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

Voluntary _ Public

Date: 9/30/2013

GAIN Report Number:

Colombia

Post: Bogota

U.S. Corn Poised to Recover Market Share

Report Categories:

Grain and Feed

Approved By:

Joseph Lopez, Agricultural Counselor

Prepared By:

Anthony Gilbert, Agricultural Attaché
Leonardo Pinzon, Agricultural Specialist

Report Highlights:

Colombia-Southern Common Market (MERCOSUR) trade policy and yield recovery in the United States have set the stage for U.S. corn to increase market share in Colombia. MERCOSUR corn is subject to a price band trade arrangement with duties subject to the trends of a reference price. If the reference price is high, the duty discount improves; however, a low reference price will result in higher duties for MERCOSUR corn. Current market conditions with falling prices are now favoring sourcing U.S. corn with the duty on MERCOSUR corn likely to increase to above 9 percent. This favorable trade situation is demonstrated by the recent USDA export sales alert of 180 thousand metric tons (TMT) of U.S. corn to Colombia.

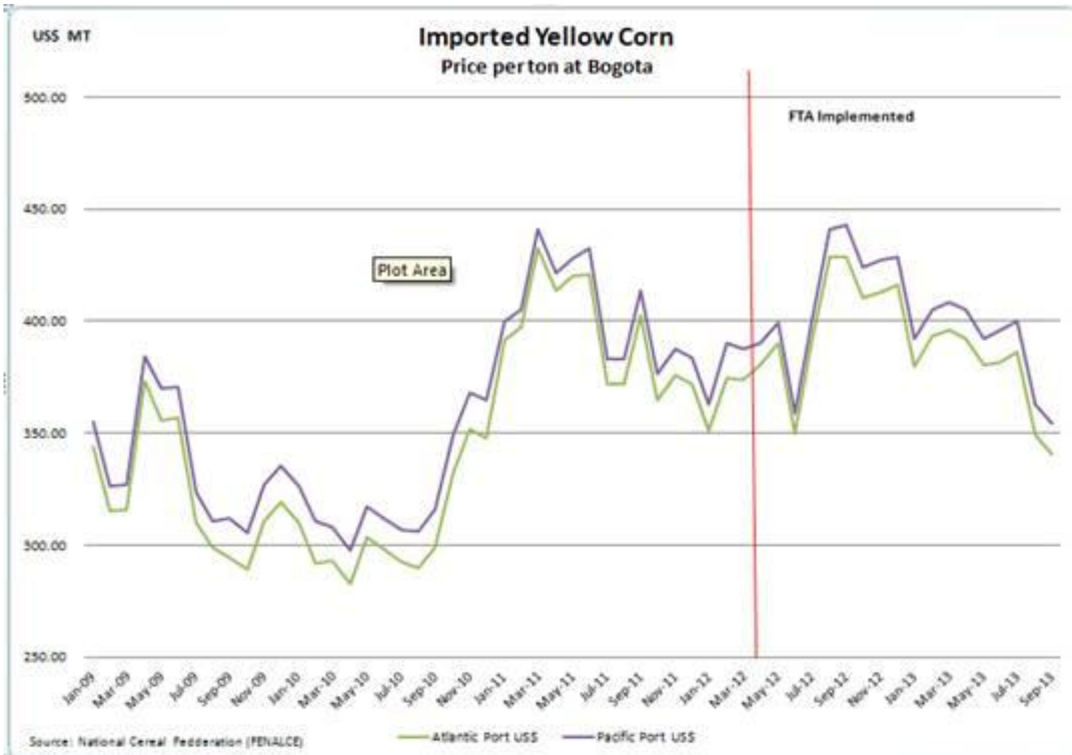
General Information:

Colombia-MERCOSUR trade policy and yield recovery in the United States have set the stage for U.S. corn to increase market share in Colombia. MERCOSUR corn is subject to a price band trade arrangement with a duty discount of 4-7 percent if the reference price (based on a 60-day CBOT average) falls within the price band floor and ceiling. When prices are high the duty discount becomes more favorable. For example, in 2012, corn prices were significantly high due to the U.S. draught resulting in a reference price above the price band ceiling and a MERCOSUR duty discount falling to 1-3 percent. Improved growing conditions in the United States and falling prices are now favoring sourcing U.S. corn. The duty on MERCOSUR corn will likely increase, up to 9 percent and above, as the reference price falls below the price band floor. This favorable trade situation is demonstrated by the recent USDA export sales alert of 180 TMT of U.S. corn to Colombia.

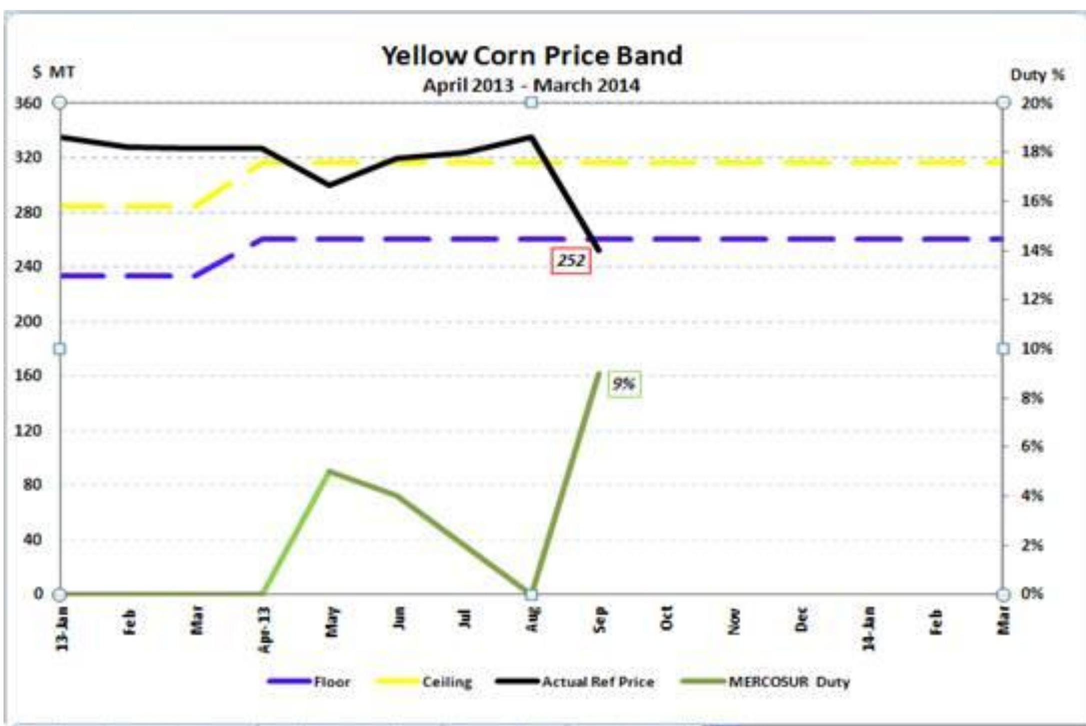
Colombia is not self-sufficient in yellow corn production and imports over 60 percent of consumption, primarily destined to the feed manufacturing and poultry industry. Implementation of the U.S.-Colombia Trade Promotion Agreement (CTPA) created high expectations of a market recovery, yet the draught and high prices resulted in U.S. yellow corn filling less than 3 percent of the 2.1 million metric ton (MMT) quota in 2012. Moreover, negative basis trading has favored Argentine corn against the U.S. alternative. The expectations for 2013 are a good U.S. corn crop with production ranging from 170 to 200 bushels per acre. This will support U.S. competitiveness with basis trading, in addition to other factors that will impact corn import market share in Colombia. Factors that can favor U.S. corn in 2013 include:

1. The price band adjusted upward for 2013/14, implying that if corn prices remain at current levels or decrease, the duty on corn from MERCOSUR will increase (duties for in-quota U.S. corn are zero).
2. The increase in U.S. corn production could create conditions for more competitive basis trading.
3. A marginal freight cost differential continues to favor sourcing U.S. corn.

The graph below shows the pricing trends from 2009 to the present for corn entering Colombia from the Pacific and Atlantic (or Caribbean) ports and priced in Bogota:



The falling price trends will support sourcing U.S. corn due to the 2013/14 price band adjustment and potential increase on duties against MERCOSUR. The following graph illustrates the price band and the different price scenarios that will support sourcing U.S. corn:



The dotted yellow and purple lines represent the price band ceiling and floor. The black line represents the Colombian corn reference price, a CBOT 60-day average, that will determine the duty applied to MERCOSUR. When the reference price falls within the floor and ceiling, duties for MERCOSUR corn are between 4-7 percent. The green line represents the duty applied to MERCOSUR, conversely paralleling the reference price. As of September 2013, the reference price was US$252 per ton. This price falls below the price band floor, implying a slight increase in the MERCOSUR import duty, up to 9 percent. If prices continue to fall, the MERCOSUR duty will conversely increase. This will favor sourcing U.S. corn that is subject to zero duties up to the 2.2 MMT quota.   Post sources have indicated that as prices continue to fall, traders will begin sourcing U.S. corn in more significant quantities up to the end of the 2013 calendar year. CBOT price trends support this notion with expectations that U.S. corn will begin to assertively regain market share in Colombia.