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U.S. Rice Exports to Colombia Decline

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Report Highlights:

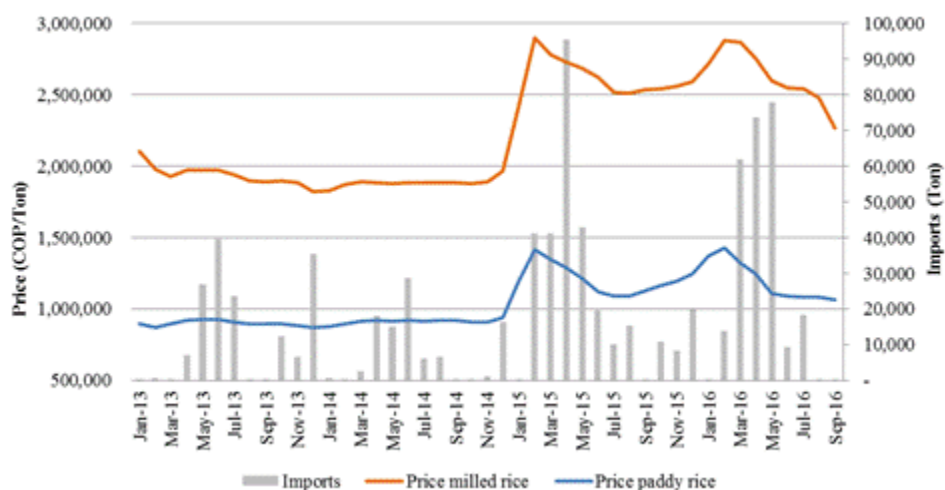
In 2016, U.S. rice exports to Colombia are 66.1% lower than the previous year. This is due to a strong U.S. dollar, larger Colombian domestic production, and increased competition from Mercosur and other cheaper markets. Colombia has gone from the 4th largest market for U.S. rice exports in 2015 to the 9th largest in 2016. Colombian rice imports vary in direct correlation to the quality and quantity of its domestic rice crop, which increased in 2016 thanks to high local prices and government incentives. In the first semester of 2016, Colombia imported rice for first time from Uruguay and Paraguay after granting phyto-sanitary access to Mercosur countries at the end of 2015.

General Information:

Rice is one of the key basic staple foods in Colombia with a high per capita consumption compared to neighboring countries; about 40 kilograms (80 pounds). Colombia cannot meet its rice demand exclusively through locally produced rice, which in normal conditions is able to supply 10 months of the country's consumption. This means that certain amounts of imported rice are required depending on the quality and quantity of local production. Because rice is a basic foodstuff, the Government of Colombia (GOC) continuously monitors national inventories to ensure domestic demand can be met.

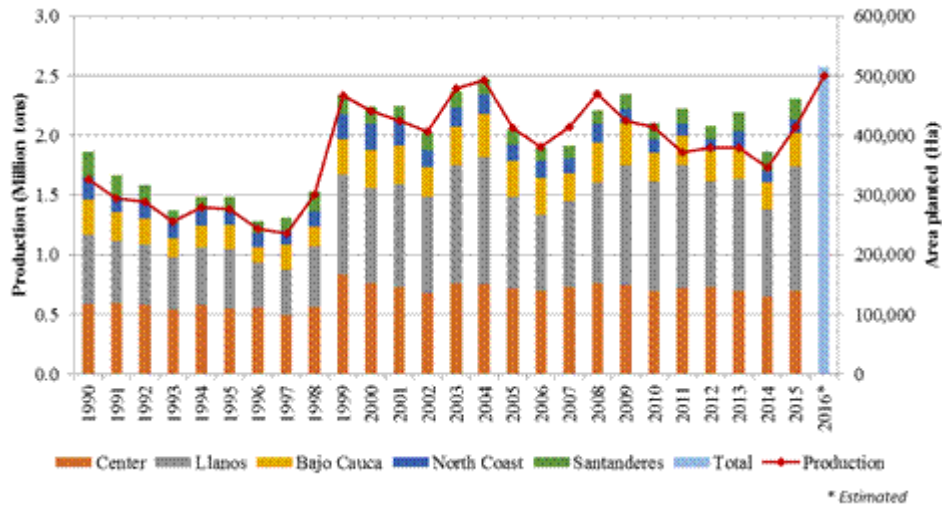
Higher Domestic Prices Encouraged Domestic Production

In 2014, Colombian rice production declined as the area planted fell by about 60,000 hectares (148,000 acres) as a result of low market prices that discouraged rice producers to plant. Reduced supplies at the end of 2014 put upward pressure on prices and increased rice imports. These trends may be observed in the graph below.



Monthly rice prices and volume imported. Source: Fedearroz – DIAN

In 2015, average grower prices increased by 32.4% compared to 2014. This price surge stimulated rice growers to enlarge dry-land rice area planted for the growing seasons 2015/2016, primarily in the Llanos region. According to the Colombian Rice Growers Federation (Fedearroz), over the past two years the area planted expanded by 177,000 hectares resulting in a forecast 2016 production of 2.5 million tons, 32.3% higher than last five year average production. The graph below shows the historical rice area planted by region and the total rice production.



Rice production and area planted. Source: Fedearroz

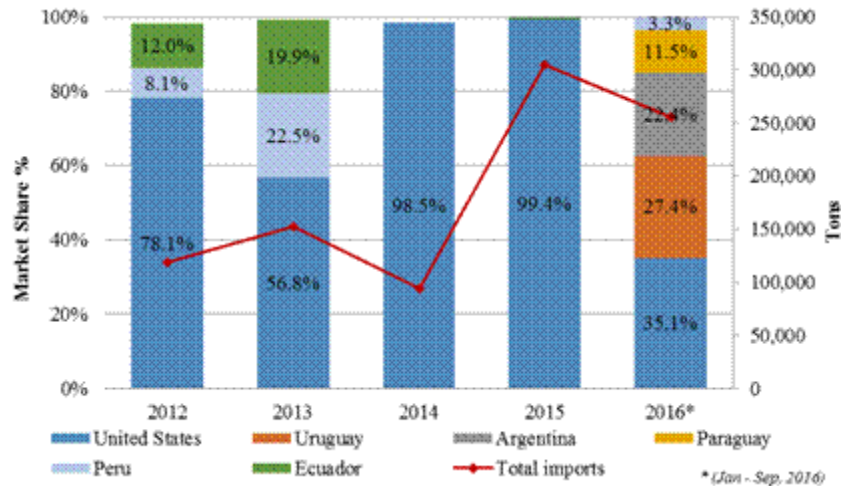
During the first semester of 2015, rice imports reached historically high volumes, primarily sourced from the U.S. (99.4%). This was a consequence of low domestic supplies and inelastic demand. In addition, the closure of the common border with Venezuela reduced the availability of the black market rice, and meant that imports had to make up for the loss of illegally obtained cereals. The Colombian Rice Industry Association (Induarroz) estimates that rice contraband has gone from 30% of domestic consumption demand in 2014 to 4% in 2016.

Although the rice area planted increased, the *El Niño* drought phenomena slightly affected production in 2015 and pushed the first planting season of 2016 to the end of February/early March resulting in a late main harvest for 2016. Difficult weather conditions affected not only rice but other agricultural products, resulting in problematic food supplies, increased consumer prices and a higher inflation rate.

Since 2015, Colombia has experienced inflation levels higher than the GOC's expectation (under 4%). Despite trade agreements, such as the one in place with the United States, which help local industry to import cheaper goods and stabilize domestic prices, the rising currency exchange rate increased the cost of imported products. Because of late domestic production and more expensive imports, Induarroz lobbied the GOC to allow imports from other origins, specifically from Mercosur, which had been restricted by lack of phytosanitary agreements.

U.S. Exports Face Increased Competition

The high inflation rate and pressure from the rice industry, prompted the GOC to allow 200,000 tons of rice to be imported in 2016 in order to maintain adequate inventory and stabilize food prices. These additional imports were subject to the existing tariffs. The 80% duty on U.S. rice out of quota, coupled with the strong dollar, opened an opportunity for Mercosur and other origins to export rice to Colombia. Under a commercial agreement that Colombia has with Mercosur, rice was imported from Uruguay, Paraguay and Argentina with a 62.6% duty. The Colombian Agriculture and Livestock Institute (ICA) issued in a record period of two weeks the phytosanitary protocols to allow milled rice from these origins. The graph below shows Colombia rice imports and market share by country.



Colombia rice imports. Source: DIAN – Global Trade Atlas

The new phyto-sanitary protocols and lower tariffs for Mercosur milled rice reduced U.S. market share in 2016. However, despite these changes, the U.S. continues to be the main sourcing option for Colombian rice importers. Colombia has imported 255,350 tons of rice as of September, 2016. U.S. rice imports have been largely represented by milled rice entering under the provision of the U.S. Colombia Trade Promotion Agreement (CTPA). No more than 2,500 tons of U.S. rice has been imported outside of the 2016 Tariff Rate Quota (TRQ). Colombia imported 165,108 tons of milled rice from South American countries: 70,000 tons from Uruguay, 57,220 from Argentina, 29,468 from Paraguay and 8,420 from Peru. According to Colombian rice industry representatives, milled rice imported from Mercosur was of good quality, and it was approximately 30% cheaper than U.S. rice imported out of quota.

The United States is the only country allowed to export rough/paddy rice to Colombia; however national regulations restrict the import of U.S. paddy rice to only the port of Barranquilla. This restriction is due to concerns over the presence in U.S. paddy rice of *tilletia*, a plant pathogen. ICA is conducting an epidemiologic study to determine the presence of *tilletia* in rice producing regions. The release of this study is an important step in eliminating the current restrictions on U.S. paddy rice imports. For example, in 2015, when U.S. rice exports to Colombia hit historically high levels, only 76,831 tons were of paddy rice compared to 225,789 tons of milled rice.

Colombian rice producers and rice millers agree that in 2017 imports will not be required beyond the TRQ under the CTPA, given the increased domestic production. The weather conditions were favorable in the rain-fed producing areas or Llanos, where most of the expanded 2016 crop is located. In addition, under the Colombian Agriculture Minister's "Planting Plan" (Plan Colombia Siembra), producers received benefits to access credits in order to increase the rice crop area.

Colombia is a relatively high cost rice producer, this fact along with new milled rice phytosanitary protocols with Mercosur countries and the initiation of the TRQ phase-out period for U.S. rice under the CTPA in 2018, will create additional challenges for Colombia's domestic rice industry.