceiling prices of corn for the period April 2007 to March 2008 at \$133 and \$145 per MT. During this period, because of high international prices, the variable levy for corn has remained at -15%, thus import duties for corn have been zero during this period. 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 TRQ of 19,600 MT of corn at a set tariff of 25 percent. This TRQ is filled when 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 of Ecuador does not provide any formal subsidy or economic assistance program to promote yellow corn production. However, the Ministry of Agriculture usually encourages corn production by implementing absorption programs and import bans during the corn harvest season. These absorption programs guarantee the complete purchase of local production at high prices

Under the CAN-Mercosur trade talks, Ecuador has negotiated bilateral tariff reductions with Argentina, Brazil, Paraguay and Uruguay. These tariff reductions apply only to the ad-valorem duties as the Andean Price Band System is maintained for corn. The Ecuador–Mercosur agreement entered into effect in Ecuador on April 1, 2005 and has liberalization schedules of 14 years for most cereals, including corn, as follows:

<b>Country of Origin</b>	<b>First Liberalization</b>	<b>Full Liberalization</b>
Argentina	3 year grace period 2005-2008, 10% reduction starting in January 2008.	In 2018, 100% liberalization
Brazil	In 2008: 10% reduction. 15% in 2009.	5% yearly reduction from 2009 to 100% in 2018.
Paraguay	In 2007, 40% reduction until 2012.	In 2018, 100% liberalization
Uruguay	In 2007, 50% reduction until 2013.	100% reduction in 2018.

## RICE

**PSD Table****Country Ecuador****Commodity Rice, Milled**

(1000 HA)(1000 MT)(MT/HA)

	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
<b>Market Year Begin</b>		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Area Harvested	215	215	215	220	220	220	0	0	230
Beginning Stocks	127	127	127	132	17	132	162	47	92
Milled Production	480	480	480	495	495	495	0	0	520
Rough Production	774	774	774	798	798	798	0	0	839
Milling Rate (.9999)	6200	6200	6200	6200	6200	6200	0	0	6200
MY Imports	5	0	5	20	20	20	0	0	0
TY Imports	5	0	5	20	20	20	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	612	607	612	647	532	647	162	47	612
MY Exports	30	140	30	30	30	100	0	0	100
TY Exports	25	140	25	30	30	100	0	0	100
Total Consumption	450	450	450	455	455	455	0	0	460
Ending Stocks	132	17	132	162	47	92	0	0	52
Total Distribution	612	607	612	647	532	647	0	0	612
Yield (Rough)	3.6	3.6	3.6	3.6273	3.62727	3.62727	0	0	3.64783

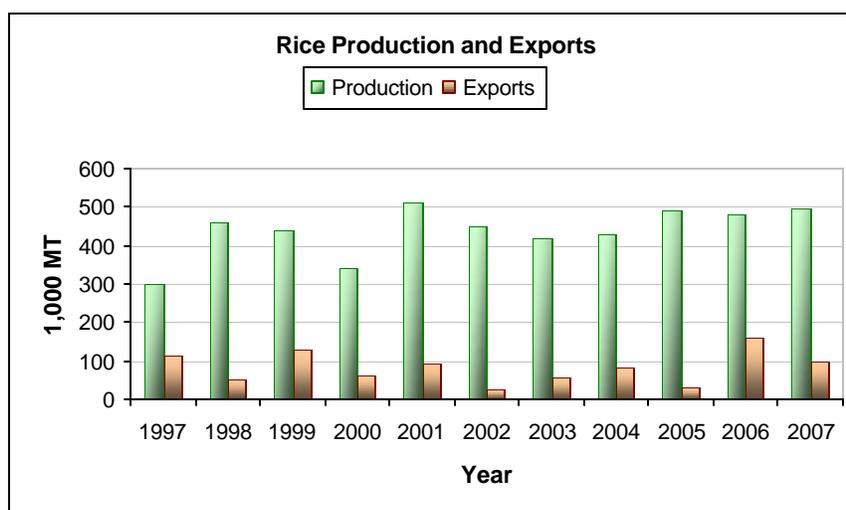
**Export Trade Matrix****Country Ecuador****Commodity Rice, Milled**

Time Period	Jan-Dec	Units:	MT
Exports for:	2006		2007
U.S.	0	U.S.	0
Others		Others	
Colombia	143793	Colombia	100141
Total for Others	143793		100141
Others not Listed	0		1000
Grand Total	143793		101141

## Production

Rice production will increase by 5 percent to 520,000 MT in MY 2008 (Jan-Dec). Despite high international prices and sustained demand for Ecuadorian rice by Colombia, post estimates small growth in production. This is due, for the most part, to adverse climatic conditions during the first two months of 2008 and the disincentive of export bans in place since late 2007. The planting season started normally this year and Ecuador is expected to have a first harvest in May.

Production of rice takes place in the lowlands of the coastal region, in areas that flood during the rainy season (November through April) and remain somewhat humid during the summer (May-September). Therefore, lack or excess of rainfalls are a determining factor for the volume of production. The largest harvest registers at the end of the rainy season (May through June). During the summer, in turn, only a third of the available area is planted because irrigation is expensive and limited to large farms and very specific areas. The majority (80 percent) of rice producers in Ecuador are poor, small farmers that own and plant less than 5 hectares with yields below 3 MT per hectare.



## Consumption

Rice is a staple food of Ecuadorians for at least one meal a day and the majority of Ecuador's production is consumed locally. Monthly consumption is estimated at 38,300 MT, roughly 460,000 MT in MY 2008. Current per capita consumption is calculated at 40 kg per month, but is likely to decrease as rice prices increase in the local market.

Rice sales are traditionally marketed through wholesalers in one hundred pound sacks (45 kg) or in small stores by the pound. Prices vary depending on the marketing channel. For example, the official wholesale price of the 100-pound sack is \$26, while sales by the pound can make the price grow to \$34 per sack. Approximately 80 percent of rice sales are made in sacks or by the pound. In addition, as a result of supermarket expansion in the main cities of Ecuador, purchasing habits have shifted towards buying branded bags of 2 or 5 kg. It is estimated that 15 to 20 percent of total rice sales are now made through supermarkets under these presentations.

## Trade

Ecuador has imported minimal quantities of paddy rice in the last ten years since 1995, except in 1998 where weather-related losses caused imports to grow to 140,000 MT, mostly paddy. If Ecuador's production capacity were to continue at its current pace, it is unlikely that Ecuador will need to import rice in the future.

Milled rice exports to Colombia maintained a high level in 2007 at 100,000 MT. This level of exports is the second highest of the last 12 years, and is explained by two factors: increased demand of rice in the southern regions of Colombia and low prices paid by Ecuadorian intermediaries to the farmers during 2007 (approximately \$22 per cwt). When this happens, both producers and traders in Ecuador prefer to export than to supply the local market. This situation triggered the government's response to ban exports of rice to Colombia in September 2007. Also, the farmer price of rice was set at a minimum of \$24 per cwt.

## Policy

Rice imports are a very sensitive issue in Ecuador. The Government of Ecuador is pushing a self-sufficiency program for rice by continuing to implement the Andean Price Band System (APBS) and by controlling imports. APBS floor and ceiling prices for the period April 2007-March 2008 have been set at \$275 and \$315 per MT. The final tariff during the majority of 2007 was 0%.

In addition, higher demand for Ecuadorian rice in Colombia, and higher prices paid in that market, created a shortfall of this commodity in Ecuador. This situation and higher production costs raised the price of rice from \$26 per hundredweight at the end of 2006 to \$38 in October 2007. The GOE instituted an export ban on rice in October 2007, which remains in place to date.

In addition, the Ministry of Agriculture's Consultative Committee on rice, consisting of producers, millers and government officials, decides on the timing and quantity of rice imports. The ad-valorem duty for paddy rice is set at 15 percent, and 20 percent for all other types of rice. Andean Community Nations (CAN) are assessed zero tariffs and are not assessed the Andean Price Band. Other Latin American countries have been granted ad-valorem tariff preferences under ALADI, but they still are assessed the Andean Price Band, as follows:

HTS	Description	U.S. & World	CAN	Peru	Chile	ALADI *				
						Paraguay	Uruguay	Argentina	Brazil	Mexico
10061090	Rice, Paddy	15%	Zero	Zero	15%	15%	7.5%	15%	15%	15%
10062000	Rice, Brown	20%	Zero	Zero	20%	20%	10%	20%	20%	20%
10063000	Rice, Milled	20%	Zero	Zero	20%	12%	10%	20%	20%	20%
10064000	Rice, Broken	20%	Zero	Zero	20%	20%	10%	20%	20%	20%

\* ALADI stands for Latin American Integration Association.

Note: Although Peru is part of CAN, Ecuador has a bilateral agreement with that nation, which includes preferences on rice. Chile also has a bilateral trade agreement with Ecuador.