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Colombia

Dairy and Products

Annual

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Report Highlights:

Milk powder imports have been negligible since imposition of an import ban in November 2002. The import ban is officially scheduled to end in November 2003, but the government is expected to extend the ban. Whole milk powder production is expected to increase to 80,000 tons in 2003, with exports also increasing slightly to reach 21,000 tons.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Bogota [CO1]
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Executive Summary

Colombia continues to maintain the requirement for prior approval by the Ministry of Agriculture for all imports of milk powder (both whole and non-fat dry milk) that was implemented in November 2002. The Ministry has not approved any imports (with the exception of baby formula) since this requirement was put in place due to ongoing surplus domestic production. The requirement for prior approval violates WTO rules and is scheduled to expire in November 2003, but the government is expected to extend the requirement.

Despite the currency restriction for imports in place in Venezuela, it continues to be the main market for Colombian milk. Virtually all the milk exports from Colombia went to Venezuela in 2002 and amounted to 24.8 thousands tons.

Post has revised upward the estimates of whole milk powder production to reflect increased processing capacity and greater utilization of excess fluid milk. Colombia's powder milk production is estimated to increase to 80,000 tons in 2003, and the forecast for 2004 is to reach 82,000 tons. Colombian milk production has become more stable as specialized farms invest in genetics and pastures, making milk production less vulnerable to a weather changes.

Colombia has increased its plant capacity for processing fluid milk into milk powder to 2.8 million liters per day, which represent 15 percent of the calculated fluid milk production. Current plant utilization is estimated at 12 percent of total fluid milk production. Additional investments in plant capacity are not likely due to weak demand.

Production

The milk powder processing industry has a calculated total plant capacity of 2.8 million liters per day. This amount represents around 15 percent of the calculated fluid milk production, which is 5,700 million liters in year 2002. The industry is currently consuming 336,000 liters per day, 12 percent out of the total fluid milk production. During 2002 and 2003 the percentage of utilization capacity has been between 60 to 70 percent and it is expected to remain at that level.

Milk production rose an estimated 3 percent in 2003. The rise in production was due to: 1) normal weather occurred with good pastures; 2) more land was added to cattle production, mainly double purpose cattle, because of poor income for other crops such as coffee; 3) ongoing security problems make it is easier to raise cattle than to produce crops in insecure areas; 4) elimination of foot-and-mouth disease in the northern region stimulated cattle growth in the region.

Development of cooperatives among smaller dairy producers has also stimulated production. Those cooperatives are extremely aggressive in supplying neighboring countries' markets, such as Venezuela and Ecuador, and the local market as well. The Ministry of Agriculture, through FINAGRO, the agricultural financing corporation, supports the new cooperatives by providing subsidized credit, where only 60 percent of the principal borrowed must be repaid. Cooperatives are applying these resources to develop an aggressive program for expanding the use of cold storage tanks for milk at the farm level. A program for reaching 4,000 tanks in four years is in place. Also, resources are being applied to purchase modern equipment for streamlining the whole processing chain.

This movement toward dual-purpose cattle herds has intensified recently. The dual-purpose nature of many cattle makes it possible that recent figures on dairy production could be underestimated.

Production Factors

Fluid milk production peaks during June-July and again in December-January, when pastures enjoy optimal conditions due to high rainfall levels. During these periods of oversupply, surpluses are converted into powdered milk.

The Colombian Government has been promoting sectoral agreements as an instrument for improving competitiveness, reducing prices volatility and to steady domestic supply through the whole sector chain. While the agreements often are not fully implemented, the goal is to establish a buying price system to encourage milk producers to offer more stable milk quantities throughout the year. Manufacturers set a price for quota purchase levels that is the daily average price for the six lowest sales months during the previous year. The over-quota milk production is purchased at a lower price than the quota price. There is a "Minimum Reference Quota Price" (MRQP) for buying milk within quota and a "Minimum Reference Surplus Price" (MRSP) for buying milk over the quota. The MRQP and MRSP are calculated, based on the ceiling price of Andean Community price band system for the "quota price" and on New Zealand fresh milk producer price for the "surplus price". In addition to these Minimum Prices, dairy farmers may obtain a premium price based on milk quality, which is negotiated between individual milk producers and manufacturers. While this is the goal, contacts in the industry report that the price scheme has not really been implemented.

Approximately 43 percent of the Colombian cattle herd (beef and dairy) is concentrated in the Atlantic coastal region. Most lactating cows in this area serve as dual-purpose (both milk and beef production) animals. An estimated 40 percent of Colombia's milk comes from this Atlantic coastal region. As much as 30 percent of Colombia's milk production is derived from non-dairy breeds. Other important dairy zones are located near large urban areas, such as Bogotá, Medellín, and Cali, where dairy breeds are used.

Consumption

There is lack of accurate information on milk consumption and no consensus between the Government, producers and industry. Per capita milk consumption (fluid and its products) is calculated at around 135 liters. Total powdered milk consumption is expected to rise three percent in 2003 to 61,000 tons, two percent more than the population growth. Powdered milk consumption is projected to continue growing at an average annual rate of three percent over the next two years.

Powdered milk is used mainly by processing facilities for reconstitution into fluid milk and other dairy products. About 5 percent of powdered milk supplies are consumed by households as a substitute for purchasing fluid milk. Demand for milk powder usually increases markedly when the Government increases its regulatory checks on milk quality and finds more substandard fluid milk. During these times, consumers become suspicious of fluid milk quality and turn to milk powder. Flavored powder milk and milk-flavored derivatives have been developed to expand the market, but are not widely consumed.

The Government of Colombia sponsors a new supplementary lunch program, including milk, for 500,000 low-income elementary students. As of today 230,000 students have been included. This program provides considerable support for milk producers. In part because of this program, during the December-January school vacation, per capita milk consumption decreases as consumers in resort areas drink less milk.

Most Colombian consumers do not view low-fat milk favorably, since there is a general perception that full-fat (3.2 percent fat) milk is more nutritious. In recent years, however,

demand for low-fat milk has improved somewhat, as some consumers (mostly higher-income) have expressed greater concern about reducing fat intake. No more than 10 percent of all powdered milk output in Colombia is non-fat.

Ultra-high temperature (UHT) milk first entered the Colombian market in 1993, when it was imported from Ecuador. The following year Colombia initiated production and use has increased from 0.7 percent of fluid milk consumption in 1996 to around 5 percent in 2001. At present, UHT milk is sold as whole, skim, and delactosed milk.

Prices

The Colombian market price for powder milk does not distinguish between whole and non-fat dry milk powder. The average retail price of powdered milk in August 2003 was 10,507 pesos per kilo (\$1.83/lb), ten percent higher than a year ago. This price growth is four percent above the general annual rate of inflation.

Trade

Imports

In 2002, Colombian powdered milk imports decreased to 8,128 tons from 15,987 tons in 2001. This reduction, 49 percent, reflects the return to normal levels of milk production and the import ban imposed in November 2002. Imports for year 2003 are expected to be less than 1,000 tons due to the ongoing import ban, with most of the imports reflecting specialty products like baby formula than have been given special approval by the Ministry of Agriculture. A slight rise in imports is forecast in 2004 to 2,000 tons, mainly due to increased possibilities of food aid imports of milk powder for direct feeding programs.

New Zealand and Chile were the largest suppliers in 2002. As a member of the Andean Community, Colombia allows duty-free milk imports from Ecuador, Peru, Bolivia, and Venezuela.

Exports

In 2002, Colombian exports totaled 24,988 tons with virtually all of the exports going to Venezuela. Venezuela banned imports from Colombia for approximately 2 months in the second half of 2002. Venezuela is once again the main market for Colombian milk powder exports in 2003, despite currency restrictions in Venezuela.

Colombia has a producer financed export subsidy program (Price Stabilization Fund) for beef and dairy products. Due to limited funds, however, most milk powder exports do not receive export subsidy payments.

Stocks

Because of increased supplies, stocks at the end of 2002 were 13,000 tons and are expected to remain at the same level in 2003. During the last three years the amount held has been around 12,500 tons, which reflects the entrance of new plant facilities.

Policy

Colombia continues to maintain the requirement for prior approval by the Ministry of Agriculture for all imports of milk powder (both whole and non-fat dry milk) that was implemented in November 2002. The Ministry has not approved any imports (with the

exception of baby formula) since this requirement was put in place due to ongoing surplus domestic production. The requirement for prior approval (discretionary import licensing) violates WTO rules and is scheduled to expire in November 2003, but the government is expected to extend the requirement.

In addition to the requirement for prior approval, imports of milk powder from third countries are also subject to the variable duty under the Andean Community Price Band System (ACPBS) (see import requirements below).

The GOC offers a subsidy on non-traditional exports (i.e., exports other than coffee and petroleum). These subsidies take the form of Income Tax Refund Certificates (CERTs). The export subsidy is equal to a percentage of the FOB value of the shipment, with specified product categories receiving different CERT percentages. These certificates are used to pay income taxes a year or more after their issuance or can be sold at an earlier date at a discount. The GOC has been reducing its export subsidy levels with the goal of eventual elimination. The CERT for milk and dairy products is now set at 2.5 percent, down 2.0 points from 4.5 percent two years ago. Exports to the Andean Community countries do not receive this subsidy.

The livestock industry also operates a producer financed export subsidy program under the national Price Stabilization Fund. The Fund taxes domestic sales in order to finance exports of surplus production. Due to limited collections of payments, however, most milk powder exports do not receive export payments.

Import Requirements

Prior Approval: As noted above, all imports of milk powder must have the prior approval of the Ministry of Agriculture. The Ministry has given no approvals, except for specialty products like baby formula, since this requirement was put in place in November 2002. The requirement is scheduled to expire in November 2003, but the government is expected to extend the requirement into 2004.

Import Duties: Milk powder imports from countries outside of the Andean Community, the United States included, are subject to a 20 percent duty, plus an additional import tax under the Andean Community's price band and reference price system. Price bands exist for eight basic commodities, along with many related or substitute products. The "bands" are the parameters, which determine whether additional import taxes are applied to imported products. The price band for powdered milk (whole or NFDM) consists of ceiling and floor prices, which are calculated on the basis of a five-year price average for New Zealand powdered whole milk without added sugar, adjusted to a CIF basis. Floor and ceiling prices are revised every April. The Andean Community also issues a reference price, which is adjusted every two weeks. If the reference price falls below the floor price band, an additional import surcharge is added to the 20 percent duty. If the reference price falls within the floor and ceiling bands, only the 20 percent duty is applied. If the reference price is above the ceiling band, the 20 percent duty is reduced. Since April 2003, the duty value is calculated on the invoice price instead the reference price as it was in the past. The change was necessary to bring Colombia into compliance with the WTO agreement on customs valuation

For the first half of October 2003, the variable duty for powdered milk was 27 percent of the invoice price. The reference floor and ceiling prices for powdered milk were set at \$2,219, and \$2,001 per metric ton, respectively.

Product Registration: All retail food items, including products imported in bulk for repackaging for retail sale without further processing, must be registered and approved by the National Institute for the Surveillance of Food and Medicine (INVIMA) of the Ministry of Health. Imported powdered milk, which is retailed in original containers or repackaged here in Colombia and resold to the public in local supermarkets, must be registered. However, imported powdered milk, which is used by processors for reconstitution into fluid milk or for the production of other products, is not subject to this registration process. This registration, once obtained by the Colombian importer, is valid for all import shipments of the registered product during a ten-year period.

INVIMA registration requires a written document from the manufacturer stating that it is the manufacturer of the product. Also needed is a "certificate of free sale" stating that the product is approved for human consumption in the United States. This certificate needs to be issued by a government (state, local, or federal) health authority. A description of the manufacturing process and a list of ingredients specifying additives, preservatives, and coloring agents, is also required. In addition, the Colombian importer must register his company with MINCOMEX, the Ministry of Foreign Trade. This grants Government of Colombia authorization for this company to import all food products.

Marketing

Every other July (odd years) the Colombian international livestock show "AGROEXPO" is held in Bogota. This is one of the most important shows of its kind in Latin America. Companies and associations interested in promoting American dairy genetics, machinery and other products should consider participating in AGROEXPO. The last event was held in 2003.

Tables

Dairy, Dry Whole Milk Powder PSD, 2002-2004

PSD Table

Country Colombia
Commodity Dairy, Dry
Whole
Milk
Powder

(1000 MT)

	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
Beginning Stocks	9	11	11	13	13	12
Production	65	78	70	80	0	82
Intra EC Imports	0	0	0	0	0	0
Other Imports	14	8	14	1	0	2
TOTAL Imports	14	8	14	1	0	2
TOTAL SUPPLY	88	97	95	94	13	96
Intra EC Exports	0	0	0	0	0	0
Other Exports	18	25	19	21	0	24
TOTAL Exports	18	25	19	21	0	24
Human Dom. Consumption	59	59	63	61	0	62
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	59	59	63	61	0	62
TOTAL Use	77	84	82	82	0	86
Ending Stocks	11	13	13	12	0	10
TOTAL DISTRIBUTION	88	97	95	94	0	96
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Dairy, Milk, Nonfat Dry PSD, 2002-2004

PSD Table

Country Colombia
Commodity Dairy, Milk, Nonfat Dry

(1000 MT)

	2002 USDA Official [Old]	Revised Post Estimate [New] 01/2002	2003 USDA Official [Old]	Estimate Post Estimate [New] 01/2003	2004 USDA Official [Old]	Forecast Post Estimate [New] 01/2004
Market Year Begin						
Beginning Stocks	1	1	1	1	1	0
Production	5	6	5	7	0	8
Intra EC Imports	0	0	0	0	0	0
Other Imports	5	3	5	1	0	1
TOTAL Imports	5	3	5	1	0	1
TOTAL SUPPLY	11	10	11	9	1	9
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	0	1	0	0	0
TOTAL Exports	1	0	1	0	0	0
Human Dom. Consumption	9	9	9	9	0	9
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	9	9	9	9	0	9
TOTAL Use	10	9	10	9	0	9
Ending Stocks	1	1	1	0	0	0
TOTAL DISTRIBUTION	11	10	11	9	0	9
Calendar Yr. Imp. from U.S.	1	1	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Powder Milk Exports 2002

Export Trade Matrix

Country Colombia
Commodity Dairy, Dry Whole Milk Powder

Time Period: Units:
 Exports for: **2003**
 U.S.: U.S.
 Others Others

Venezuela	24802		
Ecuador	100		
Peru	60		
Total for Others	24962		0
Others not Listed	<input type="text" value="2"/>		<input type="text"/>
Grand Total	24988		0

Powder Milk Imports 2002

Import Trade Matrix

Country Colombia
Commodity Dairy,
 Dry
 Whole
 Milk
 Powder

Time Period: Units:
 Imports for: **2003**
 U.S.: U.S.:
 Others Others

New Zealand	2265		
Chile	2138		
Uruguay	1950		
Argentina	700		
Swiss	504		
Brasil	300		
Holland	121		

Total for Others 7978 0
 Others not Listed
 Grand Total 8128 0

Powder Milk Retail Prices 2002-2003

**Prices
Table**
Country Colombia
Commodity Dairy, Dry
Whole Milk
Powder

Prices in per uom

Year	<input type="text" value="2002"/>	2003	% Change
Jan	<input type="text" value="9670"/>	<input type="text" value="10226"/>	6%
Feb	<input type="text" value="9613"/>	<input type="text" value="10287"/>	7%
Mar	<input type="text" value="9647"/>	<input type="text" value="10274"/>	6%
Apr	<input type="text" value="9702"/>	<input type="text" value="10513"/>	8%
May	<input type="text" value="9950"/>	<input type="text" value="10673"/>	7%
Jun	<input type="text" value="9720"/>	<input type="text" value="10623"/>	9%
Jul	<input type="text" value="9880"/>	<input type="text" value="10653"/>	8%
Aug	<input type="text" value="9582"/>	<input type="text" value="10507"/>	10%
Sep	<input type="text" value="9660"/>		-100%
Oct	<input type="text" value="9258"/>		-100%
Nov	<input type="text" value="9785"/>		-100%
Dec	<input type="text" value="10356"/>		-100%

Exchange Rate Local
Currency/US
\$
Date of Quote MM/DD/YYYY