Bi-weekly Bulletin

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COLOMBIA

Colombia, the fourth largest country in South America, occupies a strategic position at the gateway to South America, with port facilities on both the Pacific Ocean and the Carribean Sea. Canadian agricultural exports to Colombia are led by wheat, pulses, malt, processed food and beverages. Major Colombian exports to Canada include: coffee, bananas, cut flowers, sugar, coal, and petroleum. This issue of the *Bi-weekly Bulletin* highlights the situation and outlook for Canadian exports of grains, oilseeds and special crops to Colombia.

Economic growth in Colombia slowed significantly in 1998 and 1999. The downturn is attributable to low oil and coffee prices, the economic slowdown in neighboring countries (especially Ecuador and Venezuela), devaluation of the peso, and economic difficulties in Brazil.

A devastating earthquake in January 1999 hit Colombia's coffee producing region causing a major decrease in coffee exports and international exchange earnings. Petroleum has replaced coffee as Colombia's largest source of export revenue.

Colombia's real Gross Domestic Product (GDP) grew only marginally in 1998, and growth is forecast at 1.6% in 1999. Agriculture's share of GDP is forecast to decline to 14% in 1999. Per capita income increased marginally to US$2,261 in 1999, and the interest rate is currently at approximately 30%.

Although the Colombian *apertura* reform program has led to considerable increases in investment, trade activity and importation, risks for the export sector and foreign investors are rising as a result of increasing guerrilla violence and a volatile exchange rate. Privatization plans have not proceeded at the anticipated pace. Colombia's agricultural sector continues to move from a protectionist government regime, to an open system requiring domestic producers to compete with foreign imports. This has redirected production to commodities in which Colombia has a competitive advantage, such as fruits and vegetables.

GOVERNMENT

President Pastrana took office in August 1998 and has implemented a number of free market economic policies. Labour difficulties plague the current administration as strikes by civil servants and teachers have at times brought the capital city, Bogota, to a standstill. The Colombian government has been operating with budget deficits in past years and efforts have been made to reduce the public sector deficit, streamline state bureaucracy, and reduce interest rates.

Trade Agreements

In pursuing these strategies, Colombia has focused its resources on four major areas: regional integration and security, economic growth, countering narcotics, and providing leadership for the Non-Aligned Movement. To pursue the first two goals, Colombia has joined many regional and international organizations, and broadened its bilateral and multilateral relations. To promote regional integration and security, Colombia joined the General Agreement on Tariffs and Trade in 1981, and subsequently the World Trade Organization in 1994. Colombia participates in the Rio Group, which provides a forum for the political leaders of Central and South American countries to discuss political, economic and social problems that exist in the region, and is a member country of the Organization of American States.

Colombia is actively promoting the process towards a Free Trade Area of the Americas, due for completion by the year 2005. It led the negotiations for establishing the Andean Pact which was established in 1969, and by 1976 consisted of Bolivia, Colombia, Ecuador, Peru, and Venezuela. While this trade agreement faltered throughout its early years, in 1989 clear guidelines were drawn up to eliminate trade barriers within the group, to create a customs union with a common external tariff, to

COLOMBIA: ECONOMIC STATISTICS

	1996	1997	1998	1999
Population (millions)	39.4	40.1	40.7	41.1
GDP (US$ billions)*	86.4	95.2	100.0	92.6
GDP growth (%)	2.1	3.1	0.2	1.6
GDP per capita (US$)	2,264	2,279	2,256	2,261
Exchange rate (pesos/US$)	1,037	1,140	1,536	1,782
Inflation rate (%)*	20.2	18.5	18.5	n/a

Land area: 1.1 million square kilometres
Arable land: 220,000 square kilometres

* International Monetary Fund
Source: FAO

harmonize economic and social policies, and to adopt a joint industrialization program.
Colombia has signed several other multilateral free trade agreements that affect trade. Among the most important are: the Latin American Integration Association (LAIA), composed of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uraguay, and Venezuela; the Group of Three established in 1995 with Mexico and Venezuela- which calls for total elimination of tariffs over a ten-year period; a Bilateral Free Trade Agreement with Chile; and a preferential agreement with CARICOM, the Caribbean Community.

In the summer of 1999, Canada signed an agreement with the Andean Pact countries which should build on the annual $3 billion in bilateral trade. The goals of this agreement are to assess trade barriers, harmonize customs duties and other trade barriers, and promote hemispheric free trade. The Andean countries have shared a preferential agreement, the Andean Trade Initiative, with the US since 1991, whereby the US provides duty-free treatment to certain imports from this region.

AGRICULTURE

About 20% of the country's total area is arable. The climate and topography of Colombia are not well-suited for large scale grain and oilseed production, and recent government initiatives have encouraged a shift away from grain, oilseeds, and cotton to more suitable products for Colombia; such as perennial crops, livestock, coffee, cut flowers, sugarcane, bananas, palm oil, and other specialized fruits and vegetables.

Colombia has put a priority on its dairy, livestock, and poultry industries, as land previously devoted to field crops is being redirected to livestock. Grain imports which consist mainly of corn, wheat, rice, and barley, have increased steadily from 1990. Oilseed imports, mostly soybeans and soymeal have also increased during this time. However, although food and agriculture imports increased at an annual rate of 23% from 1990 to 1997, they increased by only 1.3% in 1998 due to low income growth and devaluation of the peso.

Wheat
Colombia's wheat production has declined, from a high of 117,000 tonnes (t) in 1992 to 25,000 t in 1998 and 1999. Area seeded shifted to more profitable crops, such as fruits and vegetables.

Prior to 1992, before the advent of trade pacts such as the Andean Trade Pact, the Colombian government agency Institute de Mercadeo Agropecuaria (IDEMA) controlled all wheat imports. IDEMA discouraged competition within the Colombian milling industry by determining the quantity, quality, and origin of wheat imports, and assigned wheat at a fixed price, to mills on the basis of a quota system. This assured small milling operations market shares. After IDEMA deregulation, some companies began to aggressively increase their market share by reducing flour prices. Lower flour prices, in addition to increased urbanization, are expected to increase the consumption of wheat-based products. However, the consumption of wheat products faces significant competition from more traditional staples such as corn, yucca, and potatoes. It is estimated that Colombian millers are operating at 70% of their total capacity.

Between 1988 and 1992, the US was the largest supplier of wheat to Colombia. However since deregulation,

COLOMBIA: CROP PRODUCTION AND CONSUMPTION

	1997-1998		1998-1999		1999-2000f	
	Production	Consumption	Production	Consumption	Production	Consumption
	...thousand tonnes...					
Wheat (excluding Durum)	30	1,088	25	1,100	25	1,025
Barley	20	243	20	220	20	230
Corn	800	2,644	880	2,450	1,000	2,650
Soybeans	76	310	76	420	88	530
Palm Kernels	83	83	88	88	91	91
Rice	800	1,033	820	1,108	950	1,100
Sorghum	180	232	175	185	165	190
Dry Beans	139	184	140	173	140	180

f: forecast, AAFC February 2000
Source: USDA, FAO

other countries, most notably Canada, have increased their market share. As mills acquired freedom to import wheat without IDEMA involvement, quality has become more of a factor. High-quality Canadian Western Red Spring Wheat assured Canada's role as a major wheat supplier to Colombia. Imports of hard red spring wheat have increased at the expense of hard red winter wheat. Australian wheat has been used with some success, but Australia is at a considerable logistic disadvantage to Canada and the US. Argentina has played a minor role in the supply of medium-level protein wheat.

Canadian wheat exports to Colombia (excluding durum) have averaged 0.44 Mt over the past five years, and are forecast to decrease to 0.25 Mt for 1999-2000, due to high protein premiums.

Historically, Colombian pasta has been produced from common wheat, and durum wheat was neither produced nor imported. However, market development work by the Canadian Wheat Board, Canadian International Grains Institute, and the Canadian Grain Commission has been instrumental in increasing demand for durum-based pasta. Imports of Canadian durum are forecast at 5,000 t in 1999-2000, the same as in 1998-1999.

Barley

Barley is a minor crop which has been trending downward and production has averaged only 29,000 t over the 1995-1999 period. Efforts by the Colombian government to encourage alternative crops, such as dry beans, have led to declining barley production. Colombia is the second largest importer of malting barley in South America.

Per capita beer consumption is about 25, 65, and 90 litres in Colombia, Canada, and the US respectively, indicating strong potential for growth in Colombia. However, although Colombia imports 175,000-200,000 t of malting barley per year, the majority is from the EU (75%) and Australia (25%). Imports from Canada have been minimal since 150,000 t in 1995-1996. Colombia's standards for plumpness and protein content became more stringent in the mid-90s and are more suitable to EU and Australian malting barley, although Canadian two-row Harrington has proven to produce a malt of comparable quality. However, over the medium-term, new varieties in Canada, such as *Stratus* and *Kendall*, are expected to increase the availability of malting barley to meet Colombia's stringent specifications. Colombia generally imports very low volumes of barley malt although, in recent years, Canada has exported 20,000-30,000 t of malt due to labour problems in Colombia's processing sector. Canada's presence in this market is expected to decrease as Colombia's processing sector stabilizes.

Corn

Corn production is expected to increase in the 1999-2000 crop year, and imports of corn continues to rise with the US being the major exporter.

COLOMBIA: WHEAT SUPPLY AND DISPOSITION

July-June marketing year	**1997 -1998**	**1998 -1999**	**1999 -2000f**
Harvested area (000 ha)	19	13	13
Yield (t/ha)	1.58	1.92	1.92
	.........thousand tonnes........		
Carry-in Stocks	112	102	127
Production	30	25	25
Imports	1,048	1,100	1,000
Total Supply	**1,190**	**1,227**	**1,152**
Feed	20	20	20
Food, Seed, Industrial Use	1,068	1,080	1,005
Total Domestic Use	**1,088**	**1,100**	**1,025**
Carry-out Stocks	102	127	127

f: forecast, February 2000
Source: USDA

Oilseeds

Colombia's domestic oilseed supply is mainly composed of palm kernels, cottonseed, soybean, and sesame seed. Colombia imports soymeal for feed use in the poultry and dairy sectors. Colombia does not import Canadian oilseeds or their products, due to competition from US and South American soybeans.

Special Crops

Colombia's total imports of **lentils** have trended upward to about 45,000 t in recent years. Canada's share of the market, mostly of the Laird variety, has been increasing since the mid-1990s and reached about 40,000 t in 1998-1999. Canadian lentils are preferred because they are larger and have a reputation for cooking faster. Total imports of **dry peas** have trended upward to about 50,000 t in recent years, of which 32,000 t, all for food use, were imported from Canada in 1998-1999. Total imports of **dry beans** have been variable and averaged about 35,000 t in recent years, of which 8,800 t were imported from Canada in 1998-1999. Colombian **chick pea** imports have been increasing with about 10,000 t imported in recent years. In 1998-1999, 700 t of chick peas were imported from Canada. Total Colombian imports of **canary seed** have increased to 4,000 t in recent years, 50% of which were imported from Canada in 1998-1999.

For 1999-2000, Canadian exports of **dry peas** and **lentils** are expected to increase, due to the growth in Colombian use and lower production in most exporting countries. Canadian **dry bean** exports are also expected to increase. Canadian **chick pea** exports

COLOMBIA: IMPORTS FROM CANADA

	1997 -1998	**1998 -1999**	**1999 -2000f**
	............thousand tonnes...........		
Wheat (excluding Durum)	597.0	443.0	250.0
Lentils	46.0	40.0	45.0
Dry Peas	36.0	32.0	40.0
Dry Beans	8.0	9.0	12.0
Chickpeas	0.7	0.6	3.0
Canary Seed	3.0	2.0	3.0
Mustard Seed	0.1	0.1	0.1

f: forecast, AAFC February 2000
Source: Statistics Canada, Canadian Grain Commission

are expected to increase to about 3,000 t in 1999-2000, due to larger Canadian production and strong Colombian demand. Canadian exports of **canary seed** are expected to increase significantly due to increased use and lower production in Argentina, which also exports to Colombia.

Dairy Products

Since the late 1980s, exports of dairy products to Colombia have increased significantly, and there is potential for growth. Canadian exports of dairy products, along with eggs and honey, increased from $1.9 million in 1996 to $2.9 million in 1997, but decreased by 27% in 1998 due to the economic slowdown. Canada's main competitors for dairy products are the US, the Netherlands, and Venezuela.

Coffee has been Colombia's most important crop since the beginning of the century, however, Colombia's reliance on this crop has diminished over the past several years. Coffee is a tree crop grown on rough, steep terrain, and harvesting remains a labour-intensive process. As a result, most coffee farms are still small, occupying an average of fewer than six hectares of land.

Colombia is the third largest producer and exporter of **bananas** in the world, with foreign sales totaling US$459 million in 1996.

In the last ten years, Colombia has become the second largest exporter of cut **flowers** in the world, after the Netherlands. The US is the main importer of Colombian flowers, with imports benefitting from duty-free access under the Andean Trade Preferences Act. The Act expires in 2001 and means that flower imports will be subject to a maximum tariff of 8%. It is not expected that this will mean a severe loss of market share.

MEDIUM-TERM OUTLOOK

Colombia's growing middle-class of consumers are rapidly acquiring a taste for North American type food products. This change in preferences, in addition to an increase in the number of women entering the workforce is expected to increase the demand for convenience food which is expected to increase per capita demand for bread products.

Increased competition in the milling industry is expected to increase the demand for high- quality spring wheat to service increased demand for specialty bread and flour which will favour higher exports from Canada. Also, the introduction of new pasta production technologies is expected to increase demand for Canadian durum in Colombia.

Despite mounting pressure from agricultural groups, the current administration has announced that Colombia's agricultural and macroeconomic policies will continue to focus on structural reform and the opening of the economy, with emphasis on structural changes to reduce the fiscal deficit. This, along with a growing population, and the downward trend in grain and oilseed production, supports expected sales opportunities for Canadian wheat, malting barley, and special crops.

Infrastructure development in Colombia lags behind that of other economies in the region. Foreign investment in Colombia has only been possible since the early 1990s. The current administration is committed to infrastructure development although there are major budget restrictions. Over the medium-to-long term, improvements in transportation infrastructure are expected to increase Colombia's potential in both the export and import market.

The government announced plans to reorganize **airports** by allowing new airlines to enter the country and providing greater freedom in routes and timetables. A second runway at Bogota's Eldorado International Airport, the country's busiest, will contribute to more efficient handling of increased trade volume of perishable products such as flowers, fresh and frozen fruits and vegetables, and processed foods.

The **railroad** network of about 3,150 kilometres has been nearly abandoned over the past 30 years. While the projected capacity is 8.4 Mt per year, utilization is estimated at only 10%. Improvement in the rail system over the next ten years will improve the access from main production areas to ports.

Colombia's ten major ocean **ports** were privatized in 1993. With private capital to road and rail projects increasing, there are improved links between the main ports and major consumption and production centres. Three of these major ports have grain terminal elevators. In the past four years, port cargo capacity has expanded by 13% annually. Dry port facilities are under consideration in several locations in conjunction with the railroad rehabilitation program.

The pace of **road development** has not met the country's needs. Average investment in highways amounts to 1.23% of GDP per year, below the 2.5% recommended by the World Bank. In 1996, 50% of all freight tonnage went by road, indicating the need to improve efficiency in this sector. A road from the interior of the country to the Pacific port of Buenaventura, is still being designed. In addition, a highway from Bogota to the eastern plains is expected to be complete in 1999.

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