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Grain and Feed Update

The United States Remains Colombia's Top Choice for Corn and Rice

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Report Highlights:
The United States continues to be the main sourcing option for Colombian importers of corn and rice. U.S. corn continued to dominate the Colombian market supplying most imports due to trade preferences in the U.S.-Colombia Trade Promotion Agreement (CTPA). Corn production will remain flat at 1.6 million metric tons (MT) in marketing year (MY) 2018/19, while imports will surge to 5.2 million MT. In MY 2018/19, rice imports will increase to 150,000 MT and Post expects rough rice production to decrease to 2.4 million MT given low grower prices. In MY 2018/19, wheat production is forecast to 9,000 MT with imports reaching 1.9 million MT.

Commodities:

Corn

Production:

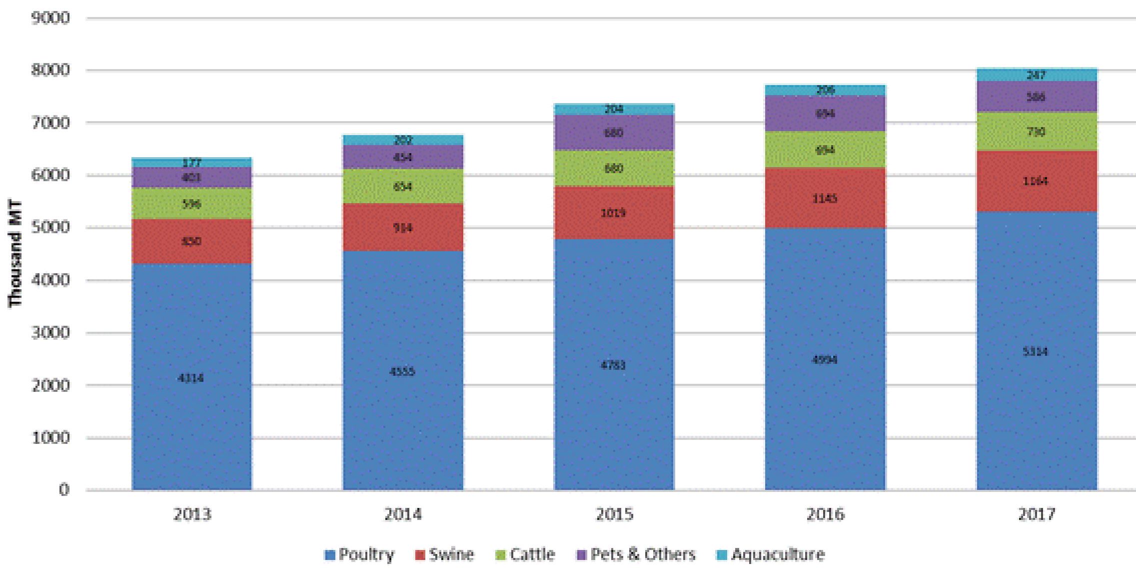
Post estimates Colombia corn production to reach 1.6 million MT in MY 2017/18, a decrease of 5.8 percent from the previous marketing year. This reduction is a result of decreasing planting given low grower prices. Domestic corn prices are highly affected by international prices and exchange rates given that imports supply approximately 80 percent of the market. Corn production is forecast to remain stagnant at 1.6 million MT in MY 2018/19. No changes in production are reported from the Grain and Feed Annual Report 2018.

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, or about half the yield of a comparable U.S. corn farm, while small scale farms produce an average of two tons per hectare. According to the Colombian Grains Association (FENALCE), during the first part of 2018, industrial corn farming reached approximately 55 percent of the total corn area. Colombia produces white corn for human consumption and yellow corn for feed industry and human consumption as well. From the total corn area harvested, yellow corn represents about 60 percent and white corn 40 percent.

Consumption:

Corn consumption is estimated to reach 6.7 million MT in MY 2017/18, increasing further to 6.9 million MT in MY 2018/19. Colombia corn consumption has been increasing in the past years motivated by a growing demand from the animal feed industry. Ninety-five percent of corn imports are destined for animal feed with the remaining five percent for human consumption. About 10 percent of local corn production is for animal feed while 90 percent is for the food processing sector.

The trends in feed demand determine grain feed imports and production in Colombia. The largest consumer in the animal feed industry is the poultry sector accounting for 66 percent of total feed imports. Livestock and swine sectors consume about 24 percent, and the remaining 10 percent is destined to aquaculture and household pets. The graph below illustrates feed consumption (includes grains and oilseeds) by sectors in Colombia, showing growth trends over the past few years.



Graph 1: Colombian feed consumption.

Source: Colombian National Industry Association (ANDI).

Meat demand will continue to rise as sustained economic growth and the increase in the household income boost animal protein consumption. For instance, pork and poultry consumption has dramatically increased during the last years. Per capita pork consumption has increased by 53 percent (from 6.0 Kg in 2012 to 9.2 Kg in 2017) and by 37 percent in the case of chicken meat (from 23.9 Kg in 2012 to 32.8 Kg in 2017). Feed demand will continue to grow, primarily in the poultry sector, as Colombia's economy remains strong and dietary shifts adjust to populations moving out of poverty into the low and middle-income classes.

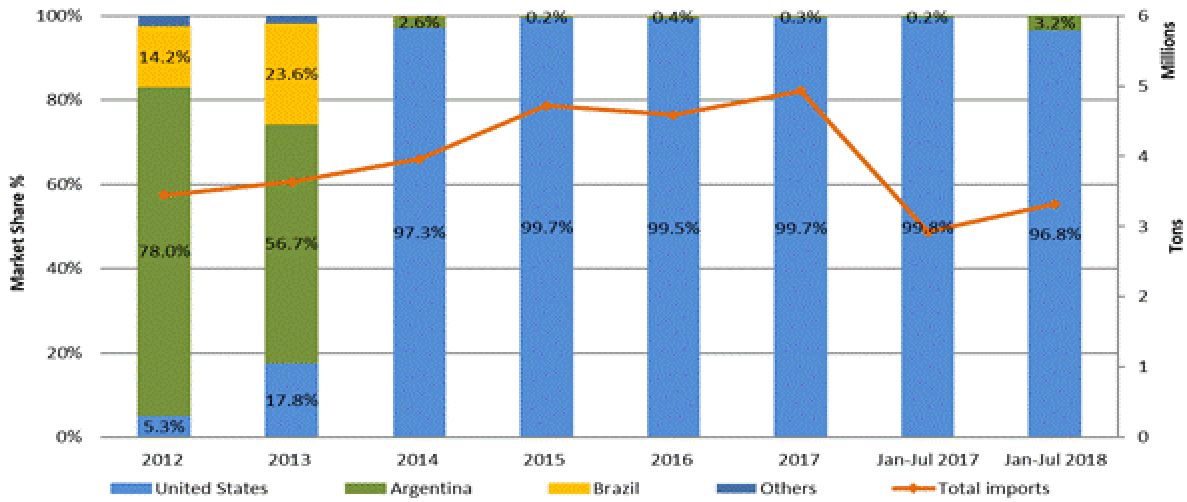
Trade:

Post estimates corn imports to reach 5.0 million MT in MY 2017/2018, increasing further in MY 2018/19 to 5.2 million MT. U.S. corn keeps being the main sourcing option for Colombian importers, as it remains price competitive due to trade preferences of the CTPA and cheaper transportation costs compared to main competitors in South America.

Since the implementation of the CTPA in 2012, U.S. market share has increased to account for 99.7 percent of the Colombian-corn import market. However, in April 2018, Argentine corn became attractive for some importers due to the Andean Community of Nations (CAN) price band system (APBS) that gave preferential duty treatments to Mercosur countries. The CTPA excludes the application of the price band mechanism to U.S. imports and instead applies a TRQ mechanism with out-of-quota duties.

The United States is the main agricultural trading partner for Colombia, and corn represents about 35 percent of the total value of agricultural imports from the United States. The chart below illustrates the changes in market share over the past years. In addition, it shows the comparison between the periods January to July from 2017 vs. 2018:

Graph 2. Corn imports by country of origin.



Source: Global Trade Atlas.

According to trade records, only two Colombian importers have bought Argentine corn in 2018 because of the lower duties under the APBS. The importers made the purchases in May when the duty was around three percent; but at the time of arrival in July, the duty was 21 percent. However, the importers were able to anticipate the cargos and the actual duty paid was five percent. The quantity imported was 107,000 MT, accounting for 3.2 percent of total corn imports. Despite this situation, U.S. corn imports have increased by 10.2 percent during the first seven months of 2018 compared to the same time-period a year before.

Per conversations with importers, U.S. corn is still more competitive than Argentine corn because transportation costs from the United States are cheaper given the geographical proximity. In addition, the duty under the APBS changes every 15 days depending on the CIF reference price established by CAN, which creates uncertainty of the actual duty to pay during the importation process. This uncertainty is an obstacle for some importers that prefer to know the exact import duty they will pay, as is the case of U.S. out-of-quota corn.

Stocks:
The Colombian government does not maintain a policy for holding grain stocks. Post estimates ending stocks at 753,000 MT in MY 2017/18, down from the previous year given lower local production. Post forecasts endings stocks will slightly decline in MY 2018/19 to 673,000 MT, about a month of inventory supply to manage operations.

Policy:
Colombian government has targeted corn in several programs intended to increase local production and substitute imports. However, no program has successfully achieved this goal, as imports are highly competitive and domestic producers face high production costs. The new government, that took office in August 7, 2018, allocated, through the Ministry of Agriculture and Rural Development (MARD), 2,500 million Colombian pesos ($850,000 USD) to support farmers accessing price protection tools such as crop price coverages.

In 2018, FENALCE launched a new private initiative in cooperation with the International Maize and Wheat Improvement Center (CIMMYT) and the International Center for Tropical Agriculture (CIAT). This initiative aims to increase corn productivity by 2030, using new technologies, better sustainable practices and improved seeds. The goals are to integrate large industries and small producers, satisfy national demand and help reduce imports.

As a member of the CAN, Colombia applies the Andean Price Band System (APBS) that serves as a price stabilization tool for a special group of agricultural products considered sensitive in the CAN economies; this includes corn. Such price stabilization takes place when the international reference price falls below a set floor price, and the APBD increases the base tariff. APBD reduces the base tariff when the reference price exceeds the set ceiling price. The value in which the tariff is increased or reduced is called the "variable levy". The APBD adjusts floor and ceiling prices annually, according to a mathematical calculation, and in accordance with information sources and reference markets established in CAN Decision 371. The Reference Price is the bi-weekly average of daily, weekly or monthly quotations observed in the referential markets (FOB Gulf based on the Chicago Board of Trade first position for corn). Such reference price must be expressed in terms of CIF. The table below illustrates the current annual floor and ceiling prices for corn:

Table 1. CAN Floor and ceiling prices for corn

April 2018 to March 2019 *USD per ton*		
	Floor Price CIF	Ceiling Price CIF
Yellow corn	$223	$278
White corn	$232	$293

Source: Resolutions 1891/2016 & 1969/2017. CAN.

Given the bi-weekly CIF reference prices of corn, the effective duties under the APBS for each period have been:

Table 2. Actual duties for corn under the CTPA and the APBS

2018	**Yellow corn (10059011)**		**White corn (10059012)**	
	U.S. out-of quota	**Mercosur APBS**	**U.S. out-of quota**	**Mercosur APBS**
Apr 1-15	10.4%	8.0%	8.3%	0.0%
Apr 16-30	10.4%	11.0%	8.3%	0.0%
May 1-15	10.4%	7.0%	8.3%	0.0%
May 16-31	10.4%	3.0%	8.3%	0.0%
Jun 1-15	10.4%	3.0%	8.3%	0.0%
Jun 16-30	10.4%	5.0%	8.3%	0.0%
Jul 1-15	10.4%	15.0%	8.3%	0.0%
Jul 15-30	10.4%	21.0%	8.3%	4.0%
Ago 1-15	10.4%	29.0%	8.3%	5.0%
Ago 16-30	10.4%	23.0%	8.3%	5.0%

Sep 1-15	10.4%	17.0%	8.3%	4.0%
Sep 16-30	10.4%		8.3%	

Source: Colombian Customs Authority (DIAN)
https://muisca.dian.gov.co/WebArancel/DefMenuConsultas.faces

The CTPA, however, excludes the application of the price band mechanism for U.S. imports and instead applies a TRQ mechanism with out-of-quota duties. The CTPA calendar year (CY) 2018 TRQs for U.S. corn are 2,814,201 MT for yellow corn and 182,923 MT for white corn. The TRQs filled by the end of May 2018 due to the first come/first serve mechanism. Out-of-quota duty for U.S. yellow corn is 10.4 percent and 8.3 percent for white corn.

Since 2013, falling corn prices have benefited U.S. corn at the expense of Mercosur, whose duties have risen significantly, from zero to upwards of 60 percent, except for some periods in 2018 (as shown in table 2). U.S. corn, on the other hand, benefits from zero duties within quota and an out-of-quota duty of 10.4 percent for yellow corn and 8.3 percent for white corn in CY 2018.

Production, Supply and Demand Data Statistics:

Corn	**2016/2017**		**2017/2018**		**2018/2019**	
Market Begin Year	**Oct 2016**		**Oct 2017**		**Oct 2018**	
Colombia	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	480	480	420	420	420	420
Beginning Stocks	791	791	788	853	688	753
Production	1700	1700	1600	1600	1600	1600
MY Imports	4748	4812	5000	5000	5200	5200
TY Imports	4748	4812	5000	5000	5200	5200
TY Imp. from U.S.	4727	4735	0	4850	0	5000
Total Supply	7239	7303	7388	7453	7488	7553
MY Exports	1	0	0	0	0	0
TY Exports	1	0	0	0	0	0
Feed and Residual	5100	5100	5300	5300	5400	5400
FSI Consumption	1350	1350	1400	1400	1450	1480
Total Consumption	6450	6450	6700	6700	6850	6880
Ending Stocks	788	853	688	753	638	673
Total Distribution	7239	7303	7388	7453	7488	7553
(1000 HA) ,(1000 MT) ,(MT/HA)						

Commodities:

Rice, Milled

Production:

After two years of growth, Post forecasts Colombia milled rice production will decrease to 1.64 million MT in MY 2018/19. This is a result of low prices that are discouraging rice producers to plant and of policies introduced by the new administration that aim to restrict production and raise prices. The paddy rice price has decreased to reach levels not seen since 2013, when rice growers reduced their area planted, which resulted in a fall in paddy rice production of 170,000 MT. In addition, the National Federation of Colombian Rice Producers (Fedearroz) has been actively conducting campaigns among producers to decrease area planted to recover price and reduce large stocks. Post estimates rice area harvested to decrease to 510,000 Ha in MY 2018/19. Additionally, the World Meteorological Organization (WMO) expects weather conditions to be hot and dry due to a predicted El Nino Southern Oscilation (ENSO). These conditions could also affect the rice crop, especially in rain-fed areas.

Consumption:

In MY 2018/19, milled rice consumption is projected to reach 1.86 million MT. Rice is one of the key basic staple foods in Colombia with a high per capita consumption compared to neighboring countries at about 40 kilograms (90 pounds). Colombian rice consumption is price inelastic; therefore, consumption trends will likely parallel population growth with demand gradually increasing each year.

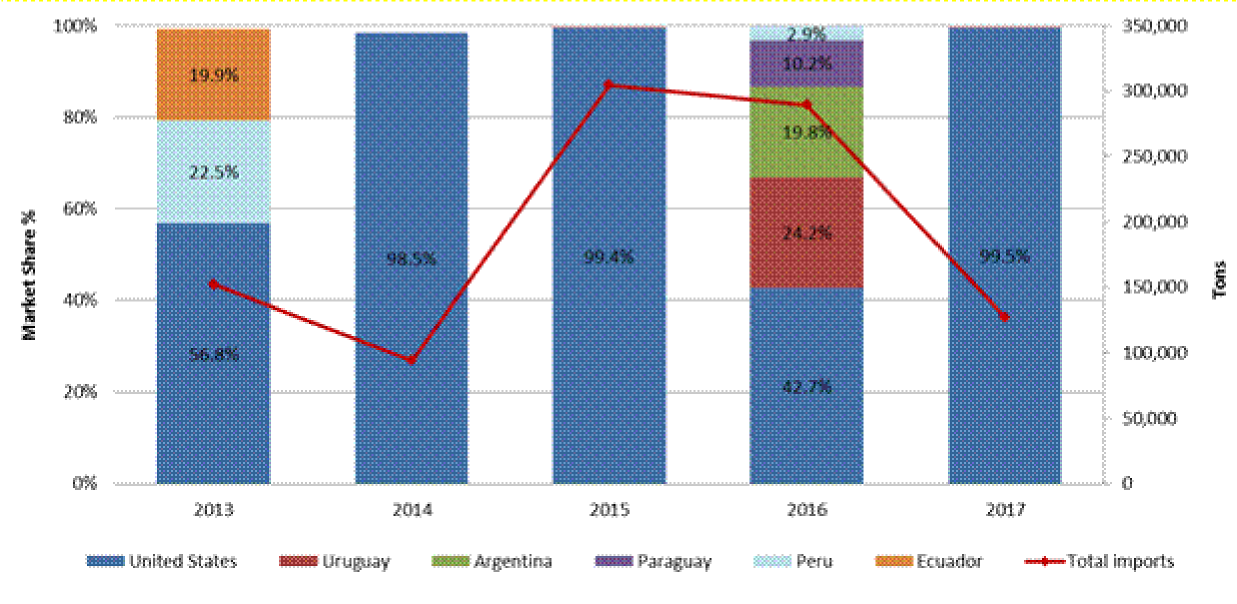
In an effort to promote rice consumption, Fedearroz launched its campaign called My Rice Store ("*Mi Tienda del Arroz.*") with the goal to eliminate intermediaries between rice producers and end customers to maximize their economic benefits. Fedearroz plans to open 30 new stores in 2018 and 2019 in Colombia. However, two main millers, Diana Corporation and Roa, dominate the Colombian rice market with more than 60 percent of the market share.

Trade:

In MY 2018/19, Post forecasts Colombian rice imports at 150,000 MT, 27 percent higher than the previous year. The increased CTPA TRQ coupled with decreasing local production will encourage imports.

The CTPA CY 2018 TRQ for U.S. rice is 102,879 MT. The first 2018 TRQ auction was held on January 29, 2018, resulting in awards for deliveries of 72,043 MT, or about 70 percent of the total 2018 quota. See the COL-RICE website for more details. In 2018, the TRQ phase-out period for U.S. rice under the CTPA started. The duty on U.S. rice out of quota is 73.8 percent for 2018 and 67.7 percent for 2019.

Despite the fact that in trade year (TY) 2015/16 (calendar year 2016) and TY 2016/17 (calendar year 2017), the imports of rice from the United States were approximately the same, the market share significantly increased in TY 2016/17. During TY 2015/16, imports were around 300,000 MT, but the strong dollar and competitive prices in South America opened the opportunity for Mercosur origins to export to Colombia. During TY 2016/17, domestic supplies were more available so imports dropped to just over 100,000 tons. U.S. rice benefited from the TRQ access, while Mercosur origins did not have the same advantage. For TY 2017/18 and TY 2018/19, the United States is expected to remain the primary supplier. The graph below shows Colombia rice imports and market share by country over the past five years.



Rice imports by country of origin. Source: DIAN-Global Trade Atlas.

In past years, Colombia historically imported rice, licit and illicit, from neighboring countries; however, these intra-region trade flows have changed direction over the last two years given several conditions such as large Colombian domestic production, a strong dollar, and Venezuela's food shortage. In addition, the re-opening of the common border between Colombia and Venezuela has resulted in milled rice trade flows into Venezuela. The local border state governments and private individuals have been importing scarce commodities from Colombia, including rice.

Colombia is trying to open new markets overseas for milled rice. Phytosanitary protocols have been established with the European Union, Canada, Chile and Ecuador. If the initiative of the Government and Fedearroz to open new markets is successful, and domestic paddy rice production keeps above 2 million MT, Post estimates Colombia will export 15,000 MT of milled rice in MY2018/19.

Stocks:

The Colombian government does not maintain a policy for holding grain stocks; however, on an ad hoc basis and mostly for rice, the Ministry of Agriculture offers financial storage incentives for producers and millers to hold inventories in order to regulate market prices. It is estimated that ending stocks for MY 2018/19 will be down from the year before to 315,000 MT of milled rice, which would satisfy two months of domestic consumption.

Policy:

Under the former Colombian Ministry of Agriculture program "*Plan Colombia Siembra,"* rice area planted increased by more than 100,000 hectares in 2016, nevertheless, this significant level of scaling up was challenged by poor infrastructure with transportation, storage and milling capacity. The overproduction also led to decreasing grower prices. As a result of this situation, rice growers have protested several times to the Government of Colombia and requested its support to face the price crisis.

For the calendar year 2018, the Government of Colombia allocated 90,000 million Colombian pesos ($30 million dollars) to support rice growers. The Government divided the money into two programs: $20 million was given to producers as direct payments to protect farmer's income and $10 million was offered through financial storage incentives to regulate market prices. The new Administration requested that producers be cautious regarding the expansion of production area in 2018. Current prices indicate a significant increase in the price producers were ultimately able to get for their 2018 harvest

The United States is the only country allowed to export rough/paddy rice to Colombia for human consumption; however, Colombian phytosanitary regulations had restricted U.S. paddy rice access to only the port of Barranquilla. This restriction was due to concerns over the presence in U.S. paddy rice of *Tilletia horrida*, a plant pathogen. Colombian phytosanitary authority (ICA) conducted an epidemiologic study that determined the presence of *Tilletia horrida* in Colombian rice producing regions as well. Given the study results, in June 2017, ICA annulled the resolution that limited U.S. paddy rice exports to only one port and removed the phytosanitary pest *Tilletia horrida* from Colombia's official pest list. On August 9, 2017, ICA released new phytosanitary requirements to import U.S. rough rice into Colombia. This finally removed restrictions on U.S. paddy rice that limited exports to the port of Barranquilla. U.S. paddy rice exporters now have greater flexibility when choosing a Colombian port of destination.

Under the Andean Community (CAN) Agreement, Colombia and Ecuador have been disputing access of Ecuadorian rice to Colombia. CAN members (Colombia, Ecuador, Peru and Bolivia) are assessed a zero-tariff and are not subject to the Andean Price Band System, but a ministerial decree is necessary before an import permit is issued. In recent years, Colombia did not allowed rice imports from Ecuador given high prices and poor quality of Ecuadorian rice and large Colombian production. In August 2017, Ecuador filed a lawsuit against Colombia under the CAN. Ecuador won the case and Colombia will have to grant access for Ecuadorian rice starting in 2018, following an agreement between the Ministries of Commerce of both countries.

Colombia also has a rice trade dispute with Peru. On August 6, 2018, Peru applied a 10% tariff on ten category of goods from Colombia in response to a ruling against Colombia's restrictions on Peruvian rice by the Andean Community Court of Justice. In order to comply with the ruling, from September 1, 2018, Colombia will progressively implement the elimination of restrictions on imports of Peruvian rice, starting with an amount of 45,000 MT allowed duty free in 2018, 60,000 MT for 2019, 90,000 MT in 2020, 110, 000 MT in 2021 and unlimited access in 2022.

Production, Supply and Demand Data Statistics:

Rice, Milled	**2016/2017**	**2017/2018**	**2018/2019**
Market Begin Year	**Apr 2016**	**Apr 2017**	**Apr 2018**

Colombia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	525	525	570	570	0	510
Beginning Stocks	142	142	254	318	0	400
Milled Production	1718	1718	1780	1780	0	1640
Rough Production	2526	2526	2618	2618	0	2412
Milling Rate (.9999)	6800	6800	6800	6800	0	6800
MY Imports	149	210	118	112	0	150
TY Imports	105	110	110	110	0	150
TY Imp. from U.S.	100	109	0	110	0	130
Total Supply	2009	2070	2152	2210	0	2190
MY Exports	5	2	10	10	0	15
TY Exports	5	2	10	10	0	15
Consumption and Residual	1750	1750	1800	1800	0	1860
Ending Stocks	254	318	342	400	0	315
Total Distribution	2009	2070	2152	2210	0	2190
Yield (rough)	4.81					4.66
(1000 HA) ,(1000 MT) ,(MT/HA)						

Commodities:
Wheat

Production:
Post estimates Colombian wheat production to be 11,000 MT in MY 2017/18, decreasing in MY 2018/19 to 9,000MT. Reductions in wheat area planted are permanent in Colombian given that the country has noncompetitive production systems and unfavorable climatic conditions for wheat cultivation. Domestic wheat production is primarily destined for wet milling and human consumption.

Consumption:
In MY 2017/18, Colombian wheat consumption decreased by 13.6 percent from the previous marketing year. In MY 2016/17, wheat imports increased motivated by higher demand for the animal feed industry that substituted corn imports given lower wheat prices. In MY 2018/19, Post forecasts Colombia wheat consumption to reach 2.0 million MT. Consumption trends will likely parallel population growth with demand gradually increasing each year.

Per capita wheat consumption is approximately 65 pounds. Wheat-product distribution patterns for different sectors are as follows: bread (75%), pasta (15%) and the cookies and pastry industry (10%). The cookies and pastry sector has seen the most dynamic growth because of the Colombian snacks and confectionary industry expanding exports to the United States and Latin American countries. Venezuela has become an important destination for Colombian wheat flour and pasta given Venezuela's food shortage.

In MY 2017/18, given market conditions, the animal feed industry did not import large quantities of wheat to supply their needs as they did the previous year. Wheat feed consumption decreased to

200,000 MT in MY 2017/18. It will slightly increase in MY 2018/19 to 250,000 MT, following the growth in the animal feed industry.

Trade:
In MY 2017/18, total wheat imports decreased to 1.85 million MT as a result of lower demand from the animal feed industry. Wheat grain imports accounted for 99 percent of total imports with the remaining one percent represented by flour and wheat products. In MY 2017/18, grain imports decreased but flour and wheat product imports increased by 60 percent, mainly from the European Union, Chile and Mexico. Wheat imports decreased to 650,000 MT following the downward trend of wheat grain imports. In MY 2018/19, Post forecasts wheat imports to reach 1.93 MT, with U.S. wheat returning to normal import trends at 800,000 MT.

Canada is the primary competitor with a market share over 50 percent. Thanks to the CTPA, U.S. wheat market share has recovered against Argentina; however, competition with Canada continues to be the most significant challenge to U.S. wheat. The Colombia-Canada Free Trade Agreement was signed a year before the CTPA. This free trade "head-start" 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 practices.

Colombia exports wheat mainly as wheat products such as pastry, pasta and wheat flour. In MY 2017/18, Colombia wheat exports reached 12,000 MT, a 20 percent reduction from the previous estimate because Venezuelan demand did not grow as expected. The main destinations for Colombia wheat exports are Venezuela (77%) followed by Ecuador (10%), Curacao (6%) and the United States (3%). In MY 2018/19, Post forecasts Colombia wheat exports to reach 15,000 MT.

Stocks:
The feed and wheat milling industries maintain limited carry-over inventories of corn and wheat given the high cost of stocks due to deficient storage capacity throughout Colombia. The feed and milling industries are estimated to maintain about two-month inventory supply to manage operations. Post forecasts endings stocks will decline in MY 2018/19 to 423,000 MT.

Policy:
The Colombian wheat milling industry is almost entirely supplied through imports. Implementation of trade agreements with Canada and the United States have established favorable trade conditions with duty free imports and, to some extent, trade advantages over Mercosur wheat, whose fluctuating duties are subject to the price band mechanism.

Production, Supply and Demand Data Statistics:

Wheat	2016/ 2017	2017/ 2018	2018/ 2019
Market Begin Year	Jul 2016	Jul 2017	Jul 2018

Colombia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	6	6	5	5	5	4
Beginning Stocks	635	635	550	550	581	499
Production	12	12	11	11	10	9
MY Imports	2110	2110	1960	1850	2000	1930
TY Imports	2110	2110	1960	1850	2000	1930
TY Imp. from U.S.	896	896	0	650	0	800
Total Supply	2757	2757	2521	2411	2591	2438
MY Exports	7	7	15	12	0	15
TY Exports	7	7	15	12	0	15
Feed and Residual	550	550	200	200	250	250
FSI Consumption	1650	1650	1725	1700	1750	1750
Total Consumption	2200	2200	1925	1900	2000	2000
Ending Stocks	550	550	581	499	591	423
Total Distribution	2757	2757	2521	2411	2591	2438
(1000 HA) ,(1000 MT) ,(MT/HA)						