

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 3/21/2017

GAIN Report Number:

Ecuador

Grain and Feed Annual

Consumption of Wheat and Rice Unaffected by Ecuador's Economic Woes; Corn Farmers Will Face Another Difficult Year

Approved By:

Casey Bean, Agricultural Counselor

Prepared By:

Kirsten Luxbacher, Agricultural Attaché

Henry Vega, Agricultural Specialist

Report Highlights:

Despite Ecuador's economic slowdown, consumption of wheat and rice will increase modestly in 2017/18 owing to population growth. Ecuador is expected to import a record level of wheat. Rice imports will decrease as domestic production recovers from low yields in 2016/17. Yellow corn production in 2017/18 is expected to decrease due to phytosanitary issues and uncertainties in domestic agricultural policy. Feed manufacturers are expected to continue the use of corn substitutes in animal diets.

Executive Summary:

FAS Quito forecasts Ecuador's wheat production in marketing year (MY) 2017/18 (July-June) to reach 4,000 metric tons (MT), the same level of production as in MY 2016/17. Ecuador is an insignificant producer of wheat, dependent almost entirely on foreign imports. We forecast Ecuador's wheat imports in MY 2017/18 at a record 1,005,000 MT, up 30,000 MT or three percent compared to the MY 2016/17 estimate of 975,000 metric tons. We attribute the increase to sustained internal demand despite Ecuador's economic contraction. This estimate also assumes that demand by the country's animal feed industry will slightly increase.

FAS Quito forecasts Ecuador's corn production in MY 2017/18 (May-April) at 820,000 MT, down from the MY 2016/17 estimate of 960,000 MT. We attribute the downward trend in production to low world prices, phytosanitary issues and the uncertainties surrounding domestic agricultural policies, factors that are discouraging farmers from planting. We forecast Ecuador's corn imports in MY 2017/18 at 275,000 MT, up some 125,000 MT compared to the MY 2016/17 estimate of 150,000 MT.

FAS Quito forecasts Ecuador's milled rice production in MY 2017/18 (April-March) at 690,000 MT, up 30,000 MT or 4.5 percent compared to the MY 2016/17 revised estimate of 660,000 metric tons. We attribute this level of production to a recovery in area harvested and yield following MY 2016/17, a year with lower productivity and a decrease in harvested areas. The forecast assumes that the current heavy rainy season associated with the 2017 La Niña Modoki phenomena not jeopardizing grain quality and harvesting activities. The peak of this year's first harvest will likely occur in May, and yields are expected to be high. In the context of increased domestic production for MY 2017/18, FAS Quito forecasts that total imports (taking into account official and unofficial sources) will decline in MY 2017/18. At FAS Quito we estimate exports of rice to Ecuador from neighboring countries at 130,000 MT in MY 2016/17.

Commodities:

Wheat

Wheat Market Begin Year	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	6	6	5	5	0	5
Beginning Stocks	203	203	217	217	0	221
Production	5	5	4	4	0	4
MY Imports	948	948	950	975	0	1005
TY Imports	948	948	950	975	0	1005
TY Imp. from U.S.	314	314	0	350	0	375
Total Supply	1156	1156	1171	1196	0	1230
MY Exports	4	4	5	5	0	6
TY Exports	4	4	5	5	0	6
Feed and Residual	310	310	310	325	0	345
FSI Consumption	625	625	650	645	0	665
Total Consumption	935	935	960	970	0	1010
Ending Stocks	217	217	206	221	0	214
Total Distribution	1156	1156	1171	1196	0	1230
(1000 HA) ,(1000 MT)						

Production:

FAS Quito forecasts Ecuador's wheat production in marketing year (MY) 2017/18 (July-June) to reach 4,000 metric tons (MT), the same level of production as in MY 2016/17. Ecuador is an insignificant producer of wheat, dependent almost entirely on foreign imports.

Ecuador's domestic wheat production has declined steeply since the 1970s. Throughout the 1990s, the country still managed to produce some 28,000 MT of wheat per year on some 30,000 hectares. Production has fallen since then due to a scarcity of suitable land for cultivation, 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 in the consumption of domestic wheat in favor of more affordable imports. FAS Quito estimates that close to 5,000 hectares are currently in wheat production. FAS Quito forecasts Ecuador's wheat yields in MY 2017/18 at 0.8 MT/hectare.

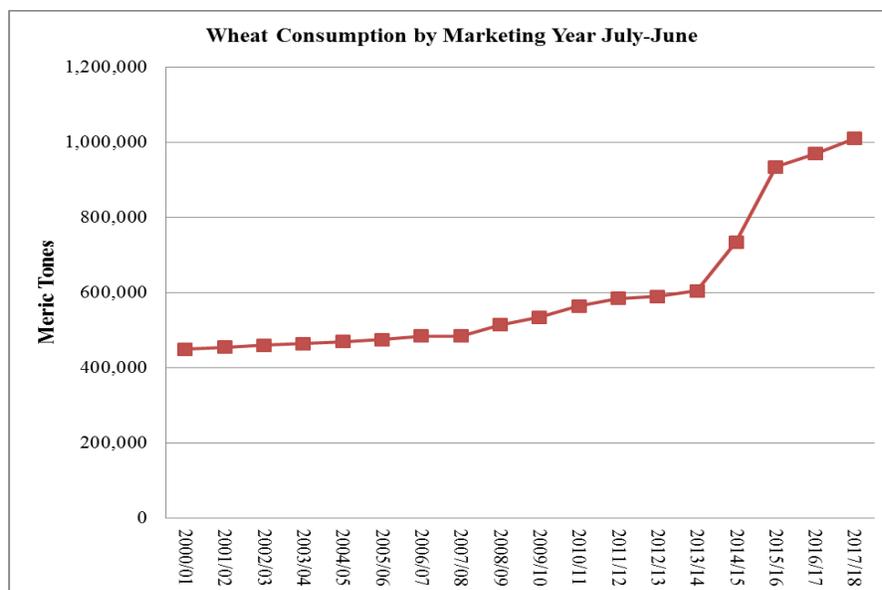
Government incentives in place since 2008 aimed at increasing cultivation, namely through the provision of subsidized fertilizers, government-backed loans, and improved seed varieties, have not yielded the expected results. Central and northern highland farmers have opted instead to switch to more profitable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

FAS Quito estimates that of the 4,000 MT of domestically produced wheat in MY 2016/17 only 3,000 MT makes its way to millers. Nearly half of the local production is consumed in

small towns near the growing areas. Millers question the sustainability of government efforts to increase production given the market’s size and bakers’ preferences for high-quality flour. In response, in 2015 Ecuador’s Association of Wheat Millers (ASEMOL) commenced promoting the development of seed types more suitable for Ecuadorian soils. ASEMOL has invested to date about \$120,000. Results from the initiative are expected sometime in 2017.

Consumption:

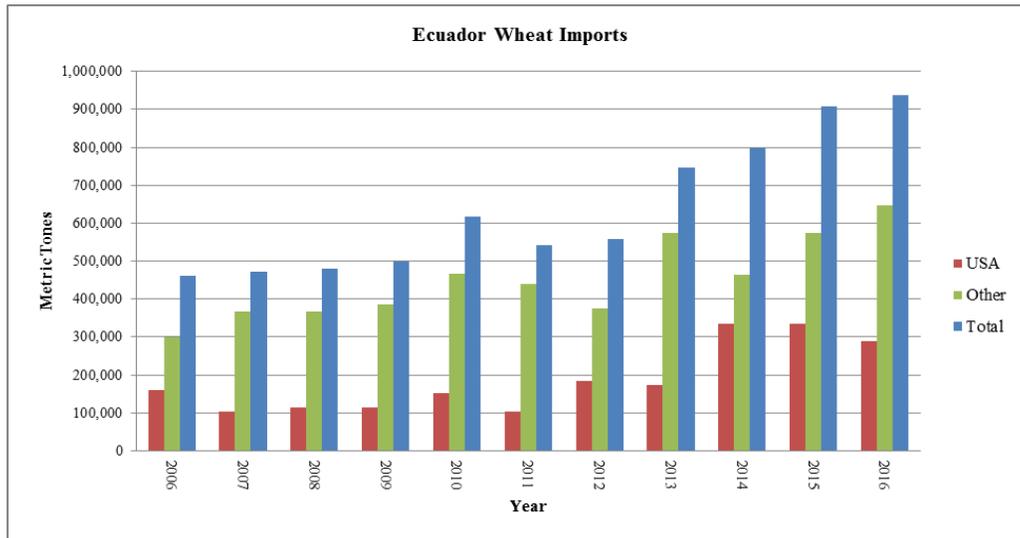
FAS Quito forecasts Ecuador’s wheat consumption in MY 2017/18 at 1,010,000 MT, increasing 40,000 MT or four percent compared to the MY 2016/17 revised estimate of 970,000 metric tons. We attribute increased consumption in MY 2017/18 to population growth and stable levels of wheat consumption for human and animal diets. There exists potential for continued slow growth through 2017. Ecuador is experiencing an economic slowdown attributed in part to lower oil revenues (its main export), combined with a strengthening of the U.S. dollar. However, consumers have not decreased consumption of bread rolls (an Ecuadorian staple priced at \$0.12 since 2011) as a result of reduced purchasing power in the Ecuadorian population. Ecuador utilizes the U.S. dollar as its legal tender and lacks major financial reserves to alleviate external shocks.



FAS Quito estimates the quantity of per capita wheat consumption in MY 2016/17 at 40 kilograms/annum (Ecuador has a population of ~16.1 million – Central Intelligence Agency, July 2016 estimate). We estimate FSI consumption at 645,000 metric tons in MY 2016/17. Ecuador’s MY 2017/18 feed wheat use is forecast at 345,000 MT, of which 200,000 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 calendar year 2016) has continued to benefit from the 2012/13 outbreak of early mortality syndrome (EMS – *necrotizing hepatopancreatitis*) in Southeast Asia. Ecuador’s poultry and pork producers are also utilizing feed wheat.

Trade:

FAS Quito forecasts Ecuador's wheat imports in MY 2017/18 at a record 1,005,000 MT, up 30,000 MT or three percent compared to the MY 2016/17 revised estimate of 975,000 metric tons. We attribute the increase to sustained internal demand despite Ecuador's economic contraction. This estimate also assumes that demand by the country's animal feed industry will slightly increase.



Although Ecuador utilizes imported wheat primarily in bread and pasta manufacturing, there has been an upswing recently to incorporate more wheat into animal feeds. We estimate that 325,000 MT of wheat made its way into animal feed in MY 2016/17. At FAS Quito, we understand that imports of hard wheat are greater than those of soft wheat. In calendar year (CY) 2015, the ratio of hard to soft wheat imports was 1.45 to one, down from 1.77 in CY 2014. Import market share of U.S.-origin wheat in CY 2016 dropped to 31 percent, down from 37 percent in 2015. U.S. import market share has remained stable due to 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 remains Ecuador's main supplier of wheat.

Policy:

Ecuador promotes a policy of self-sufficiency in wheat, but production levels have not yet risen to meet demand. On December 23, 2016, [Ecuador's Foreign Trade Committee passed the extension of the current tariff and duty exemption for wheat, wheat semolina, and wheat flour imports](#) from all origins (including the United States). Wheat and wheat products benefitting from the resolution include harmonized tariff system (HS) codes 1001.19.00.00, 1001.99.10.00, 1101.00.00.00, and 1103.11.00.00. [COMEX Resolution 040-2016](#) states that Ecuador will extend the application of the current zero percent ad valorem exemption and suspend the application of the Andean Price Band (variable levy) until December 31, 2019. This is the first time that a three-year tariff suspension has been granted, as previous extensions covered a maximum two-year period.

Ecuador maintains bilateral trade agreements with Peru and Chile, as well as regional trade agreements with the Latin American Integration Association (ALADI) and the European Union. In 2004, Ecuador reached a tariff liberalization agreement with the Southern Common Market (MERCOSUR) and started 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 Andean Price Band System's (APBS) variable levy. In 2014, Ecuador concluded trade liberalization agreement negotiations with the European Union (EU). The Agreement entered into effect on January 2, 2017. Tariffs under the APBS will be progressively eliminated. The elimination will be carried out in six equal stages, beginning on the date the agreement entered into force.

**Imported Wheat Tariffs under the Andean Price Band Applied By Ecuador
March 1-15, 2017**

HTS	MARKER PRODUCT	FLOOR PRICE	CEILING PRICE	REFERENCE PRICE 1/	AD- VALOREM TARIFF (%)	CURRENT VARIABLE LEVY	TOTAL TARIFF %	WTO BOUND TARIFF	EFFECTIVE APPLIED TARIFF
1001.10.90	WHEAT	315	361	237	10%	33%	43%	36%	0% *

1/ Average Reference Price for the specified period.

Ecuador has granted tariff exemptions to wheat imports through December, 2019.

Commodities:

Corn

Corn Market Begin Year	2015/2016		2016/2017		2017/2018	
	May 2015		May 2016		May 2017	
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	325	325	290	290	0	275
Beginning Stocks	62	62	95	95	0	80

Production	1400	1400	1160	960	0	820
MY Imports	13	13	150	150	0	275
TY Imports	13	13	200	200	0	250
TY Imp. from U.S.	0	0	0	30	0	60
Total Supply	1475	1475	1405	1205	0	1175
MY Exports	5	5	0	0	0	0
TY Exports	5	5	0	0	0	0
Feed and Residual	1300	1300	1250	1050	0	1040
FSI Consumption	75	75	75	75	0	75
Total Consumption	1375	1375	1325	1125	0	1115
Ending Stocks	95	95	80	80	0	60
Total Distribution	1475	1475	1405	1205	0	1175

(1000 HA) ,(1000 MT)

Production:

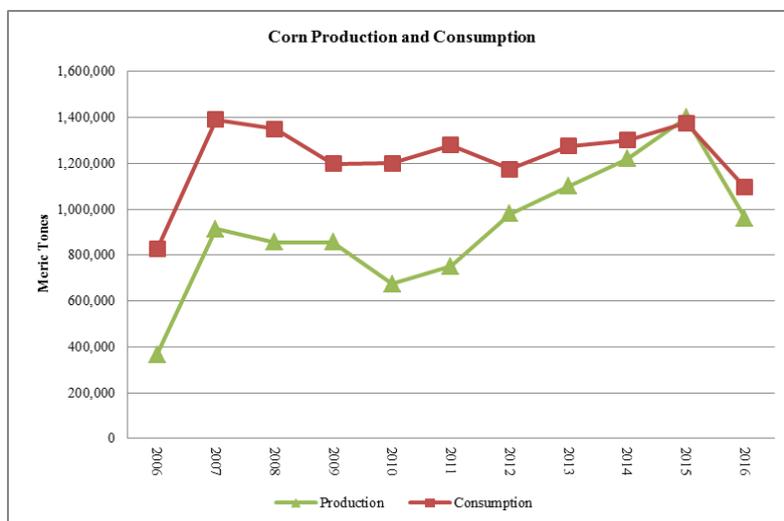
FAS Quito forecasts Ecuador's corn production in MY 2017/18 at 820,000 MT, down from the MY 2016/17 revised estimate of 960,000 metric tons. We attribute the downward trend in production to decreased planted area as farmers face uncertainty about the next Government of Ecuador's policies with respect to corn. A new government is due to take power at the end of May 2017.

It remains to be seen if Ecuadorian corn consumers will continue to pay significantly higher prices for domestically-produced corn as opposed to switching to substitutes, which they are already starting to do. The government's official price for corn delivered in March 2017 is set at nearly \$329/metric ton, well above the world price which has fluctuated in the \$150/metric ton range over the past few months.

FAS Quito estimates yields of 3.3 MT/hectare in MY 2016/17. We forecast a lower yield of 2.98 MT/hectare for MY 2017/18. Corn yields have decreased following a peak in MY 2015/16 triggered by the expansion of higher-yield seeds and improved agricultural practices. The emergence of several phytosanitary issues will likely contribute to this yield decline through MY 2017/18.

Consumption:

FAS Quito forecasts Ecuador's total corn consumption at 1,115,000 MT in MY 2017/18, down year-to-year from the MY 2016/17 revised estimate of 1,125,000 MT. We forecast MY 2017/18 total corn consumption slightly down one percent compared to the previous marketing year. We attribute the overall decline in consumption in MY 2017/18 to increasing inclusion of wheat in animal diets as a corn substitute.



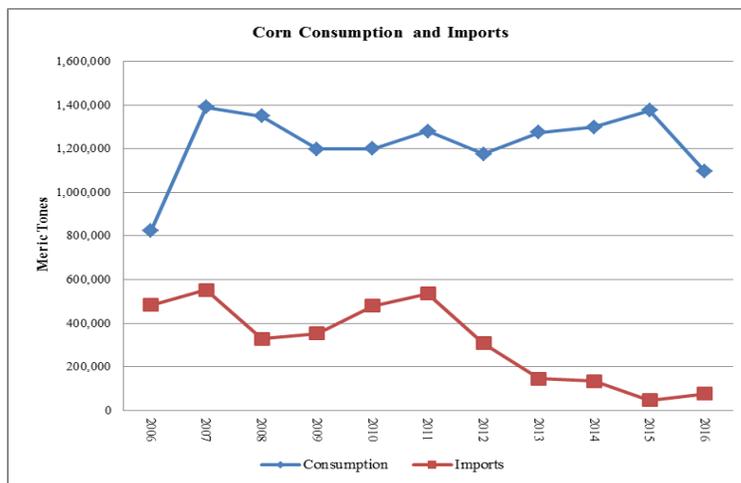
FAS Quito estimates, however, that feed consumption will increase slightly in MY 2017/18 in response to population growth domestically and increasing exports of shrimp to foreign destinations. Total wheat and corn feed use combined is forecast to increase slightly from MY 2016/17 to MY 2017/18. Trade sources have reported that in addition to wheat, animal feed producers are increasingly experimenting and using other corn alternatives such as wheat and rice byproducts available domestically and imported distiller grains. FAS Quito sources have indicated that feed producers do not rely as much as in the past on corn as an irreplaceable feed ingredient. FAS Quito estimates that 75 percent of local feed production is utilized by the national poultry industry; 10 percent in turn is absorbed by the aquaculture sector (mainly shrimp farmers) and 15 percent taken up by other livestock production (primarily pork). FAS Quito estimates that FSI consumption will remain flat in MY 2017/18. As a result, total corn consumption will decrease in MY 2017/18.

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 is expected to experience modest growth in 2017. Per capita consumption of poultry meat is estimated at 35 kilograms/annum. FAS/Quito estimates that in 2016, the poultry flock reached 258 million birds, up 6 million from 2015 levels. The national flock is composed of 12 million egg layers and 246 million broilers.

Trade:

FAS Quito forecasts Ecuador's corn imports in MY 2017/18 at 275,000 MT, up some 125,000 MT compared to the MY 2016/17's estimate of 150,000 metric tons. Persistent low corn prices in the world market continue to discourage users and producers from taking advantage of domestic import-substitution policies. In the past, imports filled about half of Ecuador's corn needs. According to Ecuador's national statistics, the country imported about 77,000 MT of corn in CY 2016, of which 72,000 MT came from Argentina. Corn exports from Argentina come to Ecuador by sea through the Panama Canal. Ships are usually loaded at the ports of San Lorenzo or Rosario. The shipping time from Argentina to Ecuadorian ports is approximately 18 days. Attempts to cross Cape Horn have not occurred in recent years. Shipping rates are

usually more competitive for Argentina than out of the gulf. As an example, trade sources report rates of \$30.00 per MT from the port of New Orleans in January 2017, compared to \$20.50 per MT from the de port of San Lorenzo in December 2016.



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.

**Imported Yellow Corn Tariffs under the Andean Price Band Applied By Ecuador
March 1-15, 2017**

HTS	MARKER PRODUCT	FLOOR PRICE	CEILING PRICE	REFERENCE PRICE 1/	AD- VALOREM TARIFF (%)	CURRENT VARIABLE LEVY	TOTAL TARIFF %	WTO BOUND TARIFF	EFFECTIVE APPLIED TARIFF
1005.90.11	CORN	274	334	193	15%	52%	67%	36%	45% *

1/ Average Reference Price for the specified period.

* Import permits are not issued automatically and require government approval

Policy:

White and yellow 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 \$274/MT and \$334/MT, respectively. The variable levy for corn remains at 30 percent; foreign corn faces 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 a 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).

Commodities:

Rice, Milled

Rice, Milled Market Begin Year	2015/2016		2016/2017		2017/2018	
	Apr 2015		Apr 2016		Apr 2017	
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Area Harvested	359	359	315	320	0	325
Beginning Stocks	70	70	80	80	0	119
Milled Production	750	750	660	660	0	690
Rough Production	1190	1190	1048	1048	0	1095
Milling Rate (.9999)	6300	6300	6300	6300	0	6300
MY Imports	1	1	1	130	0	75
TY Imports	0	0	1	100	0	75
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	821	821	741	870	0	884
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	741	741	725	751	0	760
Ending Stocks	80	80	16	119	0	124
Total Distribution	821	821	741	870	0	884

(1000 HA) ,(1000 MT)

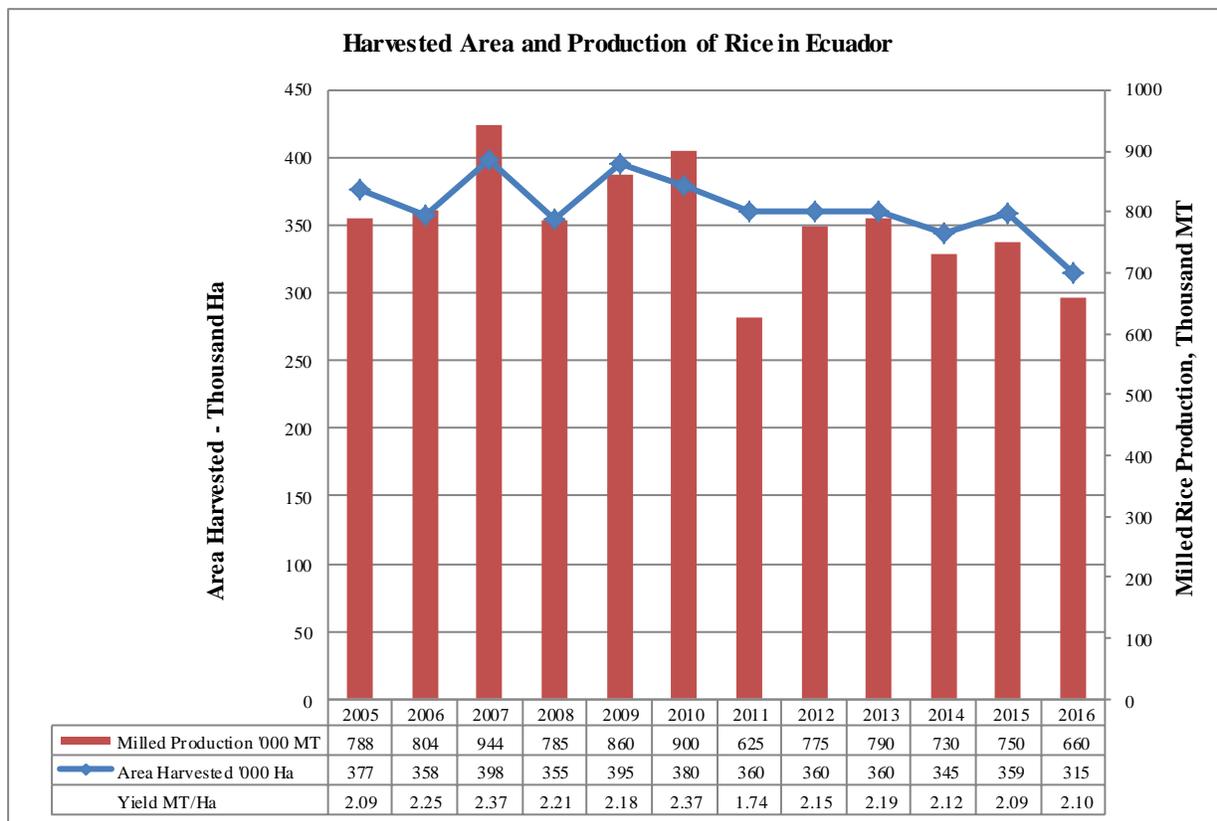
Production:

FAS Quito forecasts Ecuador's milled rice production in MY 2017/18 at 690,000 MT, up 30,000 MT or 4.5 percent compared to the MY 2016/17 revised estimate of 660,000 metric tons. We attribute this level of production to recovery in area harvested and yield following MY 2016/17, a year with lower productivity and a decrease in harvested areas. The forecast assumes that the current heavy rainy season associated with the 2017 La Niña Modoki phenomena not jeopardizing grain quality and harvesting activities.

Trade sources are not aware that Ecuadorian farmers have increased area planted/harvested. At the same time, sources have reported that phytosanitary problems, such as infestations of apple snails first introduced in 2010, continue to reduce yields. Farmers have been reluctant to leaving the fields fallow. The availability of improved rice varieties encourages farmers to crop more than two harvests per year in fields under irrigation. It is common to see rice fields at different stages of development all year round in Ecuador's lowlands.

The peak of this year's first harvest will likely occur in May and yields are expected to be high. An extended rainy season might jeopardize quality. Approximately 45 percent of Ecuador's rice production is harvested between April and June.

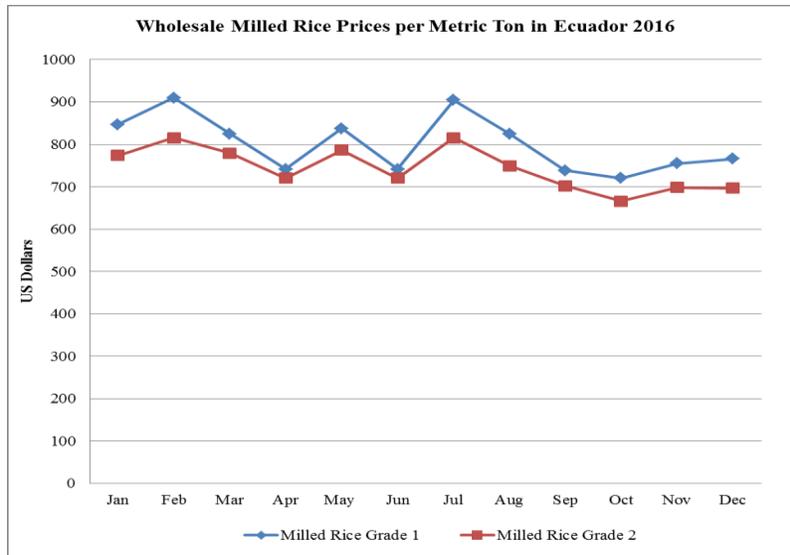
Rice production is concentrated in the coastal lowlands. This area floods during the November-April rainy season, but remains humid throughout the rest of the year. Production varies with rainfall, with the larger (main) harvest occurring towards the end of the rainy season (i.e., May-June). Only a third 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. Almost all local production is consumed domestically. FAS Quito forecasts total consumption at 760,000 MT in MY 2017/18, up 9,000 MT or 1.2 percent from the MY 2016/17 revised estimate of 751,000 metric tons. We attribute the increase to population growth. Per capita consumption is estimated to be stable at about 45~46 kilograms/annum.

Ecuador's Ministry of Agriculture, Livestock and Fisheries (MAGAP) reported farm gate rice prices of \$37.10 per 200 pound (90.76-kilogram) sack of paddy rice (~\$409/MT) in 2016, about 9.5 percent lower than the average of 2015. Domestic rice is marketed through wholesalers in 100 pound (45.36-kilogram) sacks, with small vendors selling to consumers by the kilogram. FAS/Quito estimates that the average wholesale price of a 100 pound (45.36-kilogram) sack of milled rice grade one (maximum five percent broken) in 2016 was \$36.34 (~\$801/MT) and \$33.82 (~\$746/MT) for grade two (maximum ten percent broken). At the retail level consumers paid on average \$1.07/kilogram (\$1070/MT). With the expansion of the modern supermarket sector, sales of two-to-five kilogram branded rice sacks are increasingly popular, and account now for 15-20 percent of rice sales. Overall, rice prices declined from July through December.



Trade:

The numbers in the PSD Table for this report have been adjusted to account for border trade (i.e., paddy rice of foreign origin that is milled in Ecuador). FAS/Quito sources have stated that unless Ecuadorian mills are currently processing foreign rice, observed consumption levels of milled rice would not correspond to domestic production of paddy rice. In the context of increased domestic production for MY 2017/18, FAS Quito forecasts that total imports (taking into account official and unofficial sources) will decline in MY 2017/18. At FAS Quito we estimate exports of rice to Ecuador from neighboring countries at 130,000 MT in MY 2016/17.

Rice imports from countries outside the Andean Community (Colombia, Ecuador, Peru and Bolivia) require a cumbersome inter-agency approval process. Concerns with Ecuador's balance-of-payments have been used to justify import restricting measures. Currently, rice imports from outside the Andean Community are subject to a combined 68 percent import tariff plus an additional 35 percent import surcharge/special safeguard. The latter is a provisional safeguard measure imposed to address imbalances in Ecuador's balance of payments.

Ecuador has exported rice to Colombia, and at times to Peru, depending on the exchange rate. Ecuador has refrained from exporting rice in recent years due to persistently high domestic prices and deficits in domestic production. FAS Quito forecasts that with the U.S. dollar remaining strong, Ecuador will not export rice to its neighbors in MY 2017/18.

Stocks

The PSD table is updated to reflect observed stock levels. Although stocks are very difficult to estimate, FAS/Quito assumes that private millers, government silos and consumers maintain two to three months of consumption in stock at any given time. The Ministry of Agriculture issues export and import permits, and acts as the authorized exporter of reserves. The

government has established, but not always enforced, an emergency stock of 80,000 MT of rice to ensure national food security.

Policy:

Rice imports are politically sensitive. The government has promoted rice self-sufficiency by setting farm gate prices at levels significantly higher than prices in the world market and in neighboring countries, maintaining the Andean Price Band System (APBS), and further trying to limit imports using Presidential decrees. The official minimum price at the farm gate is currently set at ~\$391/MT of paddy rice, 20 percent humidity, 5 percent foreign material. The APBS currently sets a floor price of \$500/MT and a ceiling of \$587/metric ton. The APBS is recalculated twice per month: first at the beginning of the month and then at the beginning of its second half. Andean Community members (Colombia, Ecuador, Peru and Bolivia) are assessed a zero-tariff and are not subject to the APBS. A ministerial decree is nonetheless necessary before an import permit is issued. Other Latin American countries have been granted *ad valorem* tariff preferences under the ALADI, but they are still assessed the APBS variable levy.

Ecuador’s Negotiated Tariffs for Rice with Trade Partners

HTS	Description	United States and World	CAN	Peru	Chile	ALADI				
						Paraguay	Uruguay	Argentina	Brazil	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 (Colombia, Ecuador, Peru and Bolivia), 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.

**Imported Rice Tariffs under the Andean Price Band Applied By Ecuador
March 1-15, 2017**

HTS	MARKER PRODUCT	FLOOR PRICE	CEILING PRICE	REFERENCE PRICE 1/	AD- VALOREM TARIFF (%)	CURRENT VARIABLE LEVY	TOTAL TARIFF %	WTO BOUND TARIFF	EFFECTIVE APPLIED TARIFF
1006.30.00	RICE 10% SPLIT GRADE	500	587	397	20%	30%	58%	68%	68% *

* Authorized by a 2008 Executive Order. Presidential decree 1458, 2008, authorized levying a higher tariff than that established by the Andean Community.