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Ecuador

Grain and Feed Annual

Ecuador Promotes Corn and Rice Self-Sufficiency

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Report Highlights:

Ecuador's wheat production in marketing year (MY) 2015/16 (July-June) is forecast to reach 5,000 metric tons (MT), down about 1,000 MT from the MY 2014/15 estimate. Ecuador is an insignificant producer of wheat, dependent almost entirely on foreign imports. Ecuador's wheat imports in MY 2015/16 are forecast at 800,000 MT, up 50,000 MT or seven percent compared to the MY 2014/15 estimate of 750,000 metric tons. Corn production in MY 2015/16 is forecast at 1.27 million metric tons (MMT), up from the MY 2014/15 estimate of 1.22 million metric tons. We attribute the upward trend in production to the government requirement that animal feed manufacturers buy up local production, despite domestic prices being higher than international prices. Milled rice production in MY 2015/16 is forecast at 870,000 MT, up 98,000 MT or 13 percent compared to the MY 2014/15 estimate of 772,000 metric tons.

Executive Summary:

FAS Quito forecasts Ecuador's wheat production in marketing year (MY) 2015/16 (July-June) to reach 5,000 metric tons (MT), down about 1,000 MT from our MY 2014/15 estimate. Ecuador is an insignificant producer of wheat, dependent almost entirely on foreign imports. We forecast Ecuador's wheat imports in MY 2015/16 at 800,000 MT, up 50,000 MT or seven percent compared to the MY 2014/15 estimate of 750,000 metric tons. We attribute the increase to lower international wheat prices and an upswing in consumption by the local animal feed industry.

FAS Quito forecasts Ecuador's corn production in MY 2015/16 at 1.27 million metric tons (MMT), up from the MY 2014/15 estimate of 1.22 million metric tons. We attribute the upward trend in production to the government requirement that local animal feed manufacturers buy up production, despite domestic prices being higher than international prices. Also production is up thanks to programs promoting national corn self-sufficiency. We forecast Ecuador's corn imports in MY 2015/16 at 75,000 MT, up some 32,000 MT compared to the MY 2014/15 estimate of 43,000 metric tons.

FAS Quito forecasts Ecuador's milled rice production in MY 2015/16 at 870,000 MT, up 98,000 MT or 13 percent compared to the MY 2014/15 estimate of 772,000 metric tons. We attribute increased production to the availability of new, improved rice varieties. This year's first harvest is expected in May. The utilization of new, improved rice varieties allows for two harvests per year in fields under irrigation. We foresee producers benefitting from the combination of high international prices, government subsidized inputs, and strong demand. Ecuador is self-sufficient in rice production; imports are minimal barring their need due to weather induced bad harvests. FAS Quito forecasts minimal to no rice imports in MY 2015/16. A niche opportunity however does exist for U.S. exports of specialty rice varieties such as basmati, sushi-style rice (i.e., white, short-grain rice), risotto, wild rice, and parboiled rice.

Commodity – Wheat Production:

FAS Quito forecasts Ecuador's wheat production in marketing year (MY) 2015/16 (July-June) to reach 5,000 metric tons (MT), down about 1,000 MT from the MY 2014/15 estimate of 6,000 metric tons. Ecuador is an insignificant producer of wheat and is dependent on foreign imports.

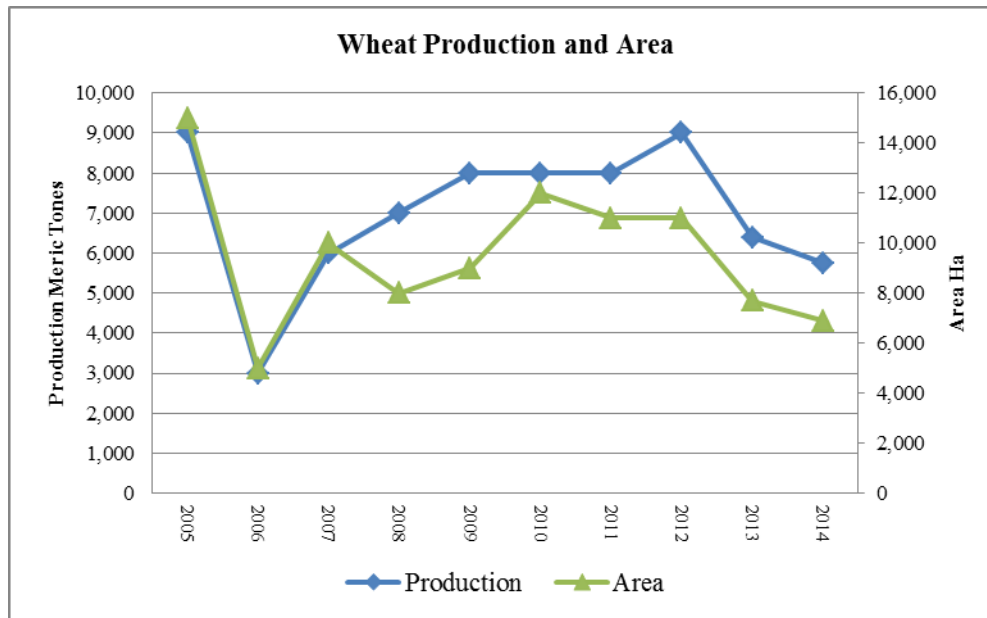
| Wheat Market Begin Year Ecuador | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---------------------------------------|---------------|----------|---------------|----------|---------------|----------|
| | Jul 2013 | | Jul 2014 | | Jul 2015 | |
| | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| Area Harvested | 8 | 8 | 8 | 7 | 0 | 6 |
| Beginning Stocks | 87 | 0 | 101 | 101 | 0 | 144 |
| Production | 6 | 6 | 6 | 6 | 0 | 5 |
| MY Imports | 616 | 616 | 640 | 750 | 0 | 800 |
| TY Imports | 616 | 616 | 640 | 750 | 0 | 800 |
| TY Imp. from U.S. | 185 | 185 | 0 | 300 | 0 | 350 |
| Total Supply | 709 | 622 | 747 | 857 | 0 | 949 |
| MY Exports | 3 | 3 | 0 | 3 | 0 | 4 |
| TY Exports | 3 | 0 | 0 | 3 | 0 | 4 |
| Feed and Residual | 105 | 105 | 105 | 135 | 0 | 160 |
| FSI Consumption | 500 | 500 | 515 | 575 | 0 | 640 |
| Total Consumption | 605 | 605 | 620 | 710 | 0 | 800 |
| Ending Stocks | 101 | 101 | 127 | 144 | 0 | 145 |
| Total Distribution | 709 | 709 | 747 | 857 | 0 | 949 |
| | | | | | | |
| 1000 HA, 1000 MT, MT/HA | | | | | | |

At FAS Quito, we find that Ecuador's domestic wheat production has declined steeply since the 1970s. Throughout the 1990's, the country still managed to produce some 30,000 MT of wheat per year on some 37,000 hectares. Production has fallen since then due to a scarcity of suitable land for cultivation and soil quality problems and reduced yields.

The government's subsidization of wheat imports during the 1970s' inflationary oil boom years also resulted in the sharp drop off in the consumption of domestic wheat (more expensive) in favor of more affordable imports. While the government indicates that today some 6,000 hectares remain in wheat production, we feel that this number should be closer to the 5,000 hectare range. FAS Quito forecasts Ecuador wheat yields in MY 2015/16 at 0.8 MT/hectare, dropping from previous years' estimates of around 1.2 MT/hectare.

Government incentives in place since 2008 aimed at increasing cultivation, namely through the provision of subsidized fertilizers, government-backed loans, and improved seed varieties, have not yielded expected results. Central and northern highland farmers have opted instead to switch to more profitable crops such as quinoa.

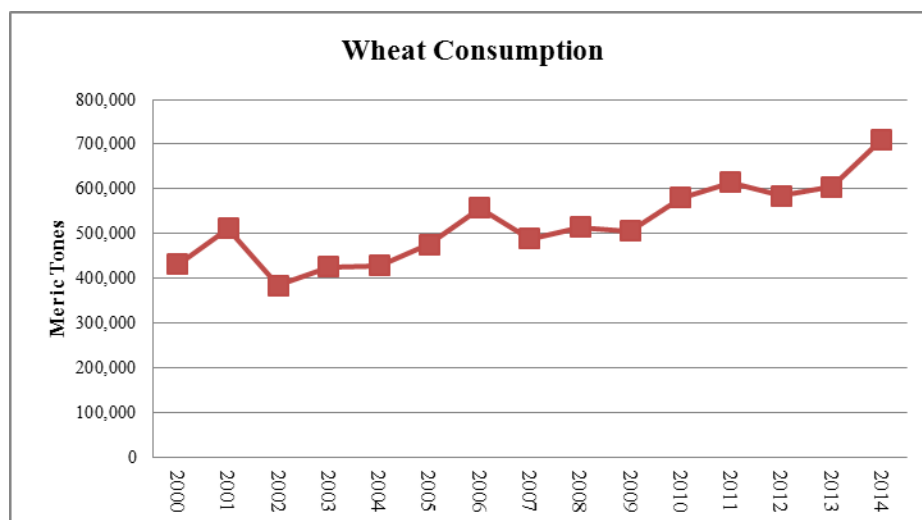
FAS Quito estimates that of the 6,000 MT of domestically produced wheat in MY 2014/15 only 2,000 MT makes its way to millers. Production is largely consumed in small towns near production areas. Millers question the sustainability of government efforts to increase production given the market's size and bakers' preferences for high-quality flour. Prior to 2010 the government required millers to absorb all domestic production before issuing import permits.



Consumption:

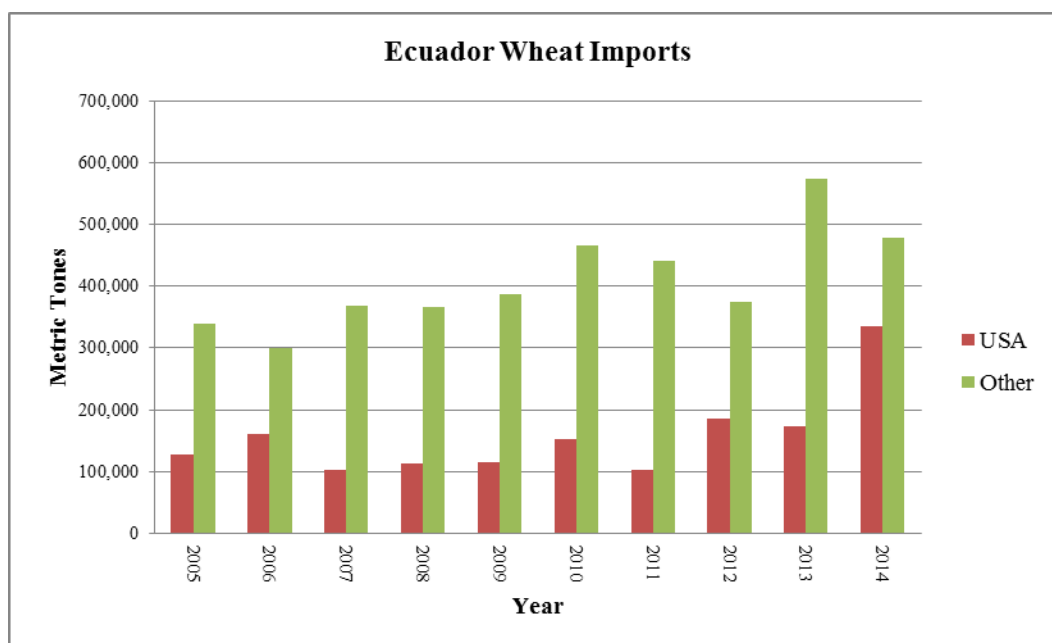
FAS Quito forecasts Ecuador's wheat consumption in MY 2015/16 at 800,000 MT, increasing 90,000 MT or 13 percent compared to the MY 2014/15 estimate of 710,000 metric tons. We attribute increased consumption in MY 2015/16 to lower international wheat prices combined with increased demand for animal feed wheat. The common bread roll price is \$0.12 since 2011.

FAS Quito estimates Ecuador wheat consumption in MY 2014/15 at 37 kilograms/annum (premised on a population of ~15.6 million – Central Intelligence Agency, July 2014 estimate). We estimate FSI consumption at 577,000 metric tons. Ecuador's MY 2015/16 feed wheat use is forecast at 160,000 MT, of which 130,000 MT will be absorbed by shrimp farmers seeking to boost production to meet growing global shrimp demand. Ecuador as one of the world's largest shrimp producers (exports of \$2.6 billion in CY 2014), has benefitted from the 2012/13 outbreak of early mortality syndrome (EMS – *necrotizing hepatopancreatitis*) in Southeast Asia.



Trade:

FAS Quito forecasts Ecuador's wheat imports in MY 2015/16 at 800,000 MT, up 50,000 MT or seven percent compared to the MY 2014/15 estimate of 750,000 metric tons. We attribute the increase to lower international wheat prices and an upswing in consumption by the animal feed industry.



Ecuador utilizes imported wheat mainly in bread and pasta manufacturing. At FAS Quito, we understand that imports of hard wheat are greater than those of soft wheat. In calendar year (CY) 2014, the ratio of hard to soft wheat imports is 1.55 to one. Import market share of U.S.-origin wheat in CY 2014 at 41 percent are up 11 percent compared to the previous year. U.S. import market share is benefitting from increased demand by Ecuador's animal feed industry, as well as from the adoption of new technologies that allow a better utilization of U.S. wheat in different flour blends. Canada however remains Ecuador's main supplier of wheat.

Policy:

Ecuador's attempts to substitute wheat imports with increased local production have yet to yield results. Despite the recent introduction of three higher yielding varieties, the first since the 1990s, new plantings have yet to occur.

COMEX Resolution 004-2015 (February 3, 2015) extends prior COMEX Resolution 099-2012 (which expired on December 31, 2014) through December 31, 2016. Like the preceding resolution, COMEX 004-2015 exempts all imported wheat, as well as wheat flour and wheat semolina from a 10 percent *ad valorem* duty. Shipments received during the January 1 to February 3, 2015 interim were levied the *ad valorem* duty plus the Andean Price Band System (APBS) variable levy (currently assessed at four percent). The current resolution does not eliminate the APBS variable levy. Reportedly importers are lobbying the Minister of Industries, who controls one of the five votes in the COMEX Plenary, to rectify the resolution to also include language eliminating the APBS variable levy. The Andean Community

(Bolivia, Colombia, Ecuador, and Peru) set floor (threshold) and ceiling prices for wheat, currently \$300/MT and \$350/metric ton. Ecuador imported \$91.5 million of U.S. wheat in CY 2014.

Ecuador maintains bilateral trade agreements with Peru and Chile, and regional trade agreements with the Latin American Integration Association (ALADI). In 2004, Ecuador reached a tariff liberalization agreement with the Southern Common Market (MERCOSUR); implementing the agreement in April 2005. Wheat benefits from special treatment within MERCOSUR. Tariff preferences are granted on the total duty, which is comprised of the *ad valorem* (basic) duty plus the APBS's variable levy. In 2014, Ecuador concluded trade liberalization agreement negotiations with the European Union (EU). It remains to be seen if Ecuador will terminate the application of the APBS to EU-origin wheat imports.

Commodity – Corn

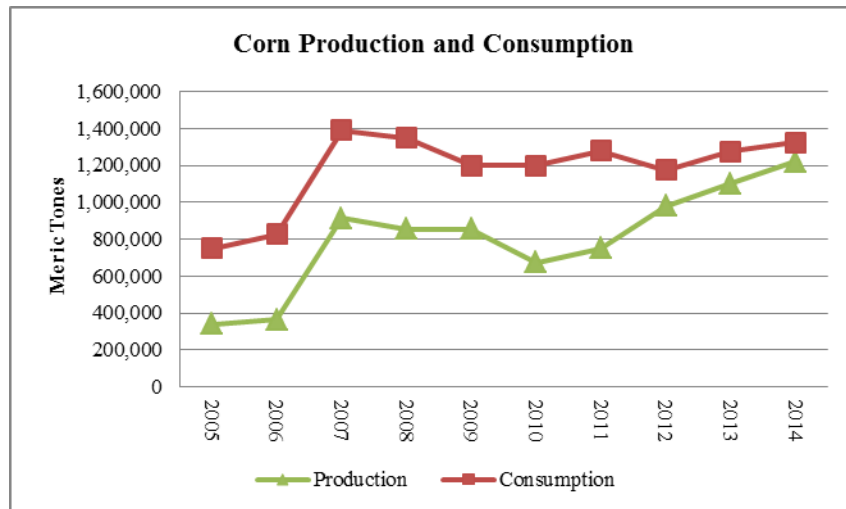
Production:

FAS Quito forecasts Ecuador's corn production in MY 2015/16 at 1.27 million metric tons (MMT), up from the MY 2014/15 estimate of 1.22 million metric tons. We attribute the upward trend in production to the government requirement that local animal feed manufacturers buy up production, despite domestic prices being higher than international prices. Also production is up thanks to programs promoting national corn self-sufficiency.

The government requires that the price paid for local corn (US\$15.90/100 pound sack) match or exceeds the cost-insurance-freight (CIF) cost of imported corn. Sources comment that the requirement will remain in place for the foreseeable future in order to stimulate domestic production. Previously domestic corn production fluctuated widely.

| Corn Market Begin Year Ecuador | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|--------------------------------------|---------------|----------|---------------|----------|---------------|----------|
| | May 2013 | | May 2014 | | May 2015 | |
| | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| Area Harvested | 320 | 320 | 330 | 340 | 0 | 340 |
| Beginning Stocks | 61 | 0 | 81 | 81 | 0 | 18 |
| Production | 1,100 | 1,100 | 1,055 | 1,220 | 0 | 1,270 |
| MY Imports | 200 | 200 | 300 | 43 | 0 | 75 |
| TY Imports | 200 | 200 | 300 | 43 | 0 | 75 |
| TY Imp. from U.S. | 0 | 200 | 0 | 0 | 0 | 0 |
| Total Supply | 1,361 | 1,300 | 1,436 | 1,344 | 0 | 1,363 |
| MY Exports | 5 | 5 | 5 | 1 | 0 | 2 |
| TY Exports | 5 | 5 | 5 | 1 | 0 | 2 |
| Feed and Residual | 1,200 | 1,200 | 1,250 | 1,250 | 0 | 1,265 |
| FSI Consumption | 75 | 75 | 100 | 75 | 0 | 75 |
| Total Consumption | 1,275 | 1,275 | 1,350 | 1,325 | 0 | 1,340 |
| Ending Stocks | 81 | 81 | 81 | 18 | 0 | 21 |
| Total Distribution | 1,361 | 1,361 | 1,436 | 1,344 | 0 | 1,363 |
| | | | | | | |
| 1000 HA, 1000 MT, MT/HA | | | | | | |

FAS Quito estimates yields of 3.6-3.7 MT/hectare in MY 2014/15; we forecast similar yields for MY 2015/16. Corn yields are improving through the expanded use of higher-yield seeds.



Consumption:

FAS Quito forecasts Ecuador's corn consumption at 1.34 MMT in MY 2015/16, up 15,000 MT or almost one percent from the MY 2014/15 estimate of 1.32 million metric tons. We estimate MY 2014/15 corn consumption up 3.9 percent compared to the previous marketing year. We attribute overall weak consumption growth in MY 2015/16 due to heavily oil-export dependent Ecuador struggling with lower international petroleum prices.

Local feed meal production, which incorporates corn as one of its main ingredients, will continue nonetheless to utilize corn. FAS Quito estimates that 65 percent of local feed production is utilized by the national poultry industry; 20 percent in turn is absorbed by the aquaculture sector (mainly shrimp farmers) and 12 percent taken up by pork producers.

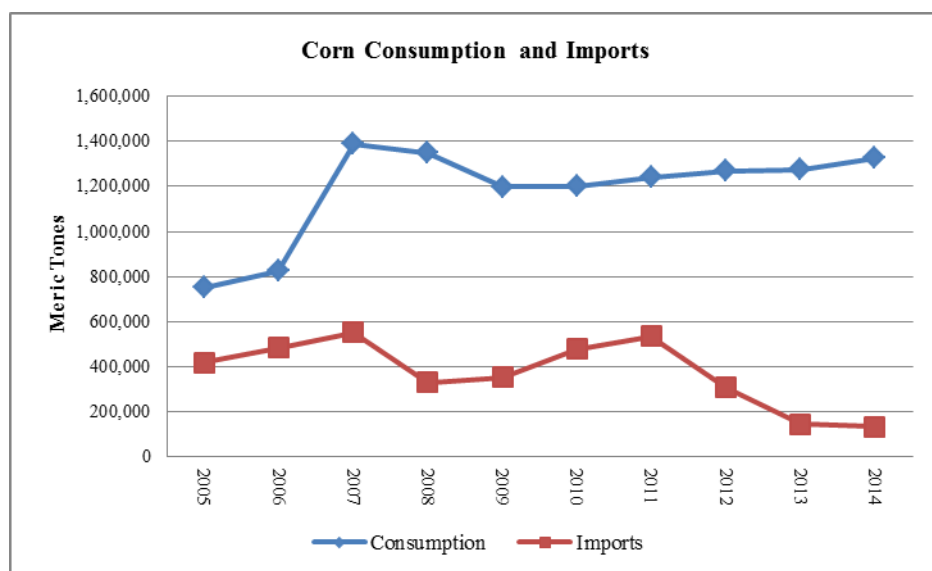
Ecuador's corn consumption is dependent on the demands of the animal feed sector, along with the availability of lower-priced corn substitutes. The poultry sector alone is expected to grow three percent between 2014 and 2015. Per capita consumption of poultry meat is estimated at 35 kilograms/annum. The poultry flock in 2014 is estimated at 250 million birds, broken down into eight million egg layers and 242 million broilers

Trade:

FAS Quito forecasts Ecuador's corn imports in MY 2015/16 at 75,000 MT, up some 32,000 MT compared to the MY 2014/15's most recent estimate of 43,000 metric tons.

Despite continued strong demand for corn, imports are set to trend downward over time. The Rafael Correa administration is reportedly determined to slow (and eventually eliminate) imports through the substitution of increased domestically produced corns. In the past imports filled about half of Ecuador's corn needs.

Ecuador is a minor exporter of corn, primarily shipping to neighboring Colombia white and yellow corn for human consumption. With farmers receiving higher than normal prices on the domestic market, there is little incentive for them to shift production to exports.



Policy:

Corn imports are assessed a 15 percent *ad valorem duty* (based on the CIF value), plus the APBS variable levy. The Andean Community set floor and ceiling prices for yellow corn are currently at \$269/MT and \$328/MT. The variable levy for corn remains at 30 percent; foreign corn faces as a result import duties of 45 percent. Upon accession to the World Trade Organization (WTO), Ecuador bound its tariffs (including the additional APBS levy) for corn at 45 percent. Ecuador also maintains a worldwide corn tariff-rate quota (TRQ) of 19,600 MT at 25 percent tariff rate. This TRQ normally fills whenever international corn prices drop, and the APBS increases duties beyond 25 percent (i.e., 15 percent *ad valorem* plus a variable levy of over 10 percent).

The government subsidizes small farmer corn production. The National Seeds Project for Strategic Agricultural Groups, in cooperation with 17 companies, by 2015 already covers 150,000 hectares. Through this program, the government seeks to reach yields of 6 MT/hectare.

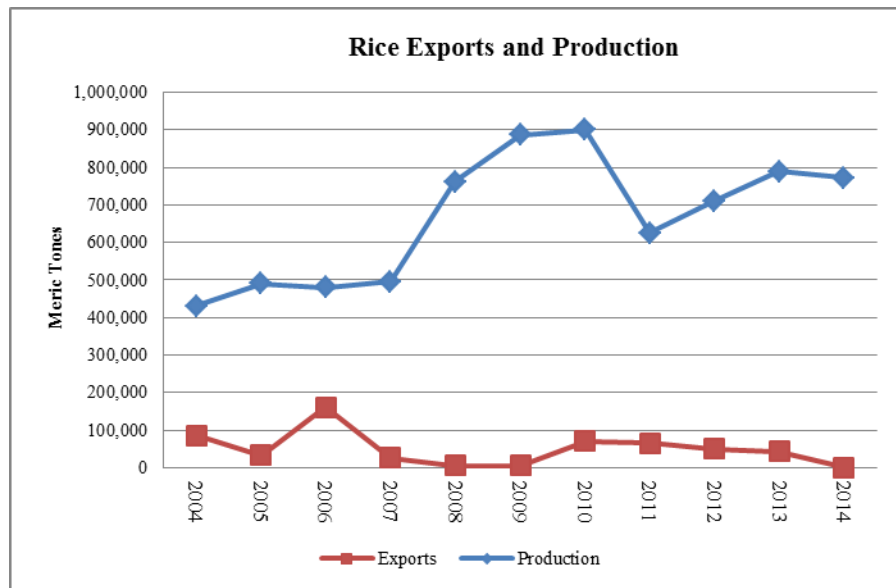
The National Seed Project for Strategic Agricultural Groups covers yellow corn production in the provinces of Los Ríos, Guayas, Manabí, Loja, Orellana, Sucumbíos, Napo, Esmeraldas, and Imbabura. Farmers planting 10 hectares or more are subsidized 40 percent of the technical package costs (seeds, crop protection products, fertilizers, and technical assistance), an amount equivalent to \$214 per hectare. The program has resulted in yields increasing to 5 MT/hectare.

Commodity – Rice Production:

FAS Quito forecasts Ecuador's milled rice production in MY 2015/16 at 870,000 MT, up 98,000 MT or 13 percent compared to the MY 2014/15 estimate of 772,000 metric tons. We attribute increased production to the availability of new, improved rice varieties. This year's first harvest is expected in May. The utilization of new, improved rice varieties allows for two harvests per year in fields under irrigation. We foresee producers benefitting from the combination of high international prices, government subsidized inputs, and strong demand.

| Rice, Milled Market Begin Year Ecuador | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|--|---------------|----------|---------------|----------|---------------|----------|
| | Apr 2013 | | Apr 2014 | | Apr 2015 | |
| | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| Area Harvested | 360 | 360 | 364 | 364 | 0 | 380 |
| Beginning Stocks | 68 | 0 | 73 | 73 | 0 | 70 |
| Milled Production | 790 | 790 | 800 | 772 | 0 | 870 |
| Rough Production | 1,254 | 1,254 | 1,270 | 1,225 | 0 | 1,381 |
| Milling Rate (.9999) | 6,300 | 6,300 | 6,300 | 6,300 | 0 | 6,300 |
| MY Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TY Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 858 | 790 | 873 | 845 | 0 | 940 |
| MY Exports | 75 | 75 | 50 | 0 | 0 | 75 |
| TY Exports | 50 | 50 | 50 | 0 | 0 | 75 |
| Consumption and Residual | 710 | 710 | 730 | 775 | 0 | 800 |
| Ending Stocks | 73 | 73 | 93 | 70 | 0 | 65 |
| Total Distribution | 858 | 858 | 873 | 845 | 0 | 940 |
| | | | | | | |

1000 HA, 1000 MT, MT/HA



Rice production is concentrated in the coastal lowlands. This area floods during the November-April rainy season, but remains humid throughout the rest of the year. Production varies with rainfall, with the second (larger) harvest occurring towards the end of the rainy season (i.e., May-June). Only a third of the acreage is planted during the summer months, and limited only by access to irrigation. While large-scale farmers can afford expensive irrigation and equipment, 75 percent of Ecuador's poorer rice farmers (five hectares or less) cannot afford these costs.

Consumption:

Rice is a staple in Ecuador; the bulk of local production is consumed domestically. FAS Quito forecasts total consumption at 800,000 MT in MY 2015/16, up 25,000 MT or three percent from the MY 2014/15 estimate of 775,000 metric tons. We attribute the increase to natural population growth; per capita consumption is estimated at 54 kilograms/annum.

Domestic rice is marketed through wholesalers in 45-kilogram sacks, with small vendors selling to consumers by the kilogram. Ecuador's SINAGAP (the agricultural price monitoring agency) reports farm gate rice prices of \$34.51 per 90-kilogram sack. The 45-kilogram wholesale rice sack in 2014 went from \$43.18 in January to \$44.75 by December. At the retail level consumers paid on average \$1.06/kilogram, up about one percent from 2013's average price of \$1.05/kilogram. With the expansion of the modern supermarket sector, sales of 2-5 kilogram branded rice sacks are increasingly popular, and account now for 15-20 percent of rice sales.

Trade:

Ecuador is self-sufficient in rice production. Imports are minimal unless weather induced bad harvests require larger imports. FAS Quito forecasts minimal to no rice imports in MY 2015/16. A niche opportunity however does exist for U.S. exports of specialty rice varieties such as basmati, sushi-style rice (i.e., white, short-grain rice), risotto, wild rice, and parboiled rice.

Ecuador exports rice to Colombia, and at times to Peru depending on the exchange rate. Ecuador refrained from exporting rice in MY 2014/15 due to low strategic reserves. FAS Quito forecasts that Ecuador will export between 50,000 and 75,000 MT of rice in MY 2015/16 to Colombia.

Policy:

Rice imports are politically sensitive. The government is reportedly promoting rice self-sufficiency by maintaining the APBS, as well as controlling exports and imports. The APBS sets a floor price of \$574/MT and a ceiling of \$627/metric ton. Rice imports are levied an *ad valorem* tariff of 20 percent plus an additional variably levy of 48 percent. The Ministry of Agriculture issues export and import permits; it acts as the authorized exporter of reserves. The government has established an emergency stock of 80,000 MT of rice to ensure national food security.

Andean Community members are assessed a zero-tariff, as well as are not subject to the Andean Price Band System. A ministerial decree is nonetheless necessary before an import permit is authorized. Other Latin American countries have been granted *ad valorem* tariff preferences under the ALADI, but they are still assessed the APBS variable levy.

| HTS | Description | United States and World | CAN | Peru | Chile | ALADI | | | | |
|-----------|--------------|-------------------------|------|------|-------|----------|---------|-----------|--------|--------|
| | | | | | | Paraguay | Uruguay | Argentina | Brasil | Mexico |
| 1006.1090 | Rice, Paddy | 20% | Zero | Zero | 15% | 15% | 7.5% | 15% | 15% | 15% |
| 1006.2000 | Rice, Brown | 68% | Zero | Zero | 20% | 20% | 10% | 20% | 20% | 20% |
| 1006.3000 | Rice, Milled | 68% | Zero | Zero | 20% | 12% | 10% | 20% | 20% | 20% |
| 1006.4000 | Rice, Broken | 25% | Zero | Zero | 20% | 20% | 10% | 20% | 20% | 20% |

Note: Although Peru is part of the Andean Community, it has signed a bilateral agreement with Ecuador that includes preferences on rice. Similarly, Chile has also negotiated a bilateral trade agreement with Ecuador.

Source: FAS OAA Quito office research.