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## **Ecuador**

### **Grain and Feed Annual 2016**

#### **Ecuador Wheat Imports, Corn and Rice Production Expected to Decrease in 2016**

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**Report Highlights:**

Ecuador's wheat production in marketing year (MY) 2016/17 (July-June) is forecast to reach 4,000 metric tons (MT), down about 1,000 MT from the MY 2015/16 estimate. Ecuador is an insignificant producer of wheat, dependent almost entirely on foreign imports. Ecuador's wheat imports in MY 2016/17 are forecast at 800,000 MT, down 60,000 MT or seven percent compared to the MY 2015/16 estimate of 860,000 metric tons. Corn production in MY 2016/17 (May-April) is forecast at 1.16 million metric tons (MMT), down from the MY 2015/16 estimate of 1.4 MMT. We attribute the downward trend in production to phyto-sanitary issues and the economic uncertainties surrounding the market, which are discouraging farmers from planting. Milled rice production in MY 2016/17 (April-March) is forecast at 660,000 MT, down 90,000 MT or 12 percent compared to the MY 2015/16 estimate of 750,000 metric tons.

## **Executive Summary:**

FAS Quito forecasts Ecuador's wheat production in marketing year (MY) 2016/17 (July-June) to reach 4,000 metric tons (MT), down about 1,000 MT from our MY 2015/16 estimate. Ecuador is an insignificant producer of wheat, dependent almost entirely on foreign imports. We forecast Ecuador's wheat imports in MY 2016/17 at 800,000 MT, down 60,000 MT or seven percent compared to the MY 2015/14 estimate of 860,000 metric tons. We attribute the decrease to Ecuador's economic slowdown. Consumption by the local animal feed industry is expected to remain flat.

FAS Quito forecasts Ecuador's corn production in MY 2016/17 (May-April) at 1.16 million metric tons (MMT), down from the MY 2015/16 estimate of 1.4 million metric tons. We attribute the downward trend in production to the economic uncertainties surrounding the market, which is discouraging farmers from planting. Production is also down due to farmers switching to alternative crops. We forecast Ecuador's corn imports in MY 2016/17 at 100,000 MT, up some 25,000 MT compared to the MY 2015/16 estimate of 75,000 metric tons.

FAS Quito forecasts Ecuador's milled rice production in MY 2016/17 (April-March) at 660,000 MT, down 90,000 MT or 12 percent compared to the MY 2015/16 estimate of 750,000 metric tons. We attribute the decrease in production to the uncertainty surrounding market prices and to the hesitation of farmers to plant. This year's first major harvest is expected in late May. Ecuador is self-sufficient in rice production; imports are minimal barring their need due to weather induced bad harvests. A very small niche opportunity however does exist for U.S. exports of specialty rice varieties such as basmati, sushi-style rice (i.e., white, short-grain rice), risotto, wild rice, and parboiled rice.

**Commodity – Wheat  
Production:**

FAS Quito forecasts Ecuador’s wheat production in marketing year (MY) 2016/17 (July-June) to reach 4,000 metric tons (MT), down about 1,000 MT from the MY 2015/16 estimate of 5,000 metric tons. Ecuador is an insignificant producer of wheat, dependent almost entirely on foreign imports.

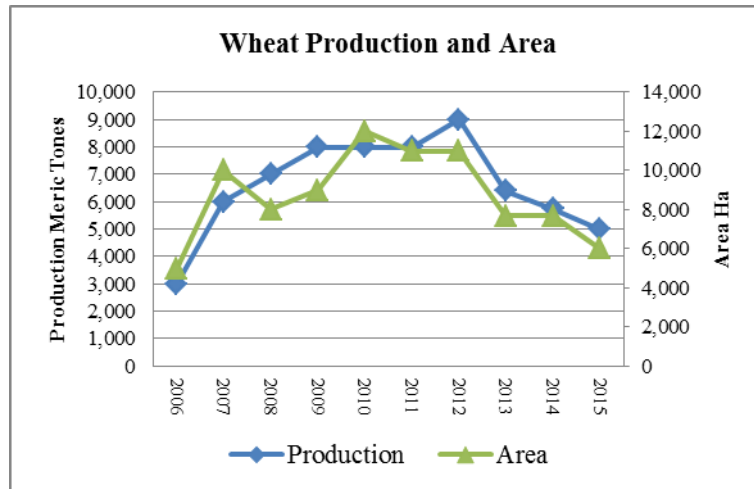
Wheat Market Begin Year	2014/2015		2015/2016		2016/2017	
	Jul 2014		Jul 2015		Jul 2016	
Ecuador	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	7	7	6	6	0	5
Beginning Stocks	101	101	202	202	0	212
Production	6	6	5	5	0	4
MY Imports	835	835	850	860	0	800
TY Imports	835	0	850	860	0	800
TY Imp. from U.S.	338	338	0	360	0	320
Total Supply	942	942	1057	1067	0	1016
MY Exports	5	5	5	5	0	5
TY Exports	5	5	5	5	0	5
Feed and Residual	160	160	260	225	0	220
FSI Consumption	575	575	640	625	0	610
Total Consumption	735	735	900	850	0	830
Ending Stocks	202	202	152	212	0	181
Total Distribution	942	942	1057	1067	0	1016
(1000 HA) ,(1000 MT)						

Ecuador’s domestic wheat production has declined steeply since the 1970s. Throughout the 1990’s, the country still managed to produce some 30,000 MT of wheat per year on some 37,000 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 (more expensive) in favor of more affordable imports. While the government indicates that today some 6,000 hectares remain in wheat production, FAS Quito understands that this number should be closer to the 5,000 hectare range. FAS Quito forecasts Ecuador wheat yields in MY 2016/17 at 0.8 MT/hectare.

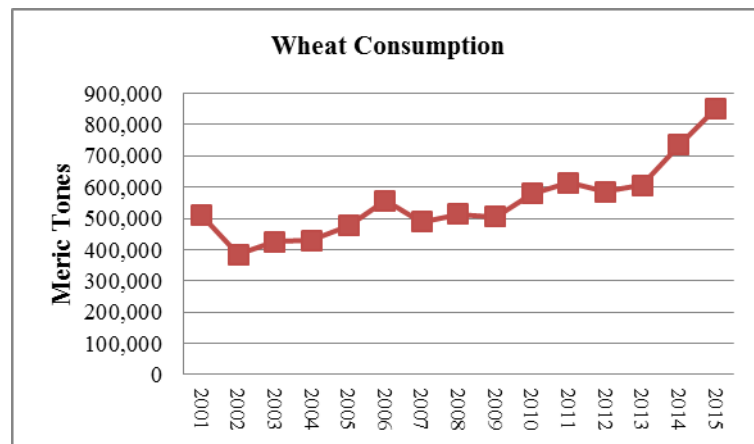
Government incentives in place since 2008 aimed at increasing cultivation, namely through the provision of subsidized fertilizers, government-backed loans, and improved seed varieties, have not yielded expected results. Central and northern highland farmers have opted instead to switch to more profitable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

FAS Quito estimates that of the 5,000 MT of domestically produced wheat in MY 2015/16 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, Ecuador’s Association of Wheat Millers (ASEMOL) commenced promoting in 2015 the development of seed types more suitable for Ecuadorian soils. ASEMOL has invested to date about \$120,000; results are expected sometime in 2017.



**Consumption:**

FAS Quito forecasts Ecuador’s wheat consumption in MY 2016/17 at 830,000 MT, decreasing 20,000 MT or two percent compared to the MY 2015/16 estimate of 850,000 metric tons. We attribute decreased consumption in MY 2016/17 to lower levels of economic activity in Ecuador during 2016; there exists potential for continued slow growth through 2017. Our estimate assumes that demand for animal feed wheat will remain flat. Sources report that consumers have decreased consumption of bread rolls (an Ecuadorian staple priced at \$0.12 since 2011) by 5 to 15 percent as a result of reduced purchasing power in the Ecuadorian population. Ecuador’s economic slowdown is attributed in part to lower oil revenues (its main export), combined with a strengthening of the U.S. dollar. Ecuador utilizes the U.S. dollar as its legal tender and lacks major financial reserves to alleviate external shocks.

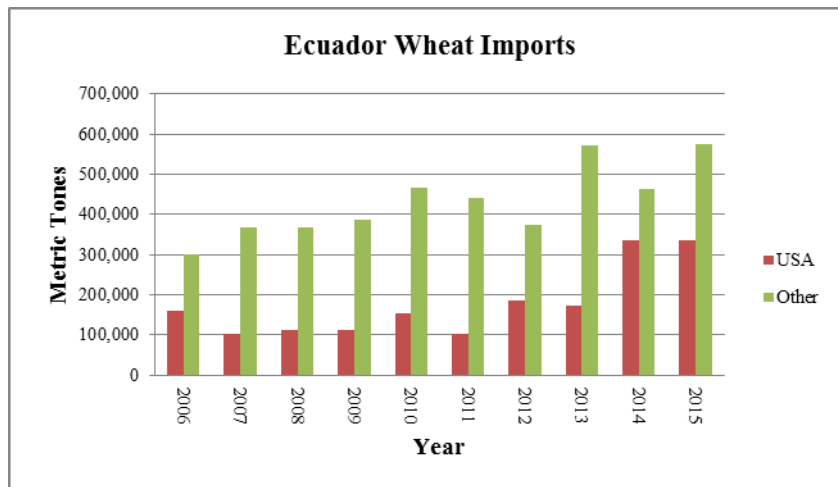


FAS Quito estimates Ecuador wheat consumption in MY 2015/16 at 39 kilograms/annum (premised on a population of ~15.9 million – Central Intelligence Agency, July 2015 estimate). We estimate FSI consumption at 625,000 metric tons. Ecuador’s MY 2016/17 feed wheat use is forecast at 220,000 MT, of which 150,000 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 \$2.3 billion in calendar year 2015) benefitted 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 2016/17 at 800,000 MT, down 60,000 MT or seven percent compared to the MY 2015/16 estimate of 860,000 metric tons. We attribute the decrease to lower internal demand as a result of Ecuador’s economic contraction. This estimate assumes that demand by the country’s animal feed industry will remain flat.



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 estimated that 225,000 MT of wheat made its way into animal feed in MY 2015/16. 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 1.77 to one, up from 1.55 in CY 2014. Import market share of U.S.-origin wheat in CY 2015 dropped to 37 percent, in CY 2014 U.S. market share had been around 45 percent. U.S. import market share has benefited from 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 however remains Ecuador’s main supplier of wheat.

**Policy:**

Ecuador’s attempts to substitute wheat imports with increased local production have yet to yield results. Despite the recent introduction of three higher yielding varieties, the first since the 1990s, new plantings have yet to occur.

COMEX Resolution 004-2015 (February 3, 2015) and COMEX Resolution 012-2015 (March 19, 2015) extended prior COMEX Resolution 099-2012 (which expired on December 31, 2014) through December 31, 2016. Like the preceding resolution, COMEX 004-2015 and COMEX 012-2015 exempts all imported wheat, as well as wheat flour and wheat semolina from the 10 percent *ad valorem* duty and eliminates the Andean Price Ban System (APBS) variable levy. The Andean

Community (Bolivia, Colombia, Ecuador, and Peru) set floor (threshold) and ceiling prices for wheat are currently \$316/MT and \$362/MT. The United States exported \$70.3 million worth of wheat to Ecuador in CY 2015.

Ecuador maintains bilateral trade agreements with Peru and Chile, and regional trade agreements with the Latin American Integration Association (ALADI). In 2004, Ecuador reached a tariff liberalization agreement with the Southern Common Market (MERCOSUR); 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 APBS's variable levy. In 2014, Ecuador concluded trade liberalization agreement negotiations with the European Union (EU). It remains to be seen if Ecuador will terminate the application of the APBS to EU-origin wheat imports.

### **Commodity – Corn Production:**

FAS Quito forecasts Ecuador's corn production in MY 2016/17 at 1.16 million metric tons (MMT), down from the MY 2015/16 estimate of 1.4 million metric tons. We attribute the downward trend in production to decreased planted area. There are also concerns with productivity dropping due to an upswing in phyto-sanitary issues. Farmers have reported, for example, increased incidence of viral diseases. We do not expect a large number of farmers to stop planting corn. We do however anticipate that some farmers will switch to more profitable crops. Strong incentives remain for farmers to continue planting corn as long as the government's official set price remains at about \$350/metric ton. It is expected that the government will maintain its requirement that local animal feed manufacturers buy up production, despite domestic prices being considerably higher than international prices.



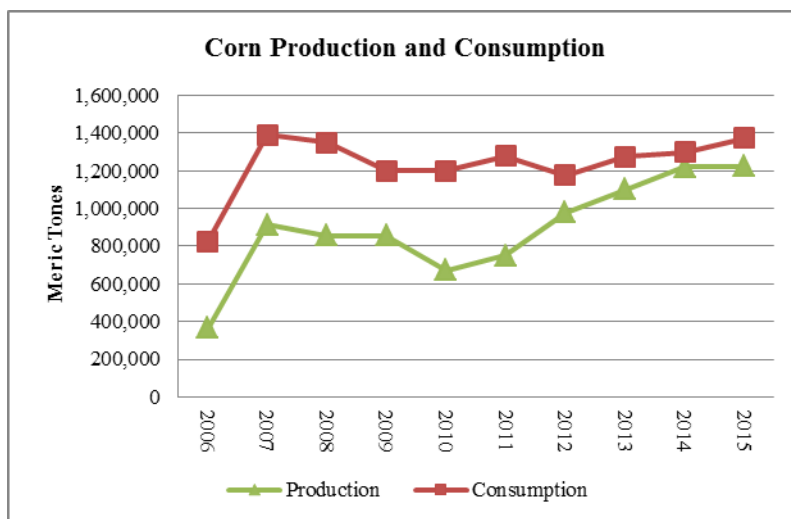
Corn plant affected by viral diseases, Quevedo, February 2016.  
Photo Credits: H. Vega.

The government requires that the price paid for local corn matches or exceeds the cost-insurance-freight (CIF) cost of imported corn. Sources comment that the requirement will remain in place for the foreseeable future in order to stimulate domestic production. Previously domestic corn production fluctuated widely. Some sources comment that the government might limit wheat imports, which are used in poultry and pork production.

Corn Market Begin Year	2014/2015		2015/2016		2016/2017	
	May 2014		May 2015		May 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Ecuador						
Area Harvested	340	340	340	325	0	290
Beginning Stocks	67	67	61	61	0	156
Production	1220	1220	1225	1400	0	1160
MY Imports	75	75	100	75	0	100
TY Imports	74	74	100	75	0	100
TY Imp. from U.S.	27	27	0	30	0	60
Total Supply	1362	1362	1386	1536	0	1416
MY Exports	1	1	5	5	0	1
TY Exports	0	0	5	5	0	1
Feed and Residual	1225	1225	1250	1300	0	1300
FSI Consumption	75	75	75	75	0	75
Total Consumption	1300	1300	1325	1375	0	1375
Ending Stocks	61	61	56	156	0	40
Total Distribution	1362	1362	1386	1536	0	1416

(1000 HA) ,(1000 MT)

FAS Quito estimates yields of 4.3 MT/hectare in MY 2015/16; we forecast a lower yield of 4.0 MT/hectare for MY 2016/17. Corn yields have improved through the expanded use of higher-yield seeds. Due to the lack of crop rotation, yields will likely decline in MY 2016/17 as a result of phyto-sanitary issues.



### Consumption:

FAS Quito forecasts Ecuador's total corn consumption at 1.375 MMT in MY 2016/17, unchanged year-to-year from the MY 2015/16 estimate of 1.375 million metric tons. We estimate MY 2015/16 total corn consumption up six percent compared to the previous marketing year. We attribute overall

zero growth in consumption in MY 2016/17 to the slowdown in the Ecuadorian economy.

FAS Quito estimates that feed consumption will remain flat in MY 2016/17. 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 pork producers.

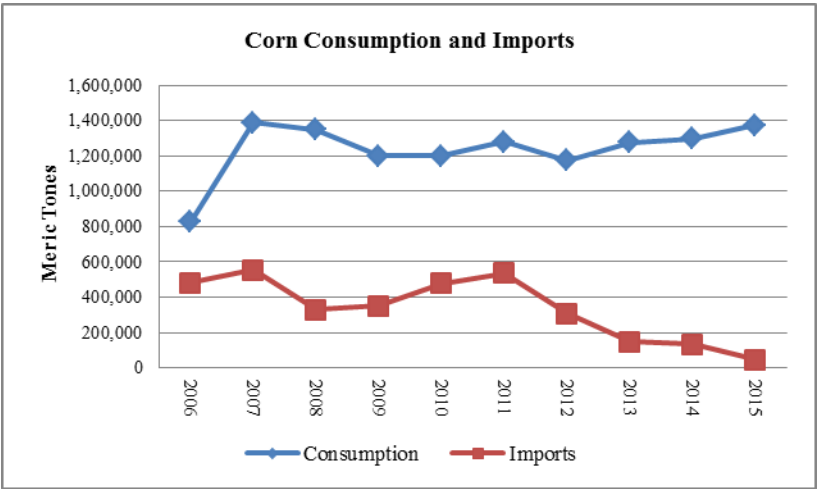
FAS Quito estimates that FSI consumption will also remain flat in MY 2016/17. As a result, total consumption will also remain unchanged in MY 2016/17.

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 not expected to experience growth in 2016. Industry sources are actually anticipating that the sector might contract in 2016. Per capita consumption of poultry meat is estimated to go from 35 kilograms/annum to 30 kilograms/annum. In 2015, the poultry flock reached 252 million birds, up 2 million from 2014 levels. The national flock is composed of 12 million egg layers and 240 million broilers.

**Trade:**

FAS Quito forecasts Ecuador’s corn imports in MY 2016/17 at 100,000 MT, up some 25,000 MT compared to the MY 2015/16’s most recent estimate of 75,000 metric tons.

Despite strong demand for corn, imports remain at record lows. The Rafael Correa administration aims to slow (and eventually eliminate) corn imports through increased local corn production. In the past, imports filled about half of Ecuador’s corn needs. Ecuador imported about 46,000 MT of corn in CY 2015, of which 27,000 MT came from the United States.



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.



## Policy:

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 \$278/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 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).

The government subsidizes small farmer corn production. The National Seeds Project for Strategic Agricultural Groups, in cooperation with 17 companies, encompassed 150,000 hectares in 2015. Government sources indicate that farmers are obtaining average yields of 5.56 MT/hectare.

The National Seed Project for Strategic Agricultural Groups covers yellow corn production in the provinces of Los Ríos, Guayas, Manabí, Loja, Orellana, Sucumbíos, Napo, Esmeraldas, and Imbabura. Farmers planting 10 hectares or less receive a subsidized technical package consisting of seeds, crop protection products, fertilizers, and technical assistance. The Government of Ecuador reportedly spent nearly \$38 million on its corn program in 2015.

## Commodity – Rice Production:

FAS Quito forecasts Ecuador's milled rice production in MY 2016/17 at 660,000 MT, down 90,000 MT or 12 percent compared to the MY 2015/16 estimate of 750,000 metric tons. We attribute decreased production to a reduction in planted area. Farmers have delayed plantings as a precaution against the 2015/16 El Niño phenomena.



Rice field, Palestina, Guayas Province, February 2016.  
Photo Credits: H. Vega.

Ecuador, facing an economic slowdown, will likely see domestic rice consumption drop 10 to 15 percent. With farmers anticipating lower prices, these will seek to reduce area planted to avoid incurring financial risks.

This year’s first harvest is expected in May, it is expected to be a good one. Approximately 50 percent of Ecuador’s rice production is harvested between April and June.

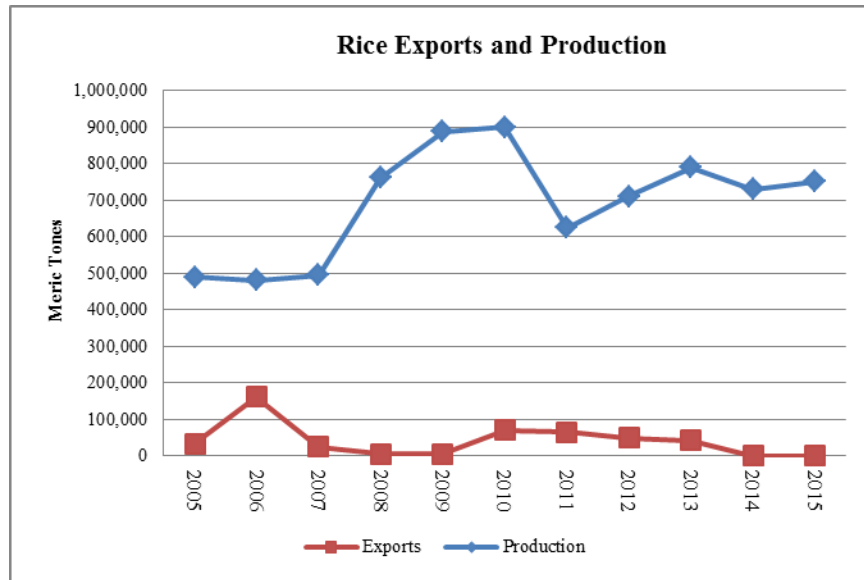


Harvest of rice seedlings, Salitre, Guayas Province, February 2016.  
Photo Credits: H. Vega.

The utilization of new, improved rice varieties allows for 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.

Rice, Milled Market Begin Year	2014/2015		2015/2016		2016/2017	
	Apr 2014		April 2015		Apr 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Ecuador</b>						
<b>Area Harvested</b>	345	345	347	359	0	315
<b>Beginning Stocks</b>	73	73	70	70	0	85
<b>Milled Production</b>	730	730	765	750	0	660
<b>Rough Production</b>	1159	1159	1214	1190	0	1048
<b>Milling Rate (.9999)</b>	6300	6300	6300	6300	0	6300
<b>MY Imports</b>	0	0	1	41	0	50
<b>TY Imports</b>	1	1	0	41	0	50
<b>TY Imp. from U.S.</b>	0	0	0	0	0	0
<b>Total Supply</b>	803	803	836	861	0	795
<b>MY Exports</b>	0	0	0	1	0	1
<b>TY Exports</b>	0	0	0	1	0	1
<b>Consumption and Residual</b>	733	733	772	775	0	735
<b>Ending Stocks</b>	70	70	64	85	0	59
<b>Total Distribution</b>	803	803	836	861	0	795
(1000 HA) ,(1000 MT)						

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 735,000 MT in MY 2016/17, down 40,000 MT or five percent from the MY 2015/16 estimate of 775,000 metric tons. We attribute the decrease to reduce consumption triggered by Ecuador’s economic slowdown. Per capita consumption is estimated at about 49 kilograms/annum. Overall, FAS Quito is forecasting that consumers will eat less rice and/or will switch to other more affordable staples such as plantains, potatoes, and cassava among others.

Domestic rice is marketed through wholesalers in 100 pound (45.36-kilogram) sacks, with small vendors selling to consumers by the kilogram. Ecuador’s Association of Rice Millers (CORPCOM) reports farm gate rice prices of \$41.91 per 200 pound (90.76-kilogram) sack of paddy rice. The average wholesale price of a 100 pound (45.36-kilogram) sack of milled rice in 2015 was \$38.92. At the retail level consumers paid on average \$1.27/kilogram. 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 September through December. FAS Quito estimates that the downward trend in prices will continue, to a lesser degree, in CY 2016.

**Trade:**

Ecuador is self-sufficient in rice production. Imports are minimal unless weather induced bad harvests require larger imports. However, a depreciation of the Peruvian currency seems to be encouraging arbitrage border trade. These trade flows are not captured in Ecuador’s official statistics. At FAS Quito we estimate Peruvian exports of rice to Ecuador at 50,000 MT in MY 2016/17. U.S. exports of specialty rice varieties such as basmati, sushi-style rice (i.e., white, short-grain rice), risotto, wild rice, and parboiled rice have become very marginal (less than 200 MT in 2015) or non-existent in the last two years. Besides facing a 68 percent tariff, rice imports require a cumbersome

inter-agency approval process. Concerns with Ecuador’s balance-of-payments are being used to justify import lowering measures. Sources indicate that rice imports from outside the Andean Community are subject to a combined 68 percent import tariff plus an additional 40 percent import surcharge/special safeguard. The latter is a provisional safeguard measure imposed to address imbalances in Ecuador’s balance of payments.

Ecuador exports rice to Colombia, and at times to Peru, depending on the exchange rate. Ecuador refrained from exporting rice in MY 2015/16 due to better domestic prices. FAS Quito forecasts that with the U.S. dollar remaining strong, Ecuador will only export about 1,000 MT of rice to its neighbors in MY 2016/17. With respect to border trade with Colombia, FAS Quito estimates exports at zero. Sources indicate possibly Peruvian rice is being transshipped through Ecuador in route to Colombia, Post consequently does not factor this rice into its estimates.

**Policy:**

Rice imports are politically sensitive. The government is reportedly promoting rice self-sufficiency by maintaining the APBS, as well as controlling exports and imports. The APBS currently sets a floor price of \$536/MT and a ceiling of \$610/metric ton. Rice imports are normally levied an *ad valorem* tariff of 20 percent plus an additional variably levy of 48 percent. The Ministry of Agriculture issues export and import permits; it acts as the authorized exporter of reserves. The government has established an emergency stock of 80,000 MT of rice to ensure national food security. FAS Quito understands that this emergency stock target number to be more aspirational than actual given the country’s current economic situation, the availability of continuous rice supply throughout the year, and the availability of rice substitutes in the market. There is no imperative that this target number be reached and or maintained.

Andean Community members are assessed a zero-tariff, as well as are not subject to the Andean Price Band System. A ministerial decree is nonetheless necessary before an import permit is authorized. Other Latin American countries have been granted *ad valorem* tariff preferences under the ALADI, but they are still assessed the APBS variable levy.

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, 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.