

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Ecuador**

### **Grain and Feed Annual**

#### **Ecuador Wheat Corn Rice Production Consumption Exports Imports Forecast 2013**

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**Report Highlights:**

Consumption patterns of wheat, corn, and rice in Ecuador are expected to increase in response to domestic population and economic growth. The baking industry is dependent upon imported wheat while the animal sector still depends on imported corn, albeit to a lesser extent. Wheat imports are expected to increase to 585,000 MT in Marketing Year (MY) 2012/13. The United States claimed a sizeable market share of the wheat market and increased it by 33 percent. Domestic corn production is expected to increase by 15 percent while milled rice production is expected to increase to 725,000 MT in MY 2012/13. Corn imports are expected to decrease to 400,000 MT in MY 2012/13.

## **Executive Summary**

Wheat production in Ecuador is expected to remain around 9,000 MT again this year, despite Ecuadorian government incentives for domestic wheat. Domestic production levels are still insignificant compared to current demand. In Marketing Year (MY) 2012/13 (July 2012-June 2013), it is estimated that imports will increase to 585,000 MT in response to population growth and demand from the aquaculture feed industry. The market share for exporting countries seems to be showing signs of a shift from Canada to the United States. Canada remains the largest exporter. The U.S. market share increased from 19 percent in 2011 to 33 percent in 2012. Ecuador uses the U.S. dollar as its currency. Given the recent strength of the Canadian dollar, this tends to benefit imports from the United States.

Corn production is expected to increase by about 15 percent in MY2012/2013 (May 2012-April 2013) due to favorable weather conditions. In 2013, annual consumption is expected to increase to 1.41 million MT. Imported corn is used mainly by the feed meal compound industry and the related poultry, egg, and pork industries. Post projects that corn imports will decrease to 400,000 MT in MY 2012/13 due to increased domestic production. The United States did not supply any significant amounts of corn. Argentina is the primary source of imports.

Milled rice production will increase to 775,000 MT in MY 2012/13 (April 2012-March 2013). Ecuador has steadily been increasing rice production, but bad weather may affect yields.

# WHEAT

Wheat Ecuador	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	8	11	10	11		11
Beginning Stocks	119	119	73	92		81
Production	6	8	8	9		9
MY Imports	490	580	500	585		590
TY Imports	490	542	500	559		560
TY Imp. from U.S.	144	102	0	185		200
Total Supply	615	707	581	686		680
MY Exports	2	0	0	0		0
TY Exports	2	0	0	0		0
Feed and Residual	65	95	50	105		110
FSI Consumption	475	520	475	500		510
Total Consumption	540	615	525	605		620
Ending Stocks	73	92	56	81		60
Total Distribution	615	707	581	686		680
1000 HA, 1000 MT, MT/HA						

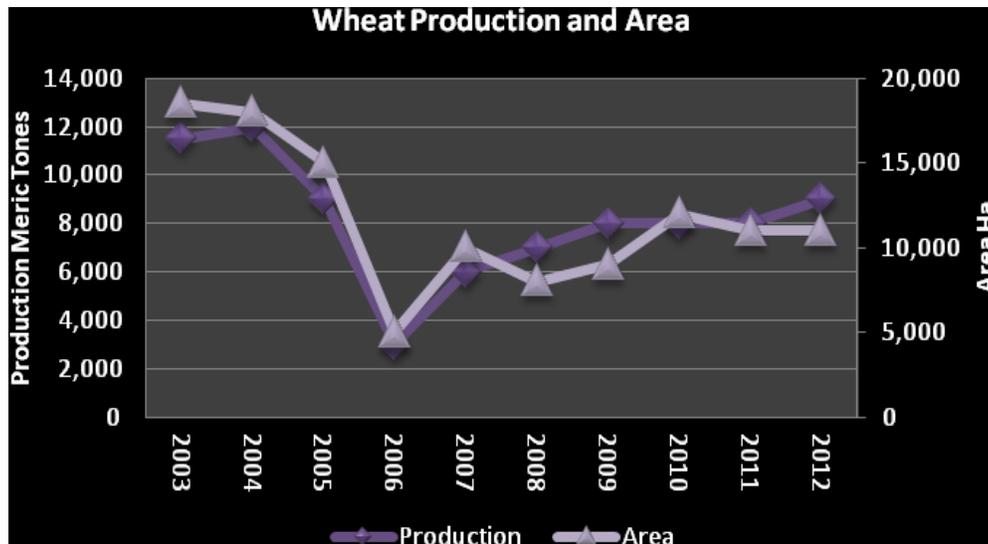
## Production

Since the 1970s, wheat production in Ecuador has declined steeply. In 1990, Ecuador produced 30,000 MT in 37,000 harvested hectares. Since then, low yields, poor soil quality and the lack of high quality seed combined with low prices for local wheat have contributed to reduced production. Local production is very small at about 9,000 MT in MY 2012/13. To fulfill local demand, Ecuador imports large amounts of wheat.

In response to high international prices for wheat in 2008, and in an effort to guarantee self-supply of wheat, the Government of Ecuador (GOE) provides Ecuadorian farmers in the northern and central highlands with incentives to plant wheat for local consumption. These incentives have included releasing improved wheat varieties, subsidizing fertilizers, and government backed loans. Business associations have meanwhile requested lower tariffs for imported wheat until domestic production increases to meet local demand. In July 2010, Ecuador's National Agricultural Research Institute (INIAP) released three wheat varieties. These wheat varieties were the result of traditional breeding of materials introduced from the International Maize and Wheat Improvement Center. INIAP varieties are expected to produce about 12,000 pounds of grain per hectare, be resistant to leaf rust (brown rust) and stripe rust (yellow rust) and adapt to weather conditions in Ecuador's highlands. INIAP has indicated that the protein content of this variety is above 13 percent. Currently, there are no significant areas planted with these varieties.

In late 2009, the GOE started a price support mechanism for domestically produced wheat. However, supply increases have not followed. Only about 2,000 MT of total domestic production is made available for purchase by the millers, the rest is sold locally in small towns near the production areas. The perception is that the GOE's efforts will not be sustainable due to the large size of the market and

bakers' preference for imported higher-quality wheat. A GOE requirement to prove purchase of domestic production prior to issuing import permits was eliminated in 2010.



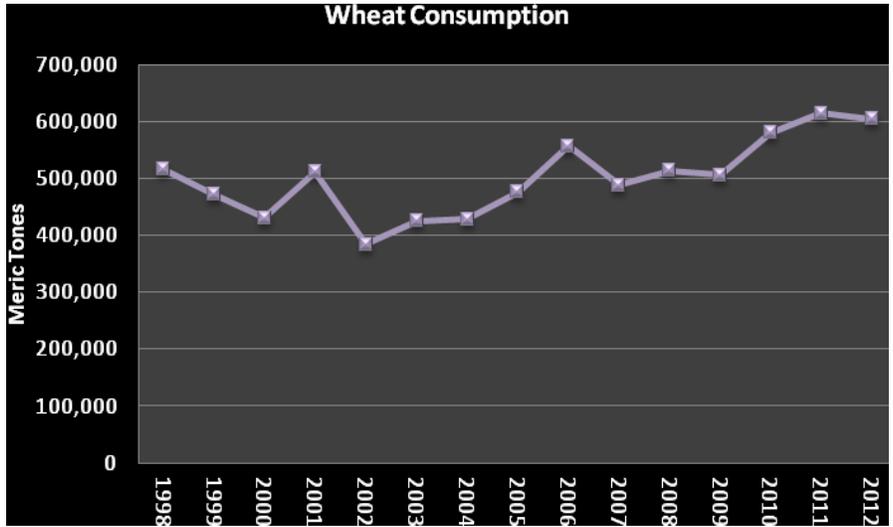
## Consumption

More stable international prices and stable bread prices in Ecuador started to return consumption to pre-2008 levels through MY 2011/12. In MY 2012/13 demand for wheat has been stable.

Higher global demand for shrimp: Ecuador is a major producer and exporter of shrimp. In response to good world prices, Ecuador has increased its shrimp exports. Wheat is an important ingredient in the feed needed to produce it. Post estimates that the seafood industry would consume at least 75,000 MT of wheat in MY 2012/13, out of 105,000 MT of wheat used for feed in all industries.

Per capita human consumption has decreased slightly. Although Ecuadorian consumers eat bread at least twice a day and increasingly consider pasta as a staple, they also like the convenience of being able to find bakeries with freshly baked bread rolls within walking distance to their homes. According to industry sources, consumers are decreasing their consumption of bread due to dietary considerations. The price of non-specialty bread is set by the GOE. The price of a bread roll has stayed at \$0.12 since January, 2011.

For MY 2013/14, demand of imported wheat for feed is expected to remain stable.

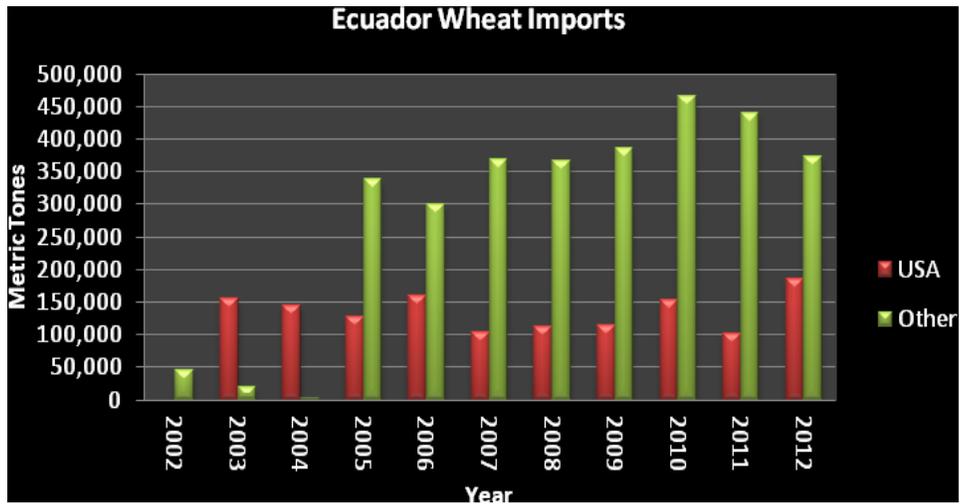


## Trade

Imports for Calendar Year (CY) 2012 increased 3 percent from CY 2011. Total imports in 2012 increased about 17,000 MT compared to the previous year. Since Ecuador primarily uses wheat for bread and pasta, imports of hard wheat are, on average, higher than those of soft wheat, usually by a 3 to 1 ratio. In 2012, this ratio continued to decrease slightly to 2.9 to 1.

The U.S. market share of Ecuador's wheat imports increased considerably from 19 percent in 2011 to 33 percent in 2012. Most of Ecuador's wheat imports continue to come from Canada.

Ecuador's wheat imports are expected to increase to 590,000 MT in MY 2013/14 in response to population growth and higher demand of feed by the aquaculture industry.



## Policy

In order to address a balance of payments problem, the GOE has engaged in a process to substitute wheat imports with local production while at the same time addressing rural development issues in Ecuador's highlands. In October, 2009 at a major summit gathering producers, government authorities, and millers, an agreement was reached to guarantee a minimum price for one ton of wheat equivalent to \$400. In October 2012, the price per ton of domestically produced wheat was set at \$485. The policy aims at encouraging small farmers in the provinces of Bolivar, Chimborazo, Carchi, Imbabura and Pichincha to start growing wheat. Ecuador spent \$212 million on wheat imports in 2012, down from \$221 million in 2011. Each year in November, a consultative committee is expected to determine changes in the minimum price of wheat. Millers are required to buy domestic production in amounts relative to their imports, a process similar to the management of soybean meal imports. The GOE intends to increase the harvested area to 50,000 ha in the next few years. INIAP and other research institutions have stated their interest in expanding wheat production to the warmer and flatter lands of the Ecuadorian Coast. Pilot research projects including seed development and best agricultural practices are underway.

In December 2012, Ecuador's Foreign Trade Committee extended a zero-tariff preferential treatment for wheat through December 2014. Wheat imports, however, are still subject to the variable levy established by the Andean Price Band System (APBS). Wheat is a marker product under the APBS, formerly with a basic tariff of 10 percent plus an additional variable levy, depending on international reference prices. In July of 2001, the GOE phased-out wheat from the price band system as part of its WTO commitments. However, Ecuador and other Andean countries included wheat in the price band in August of 2003. They argued that they had an obligation to do so under Andean Community commitments. The Andean Community set floor and ceiling prices of wheat, which are currently \$283 and \$354 per MT.

In February 2013, the GOE announced that the Superintendent for Control of Market Power (Ecuador's antitrust agency) will start an investigation of the conditions under which wheat bread is produced and commercialized. This announcement was made, according to the GOE, in response to citizens' complaints about how wheat flour is traded and the apparent small number of providers existing in the country.

Ecuador has bilateral trade agreements with Peru and Chile, and regional trade agreements with the Latin American Association of Integration (ALADI). 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 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 agreed to 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%
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/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**

Corn Ecuador	2011/2012		2012/2013		2013/2014	
	Market Year Begin: May 2011		Market Year Begin: May 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	310	310	290	315		320
Beginning Stocks	70	70	48	99		60
Production	850	850	870	975		1,100
MY Imports	482	563	550	400		350
TY Imports	400	536	550	308		250
TY Imp. from U.S.	30	216	0	7		5
Total Supply	1,402	1,483	1,468	1,474		1,510
MY Exports	4	4	5	4		5
TY Exports	10	4	5	3		5
Feed and Residual	1,300	1,300	1,350	1,325		1,350
FSI Consumption	50	80	50	85		90
Total Consumption	1,350	1,380	1,400	1,410		1,440
Ending Stocks	48	99	63	60		65
Total Distribution	1,402	1,483	1,468	1,474		1,510

1000 HA, 1000 MT, MT/HA

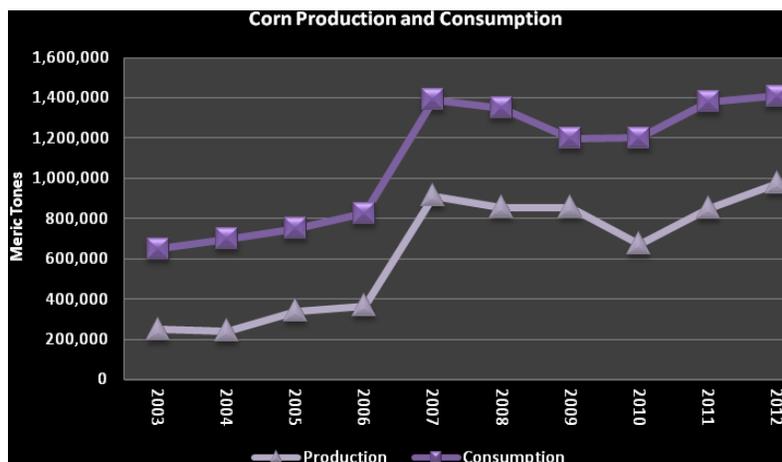
\* 2012, expressed as "MY 2012/13" is May 2012 to April 2013.

TY 2012, expressed as "TY 2011/12" is October 2011 to September 2011.

## Production

Since 1995, corn production has been very unstable with a record high of 913,000 MT in 2007 followed by fluctuations in production levels. For MY 2012, production is expected to be around 975,000 MT. High international prices have encouraged farmers to increase production. In addition, practices such as requiring purchase of local production before importing and guaranteeing prices at least equal to the corn CIF import cost are likely to continue to be enforced by the current GOE, further encouraging domestic production.

Post estimates that corn production will likely experience an increase through MY 2013/14. Yields will remain likely increase above 3 MT per hectare thanks to use of higher-yield seeds.



## Consumption

Corn consumption depends on local demand for animal feed and on the availability of lower-priced corn substitutes. The strong annual growth in poultry consumption has continued in the last three years: 2010, 467,000 MT; 2011, 490,000 MT; and 2012, 495,000 MT. Chicken meat consumption has increased by an average of about 5 percent a year. Growth was flat in 2012 and per capita consumption of chicken remains at 32 Kg (about 70.5 lb). The poultry industry, with a total population of 220 million birds in 2012, is expected to maintain the same size in 2012 (8 million egg laying chickens, 212 million broilers).

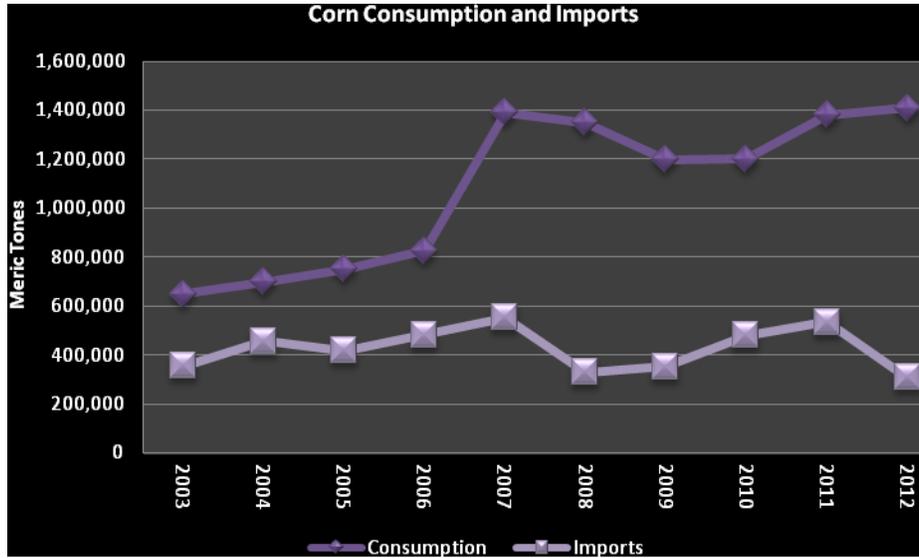
The poultry industry consumes 70 percent of feed corn every year. Total egg production was estimated at 2.274 billion in 2010, 2.15 billion in 2011, and 2.16 billion in 2012. Egg production has been decreasing in response to lower exports from Ecuador to Colombia, triggered by more competitive egg production in Colombia.

Ecuador's corn consumption increased by about 12.5 percent in MY 2011/12, and it is expected to increase by at least 5,000 MT in MY 2012/13. Overall, feed meal production has significantly grown in the past 15 years, from 576,000 MT in 1995 to 2.25 million MT in 2011 and 2.5 million MT in 2012. About 70 percent of feed is destined to poultry production, 10 percent to pork production, and 13 percent to the aquaculture industry. Annual pork production is estimated at 110,000 MT of meat.

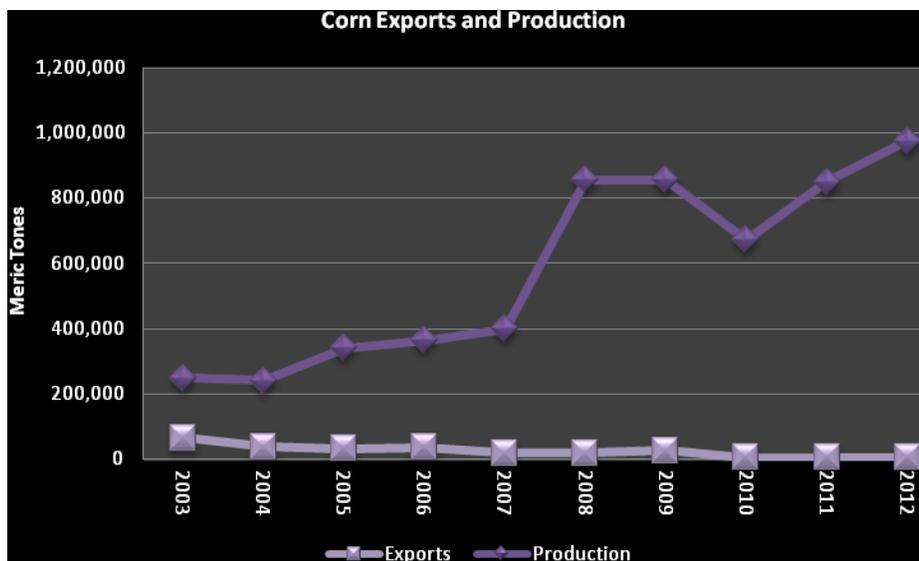
## **Trade**

In MY 2012/13, total corn imports are estimated at 400,000 MT, down from 563,000 MT during the previous year. Corn imports continued to outnumber corn exports and U.S. market share fell to about 2 percent from almost 40 percent in TY 2011/12. It is expected that in MY 2013/14 the U.S. market share will remain low due to quality and price concerns. Ecuador's feed industry has switched from preferring U.S. corn to Argentine corn in the last year. Total imports for MY 2013/14 are estimated to decrease to 350,000 MT due to significantly higher local production.

At 22 percent, imports still represent a significant percentage of Ecuador's total corn consumption. From 2001-2012, Ecuador imported, on average, more than 50 percent of its corn, a minimum of 150,000 MT and a maximum of 552,500 MT. However, increased local production will likely continue to replace imports of corn.



Ecuador exports corn to Colombia in order to satisfy that country’s demand of corn: yellow, white and other local varieties for human consumption and increasingly for animal consumption. Most exports are made by land, with farmers paid in cash. Exports usually take place during the peak of the winter harvest season (May-June). Ecuadorian corn is used in Colombia to make “arepas” due to Colombian consumer’s preferences for a particular type of corn native to the Andean region. Ecuador exported about 4,000 MT of corn to Colombia in MY 2011/2012. Exports of small amounts of corn to other markets are largely targeted to Ecuadorian migrants living in Spain, Italy and the United States.



**Policy**

Corn imports are assessed a 15 percent ad-valorem duty (over CIF), plus a variable levy applied under the APBS. The Andean Community set floor and ceiling prices of yellow corn are currently \$233 and \$284 per MT. The variable levy for corn currently remains at -15 percent, thus import duties for corn are temporarily zero. 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 GOE does not provide any formal subsidy or economic assistance program to promote yellow corn production. However, the Ministry of Agriculture aggressively encourages production by implementing mandatory purchases of all domestic production by corn importers and banning imports during the domestic corn harvest season. The GOE also sets a minimum price in accordance with feed producers and animal processing plants. Domestic producers are usually paid lower prices than international prices, in part due to pressure from industry groups and also due to lower production costs in Ecuador. These GOE's interventions seek to guarantee the complete purchase of local production at higher prices. In addition, Ecuadorian corn producers have effectively lobbied the GOE to stop imports of sorghum for many years despite efforts by the feed industry to import it. Ecuadorian producers claim that sorghum imports would significantly reduce demand of domestically-produced and imported corn.

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:

Country of Origin	First Liberalization	Full Liberalization
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

Rice, Milled Ecuador	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Apr 2011		Market Year Begin: Apr 2012		Market Year Begin: Apr 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	360	0	350	360		360
Beginning Stocks	134	134	58	37		117

<b>Milled Production</b>	624	625	650	775		790
<b>Rough Production</b>	990	992	1,032	1,230		1,254
<b>Milling Rate (.9999)</b>	6,300	6,300	6,300	6,300		6,300
<b>MY Imports</b>	35	0	70	44		0
<b>TY Imports</b>	35	0	20	45		0
<b>TY Imp. from U.S.</b>	0	0	0	0		0
<b>Total Supply</b>	793	759	778	856		907
<b>MY Exports</b>	45	27	20	14		75
<b>TY Exports</b>	30	63	15	14		100
<b>Consumption and Residual</b>	690	695	700	725		740
<b>Ending Stocks</b>	58	37	58	117		92
<b>Total Distribution</b>	793	759	778	856		907
1000 HA, 1000 MT, MT/HA						

\* MY 2012/13 is April 2012 to March 2013.

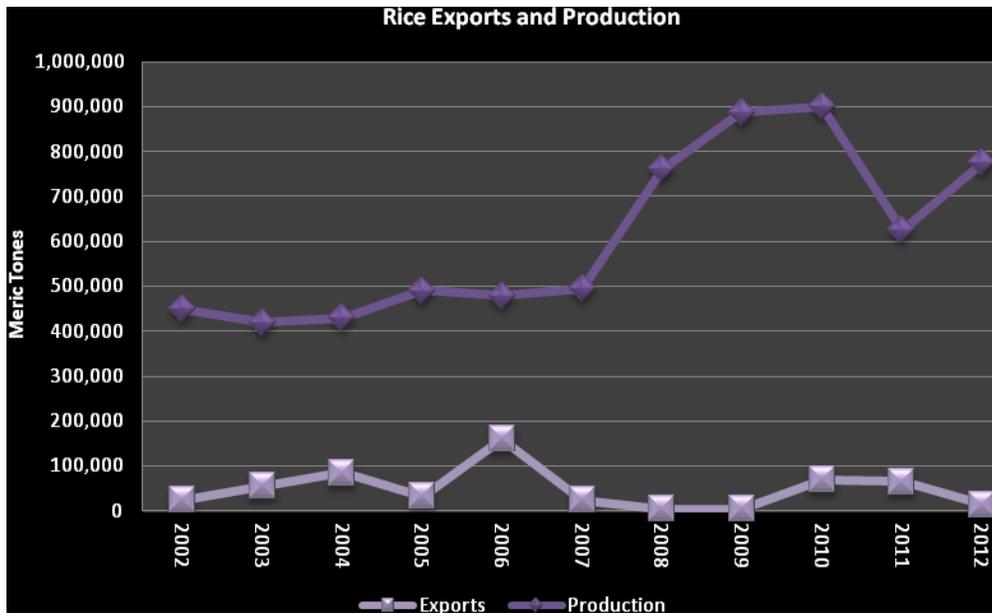
TY 2011/12 is January 2012 to December 2012

## Production

Milled rice production is expected to be 775,000 MT in MY 2012/13 and is forecast to increase to 790,000 MT in MY 2013/2014. Low prices in MY 2010/2011 discouraged farmers to plant rice but high prices during MY 2012/13 have had an effect on area planted. The high production forecasted depends on good weather conditions.

The availability of new rice varieties has kept rice production at high levels in recent years. The new varieties allow for 2.5 harvests per year in areas under irrigation, high international prices, government subsidized inputs, and sustained demand for Ecuadorian rice by the GOE. The planting season started normally this calendar year and Ecuador is expected to have a first harvest in late April.

Rice production takes place in the lowlands of the coastal region, on areas that flood during the rainy season (November through April) and remain humid during the summer (May-September). Therefore, lack of or excessive rainfall is 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 only a third of the available area is planted because irrigation is expensive and limited to large farms and specific areas. The majority (75 percent) of rice producers in Ecuador are poor, small farmers that own and plant less than 5 hectares with yields below 2.2 MT per hectare.



## Consumption

Rice is a staple food for Ecuadorians and the majority of Ecuador's production is consumed locally. Total consumption is expected to reach 725,000 MT in MY 2012/13, in response to increases in population. Ecuador's per capita consumption is about 5.0 per month. As with wheat and other sources of carbohydrates, consumption seems to be decreasing slightly among the Ecuadorian population due to dietary considerations.

Rice sales are traditionally marketed through wholesalers in one hundred pound sacks (45 kg) or through small stores by the pound. Prices vary depending on the marketing channel. For example, the official wholesale price of the 100-pound sack is \$36-38, while sales by the pound can make the price grow to \$50 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. Locally produced parboiled rice was available in supermarkets in 2009, reflecting a shift in consumer preference toward ready-to-eat food products. Ecuador is also experiencing an increase in the range of rice varieties available for purchasing. The rice varieties include basmati rice, wild rice, risotto, and sushi rice. Imported amounts are still very limited.

## Trade

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

However, there remains a small niche market for specialty rice varieties such as basmati, sushi-type rice, risotto, wild rice, and parboiled rice.

Ecuador has typically exported rice surpluses to neighboring Colombia. Milled rice exports to Colombia experienced an increase in MY 2012/2013 at about 14,000 MT. Due to high domestic prices Ecuador did not export rice to Venezuela.

## Policy

Rice imports are a very sensitive issue in Ecuador. The GOE is pushing a self-sufficiency program for rice by continuing to implement the APBS and by controlling imports and exports. APBS set floor and ceiling prices of rice are currently \$505 and \$651 per MT. Imports of rice can be levied up to a 68 percent ad-valorem tariff. The GOE through the Ministry of Agriculture, Livestock, Aquaculture and Fisheries is the only authorized issuer of export permits. It also acts as authorized exporter of existing reserves.

The GOE's position from a food security perspective is to have a permanent emergency stock of 80,000 MT. Post has been informed that there will likely be a surplus production in MY 2013/14 and that exports of at least 100,000 MT will need to occur.

Ecuador's new Food Sovereignty Law has been approved by Ecuador's Congress. The Law prohibits any exports of food products unless there are surpluses. In addition, the Ministry of Agriculture's Consultative Committee on rice which consists of producers, millers and government officials, decides on the timing and quantity of rice imports. Members of the Andean Community are assessed zero tariffs and are not assessed the Andean Price Band. However, a ministerial decree is necessary before an import can be authorized. Other Latin American countries have been granted ad-valorem tariff preferences under Latin American Integration Association, but they still are assessed the Andean Price Band, as follows:

HTS	Description	U.S. & World	CAN	Peru	Chile	ALADI *				
						Paraguay	Uruguay	Argentina	Brasil	Mexico
10061090	Rice, Paddy	20%	Zero	Zero	15%	15%	7.5%	15%	15%	15%
10062000	Rice, Brown	68%	Zero	Zero	20%	20%	10%	20%	20%	20%
10063000	Rice, Milled	68%	Zero	Zero	20%	12%	10%	20%	20%	20%
10064000	Rice, Broken	25%	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 has also negotiated a bilateral trade agreement with Ecuador.