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AGRICULTURAL POLICY BRIEF

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U.S. Agricultural Trade with the Andean Countries and the Potential Effects of a Free Trade Agreement

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INTRODUCTION

The United States commenced negotiations for a free trade agreement (FTA) with the Andean countries of Colombia, Peru, and Ecuador in May 2004. The U.S. Trade Representative (USTR) also hopes to add Bolivia to this FTA. While the United States continues to support a Free Trade Area of the Americas (FTAA) that would encompass 34 Western Hemisphere countries, it is also pursuing bilateral and regional FTAs within the hemisphere, including the Andean region.

The United States has an agricultural trade deficit with these four Andean countries. The top agricultural imports from the region are coffee, bananas, and cut flowers, while wheat and corn are the leading U.S. agricultural exports to these countries. Many of the agricultural products exported by Andean countries to the United States already face low or no tariffs, while U.S. exports are impeded by higher tariffs in these countries. The United States may benefit overall from the removal of trade barriers under an FTA with the Andean countries, but producers of some commodities, such as sugar, could be harmed.

The objectives of this paper are to present U.S. agricultural trade data with Colombia, Peru, Ecuador, and Bolivia, determine existing trade barriers, and analyze the effect of a free trade agreement on U.S. - Andean trade of agricultural commodities. Trade data, tariff data, and commodity market information for this report were obtained from the U.S. Department of Agriculture's Foreign Agricultural Service (FAS) U.S. Trade Internet System; the FAS Production, Supply & Distribution (PS&D) database; the International Grains Council; various Global Agriculture Information Network (GAIN) reports from FAS attaches; and the United States Trade Representative (USTR) National Trade Estimate Report on Foreign Trade Barriers.

GENERAL CHARACTERISTICS

The four Andean countries have a total population of 92 million, with the largest populations in Colombia and Peru (Table 1). The U.S. population, in comparison, is 293 million. Per capita GDP in the Andean countries, calculated on a purchasing power parity basis, ranges from \$2,400 in Bolivia to \$6,300 in Colombia, compared to \$37,800 in the United States. Agriculture accounts for 11.5 percent of GDP in the Andean countries. This share of GDP is highest in Bolivia (15 percent) and Colombia (13.7 percent), and lowest in Bolivia (8 percent). In the United States, agriculture represents just 1.4 percent of GDP.

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Table 1. General Characteristics of the United States and the Andean Countries

		United States	Colombia	Ecuador	Peru	Bolivia	Andean Total
Population	(million people)	293.0	42.3	13.2	27.5	8.7	91.8
Per Capita GDP	(U.S. \$, purchasing power parity)	37,800	6,300	3,300	5,200	2,400	5,200
% GDP from Agriculture	%	1.4%	13.7%	8.7%	8.0%	15.0%	11.5%
Total Land	(million hectares)	916	104	28	128	108	368
Agricultural Land	(million hectares)	412	46	8	31	37	122
Arable Land	(million hectares)	176	2	2	4	3	11
Per Capita Arable Land	(hectares)	0.60	0.05	0.12	0.13	0.33	0.11

Sources: U.S. Census Bureau, International Database; CIA World Fact Book; and FAOSTAT

Total land area for the four countries is 368 million hectares, including 122 million hectares of agricultural land and 11 million hectares of arable land. Comparatively, there are 412 million hectares of agricultural land and 176 million hectares of arable land in the United States. There are 0.60 hectares of arable land per capita in the United States and just 0.11 hectares of arable land per capita in the four Andean countries. Per capita arable land is the lowest in Colombia and higher in Bolivia. Because of this per capita land distribution, there is little probability that the Andean countries will produce enough agricultural commodities to be significant exporters.

U.S. - ANDEAN AGRICULTURAL TRADE

The United States has maintained an agricultural deficit of about \$1 billion with the Andean countries in recent years (Table 2). Agricultural trade with these four countries has been rather flat over the last ten years, with U.S. imports averaging \$1.9 billion and exports averaging \$0.9 billion. Colombia is the largest U.S. trading partner among the Andean countries. U.S. agricultural imports from Colombia equaled \$1 billion in 2003, while exports to the country totaled \$0.5 billion. Ecuador is the next largest source of U.S. agricultural imports, while Peru is the second-largest destination for U.S. agricultural exports. U.S. agricultural trade with Bolivia has been minimal.

Table 2. U.S. Agricultural Trade with Andean Countries

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
-----thousand U.S. dollars-----										
U.S. Imports										
Colombia	1,023,219	1,135,014	1,127,919	1,430,370	1,298,287	1,189,744	1,123,389	925,948	929,477	1,030,862
Ecuador	516,588	548,299	537,122	547,636	518,973	568,317	451,256	484,521	505,337	558,176
Peru	119,872	190,600	157,771	276,388	222,465	221,819	196,284	206,232	245,873	276,816
Bolivia	25,960	10,275	13,809	19,505	17,177	14,669	16,285	16,380	20,799	21,438
Total	1,685,639	1,884,188	1,836,621	2,273,899	2,056,902	1,994,549	1,787,214	1,633,081	1,701,486	1,887,292
U.S. Exports										
Colombia	303,546	463,836	619,987	538,036	575,738	440,215	415,400	452,152	520,072	511,720
Ecuador	70,837	160,476	156,873	190,049	179,892	96,259	100,921	109,263	142,705	100,017
Peru	207,365	298,462	308,718	192,459	362,205	290,608	170,274	212,494	213,859	233,829
Bolivia	31,596	27,865	40,287	30,724	28,839	19,836	13,457	15,384	19,240	30,844
Total	613,344	950,639	1,125,865	951,268	1,146,674	846,918	700,052	789,293	895,876	876,410
Trade Balance										
Colombia	-719,673	-671,178	-507,932	-892,334	-722,549	-749,529	-707,989	-473,796	-409,405	-519,142
Ecuador	-445,751	-387,823	-380,249	-357,587	-339,081	-472,058	-350,335	-375,258	-362,632	-458,159
Peru	87,493	107,862	150,947	-83,929	139,740	68,789	-26,010	6,262	-32,014	-42,987
Bolivia	5,636	17,590	26,478	11,219	11,662	5,167	-2,828	-996	-1,559	9,406
Total	-1,072,295	-933,549	-710,756	-1,322,631	-910,228	-1,147,631	-1,087,162	-843,788	-805,610	-1,010,882

Source: FAS/USDA

IMPORTS

Cut flowers, bananas, and coffee are the most imported agricultural commodities from these countries (Table 3). These three commodities account for over 70 percent of the value of U.S. agricultural imports from the Andean countries. U.S. imports of coffee peaked in 1997 at \$1 billion but have since dropped significantly. Imports of bananas and cut flowers have been relatively stable. Other U.S. imports include asparagus, sugar, tobacco, and mangoes. Imports of asparagus and tobacco have been increasing, but imports of sugar have declined since the mid-1990s.

Coffee has been the top agricultural import from Colombia, followed by cut flowers and bananas (Table 4). These three commodities accounted for 85 percent of the value of U.S. agricultural imports from Colombia in 2003. Imports of tobacco from Colombia have increased in recent years, and sugar imports from the country equaled \$40 million in 2003. Bananas are the major commodity imported from Ecuador (Table 5). Imports of bananas from Ecuador have been rather flat in recent years, though, while imports of cut flowers have been increasing. U.S. coffee imports from Ecuador have dropped substantially over the last decade. Peru exports asparagus, coffee, mangoes, onions, and sugar to the United States (Table 6), and Bolivia exports Brazil nuts (Table 7).

Coffee and bananas are considered noncompetitive imports because they are not produced in the United States. More than half of the imports from the Andean countries are noncompetitive imports. The share of imports consisting of competitive products, however, has been increasing, while imports of noncompetitive products have actually been decreasing. The most significant competitive import is cut flowers; other competitive imports include vegetables, fruit, tobacco, and sugar.

EXPORTS

Wheat and corn are the major U.S. agricultural exports to the four Andean countries. Other U.S. exports include cotton, soybeans, soybean oil, soybean meal, wheat flour, dairy products, and rice (Table 8). Corn is the major export to Colombia, followed by wheat, cotton, and soybeans (Table 9). Wheat is the primary agricultural export to Peru, which also imports cotton and soybean oil (Table 10). Ecuador has imported smaller amounts of corn, cotton, wheat, and soybean meal from the United States (Table 11), and Bolivia imports small quantities of wheat and wheat flour (Table 12).

EXISTING TRADE BARRIERS

The Office of the United States Trade Representative annually publishes a National Trade Estimate Report on Foreign Trade Barriers, which surveys significant foreign barriers to U.S. exports in a number of countries. The 2004 report notes that while duties and many non-tariff barriers in the Andean countries have been reduced, agricultural imports continue to fall under the variable price band import duty system. Under this system, import duties increase when prices are low and decrease when prices are high. The ad valorem rates are adjusted according to the relationship between commodity reference prices and established floor and ceiling prices.

Table 3. U.S. Agricultural Imports from Andean Countries

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	-----thousand U.S. dollars-----									
<i>Commodities</i>										
Cut Flowers	297,754	372,795	436,460	445,250	452,203	437,781	439,015	404,540	378,518	452,045
Bananas & Plantains	434,581	428,547	394,642	468,856	495,955	551,839	476,873	455,803	490,995	449,295
Coffee	693,672	765,283	647,587	1,022,809	854,118	652,738	553,425	379,925	397,160	447,807
Asparagus, fresh or frz	14,240	20,785	24,413	29,155	33,028	42,518	47,586	53,502	63,093	85,405
Sugar	72,562	96,924	102,593	83,609	50,168	45,587	40,286	51,975	53,960	65,609
Tobacco - Mfg	0	0	16	48	329	102	1,063	16,408	33,389	55,652
Mangoes	4,005	4,749	7,330	3,826	8,774	20,019	23,512	24,587	30,781	32,839
Tobacco - Unmfg	5,206	3,218	6,923	7,895	9,985	8,322	7,281	10,802	10,970	19,092
Brazil Nuts	8,136	6,328	11,416	14,200	10,542	13,071	12,803	13,323	12,384	17,994
Onions	53	459	4,824	3,335	5,622	11,391	6,382	13,362	15,725	13,626
Pineapples, fresh or frz	82	310	1,103	1,159	752	1,786	1,989	2,730	7,353	13,172
<i>Competitive vs. Noncompetitive products</i>										
Noncompetitive Ag Imports	1,205,420	1,282,808	1,148,116	1,598,098	1,395,793	1,286,061	1,082,119	888,290	945,852	982,540
Competitive Ag Imports	480,219	601,380	688,505	675,799	661,108	708,487	705,095	744,791	755,633	904,753
<i>Selected Non-Ag Products</i>										
Fish	679,260	665,935	582,597	828,693	789,816	637,274	445,906	469,013	504,128	562,754

Source: FAS/USDA

Table 4. U.S. Agricultural Imports from Colombia

	1999	2000	2001	2002	2003
	-----thousand U.S. dollars-----				
<i>Commodities</i>					
Coffee	518,863	451,181	318,118	328,355	374,137
Cut Flowers	343,684	347,242	302,450	289,521	343,637
Bananas & Plantains	224,054	220,984	185,239	186,963	165,218
Tobacco - Mfg	11	853	15,736	28,269	50,271
Sugar	28,340	26,810	17,431	30,512	39,878
Animals & Prods	23,191	18,895	26,385	22,673	19,294
Confectionary Prods	12,470	14,358	12,816	13,638	18,660
Grains & Feeds	5,494	5,612	13,975	16,885	18,217
Fruits & Preps	3,924	3,576	6,183	7,537	10,383
<i>Noncompetitive vs. Competitive products</i>					
Noncompetitive Ag Imports	752,333	676,346	511,948	521,474	548,679
Competitive Ag Imports	437,410	447,043	414,000	408,003	482,183
<i>Selected Non-Ag Products</i>					
Shellfish	36,836	42,272	42,563	39,142	28,754

Source: FAS/USDA

Table 5. U.S. Agricultural Imports from Ecuador

	1999	2000	2001	2002	2003
	-----thousand U.S. dollars-----				
<i>Commodities</i>					
Bananas & Plantains	327,776	255,672	268,639	297,470	279,586
Cut Flowers	92,299	89,249	99,722	87,264	105,817
Cocoa & Products	52,906	32,661	31,643	35,769	57,162
Tobacco - Unmfg	6,368	6,075	9,184	9,288	14,610
Mangoes	6,877	9,914	8,594	10,537	14,554
Other Tobacco	6,143	4,877	8,985	9,239	14,546
Pineapples	1,710	1,824	2,638	7,263	12,863
Cauliflower/Broccoli	38	615	3,262	6,569	9,855
Coffee	43,140	15,000	12,635	9,344	9,576
Sugar	8,338	10,182	8,657	3,697	7,089
<i>Noncompetitive vs. Competitive products</i>					
Noncompetitive Ag Imports	426,379	305,524	314,568	344,616	350,037
Competitive Ag Imports	141,938	145,732	169,953	160,721	208,140
<i>Selected Non-Ag Products</i>					
Fish	549,490	363,318	392,211	434,888	487,752

Source: FAS/USDA

Table 6. U.S. Agricultural Imports from Peru

	1999	2000	2001	2002	2003
	-----thousand U.S. dollars-----				
<i>Commodities</i>					
Asparagus, fresh or frozen	38,683	44,860	51,243	62,059	84,224
Coffee	89,426	86,101	48,108	57,610	61,706
Mangoes	13,040	13,479	15,840	20,016	18,086
Sugar	8,808	6,931	26,807	16,651	17,850
Onions	11,241	6,108	11,976	14,715	12,964
Non-competitive Spices	1,456	1,098	2,565	7,079	7,830
Asparagus - Prep	505	1,325	845	1,474	5,578
Tobacco - Mfg	0	97	499	4,836	5,206
Seeds - Field & Garden	1,563	1,680	2,767	3,262	4,488
Bananas & Plantains	9	217	1,925	6,560	4,467
Brazil Nuts	5,164	2,048	2,514	2,093	4,425
Grapes, fresh	131	563	1,862	5,395	3,685
Peas	2,987	2,315	2,494	4,633	3,208
<i>Noncompetitive vs. Competitive products</i>					
Noncompetitive Ag Imports	105,102	98,701	60,254	77,559	80,793
Competitive Ag Imports	116,716	97,584	145,979	168,314	196,023

Source: FAS/USDA

Table 7. U.S. Agricultural Imports from Bolivia

	1999	2000	2001	2002	2003
	-----thousand U.S. dollars-----				
<i>Commodities</i>					
Brazil Nuts	7,907	10,756	10,808	10,291	13,531
Sugar	3,598	2,635	3,114	6,797	3,203
Coffee	1,309	1,143	1,064	1,851	2,388
<i>Noncompetitive vs. Competitive products</i>					
Noncompetitive Ag Imports	2,247	1,549	1,520	2,204	3,031
Competitive Ag Imports	12,422	14,736	14,859	18,595	18,407

Source: FAS/USDA

Table 8. U.S. Agricultural Exports to Andean Countries

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	-----thousand U.S. dollars-----									
<i>Commodities</i>										
Total Agricultural	613,344	950,638	1,125,866	951,268	1,146,674	846,918	700,053	789,293	895,876	876,409
Wheat, unmilled	96,050	237,839	283,140	139,619	153,999	188,070	126,112	164,526	203,331	226,697
Corn	104,820	207,031	271,077	174,363	184,442	234,816	193,163	187,232	228,847	198,842
Cotton, ex linters	37,995	52,130	40,576	88,355	113,102	39,799	71,073	81,262	86,583	107,074
Soybeans	13,309	10,940	62,411	48,257	26,322	8,289	20,194	30,700	45,898	30,933
Soybean Oil	14,006	32,312	32,539	31,779	67,499	34,514	27,706	22,936	17,939	19,317
Soybean Meal	47,372	57,354	99,903	112,016	98,402	79,158	45,487	40,167	50,832	17,730
Poultry Meats	8,760	17,056	16,341	18,676	18,844	12,185	12,420	14,136	9,000	12,914
Wheat Flour	19,429	20,946	16,766	16,905	13,018	10,649	9,161	5,755	6,802	9,867
Dairy Products	11,636	13,545	13,585	18,179	26,316	10,907	10,511	14,378	14,041	14,192
Rice-Paddy, Milled	25,281	18,153	42,908	39,844	161,770	17,724	5,540	4,044	3,028	6,080
<i>Selected Non-Ag Products</i>										
Nitrogen	75,374	78,926	90,884	96,363	108,120	86,605	84,294	92,287	87,504	94,967
Ag Chemicals	46,821	50,552	57,631	55,267	56,832	37,944	42,978	36,725	39,561	44,072
Farm Machinery	45,234	44,118	36,974	47,241	46,581	30,441	18,468	31,530	23,818	27,434

Source: FAS/USDA

Table 9. U.S. Agricultural Exports to Colombia

	1999	2000	2001	2002	2003
	-----thousand U.S. dollars-----				
<i>Commodities</i>					
Corn	152,147	156,586	150,448	182,025	172,061
Wheat, unmilled	91,142	69,038	68,663	97,828	107,996
Cotton, ex linters	17,747	26,234	30,599	35,139	46,910
Soybeans	7,043	19,220	28,901	41,090	30,933
Other Feeds & Fodder	12,613	18,951	31,779	27,768	23,023
Vegetables & Prep	14,403	15,663	12,750	17,851	15,526
Poultry & Prods	12,132	13,167	15,419	9,594	13,398
Soybean Meal	15,325	12,278	9,696	11,345	9,987
<i>Selected Non-Agricultural Products</i>					
Nitrogen	49,591	53,213	49,609	55,756	56,684
Ag Chemicals	21,666	26,857	21,943	22,989	28,826
Farm Machinery	14,865	7,774	12,247	9,718	10,089

Source: FAS/USDA

Table 10. U.S. Agricultural Exports to Peru

	1999	2000	2001	2002	2003
-----thousand U.S. dollars-----					
<i>Commodities</i>					
Wheat, unmilled	68,526	29,576	76,286	64,686	100,716
Cotton	13,342	19,156	30,257	35,181	43,289
Soybean Oil	25,806	20,403	16,291	15,038	18,618
Dairy Products	3,131	3,080	4,422	5,513	4,921
Pulses	5,284	4,130	4,766	5,481	4,747
Rice - paddy, milled	17,024	4,892	118	2,919	4,503
Corn	62,226	24,280	22,944	17,279	4,095
<i>Selected Non-Agricultural Products</i>					
Nitrogen	20,565	17,899	25,978	22,000	24,667
Farm Machinery	8,763	5,275	8,468	6,896	6,602

Source: FAS/USDA

Table 11. U.S. Agricultural Exports to Ecuador

	1999	2000	2001	2002	2003
-----thousand U.S. dollars-----					
<i>Commodities</i>					
Corn	20,443	12,297	13,831	29,503	22,686
Cotton	8,667	25,641	20,360	15,934	16,875
Wheat, unmilled	22,287	26,781	17,171	34,348	11,834
Soybean Meal	16,260	6,339	21,837	19,533	6,255
<i>Selected Non-Agricultural Products</i>					
Nitrogen	14,798	10,945	14,756	9,692	13,568
Ag Chemicals	12,376	10,730	8,558	11,032	10,502
Farm Machinery	5,191	5,058	9,431	6,511	10,061
Fish & Shellfish	4,913	3,329	3,797	1,172	5,353

Source: FAS/USDA

Table 12. U.S. Agricultural Exports to Bolivia

	1999	2000	2001	2002	2003
-----thousand U.S. dollars-----					
<i>Commodities</i>					
Wheat Flour	6,000	6,609	4,006	4,936	8,683
Wheat, Unmilled	6,116	717	2,407	6,470	6,152
Dairy Products	492	434	2,075	1,500	3,835
Seeds, Field/Garden	505	379	516	754	3,052

Source: FAS/USDA

These variable duties are an important trade barrier for U.S. exports. The USTR (2004) report states that the price band system results in duties approaching or exceeding 100 percent for U.S. exports to Colombia of products such as corn, wheat, rice, soybeans, pork, poultry, cheeses, and powdered milk. The USTR report also finds high duties in Ecuador. Ecuador committed to phase out the price-band system as part of its accession to the WTO in 1996, but the USTR notes that it has not yet done so. Ecuador bound its tariffs plus price bands on these commodities at between 31.5 percent and 85.5 percent, and the country has also agreed to establish TRQs for certain agricultural imports. In May 2000, Ecuador established regulations for 17 agricultural products, with tariff rates ranging from 19 to 45 percent. These products include sorghum, wheat, corn, frozen turkey and chicken products, powdered milk, and soybean meal. Peru also subjects sensitive agricultural products, including corn, rice, sugar, and powdered milk, to a variable price band levy. This levy fluctuates to ensure that the import prices of such products equal a predetermined minimum import price. U.S. exporters of processed food are at a disadvantage because processed food imports from other Andean countries and Chile enter duty-free.

There are also non-tariff barriers that restrict U.S. exports to the country, according to the USTR report. In Colombia, import licenses restrict imports of certain agricultural goods such as chicken and turkey products. Import licenses for products that compete with domestic products must be approved by the Ministry of Agriculture. These products include wheat, malting barley, poultry, corn, rice, sorghum, cotton, wheat flour, and oilseeds. In Ecuador, prior authorization for importation of all goods is required before the Central Bank can issue an import license, and prior authorization is needed from the Ministry of Agriculture for importation of most commodities, although wheat is exempt from this requirement.

In 1999, Ecuador added a requirement that all importers must present a certificate verifying that their agricultural products have not been produced using modern biotechnology. In 2002, the National Commission for Biosafety was created to govern biotechnology-related products and regulations issues.

The USTR reports that Colombian phytosanitary requirements for imports are excessive and time-consuming. The report also found that Ecuador's denials of SPS certification often appear to lack a scientific basis and have been used in a discriminatory fashion to block imports from the United States that compete with domestically produced goods. This is found to be most common with poultry, pork, beef, dairy, and fresh fruit.

Most non-tariff barriers have been eliminated in Peru, but the country's animal and plant health agency imposes trade barriers on agricultural products. Peru established an import ban on U.S. poultry products due to the presence of Avian influenza and Newcastle disease. Beef products need to be certified that the animals were born, raised, and slaughtered in the country of origin. Peru also has a ban on imports of paddy rice from the United States.

INDIVIDUAL COMMODITIES

Wheat

The United States exported 1.5 million metric tons of wheat to the Andean countries in 2003, with most of those exports shipped to Colombia or Peru (Figure 1). Over the last five years, annual wheat exports have averaged 690 thousand metric tons to Colombia, 520 thousand metric tons to Peru, 160 thousand metric tons to Ecuador, and 30 thousand metric tons to Bolivia. There is very little wheat production in the Andean countries, so most consumption is provided by imports.

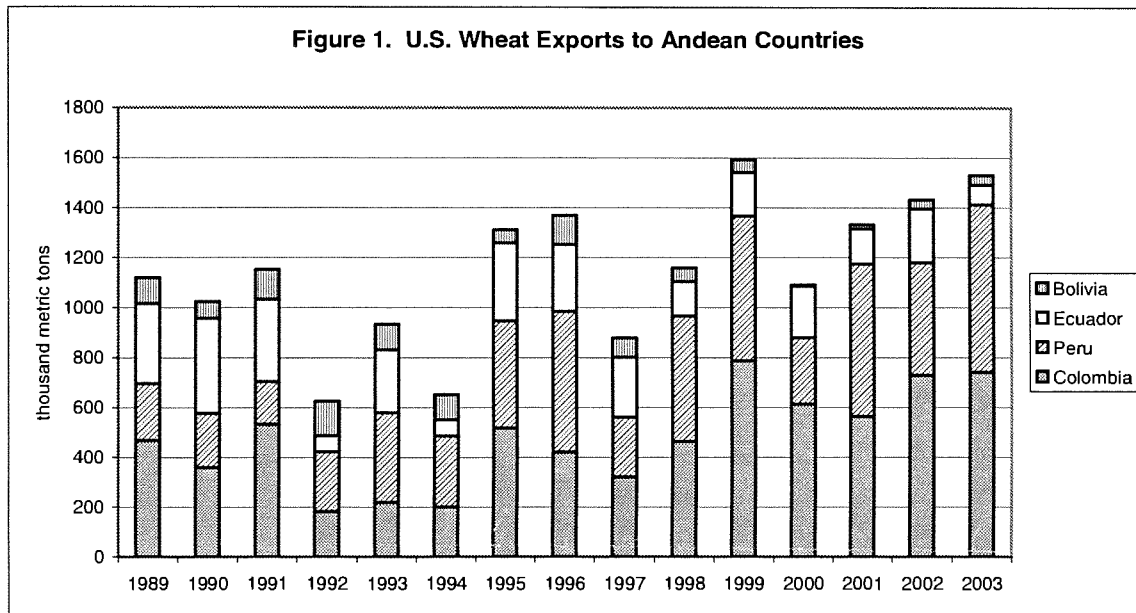
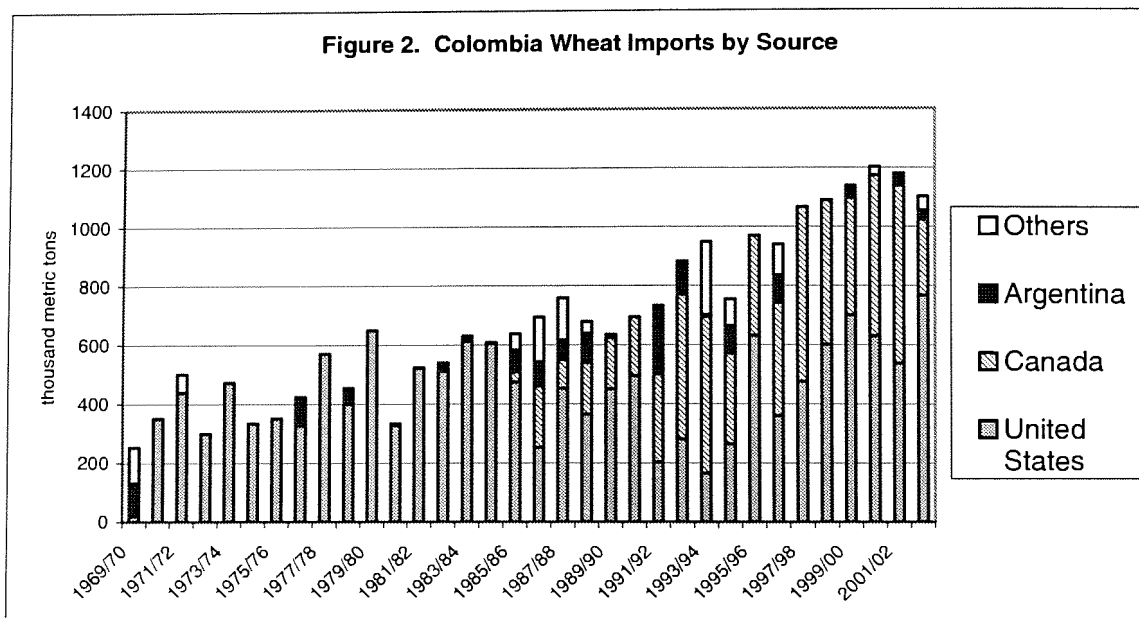


Figure 2 shows Colombian wheat imports by source since 1969/70. U.S. exports to Colombia vary from year to year, and there has been no real long-term trend in exports to the country. The quantity generally ranges from 200 thousand to 700 thousand metric tons per year. U.S. market share in Colombia, on the other hand, has declined. The United States held close to 100 percent market share in the 1970s and early 1980s. In the mid-1980s and the 1990s, Colombian wheat imports rose, yet U.S. exports to the country actually declined and the market share dropped to around 30 percent. U.S. wheat exports to the country rebounded significantly in the late 1990s, and U.S. market share has since ranged from 45 percent to 65 percent. In 2002/03, U.S. exports to the country reached a high of 760 thousand metric tons and market share reached 65 percent, its highest level since 1990/91. Canada is the major competitor for the United States in Colombia. Argentina and Australia are not significant wheat exporters to Colombia, but a trade agreement between the Community of Andean Nations (CAN) and Mercosur (a trade bloc including Argentina, Brazil, Paraguay, and Uruguay) could result in more Argentine exports to Colombia. Demand for wheat in Colombia is increasing because of the growing demand for pasta (FAS March 10, 2004).

The United States is the major wheat exporter to Peru, with close to 50 percent market share. Other wheat exporters to Peru include Argentina, Canada, Ukraine, and Russia. Mercosur accepted Peru as a member in December 2003, which could give Argentina an advantage in exporting to the country. Peru reduced import tariffs for wheat from 25 percent to 17 percent on January 1, 2004, but



wheat is also assessed a 19 percent value-added tax. Wheat consumption in Peru is increasing due to growing demand for bread as the population increases and the country's economy recovers. Bread consumption is still comparatively low in Peru; however, the country is the second largest per capita pasta consumer in South America. (FAS January 6, 2004)

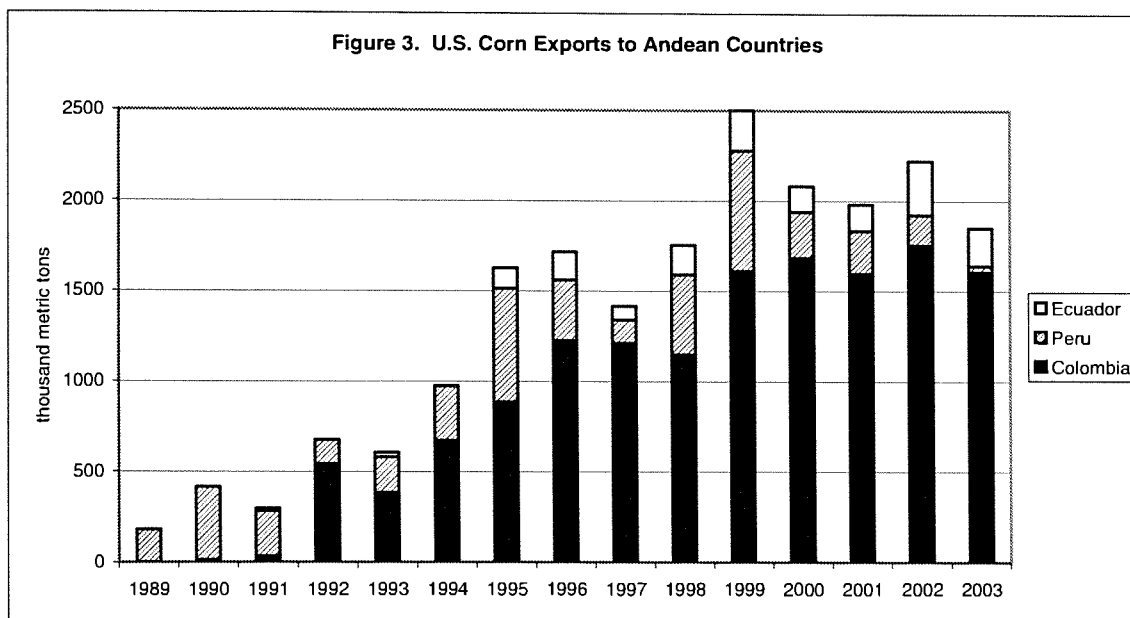
Ecuador's imports from the United States have decreased within the last few years to about 40 percent market share. Canada is the main U.S. competitor, and Argentina is also an exporter to Ecuador. An FAS (March 5, 2004) report notes that Canadian wheat is perceived in Ecuador to be of higher quality. This report also states that Ecuador abandoned the price band system for wheat in 2001, and set a tariff rate at 10 percent, but the country was forced to go back to the price band in 2003 as part of their inclusion in CAN.

Corn

Colombia is an important market for U.S. corn exports. The country ranked as the sixth-largest destination for U.S. corn exports in 2003, totaling 1.6 million metric tons. The United States also exports corn to Ecuador and Peru. U.S. corn exports to Colombia increased significantly in the early 1990s, but have been stable over the last five years (Figure 3). Exports to Ecuador have risen, while Peru's corn imports from the United States vary from year to year.

According to an FAS (March 10, 2004) report, corn production in Colombia is increasing, but the feed industry relies heavily on imports, and a majority of the country's imports are from the United States. The United States held a market share of 77 percent in 2003. Argentina is a competitor in the Colombian corn market. As a member of Mercosur, Argentina faces lower duties than the United States in exporting corn to Colombia, but the FAS notes that freight costs from the United States are lower. Recent trade negotiations between CAN and Mercosur could give Argentine exporters more of an advantage. Colombia supports its local corn production by giving duty reductions to importers who also purchase domestically produced corn (FAS March 10, 2004).

Corn exports to Ecuador have increased as domestic production in the country has failed to keep up with increasing demand. The United States is the main exporter to Ecuador, with the remainder exported from Argentina. According to FAS reports (March 5, 2004 and January 6, 2004), Ecuador prefers U.S. corn because of its high quality, but feed users in Peru prefer to use corn from Peru



or Argentina. U.S. corn exports to Peru dropped in 2003 because of lower prices from Argentina. The FAS notes that U.S. corn exports to Ecuador and Peru are assessed imports duties of 15 percent and 12 percent, respectively, plus the variable levy under the price band system.

Oilseeds

The United States exports soybeans to Colombia, soybean meal to Colombia and Ecuador, and soybean oil to Peru. Among these countries, Colombia has been the most important market for U.S. exports. The United States exported 125 thousand metric tons of soybeans and 48 thousand metric tons of soybean meal to Colombia in 2003. The Colombian government is trying to encourage domestic soybean production, but production in the country remains low because of high production costs and poor climate (FAS February 1, 2004). Colombia imports soybeans largely from the United States, Paraguay, and Bolivia. Imports from Paraguay and Bolivia face lower duties, but the FAS (February 1, 2004) notes that shipping costs from the United States are lower. A U.S. - Andean FTA could reduce or eliminate the tariff advantages of Paraguay and Bolivia. The lower U.S. shipping costs would become more important, and the United States could increase market share. FAS reports that Paraguay, which is currently the top exporter of soybeans to Colombia, pays a tariff that is one-third less than the tariff paid by the United States. Bolivia is the main supplier of soybean meal and soybean oil to Colombia. As a member of the Andean Community, Bolivia pays no tariff for exports to Colombia. About 13 percent of Colombia's soybean meal imports are from the United States.

Ecuador is an importer of soybean meal and soybean oil. Almost all soybean oil in Ecuador is imported from Argentina, and soybean meal is imported mostly from Uruguay, Bolivia, and Argentina. U.S. exporters face a tariff disadvantage in relation to competing South American suppliers. Imports from Bolivia face no tariffs under the CAN agreement, and the applied tariff rates for soybean meal and oil imports from Argentina and Brazil are 20 percent lower than the rates for U.S. products, which are subject to a 15 percent tariff plus the variable levy under the price band system (FAS April 1, 2004). The Andean price band system is a significant barrier for U.S. exports of soybean products to the Andean countries. High variable duties on imports of soybeans, soybean meal, and soybean oil are applied to imports from countries outside the CAN agreement.

Rice

A number of the largest export markets for U.S. rice are Latin American countries, including Mexico, Brazil, and a few Central American and Caribbean countries, but the Andean countries have not been significant importers of U.S. rice. Peru's rice imports are mostly from Uruguay, and total imports in Peru are small compared to domestic production. Paddy rice imports from the United States are currently banned for phytosanitary reasons (FAS January 6, 2004). Ecuador imports little rice besides what is smuggled in from Peru (FAS March 5, 2004). Some Peruvian rice is being smuggled into Ecuador and then exported to Colombia because rice from Ecuador faces lower tariffs in Colombia. Colombia also imports very little rice and does not import any rice from the United States because prices are lower from competitors such as Thailand (FAS March 10, 2004).

FAS reports show that the domestic rice industries are highly protected in each of these countries. Colombia uses a restrictive tariff-rate quota (TRQ). The quota is small and the above-quota tariff is 80 percent. Rice is a staple food in Ecuador, and the government of Ecuador is promoting a self-sufficiency program. Peru has banned rice imports from Asian countries because of phytosanitary reasons, and it has encouraged domestic production. Imports in Peru face a tariff of 25 percent plus the variable levy under the price band system.

Cotton and Products

Because of the Andean Trade Benefits Act, Colombian exports of textiles and garments do not face any tariffs in the United States. The elimination of these tariffs has led to an expansion of Colombia's textile industry, which has led to an increase in demand for cotton. Colombia is meeting this increased demand by increasing both imports and domestic production. The value of U.S. cotton exports to Colombia increased by 33 percent in 2003. However, Colombian production is increasing even more rapidly, which the Colombian government is encouraging by guaranteeing a minimum price and implementing a tariff-rate quota system (FAS May 1, 2004). The United States supplies a significant share of Colombia's cotton imports, equal to 67 percent in 2003, and most of the remainder was imported from Burkina Faso, Brazil, and Australia. The FAS (May 1, 2004) finds that the United States has an advantage over its competitors in exporting cotton to Colombia because of lower freight rates and high quality. While U.S. cotton exports to Colombia have increased, U.S. imports of textiles and garments from Colombia increased substantially. Under the Andean FTA, these trends could continue.

Sugar

Colombia is the fourth-leading sugar exporter to the United States, following Guatemala, the Dominican Republic, and Brazil (Table 13). Colombian sugar exports to the United States averaged 93 thousand metric tons per year from 1999 to 2002, and the quantity jumped to 154 thousand metric tons in 2003. The country ranked as the eighth-largest sugar exporter in the world in 2002/03 with total sugar exports equaling 1.3 million metric tons (Table 14). Peru also exports sugar to the United States at an average of about 40 thousand metric tons per year. U.S. sugar imports from these countries are restricted by its quota system. Opening the U.S. market to an increase in sugar imports from Andean countries could have a significant impact on the U.S. sugar industry.

Table 13. U.S. Sugar Imports by Source

	1999	2000	2001	2002	2003
	-----metric tons-----				
Guatemala	351,689	151,490	85,779	92,006	238,687
Dominican Republic	143,333	199,981	151,366	170,439	178,656
Brazil	179,127	152,202	230,731	129,189	154,705
Colombia	93,083	68,535	58,774	91,428	153,800
Philippines	141,533	91,663	89,573	76,692	137,761
Australia	76,802	92,158	83,413	90,756	79,197
El Salvador	60,944	60,661	80,197	55,557	77,947
Argentina	21,285	42,579	43,581	65,377	44,006
Peru	21,213	21,857	62,453	41,760	41,023
Costa Rica	74,212	67,920	22,821	15,274	39,574
Mexico	101,027	86,556	126,367	182,896	35,534
<i>Total</i>	<i>1,612,341</i>	<i>1,473,581</i>	<i>1,356,445</i>	<i>1,394,046</i>	<i>1,530,657</i>

Source: FAS/USDA

Table 14. World Sugar Exports

	1999/00	2000/01	2001/02	2002/03	2003/04
	-----thousand metric tons-----				
Brazil	11,300	7,700	11,600	14,000	14,540
Thailand	4,147	3,394	4,157	5,100	5,250
EU-15	6,138	6,607	4,793	5,281	4,703
Australia	4,123	3,056	3,594	4,114	3,907
Cuba	3,400	2,980	2,700	2,400	2,200
Guatemala	1,140	1,190	1,310	1,360	1,460
South Africa	1,410	1,580	1,235	1,565	1,300
Colombia	959	965	1,085	1,306	1,300
United Arab Emirates	690	530	625	760	780
Mauritius	426	544	526	567	590
Bolivia	37	39	82	120	145
Ecuador	44	60	55	48	97
Peru	21	40	41	41	61

Source: PS&D Database, FAS/USDA

The United States has been negotiating bilateral free trade agreements with a number of sugar producing countries. The U.S.-Australia FTA does not allow for any additional sugar imports, but the Central American Free Trade Agreement (CAFTA) permits 108 thousand metric tons of additional imports, with gradual increases, and FTA negotiations are also in progress with Thailand. The FTAA could also allow for increases in sugar imports. The cumulative effect of the bilateral and regional FTAs on the U.S. sugar industry could be significant. In analyzing the potential effect of CAFTA, Koo et al. (2003) estimated the impact that additional sugar imports would have on the U.S. sugar industry. They calculated that with 500 thousand tons of additional imports, the Red River Valley would continue to produce sugar at historical levels, but the price of sugar beets would be much lower, near the break-even price.

Coffee

The United States is the most important market for coffee exports from the Andean countries. Colombia is the second-largest source of U.S. coffee imports, behind Brazil, and Peru ranks as the eighth-largest coffee exporter to the United States. Since the United States does not produce coffee or apply tariffs to coffee imports, the Andean FTA would not likely have a significant effect on coffee trade. Colombia, though, wants the United States to join the International Coffee Organization, hoping to improve the international rules regarding coffee trade (FAS May 15, 2004).

CONCLUSIONS

The United States has an agricultural trade deficit with the Andean countries. The top agricultural imports from the region are coffee, bananas, and cut flowers, while wheat and corn are the leading U.S. agricultural exports to these countries. U.S. agricultural trade with the Andean region has been stagnant over the last few years, but a free trade agreement would likely lead to an increase in both exports and imports. Exports could increase more than imports under the free trade agreement since the Andean countries generally have greater barriers to trade. Many of the U.S. agricultural imports from these countries already enter duty-free, but U.S. exports to the region face high tariffs and other barriers. The Andean price band system is a significant impediment for U.S. agricultural exports to these countries. U.S. exporters are also at a disadvantage since the Andean countries often charge lower tariffs to other South American countries, including Argentina. Argentina and Canada are two of the main competitors of the United States. A U.S. - Andean FTA could negate the advantage Argentina and other South American countries have and could give the United States an advantage over Canada.

A free trade agreement with the Andean countries could lead to an increase in U.S. exports of wheat, corn, soybeans and soybean products, cotton, and possibly rice. Since many products from the Andean countries already enter duty-free, an increase in imports would not likely be as significant. Imports of some commodities, such as sugar, could increase, depending on the details of the agreement. The Andean countries, most notably Colombia, are producers and exporters of sugar.

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