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GAIN Report

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Colombia's Appetite for U.S. Corn Remains Strong

Report Categories:

Agricultural Situation

Grain and Feed

Trade Policy Monitoring

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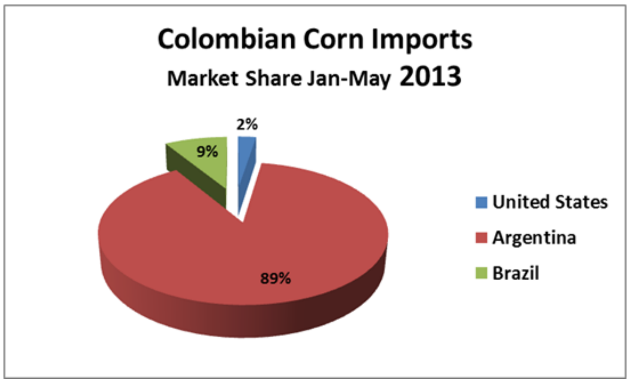
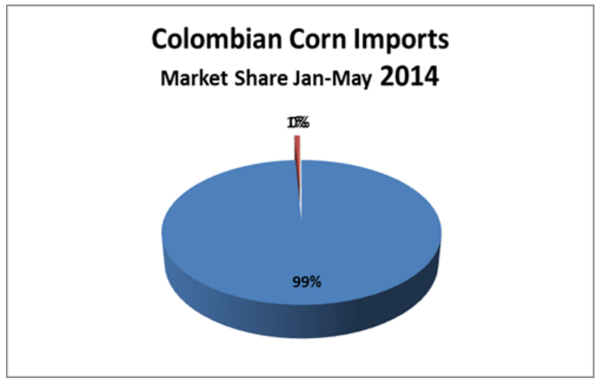
Report Highlights:

U.S. corn exports to Colombia have dominated the market against Southern Common Market (MERCOSUR) competitors. U.S. corn exports slightly exceeded 2.4 million metric tons (MMT) through June 2014, closing the 2.3 MMT quota for the calendar year under the U.S.-Colombia Trade Promotion Agreement (CTPA). U.S. corn is on track to capture approximately 95% of the 3.6 MMT corn import market in Colombia, notwithstanding out-of-quota duties at 18.75%. Progressively higher duties on MERCOSUR corn under the Price Band System (PBS) of the Andean Community of Nations (CAN) continue to work in favor of sourcing U.S. corn.

General Information:

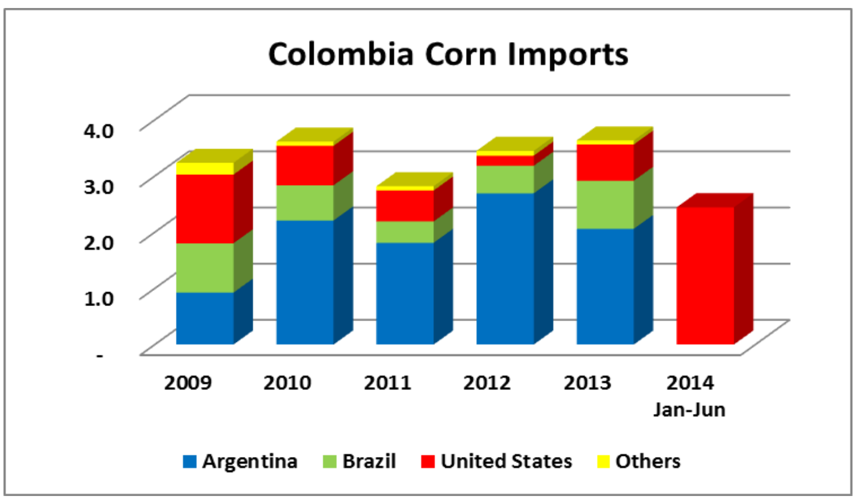
Price conscious Colombian grain importers have enthusiastically taken note of low corn prices, helping U.S. corn exports to swiftly recover market share against MERCOSUR competitors, primarily Argentina and Brazil. The United States has gradually lost market share since 2009 from MERCOSUR competitors because of comparable freight rates, high U.S. corn prices and trade preferences motivating importers to source MERCOSUR corn. In 2008, U.S. corn exports held 80 percent of the Colombian import market share, declining significantly to 13 percent in 2012. In 2013, lower prices initiated the market recovery, up to 18 percent by the end of the calendar year, continuing into 2014. The illustrations below highlight the complete domination of U.S. corn market share in Colombia (January to May), from 2 to 99 percent, over the same time period a year before.





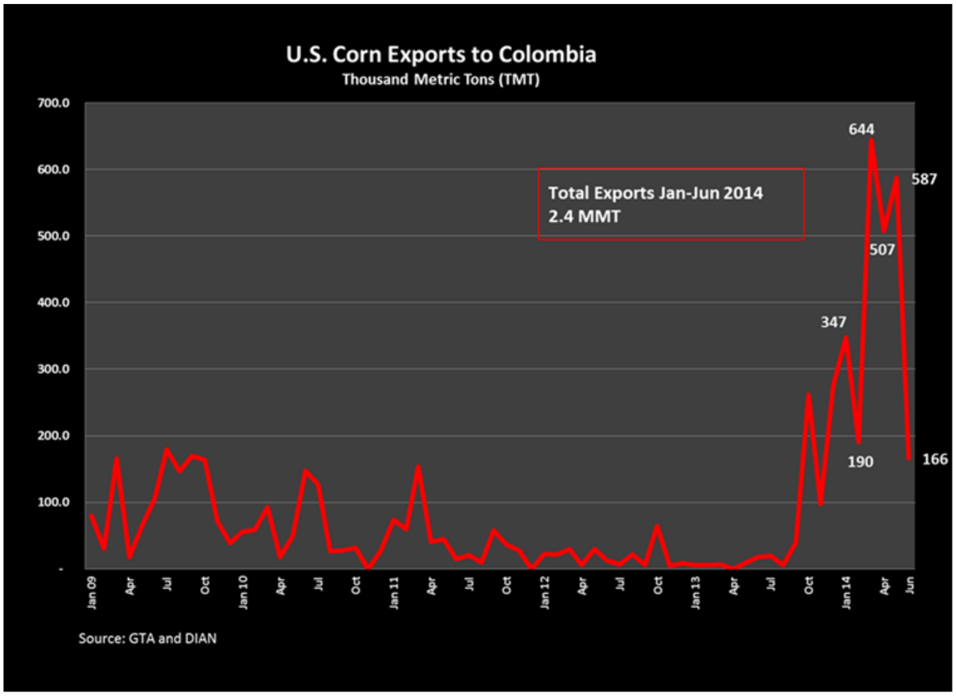
Source: Global Trade Atlas (GTA)

The graph below illustrates Colombia's corn importing trends (in MMT) since 2009 from the specific the country of origin, highlighting the the dramatic shift towards sourcing U.S. corn in 2014.



Source: GTA

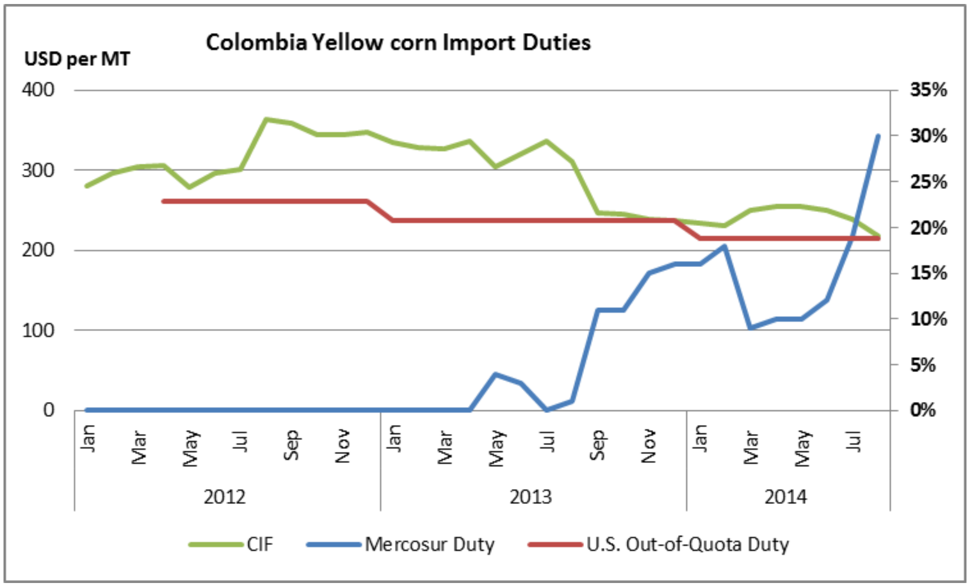
As of June 30, 2014, U.S. corn exports slightly exceeded 2.4 MMT, filling the 2.3 MMT quota for the 2014 calendar year. The table below illustrates monthly deliveries from January 2009 to the present, including the U.S. corn buying frenzy that began in October 2013. The decline in deliveries in November 2013 and January 2014 reflect the delivery delays from inclement weather in the United States and the logistical challenges from the soybean buying surge from China. The sharp decline in June reflects the closing of the 2.3 MMT quota; however, yet to be published data from July will likely reverse that trend.



Lower prices for U.S. corn almost completely mitigate any competitive pricing advantages Argentina and Brazil enjoyed in previous years under the CAN PBS. Colombia applies a PBS mechanism for all trading partners for major commodities, except where trade agreements establish different trading conditions, such as the CTPA, which applies an initial zero duty tariff-rate-quota mechanism instead. The Government of Colombia maintains the CAN price band for all trading partners and in the case of MERCOSUR offers duty discounts at 70 percent of the base duty plus the variable duty. The PBS applies 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 international corn prices are lower than the PBS floor price, which increases the import duty. In recent years, with high international commodity prices, the price band mechanism has resulted in a converse scenario with near zero duties for imports from trading partners where the PBS applies, such as MERCOSUR. Since the fall of 2013, falling corn prices have benefited U.S. corn at the expense of MERCOSUR, whose duties have risen significantly from 0-30% – even with the duty discount, while U.S. corn remains at zero duty within quota and 18.75% out-of-quota.

The CAN base duty is 15% for corn with a variable duty that changes every two weeks, tracking a reference price based on a 60 day CBOT average. The variable duty increases the base duty when the CBOT average is lower than a set floor price fixed at US$269 per ton. Conversely, the variable duty will reduce the base duty when the reference price is above the ceiling price, currently fixed at US$328 per ton.

For the period of August 16-31, 2014, the CAN reference price (cost, insurance and freight, or CIF, landed at Colombian ports) for corn is US$218 per ton, which ostensibly falls below the US$269 per ton PBS floor price. As a result, the duty on corn imports from MERCOSUR is currently 30%. The graph below illustrates the reference price trend and corresponding duties to MERCOSUR corn:



Colombian grain importers continue to source U.S. corn despite the out-of-quota duty given higher duties to MERCOSUR. This has significant implications for the fall 2014 U.S. corn harvest. If prices continue to trend downward, and with MERCOSUR duties climbing, U.S. corn will likely continue to dominate the Colombian market as the fall 2014 harvest deliveries begin and into 2015.