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The Benefits of Free Trade Show Mixed Results for U.S. Grains

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Report Highlights:
The U.S. – Colombia Trade Promotion Agreement (CTPA) was implemented in May 2012 and the results for U.S. grains vary. CTPA implementation re-opened the market for U.S. rice with trade values up approximately five thousand percent in 2012. Nevertheless, the declining trend in U.S. corn import market share continues due to strong competition from the Southern Common Market (MERCOSUR), hitting its lowest level in a decade at 13 percent. As well, the United States lost its position of preference as the primary source of wheat for Colombian importers. In 2011, U.S. wheat had about 50 percent of the Colombian import market, falling to 30 percent in 2012 against competition from Canada and

MERCOSUR.

Executive Summary:

In marketing year (MY) 2012/2013, corn production in Colombia is estimated to remain static at 1.7 million metric tons (MMT) with production not likely to change for MY 2013/2014 as well. However, the variety grown will likely fluctuate due to the higher prices for white versus yellow corn. White corn is primarily for food consumption and prices are much more favorable to yellow corn, which is almost entirely destined for animal feed. Corn imports are expected to increase by 100 thousand metric tons (TMT), up three percent in MY 2013/2014 to 3.3 million tons as material input demand strengthens. Assertive MERCOSUR competition will likely continue to disadvantage U.S. corn market share in Colombia. Rice production is expected to decline by six percent to 1.7 MMT due to a reduction in planted area, down nine percent in MY 2012/2013. Prices paid to rice producers have been declining, about 13 percent year-on-year, motivating farmers to either convert land to cattle grazing or leave land fallow. Continued low producer prices in MY 2013/2014 will further discourage any increase in planted area; however, a marginal increase in production is forecast as a result of better weather trends and improved disease management. Colombian imports of U.S. rice will meet the 83 TMT quota under the CTPA with possible additional shipments out-of-quota. A marginal increase in Colombian wheat imports is likely, paralleling population growth, with competition remaining strong from Canada and MERCOSUR.

Commodities:

Corn

Rice, Milled

Wheat

Production:

Corn

Corn production is expected to remain static at 1.7 MMT in MY 2012/2013 with no changes expected in MY 2013/2014 either. Growers may likely adjust planted areas of yellow to white corn as a result of favorable prices. In calendar year 2012, yellow corn planted area decreased by 13 thousand hectares, meanwhile area of white corn increased by 23 thousand hectares. Prices for white corn are more favorable than yellow corn with strong demand for domestic white corn for human consumption. The Government of Colombia (GOC) has historically guaranteed a minimum price for white corn that lowers risk to growers from price volatility relative to yellow corn; however, no minimum price was established in 2012 for white corn due to relatively stable price trends. There is no indication that the GOC will establish a minimum price for white corn in the short term given strong domestic demand and limited competition from imports. The GOC maintains a program supporting yellow corn production called the “Plan Pais Maiz”, or Country Corn Plan, which was established in 2010. The program supports yellow corn production through direct payments per hectare, transport subsidies and additional funding for research and development to improve seed genetics. Nevertheless, free trade agreements, in particular with MERCOSUR, along with a strong peso, have favored expanded grain imports.

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, while small scale farms produce an average of two tons per hectare. In 2012, industrial farm corn planted area was estimated to be 260 thousand hectares, or about nearly 50 percent of the total corn planted area planted. Yellow corn represents about 60 percent of the industrial farm planted area, or approximately 154 thousand hectares.

Corn planted area and production is expanding in the eastern plains of Colombia, called the "Altillanura". This region is considered to be the agricultural frontier for Colombia with millions of hectares of topographically flat grass lands. Currently, raising cattle is the primary agricultural pursuit of the region given poor, acidic soil quality. The GOC is working with Brazilian and other international researchers, including the U.S. Department of Agriculture's Natural Resource Conservation Service, to map soils and develop processes to transform the soil characteristics to be more suitable for row crops. Given this potential, foreign investment in this region is growing with multinational companies purchasing land and managing large-scale farm operations. The estimated area in row crop production is approximately 30 thousand hectares, primarily corn and soybeans that is destined for swine and poultry feed operations in the region. Only about 30 percent of row crop production is marketed outside the region. The optimistic agricultural expectations for this region are tempered by the need for intensive, large-scale soil conversion, extremely deficient infrastructure and long distances to major domestic markets and ports for export. Moreover, further large scale development will greatly depend on improvements in security, as insurgents and other criminal elements are active in the region.

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

Colombian Use of Biotech Corn Seeds		
Year	**Hectares**	**Change**
2012	75,046	27%
2011	59,239	52%
2010	38,896	131%
2009	16,822	60%
2008	10,489	52%
2007	6,901	

Source: ICA, Institute for Colombian Agriculture and Livestock

Wheat

Colombian wheat production will likely remain at 22 TMT in MY 2012/2013. The slight reduction in planted area in 2012 will be compensated by productivity gains with better weather. Domestic wheat production is primarily destined for wet milling and human consumption. Wheat production is forecast to remain unchanged for MY 2013/2014.

Rice

In MY 2012/2013, Colombian rice planted area is expected to decline by 9 percent to 410 thousand hectares. As a result, rough/paddy rice production is expected to drop 117 TMT with total production at 1.72 MMT. Rice planted area will decline mainly in the eastern plains in response to lower prices paid to producers due to import competition and the growing elicit contraband rice trade from neighboring countries.

Domestic rice production has suffered from a combination of mite, fungus and bacteria. As a result, average yields per hectare last year fell from the 4.9 to 4.2 metric tons (MT). The forecast for MY 2013/2014 is a marginal increase in production to 1.74 MMT of rough/paddy rice, given improved weather and better pest and disease controls.

Consumption:

Corn in Colombia is consumed in either the food or feed industry. Ninety five percent of corn imports are destined for the animal feed industry with the remaining 5 percent for human consumption. On the other hand, about 10 percent of the local production is devoted to animal feed purposes, while the remaining 90 percent is for the food processing industry. It is calculated that 50 percent of Colombian feed production is used by the poultry sector, 40 percent for livestock and swine and the remaining 10 percent for aquaculture and household pets. Poultry meat is the preferred animal protein in Colombian diets, with per-capita consumption at 47 pounds, followed by beef (38 pounds) and pork (10 pounds).

Traditional feed ingredients, such as corn, soybeans and soybean meal, remain popular with limited substitution. Nevertheless, the feed industry continuously investigates new formulations of their feed mixes and ingredients, such as wheat, yucca, distillers dried grains with solubles and other grain byproducts. The introduction of new feed materials primarily depends on 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. In 2012, sorghum use in feed formulations saw resurgence as a substitute for corn.

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.

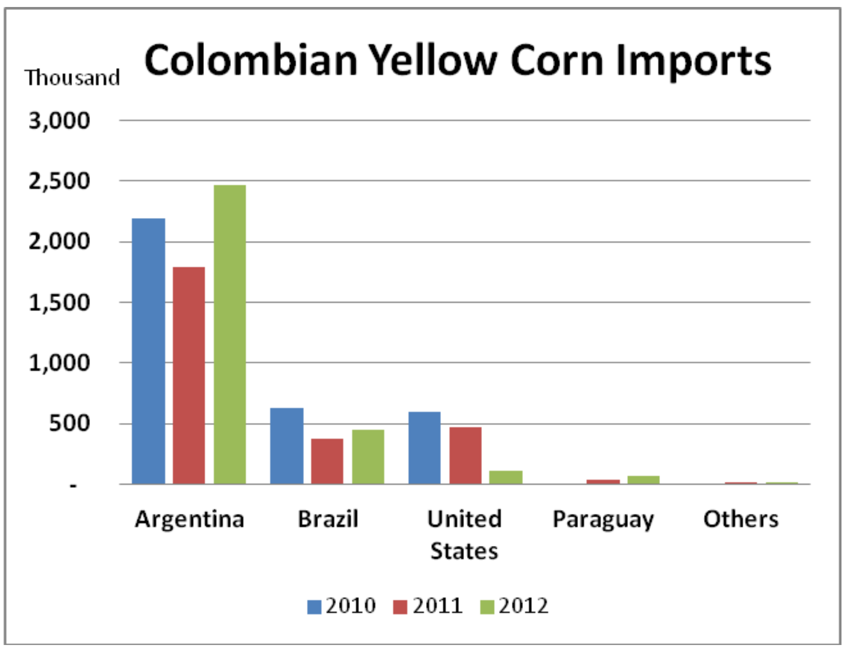
Wheat consumption will likely remain unchanged. Per capita wheat consumption is approximately 65 pounds. The wheat product destination and distribution patterns for the different sectors are as follows: bread (75 percent), pasta (15 percent) and the cookies and pastry industry (10 percent). The cookies and pastry industry has seen the most dynamic growth due to the Colombian snacks and confectionary industry expanding exports to the United States and Central America.

Trade:

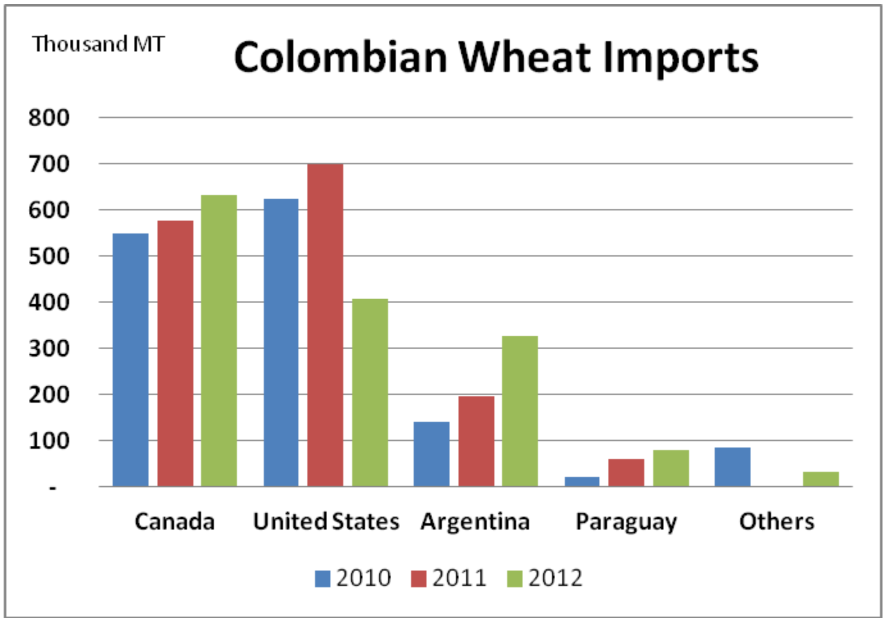
In MY 2012/2013, corn imports will not likely change from the previous year and remain at 3.2 MMT. In 2012, Colombian imports of sorghum increased to 625 TMT, up 25 percent from 2011. High corn prices motivated the feed industry to seek grain substitutes, expanding the market for sorghum. Although corn is the primary animal feed material, the feed industry continues to seek a formulation that maintains product quality, but balances the price differentials among feed inputs. Corn imports are forecast to remain unchanged at 3.2 MMT in MY 2013/2014 due to expected high prices and static domestic demand.

The source of Colombian corn imports has dramatically shifted away from the United States to MERCOSUR countries, notably Argentina, and to a lesser extent Brazil. In 2008, U.S. corn held 80 percent of the Colombian import market share, declining significantly since, to 13 percent in 2012. According with the Colombian feed industry, input prices heavily influence their buying decisions and, to a lesser extent, product quality.

Tight U.S. corn supplies and stocks have resulted in the United States becoming only a seasonal market for Colombian buyers, according to industry sources. Production difficulties due to weather in the United States, and the impact on prices, have disadvantaged U.S. corn opportunities in the Colombian market. Meanwhile, weather conditions in MERCOSUR have been favorable to producers. Competitive freight rates out of South American ports and slackened demand in Europe and Asia have resulted in Colombia becoming a highly competitive export market in the Western Hemisphere. Industry contacts have also indicated that Argentine corn quality stands out compared to other import sources. The graph below illustrates the dramatic decline in market share for U.S. corn since 2010.



Wheat trade has also shifted against the United States, but favoring Canadian wheat. The 2011 Colombia-Canada Free Trade Agreement eliminated duties on wheat imports for Canada a year in advance of the CTPA. This free trade 'head-start' for Canada 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 processes. While U.S. wheat still maintains about 30 percent of the Colombian import market, MERCOSUR countries are becoming a greater trade threat. The graph below illustrates the fluctuation in wheat export sources to Colombia since 2010.



Rice imports in Colombia are directly connected to international trade commitments. The CTPA re-opened trade opportunities for U.S. rice and the 2012 79 TMT quota was almost immediately fully subscribed with shipments delivered in the last three months of 2012. The 2013 quota of 83 TMT will very likely be fully subscribed with the first auction in February 2013 awarding 53 TMT for delivery up to June 2013. Colombia maintains a U.S. rice import duty of 80 percent out-of-quota, which also applies to rice from countries outside the Andean Community of Nations (CAN). Currently, rice imports from the CAN are restricted due to GOC concerns with sanitary/phytosanitary (SPS) issues. Nevertheless, an issue of growing concern to GOC authorities and domestic producers is contraband rice trade from neighboring countries speculated to be about 500 TMT of rough/paddy rice, or close to 25 percent of domestic production.

Prices:

Colombian corn and rice producer associations apply domestic pricing strategies with local buyers through an import parity calculation equivalent to the value of the importer price as traded in the domestic market. This price strategy combines importer costs of freight, duties, and insurance with internal costs, such as transportation from ports to regional markets. The import parity price has impacts on planting decisions and with high international corn and rice prices, growers have expanded planted area in previous years. The table below is an example of how corn producers establish a negotiating price. According the table below, domestic corn producers would negotiate a price at or around the lower figure associated with Argentine corn.

Domestic Price of Imported Corn **March 7, 2013** **(US$ per ton)**		
	US Corn	Argentina

CBOT, March Contract	278.73	
Base	29.53	
FOB	308.3	273.29
CIF	333.412	307.80
Duty 1/	0%	1.7%
Exchange rate (COP)	1,808.00	1,808.00
Price Landed Bogota	748.18	711.09
Price Landed Medellin	738.17	701.09

1/ Duty under MAC TRQ mechanism:
Source: Colombian Grain Producers Association (FENALCE)

Domestic wheat prices are set by Colombian millers. This set price is announced twice a year for domestically produced wheat. The most recent price announced was US$378 per ton for a period of approximately six months.

Stocks:
The Colombian government does not maintain a policy for holding grain stocks; however, when needed, mostly for rice, the Ministry of Agriculture implements storage incentives for producers and millers to hold inventories until the end of the year when the main crop is harvested. It is estimated that rice stocks at the end of MY 2012 will be about 30 TMT of milled rice.

There are limited carry-over inventories of corn and wheat given little storage capacity throughout Colombia. The feed and milling industry maintain grain inventories to satisfy ongoing operations. The feed and milling industry is estimated to manage a two month inventory supply to maintain operations. Occasionally, industry will adjust inventories to react to upward fluctuations of international prices through excessive purchases and expansion of inventories.

Policy:
The CTPA was implemented in May 15, 2012 and trade outcomes for U.S. corn and wheat have been underwhelming due to conditions previously explained. One success was the SPS protocol established for imports of rough/paddy rice from the United States. From October through December 2012, 13 TMT of U.S. rough/paddy rice entered Colombia with about 4 TMT traded out-of-quota with an 80 percent duty.

2012 CTPA Tariff-Rate-Quota (TRQ) Fill Rates		
	TRQ (MT)	**Volume Imported (MT)**
Yellow Corn	2,100,000	50,740
White Corn	136,500	40,503

Rice	79,000	79,000

Source: DIAN Colombian Customs and Tax Agency

As a member of the CAN, Colombia applies a price band mechanism for all trading partners for major commodities. The CTPA, however, excluded 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 shelter 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. The table below provides the band prices according to the CAN for select major commodities.

Andean Price Band – Prices per MT (April 1 – March 31)				
	2012/2013		**2013/2014**	
	Floor Price	**Ceiling Price**	**Floor Price**	**Ceiling Price**
Yellow Corn	233	284	260	316
White Corn 1/	231	281	252	320
Wheat	283	354	299	367
Rice 1/	505	651	575	691

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

Source: CAN

Colombia is a net importer of corn. Colombian corn production (white and yellow) comprises as much as 30 percent of total Colombian corn consumption. Yellow corn imports provide close to 90 percent of the feed industry's material input 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. Despite the tariff reduction, the MAC has been ineffective when international commodity prices are high and less duty is paid under the price band mechanism. The chart below illustrates the decline in use of the MAC program. The duty under the price band mechanism during the first half of March 2013 for corn imports would normally be zero, but due to the MAC the duty is five percent. This five percent would apply to corn imported from the United States out-of-quota. Corn imported from MERCOSUR countries pay a 1.4 percent duty due to trade preferences received under the Colombia-MERCOSUR free trade agreement.

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

Source: Ministry of Agriculture and Colombian Mercantile Exchange

Prior to 2008, in spite of the Colombia-MERCOSUR trade agreement, the MAC program favored corn imports from the United States; however, the increased duty preference for imports from MERCOSUR, combined with high international prices, have eliminated any duty advantages for U.S. corn, minimizing the benefits of the CTPA.

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. Under the CTPA, there is an annual quota for U.S. rice that enters into Colombia free of duty. In 2013, the TRQ is set at about 83 TMT and in 2012 the TRQ was filled within a matter of months. Colombia levies an 80 percent duty on rice imported from the U.S. out-of-quota; however, market conditions are sufficiently favorable for rice and Colombian millers have imported rough/paddy rice under elevated, 80 percent tariff conditions. Colombian rice growers are asking the government for tighter controls of the borders to prevent rice contraband. After recent threats of civil protest by rice producers demanding better prices paid to producers, the GOC agreed to implement a direct payment program providing US$0.28 dollars per pound of rough/paddy rice.

Wheat

The Colombian wheat milling industry's inputs are almost completely sourced by imported wheat. Implementation of trade agreements with Canada and the United States have set favorable trade conditions with wheat imports entering duty free up to specified quotas.

Production, Supply and Demand Data Statistics:

Corn Colombia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: May 2012		Market Year Begin: Oct 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	535	535	600	535		540
Beginning Stocks	596	596	575	575		395
Production	1,700	1,700	1,800	1,720		1,750

MY Imports	3,181	3,181	3,500	3,200		3,300
TY Imports	3,181	3,181	3,500	3,200		3,300
TY Imp. from U.S.	222	222	0	250		300
Total Supply	5,477	5,477	5,875	5,495		5,445
MY Exports	2	2	0	0		0
TY Exports	2	2	0	0		0
Feed and Residual	3,700	3,700	4,100	3,900		3,900
FSI Consumption	1,200	1,200	1,200	1,200		1,200
Total Consumption	4,900	4,900	5,300	5,100		5,100
Ending Stocks	575	575	575	395		345
Total Distribution	5,477	5,477	5,875	5,495		5,445
1000 HA, 1000 MT, MT/HA						

Rice, Milled Colombia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Apr 2011		Market Year Begin: May 2012		Market Year Begin: Apr 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	470	450	450	410		410
Beginning Stocks	45	45	30	25		95
Milled Production	1,430	1,250	1,591	1,170		1,180
Rough Production	2,103	1,838	2,340	1,721		1,735
Milling Rate (.9999)	6,800	6,800	6,800	6,800		6,800
MY Imports	155	330	160	500		400
TY Imports	175	330	180	500		400
TY Imp. from U.S.	0	3	0	85		85
Total Supply	1,630	1,625	1,781	1,695		1,675
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	30	25	181	95		75
Total Distribution	1,630	1,625	1,781	1,695		1,675
1000 HA, 1000 MT, MT/HA						

Wheat Colombia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Jul 2011		Market Year Begin: Jul 2012		Market Year Begin: Jul 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	12	12	15	11		11
Beginning Stocks	202	202	236	236		283
Production	23	23	26	22		22

MY Imports	1,461	1,461	1,400	1,470		1,475
TY Imports	1,461	1,461	1,400	1,470		1,475
TY Imp. from U.S.	414	414	0	450		450
Total Supply	1,686	1,686	1,662	1,728		1,780
MY Exports	5	5	5	5		5
TY Exports	5	5	5	5		5
Feed and Residual	80	80	80	30		30
FSI Consumption	1,365	1,365	1,375	1,410		1,420
Total Consumption	1,445	1,445	1,455	1,440		1,450
Ending Stocks	236	236	202	283		325
Total Distribution	1,686	1,686	1,662	1,728		1,780
1000 HA, 1000 MT, MT/HA						