

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Colombia's Increase In Demand For Dairy Products

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Report Highlights:

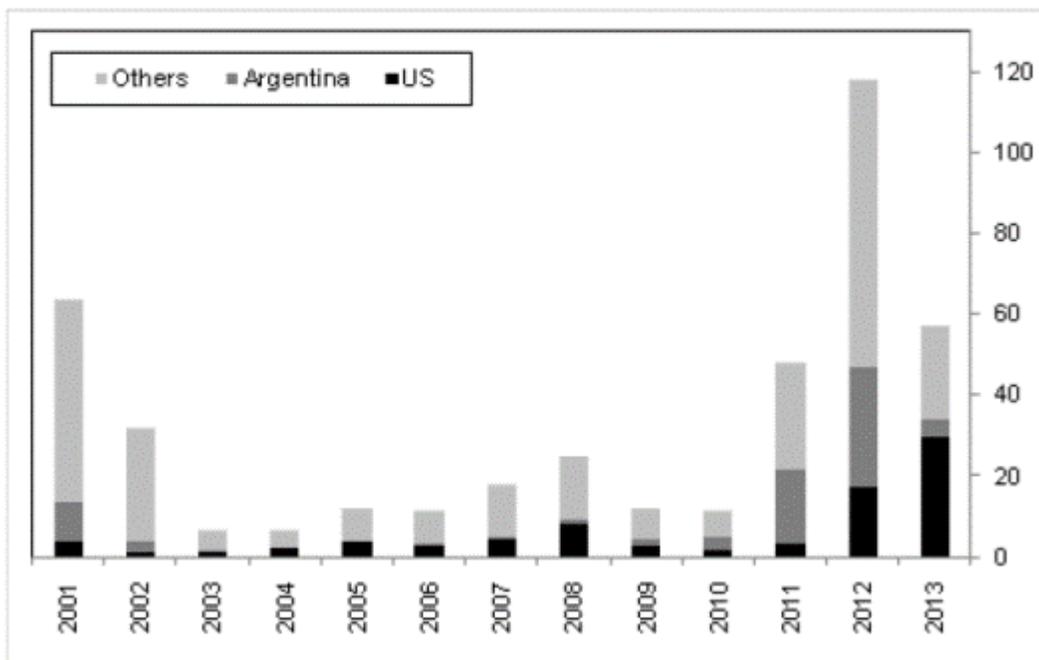
FAS Colombia is writing a series of reports on the benefits and challenges of the U.S.-Colombia Trade Promotion Agreement (CTPA) between the United States and Colombia. This report analyzes the demand for dairy products (powdered milk, yogurt, butter, cheese, and processed dairy products) in Colombia and the country's use of the dairy product tariff rate quotas (TRQs), which will increase by four percent per year and be phased-out by 2019. Given a growing economy and increasing demand for dairy products, a promotional campaign by the U.S. dairy industry could increase sales in the country for U.S. dairy products.

General Information:

Over the past six years the market for dairy products in Colombia has grown substantially because of the growth in the Colombian economy and the increase in income levels of Colombians. As seen in the graph below, the retail market for U.S. dairy exports in Colombia has increased since the full implementation of the CTPA in 2012.

US Exports Spiking

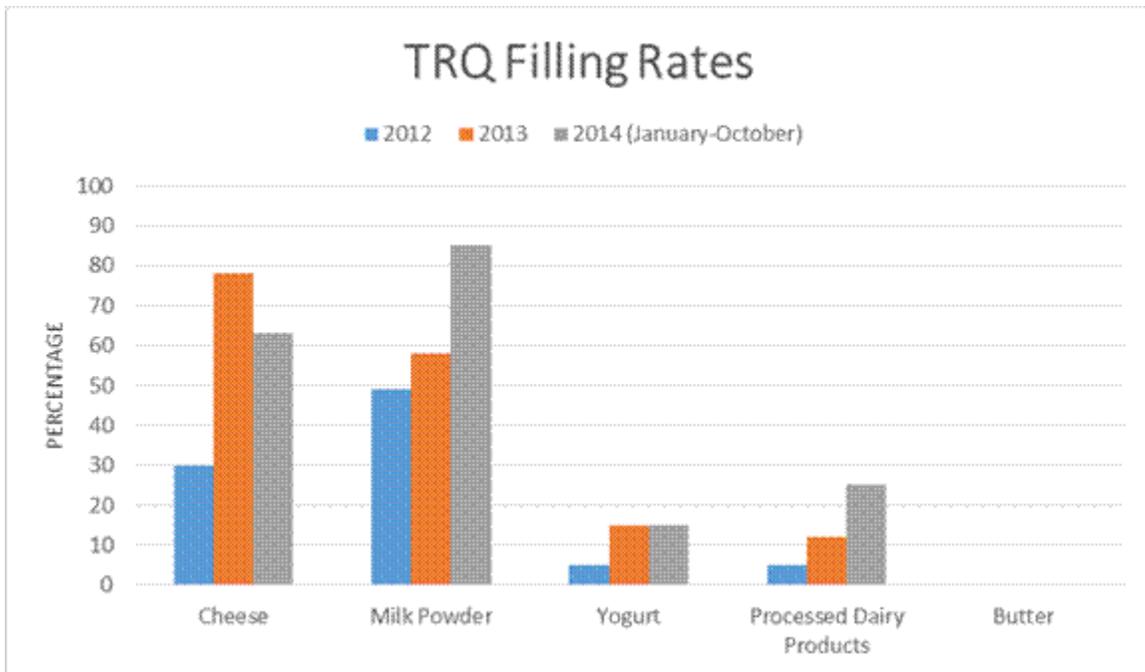
Colombia - Dairy Products Imports (USDmn)



Source: Business Monitor International

In addition, between January and July 2014, U.S. dairy exports reached \$28.7 million, the highest level since 1970 (within that timeframe) and a 66.9% increase over the same period in 2013.

While dairy exports have increased in absolute terms, different categories of dairy products have been more successful than others, and many products continue to be well below the TRQ fill rate permitted by the CTPA. Examples can be found in the illustration below, particularly the fill rate of TRQs for powdered milk, butter, yogurt, cheese, and processed dairy products.

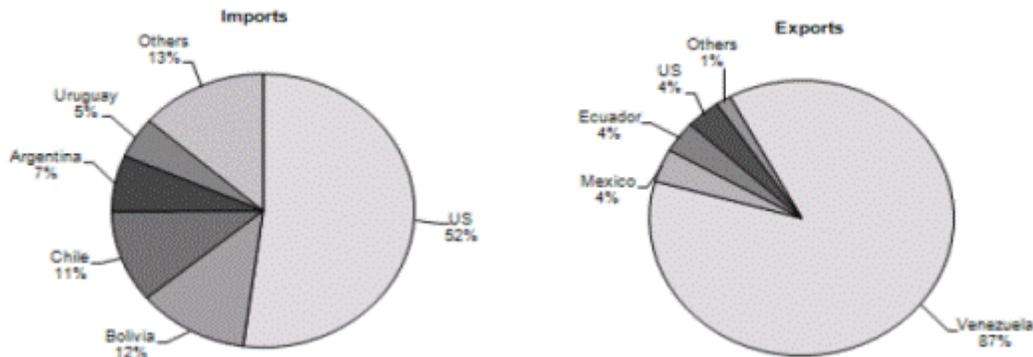


Source: Foreign Agricultural Service

The following sections offer information about trade of dairy products and the challenges exporters face in the Colombian market. In general, all of these products face similar challenges, including competition from other export countries including Argentina, Chile, Uruguay, Bolivia, and New Zealand. In addition, American products are considered premium quality and for many low-income Colombians they are very expensive. Thus, local small-farm dairy producers continue to dominate much of the Colombian dairy market.

Nonetheless, the pie charts below outline the dairy import and export partners of Colombia. While these charts do not specify the products to be discussed, it still reveals that the United States controls more than half of the Colombian import dairy market.

Colombia - Dairy Products Imports & Exports, 2013 (% of value imported and exported)



Source: Business Monitor International

Powdered Milk

Milk in powdered form (regardless of skim, whole, etc.) is one of the larger Colombian dairy imports. As of 2013, Colombia was the United States' 23rd largest powdered milk product export market. The TRQ allows for 6,655,000 kg to enter the Colombian market in 2014. As of October, 5,669,050 kg (85.2%) of the TRQ has been filled. The United States still faces stiff competition from Argentina. In fact, because of the surge in Argentine powdered milk exports to Colombia because of favorable prices, Colombia was forced to institute a quota on Argentine powdered milk imports. In addition, many Colombians still cannot afford powdered milk, which also has a lower demand as it is not an essential dietary staple. For example, according to Business Monitor International, whole milk powder has an estimated annual per capita consumption of only 1.0 kg. Nevertheless, as per capita income has increased, so have U.S. powdered milk exports to Colombia.

Cheese

Colombia is also a large market that the U.S. cheese products. As of 2013, Colombia was the 18th largest export market for U.S. cheese products. The TRQ for cheese is 2,795,000 kg for 2014. As of October, the total amount utilized was 1,748,519 kg (62.6%). There is still a lack of demand for imported cheeses because of the dominant position of local Colombian firms, which offer affordable products for many Colombians who still consider U.S. imports to be high-quality but too expensive to consume on a regular basis. This disadvantage is combined with the fact that many Colombians do not use cheese for a large variety of meals. Rather, cheese is often eaten at breakfast and used for sandwiches. To tap into this market, U.S. exporters must be able to advertise to Colombians that cheese can be used for many other purposes, such as through recipe promotions. In addition, there is a growing population of Colombians that is focusing on healthy-eating habits and lifestyles. If U.S. producers can convince Colombian consumers to buy better-quality, healthy cheeses then there is a better chance that U.S. exporters can increase sales in Colombia.

Butter

Colombia ranks as the 69th largest market for U.S. butter exports. Of all the exports to Colombia, butter continues to be the least used TRQ. As of October 2014, only 780 kg (0.12%) out of 666,000 kg has been used. Like cheese, butter is more easily accessible via the local producers at extremely low cost. Nevertheless, there could be prospects for growth if growing income levels continue. Currently, heart disease is the third largest killer in Colombia after violence and cancer. With a growing demand for heart-healthy products, U.S. exporters could promote the fact that their products contain important vitamins for heart health along with omega-3. For Colombians who love butter but do not want negative cardiovascular effects, they may look to these healthy U.S. products.

Yogurt

After butter, yogurt is the second lowest-performing dairy product discussed, with Colombia being the 55th largest importer of U.S. yogurt products. In regards to the TRQ, as of October 2014, only 19,817 kg (14.9%) out of 133,000 kg has been used. One of the biggest reasons for this is culture. Many Colombians prefer easily-consumed yogurt products, particularly drinkable kefir-type yogurts. Yogurt eaten with a spoon is considered burdensome when looking for "grab-and-go" foods. Based on this, local firms maintain a comparative advantage in the Colombian yogurt market, producing 67% of drinkable products at the end of 2013. Nevertheless, yogurts considered to be of healthier quality continue to grow in demand. This includes pro-biotic formulas along with Greek yogurt. Although

Greek yogurt is eaten with a spoon, it is low-fat and high in protein. The problem, however, is that there is a lack of general knowledge about the benefit of a high-protein diet, leading to difficulties in selling Greek yogurt. If U.S. exporters can follow the lead of Colombian firms and advertise the benefits of healthier yogurt, then U.S. products could gain a foothold in the market.

Processed Dairy Products

These products include malt extracts and infant formulas. Based on TRQ numbers, out of 1,331,000 kg available in 2014, 300,791 kg (24.8%) has been used as of October. Colombia ranks 26th as a market for U.S. processed dairy products, but sales have continued to grow substantially since 2011. According to Euromonitor International, total retail sales for food preparation products for infants increased by over 150% between 2011 and 2013, albeit at very low levels. During this period, for example, U.S. formula exports increased from \$617,416 in 2011 to \$1,589,456 in 2013.

Processed dairy product sales should increase as income levels increase. This is complemented by the fact that the increased levels of urbanization within Colombia have led to faster-paced lifestyles.

Moreover, based on the growing demand for healthy products, U.S. products may continue to grow in demand as Colombians seek healthy dairy products. It should be noted however, that birth rates in Colombia are declining, particularly in cities, while poorer, rural areas are less apt to purchase processed formula products. But with greater income levels in the cities, less essential products like malt extracts will rise in demand as they become more affordable.

Strategies to Increase Demand for U.S. dairy products in Colombia:

With an improving economy in Colombia and a growing middle class, there is increasing demand for healthy food products, particularly among younger, more urban populations. In order to gain a better foothold in the Colombian dairy market, U.S. exporters must convince Colombian consumers that their products are, in fact, healthy due to their higher quality. Additionally, educating Colombians about the ability to diversify food products into different meals rather than only breakfast or “grab-and-go” could increase demand for milk powder, cheese, butter, yogurt, and processed dairy goods.