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Report Highlights:

Colombian imports of U.S. corn sharply declined by 1.4 million tons in MY 2008/2009 in favor of corn imports from Argentina and Brazil, countries that received a preferential import duty rate. It is expected that U.S. corn exports to Colombia will recover in 2009/2010 if U.S. corn prices fall and quality improves. U.S. wheat exports fell by 94,000 tons in favor of Argentine wheat in 2008/2009. The Colombian-U.S. Trade Promotion Agreement when implemented will remove the current duty disadvantages faced by U.S. grains.

Executive Summary:

U.S. corn exports to Colombia declined by 1.4 million tons in MY 2008/2009 after reaching a record 3.1 million tons in MY 2007/2008. Colombia imported from Argentina and Brazil due mainly to an import duty preference received under the Colombia-Mercosur trade agreement that enters into its sixth year of implementation and a reduction in global prices. Wheat imports from the United States were reduced by 94,000 tons while imports from Argentina increased, also helped by the duty preference.

Colombian policy support and duty protection remains in place with the objective of encouraging national grain production, however, high production costs still make locally produced grain prices higher compared to imported grains.

The floor and ceiling prices of the Andean Community price band system will increase for the second year starting on April 1st, 2010. This will keep U.S. grains at a disadvantage relative to Mercosur countries, which have duty preferences under the Andean Community (CAN)-Mercosur trade agreement.

The Colombian Trade Promotion Agreement (CTPA) provides for a tariff-rate-quota (TRQ) of 2.1 million tons for U.S. yellow corn and 136,500 tons for U.S. white corn to enter Colombia duty free. Wheat imports from the United States will receive immediate duty elimination upon implementation of the CTPA.

Commodities:

Corn

Wheat

Production:

Colombian **Corn** production fell 13 percent to 1.4 million tons in 2008/2009 and it is expected to recover to 1.61 million tons in 2009/2010. The forecast for 2010/2011 is a slight increase of 10,000 tons to reach 1.62 million tons. The drop in production in 2008/2009 was due to high rainfalls that affected yield that fell from 3.0 to 2.6 tons per ha, in spite of an increase in area due to a government support program. The program "Secure Agriculture Income" (AIS) provided \$30 /ha to farmers who planted corn during the first half of the year. The support has yet to be announced for 2010, which may be too late due to severe drought conditions affecting planting.

Colombia produces white corn for human consumption and yellow corn for food and feed industries. In 2009, 39 percent of total corn area harvested was white corn and 61

percent yellow corn. Although the growing demand is for yellow corn to supply the feed industry, it has been supplied with imported corn, while white corn has maintained its planted area to supply the market for human consumption.

Approximately 35 percent of corn production comes from farms smaller than 5 hectares, which makes up 55 percent of total corn area planted. The other 65 percent of corn production comes from large of 5 ha or more. These farms, however, make up only 45 percent of total area planted to corn. About 50 percent of corn production is produced using technical methods and the other half still using traditional.

Technical agriculture is associated with corn production that uses commercial seeds resistant to pest, modern management practices, fertilization and pest control applications and the use of machinery for planting and harvesting. Traditional agricultural practice uses locally produced seeds and little chemical fertilization and no machinery during the planting and harvesting seasons. In MY 2008/2009 yellow corn produced using technical methods gained in area harvested, while traditional yellow corn lost harvested acreage.

Colombia has prospects for expanding corn area in the Altillanura or the eastern plains, which have growing conditions similar to Brazil's "Cerrado". However, foreign agricultural investors have faced some difficulties which delayed planned investments in 2009. Legislation on land tenure sets a maximum limit for the "family farm unit" at 900 hectares, which according to the Colombian Agriculture Association is too small for the large investment needed. Second, the lack of infrastructure and high transportation costs, which together make to increase the final price and reduce competitiveness.

Colombian interest in planting GMO products continues to expand. GMO yellow corn is planted in the main agriculture regions of the country under the program "controlled planting" and it is the second largest GMO product planted after cotton. In 2009, according to the National Agrarian Institute (ICA) the area planted with GMO yellow corn reached 16,822 hectares.

Wheat production area in Colombia declined by 3,000 hectares in 2008/2009 and is expected to remain unchanged in 2009/2010. Reductions in wheat planted area have been small but a consistent trend over the past several years. It reflects a shift in land use to livestock and other crops that have demand in local markets and better suited for small producers. Colombia is an important beer producer for local consumption and has opened a demand for barley that is expected to substitute part of wheat production. Colombia, under the free trade agreement signed with the United States (CTPA), will eliminate immediately the duty on U.S. wheat imports, making imports more competitive.

Consumption:

The increase in Colombian poultry production due to large investments in modern mechanized facilities has sustained an expanded demand for feed. In turn, poultry production efficiency gains have reduced poultry prices even further relative to red meats and resulted in increases in poultry consumption. In MY 2008/2009, poultry production increased by 1.6 percent and egg production by 9.0 percent which helped maintain strong

corn-import demand in spite of the economic downturn. Total corn consumption is expected to remain at 5 million tons in MY 2009/2010, and increase by 50,000 tons in MY 2010/2011 as the economy is expected to recover and grow by 2.5 percent.

Wheat demand fell by 25,000 tons in MY 2008/2009 to 1.3 million tons mainly affected by the halt in imports from Venezuela. It is expected the economic recovery in 2010, albeit slow, will help stimulate consumption. In MY 2009/2010 wheat consumption is expected to increase slightly to 1.3 million tons, 20,000 tons more as the economy recovers growth. Wheat demand will continue grow as value-added-wheat product export returns to normal. The pasta's industry is promoting new products ready to eat, soups and pastas, to expand consumption.

Trade

Total corn imports increased in MY 2008/2009 by 84,000 tons to 3.29 million tons. It is expected to increase by 8,000 tons to 3.3 million tons in MY 2009/2010 far short record level imports in MY 2007/2008. In contrast, corn imports from the United States suffered a dramatic reduction of 48 percent (1.4 million tons less) falling to 1.5 million tons. Imports from Argentina, Brazil and Paraguay, all Mercosur members made up the difference. The free trade agreement between Colombia and Mercosur entered in its seventh year of application and the duty preference on the basic duty (15%) granted for corn reached 49 percent in 2009 and 54 percent in 2010. According to grain importers, this preferential duty treatment resulted in Argentina and Brazil increasing corn exports to Colombia and gaining market share against U.S. corn exports. In effect, in 2009 Colombian corn imports from Argentina and Brazil paid 7.6 percent duty while imports from the United States paid 15 percent. In 2010, imports from Argentina and Brazil pay 6.9 percent duty which makes the duty difference between the United States and Argentina and Brazil larger by 8.1 percentage points.

The import quota mechanism named "MAC" establishes an annual import quota that can be imported free of duty. In 2009, the corn TRQ was set at 2.6 million tons, however only 1.96 million tons were assigned. Importers explained that the use of the MAC mechanism involves administrative costs that make it almost equally expensive importing out-of-quota from MERCOSUR countries. This trend will continue as duty preferences for grain imports from Mercosur receives higher duty preference each year and the international price makes Andean Price Band duty equal or lower than 15 percent.

In 2009, the Andean Community price band variable import duty for corn was set at 15 percent because of lower international corn prices compared to 2008. However, the new price floor and ceiling, which enter into effect on April 1, 2010, have increased, and with the reduction in international corn prices, the price band duty will likely be 15 percent for corn imports from the United States.

The following table shows the floor and ceiling prices of the price band to be used by Colombia between the period April 1, 2010 and March 31, 2011. This means for trade purposes that if the international price for yellow corn is below \$228 per ton, corn imported from the United States will pay no lower than a 15 percent duty while corn imported from Argentina and Brazil will receive 8.1 percent reduction on the duty.

| Andean Price Band – Prices per Ton | | | | |
|---|--------------------|----------------------|--------------------|----------------------|
| | 2009/2010 | | 2010/2011 | |
| | Floor Price | Ceiling Price | Floor Price | Ceiling Price |
| Yellow Corn | 169 | 267 | 178 | 228 |
| White Corn | 168 | 220 | 178 | 231 |
| Wheat | 220 | 299 | 233 | 313 |
| Milled Rice | 337 | 502 | 395 | 571 |
| Source: Andean Community | | | | |

Colombian wheat imports supply above 95 percent of market needs and in 2008/2009 imports represented 99.5 percent of total consumption. Total Colombian wheat imports reached 1.32 million tons, and imports from the United States accounted for 59 percent of the total, losing 11 percent of market share in MY 2008/2009. In MY 2009/2010 Total imports are expected to decline by 25,000 tons due to wheat millers do not expect major changes in demand while the economy returns to growth. Canada maintains its market share at 21 percent and it has been the traditional supplier of wheat to Colombia. Argentina, however, increased its share from 6 percent to 19 percent in MY 2008/2009 due mainly to the duty preference granted by Colombia under the Colombia-Mercosur trade agreement.

Stocks:

The Colombian government does not grant storage subsidies to wheat and corn so the feed industry and wheat millers keep working inventories considered enough to cover their input needs at around two months.

The Industry's corn inventory for feed is expected to fall to 722,000 tons by the end of 2009/2010. Wheat stock is expected to reach 251,000 tons which covers two months of consumption.

Policy:

The Ministry of Agriculture continued supporting the agricultural sector through the "Secure Agriculture Income" (AIS) program to promote local production and to enhance local agricultural competitiveness. Growers will receive support through credits at low interest rates and direct payments to protect farmer income.

In 2009, the GOC established a tariff-rate quota of 2.6 million tons for yellow corn and 123,000 tons for white corn to be auctioned between December 2009 and November

2010. The tariff-rate quota is allocated via a public auction that operates through the National Agricultural Commodity Exchange (Bolsa Nacional Agropecuaria or BNA). Imports under the tariff-rate quota pay a reduced duty (a discount from the Andean Price Band duty) with the condition of purchasing local production. Thus, companies that receive an import quota have to buy local production (on the spot market or future contracts) certified by the National Agricultural Commodity Exchange. This mechanism creates a premium price for domestic corn.

The GOC issued decree 140 on January 21st that increased the duty for white corn to 40 percent and excluded the product from the application of the price band system to protect local white corn production. The price-band duty for yellow corn was 15 percent in 2009 percent. The price-band duty is calculated biweekly and for the period of March 16 to March 30 the duty on corn is 15 percent.

Andean Community - Mercosur Agreement

Andean Community countries (Colombia, Ecuador and Venezuela) and Mercosur members signed an Economic Supplemental Agreement (ESA) in October 2004. This agreement includes a free trade program that Colombia put in place in February 2005.

The ESA agreement includes the following basic features on grain imports granted by Colombia to Mercosur members:

Corn: A fifteen-year phase out period to bring the basic corn duty of 15 percent down to zero (the variable component of the price band will continue to be applied). In 2010, Colombia granted Argentina and Brazil a preferential duty, such that Argentina and Brazil will pay 46 percent of the 15 percent basic rate and Paraguay and Uruguay 53 percent of the 15 percent basic duty. The variable duty of the Andean Community will remain applicable. Under this agreement, corn imports from Argentina and Brazil paid 8.1 percent less in duties than imports from the United States and other countries in 2009. However, while corn imports enter under the TRQ the duty will be zero for Andean and Mercosur countries and 5 percent for the United States.

Wheat: Wheat and wheat flour were taken out of the price band system and are not subject to the special agricultural safeguard. Colombia phased out the 15 percent duty in 2009 when wheat imports from Mercosur started entering free of duty.

Colombian Trade Promotion Act (CTPA)

Colombia and the United States signed a free trade agreement in November 2006. Under this agreement the price band duty system will be removed for imports from the United States. Additional conditions for grain imports were negotiated as follows:

Corn: the CTPA establishes a tariff-rate quota of 2.1 million tons for yellow corn, and 136,500 ton tariff-rate quota for white corn, of which both quotas will increase 5 percent annually. The yellow corn out-of-quota import duty was set at 25 percent and the white corn out-of-quota import duty was set at 20 percent, of which both will be phased-out over 12 years. In both cases the price band system will be eliminated.

Wheat: Imports from the United States will pay zero duty upon the implementation of the trade promotion agreement.

Tables

| Corn Colombia | 2008 | | | 2009 | | | 2010 | | |
|--------------------|-----------------------------|-------|----------|-----------------------------|--|----------|-----------------------------|--|--------|
| | 2008/2009 | | | 2009/2010 | | | 2010/2011 | | |
| | Market Year Begin: Oct 2008 | | | Market Year Begin: Oct 2009 | | | Market Year Begin: Oct 2010 | | |
| | USDA Official Data | | New Post | USDA Official Data | | New Post | USDA Official Data | | |
| | | | Data | | | Data | | | Data |
| Area Harvested | 575 | 560 | 557 | 550 | | 550 | | | 545 |
| Beginning Stocks | 1,080 | 677 | 1,080 | 915 | | 812 | | | 722 |
| Production | 1,635 | 1,500 | 1,440 | 1,700 | | 1,610 | | | 1,620 |
| MY Imports | 3,200 | 3,400 | 3,292 | 3,300 | | 3,300 | | | 3,400 |
| TY Imports | 3,200 | 3,400 | 3,292 | 3,300 | | 3,300 | | | 3,400 |
| TY Imp. from U.S. | 1,387 | 3,100 | 1,500 | 0 | | 2,100 | | | 2,900 |
| Total Supply | 5,915 | 5,577 | 5,812 | 5,915 | | 5,722 | | | 5,742 |
| MY Exports | 0 | 0 | 0 | 0 | | 0 | | | 0 |
| TY Exports | 0 | 0 | 0 | 0 | | 0 | | | 0 |
| Feed and Residual | 3,800 | 3,750 | 3,800 | 3,900 | | 3,800 | | | 3,850 |
| FSI Consumption | 1,200 | 1,100 | 1,200 | 1,300 | | 1,200 | | | 1,200 |
| Total Consumption | 5,000 | 4,850 | 5,000 | 5,200 | | 5,000 | | | 5,050 |
| Ending Stocks | 915 | 727 | 812 | 715 | | 722 | | | 692 |
| Total Distribution | 5,915 | 5,577 | 5,812 | 5,915 | | 5,722 | | | 5,742 |
| Yield | 3. | 3. | 2.5853 | 3. | | 2.9273 | | | 2.9725 |

| Wheat Colombia | 2007 | | | 2008 | | | 2009 | | |
|----------------------|--------------------------------|-------|-------------|-----------------------------|-------|----------|--------------------------------|--|--------|
| | 2007/2008 | | | 2008/2009 | | | 2009/2010 | | |
| | Market Year Begin: Jul 2007 | | | Market Year Begin: Jul 2008 | | | Market Year Begin: Jul 2009 | | |
| | USDA Official Data | | New Post | USDA Official Data | | New Post | USDA Official Data | | Jan |
| | | | Data | | | Data | | | Data |
| Area Harvested | 19 | 18 | 18 | 15 | 18 | 15 | 21 | | 15 |
| Beginning Stocks | 130 | 66 | 130 | 129 | 60 | 229 | 141 | | 257 |
| Production | 37 | 36 | 34 | 30 | 36 | 23 | 42 | | 26 |
| MY Imports | 1,309 | 1,280 | 1,412 | 1,382 | 1,290 | 1,327 | 1,300 | | 1,300 |
| TY Imports | 1,309 | 1,280 | 1,412 | 1,382 | 1,290 | 1,327 | 1,300 | | 1,300 |
| TY Imp. from U.S. | 927 | 580 | 932 | 816 | 580 | 838 | 0 | | 850 |
| Total Supply | 1,476 | 1,382 | 1,576 | 1,541 | 1,386 | 1,579 | 1,583 | | 1,583 |
| MY Exports | 2 | 2 | 2 | 5 | 2 | 2 | 5 | | 2 |
| TY Exports | 2 | 2 | 2 | 5 | 2 | 2 | 5 | | 2 |
| Feed and Residual | 20 | 20 | 20 | 20 | 20 | 20 | 20 | | 20 |
| FSI Consumption | 1,325 | 1,300 | 1,325 | 1,375 | 1,300 | 1,300 | 1,375 | | 1,310 |
| Total Consumption | 1,345 | 1,320 | 1,345 | 1,395 | 1,320 | 1,320 | 1,395 | | 1,330 |
| Ending Stocks | 129 | 60 | 229 | 141 | 64 | 257 | 183 | | 251 |
| Total Distribution | 1,476 | 1,382 | 1,576 | 1,541 | 1,386 | 1,579 | 1,583 | | 1,583 |
| Yield | 2. | 2. | 1.8889 | 2. | 2. | 1.5333 | 2. | | 1.7333 |