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U.S. Corn Dominating Colombia Market

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Grain and Feed

Agricultural Situation

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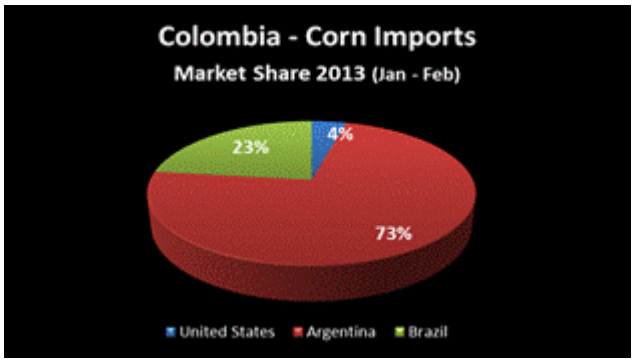
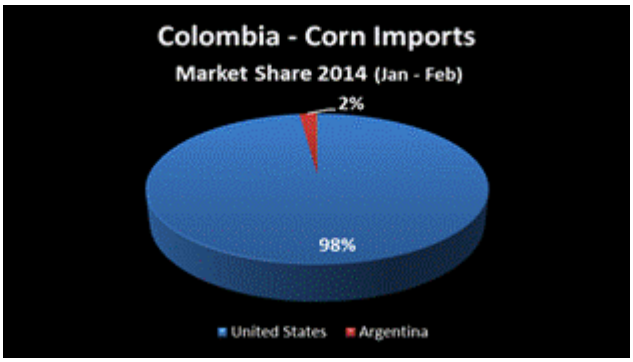
Report Highlights:

U.S. corn exports to Colombia are swiftly recovering the market against Southern Common Market (MERCOSUR) competitors. As of March 31, 2014, U.S. corn exports reached 1.7 million metric tons (MMT), or about 74 percent of the 2.3 MMT quota for 2014. The entire quota will likely be filled before August this year.

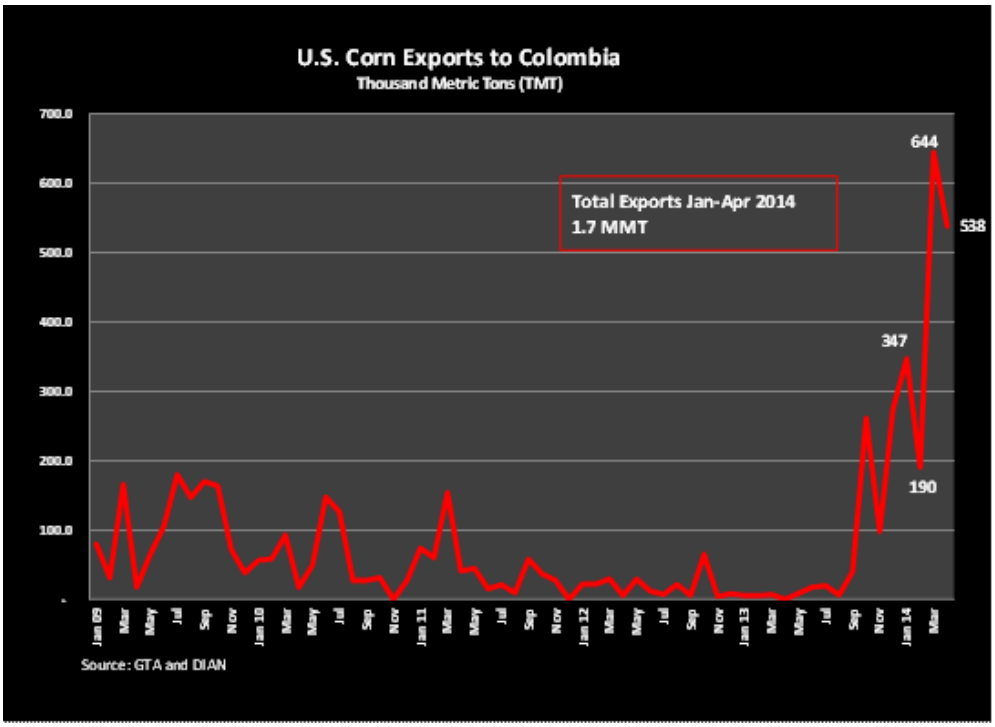
General Information:

Price conscious Colombian grain importers have enthusiastically taken note of low corn prices, helping U.S. corn exports to swiftly recover market share against MERCOSUR competitors, primarily Argentina and Brazil. The tables below illustrate the noteworthy market share recovery, from 4 to 98 percent, over the same time period in 2013 and 2014.





As of March 31, 2014, U.S. corn exports reached 1.7 million metric tons (MMT), or about 74 percent of the 2.3 MMT quota for 2014. The table below illustrates monthly deliveries from January 2009 to the present, including the U.S. corn buying frenzy that began in October 2013. The sharp declines in deliveries in November 2013 and January 2014 reflect the logistical problems and delivery delays from inclement weather in the United States and the soybean buying surge from China.



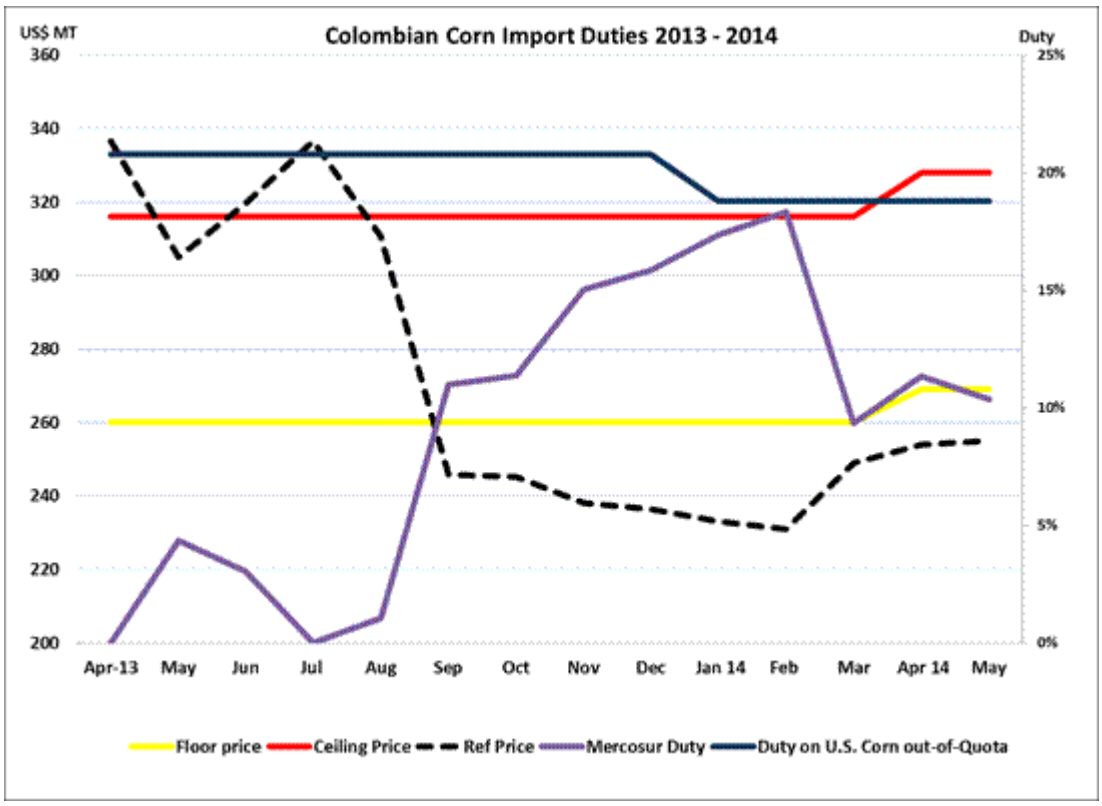
The United States has gradually lost market share since 2009 from MERCOSUR competitors because of comparable freight rates, high U.S. corn prices and trade preferences benefitting sourcing MERCOSUR corn. In 2008, U.S. corn exports held 80 percent of the Colombian import market share, declining significantly to 13 percent in 2012. In 2013, lower prices initiated the market recovery, up to 18 percent by the end of the calendar year.

Lower prices for U.S. corn almost completely mitigate any competitive pricing advantages Argentina and Brazil enjoyed in previous years under the Price Band System (PBS) of the Andean Community of Nations (CAN). Colombia applies a PBS mechanism for all trading partners for major commodities, except where trade agreements establish different trading conditions, such as the U.S.-Colombia Trade Promotion Agreement, which applies an initial zero duty tariff-rate-quota mechanism instead. The Government of Colombia maintains the CAN price band for all trading partners and in the case of MERCOSUR offers duty discounts at 70 percent of the base duty plus the variable duty. The PBS applies duties off of a 10 percent base duty when international corn prices are lower than the floor price and conversely reduces the base duty when international prices are higher than the ceiling price. This price band mechanism operates as a protective pricing policy when the international corn prices are lower than the PBS floor price, which increases the import duty. In recent years, with high international commodity prices, the price band mechanism has resulted in a converse scenario with near zero duties for imports from trading partners where the PBS applies, such as MERCOSUR. In 2013, falling corn prices have benefited U.S. corn at the expense of MERCOSUR, whose duties have risen significantly from 0-10 percent – even with the duty discount, while U.S. corn remains at zero duty within quota.

The CAN base duty is 15% for corn with a variable duty that changes every two weeks, tracking a reference price based on a 60 day CBOT average. The variable duty increases the base duty when the CBOT average is lower than a set floor price fixed at US$269 per ton. Conversely, the variable duty will reduce the base duty when the reference price is above the ceiling price, currently fixed at US$328 per ton. The floor and ceiling prices currently apply from April 1, 2014 to March 31, 2015.

For the period of May 16-31, 2014, the CAN reference price for corn is US$255 per ton, which falls below the PBS floor price. As a result, the duty on corn imports from MERCOSUR is 10 percent, while the duty on imports of U.S. corn remains at zero (under quota).

The graph below illustrates the reference price trend and corresponding duties to MERCOSUR corn.



The U.S. corn buying frenzy continues with many importers front-loading deliveries in anticipation of the 2.3 MMT U.S. quota reaching capacity, most likely before the end of the summer. This has significant implications for the fall 2014 U.S. corn harvest. The duty on U.S. corn in excess of the quota (blue line above) is about 19 percent. Nevertheless, if prices continue to trend downward, and with MERCOSUR duties climbing, U.S. corn may still be competitive beyond quota as the fall 2014 harvest deliveries begin.