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U.S. Corn Continues Losing Market in Colombia

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Report Highlights:

U.S. corn exports to Colombia continue losing market share while duty preference granted to Mercosur countries increases. U.S. corn exports to Colombia declined by 2 million tons during last two years and under the current situation, this declining trend is unlikely to change. At this point the ratification and implementation of the Colombia-U.S. free trade agreement seems to be the only way to recover market share for U.S. corn.

Executive Summary:

Total Colombian corn imports reached 3.3 million tons from July 2009 – June 2010, however U.S. corn exports to Colombia continue to decline and as of July 29, 2010, with eleven months of the 2010 MY completed, U.S. corn exports to Colombia fell 23 percent. This figure demonstrates that despite the policy of allowing imports of 2.6 million tons with a 10 percent duty discount (under a TRQ - MAC mechanism), the duty preference granted to Mercosur corn has made corn imports from Mercosur more competitive than U.S. corn under the MAC. Imports of U.S. corn will likely reach just 1 million tons by the end of 2010 MY.

In addition, if the current market conditions remains, starting in January 2011, imports from Mercosur will receive an even higher duty preference, 60 percent, which represents a 9 percentage point advantage over corn and soybeans imports from the U.S.

Since 2009, Colombian Imports of US corn reduced dramatically due to convergence of three key factors; first, the duty preference granted to Mercosur countries under the trade agreement, second, the reduced transportation costs difference from the gulf and the South America, and third, a perceived equivalent or better corn quality coming from Mercosur.

Starting in 2010 the duty preference in favor of Mercosur widened from 49 percent to 54 percent, representing a duty of 6.9 percent currently paid for corn imports from Mercosur, while U.S. corn pays 15 percent. This duty difference of 8.1 percentage points that favors imports from Argentina and Brazil will be the most important competitive factor against U.S. corn, at least in the short term, while the Colombia-U.S. free trade agreement is ratified and implemented. Regarding the other factors, U.S. corn quality is expected to improve but the difference in transportation costs should not increase significantly. Under this scenario, it would be difficult for U.S. corn to recover its market share in 2011 and strongly depends on the approval of the Colombia-U.S. trade agreement.

General Information:

Trade Policy

The Colombian government protects its local corn production. They do this (in part) by including corn in the Andean countries' (CAN's) price band mechanism. The price band levies additional duties on the 15 percent basic duty, which is the common external duty (15 percent), when international corn prices are lower than a reference and conversely reduces the basic duty when international corn prices are higher. This price band mechanism operates as protective policy when international prices are lower by increasing the import duty, while high international prices act as natural protection for the local production.

Overall, Colombian corn production (white and yellow) covers as much as 30 percent of the total

Colombian corn consumption, making Colombia a net corn importer, and because of this, imports of yellow corn supply close to 90 percent of the feed industry needs. Given that need for imports, the GOC established an import TRQ mechanism (MAC) under which an annual amount of grain imports is allowed at a reduced duty, with a maximum 10 percentage point reduction on the total duty. This mechanism operates through an auction that allocates a right to import corn outside the price band to those who agree to purchase locally produced corn.

Until 2008, even though the Colombia-Mercosur was in place, the MAC mechanism favored corn imports from U.S., however, the increased duty preference to imports from Mercosur has virtually eliminated that advantage.

Trade agreements

Colombia's trade agreement with Mercosur allows Mercosur countries to receive a preferential duty treatment. Since they are part of Mercosur, Argentina and Brazil receive from Colombia an 8.1 percentage point duty reduction on corn imports. This means that while U.S. corn pays a 15 percent duty, corn entering from Argentina and Brazil pays only a 7.9 percent duty. This duty preference, combined with a perceived better corn quality from Mercosur and a decreasing U.S. advantage on transportation costs, has caused corn imports from the U.S. to fall by 40 percent in 2009 and maintain that downward trend so far in 2010.

Logistics

Corn makes up the larger percentage of grain imported into Colombia, which leads importers to combine it with other grain imports, such as soybeans, wheat and other grain byproducts to complete their grain cargo. As U.S. corn imports have declined, the same occurred with other bulk products. The decline of U.S. imports has lowered the incentive to import other grains as well.

According to Colombian corn importers, in 2010, the transportation cost advantage from the U.S. gulf to Buenaventura port has been reduced to only $2 per ton, which does not offset the duty difference in favor of Argentina and Brazil. In the past, the transportation cost differential favored U.S. exports from the gulf versus imports from Mercosur.

Current Market Situation

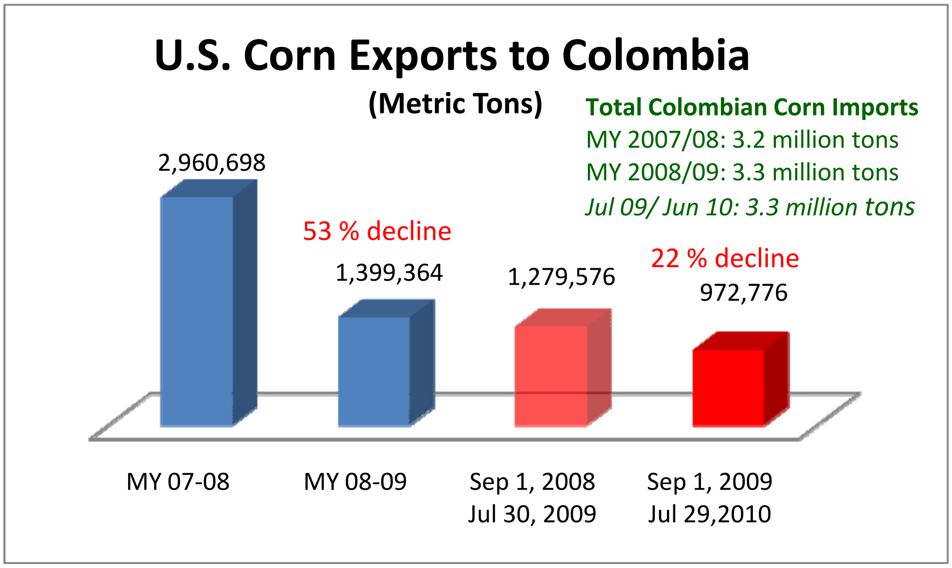
Due to the trade agreement with Mercosur countries, the duties currently applied are as follows:

	Argentina - Brazil	Current duty paid	
	Duty Preference	Argentina - Brazil	United States
Yellow Corn	54 %	6.9%	15%
Soybeans & Soybean meal	54 %	4.9%	13%
Wheat	100 %	0%	17%

For instance, if the imported corn price is $ 260 per ton at the Colombian port, the preference (8.1 percentage points) roughly represents a $ 21 per ton lower price in favor of Argentina and Brazil which is not offset by the reduced transportation cost from the gulf compared with transportation costs from Argentina or Brazil.

Trade In 2010

U.S. corn exports to Colombia began a declining trend in 2008 year as illustrated in the following graph:



Despite the decrease of U.S. corn exports, total Colombian corn imports increased from 3.2 million tons in MY 2007/08 to 3.3 million tons in MY 2008/09 and are expected to maintain steady in MY 2009/2010. Within the July 2009 – June 2010 year total, Colombian yellow corn imports reached 3.3 million tons, which is in line with expectations that total MY corn imports (Oct-Sept) would reach 3.3 million tons.

In contrast, the export value of U.S. coarse grains, 99 percent corn, to Colombia declined in CY 2009 by $417 million and lost an additional $20 million between January-May 2010, compared with the same period a year before. Within a longer period (Sep-Jul 2010) an even more significant loss for the U.S. corn market share occurred. The expected loss for U.S. corn imports in 2010 is 1 million tons.

It is important to note that under the current market conditions imports starting in January 2011, imports from Mercosur will receive a higher duty preference (60 percent), which represents a 9 percentage point advantage over corn and soybean imports from the U.S.