Impact of Colombia-Canada Free Trade Agreement on U.S. Pork Exports to Colombia

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Introduction

This report projects the likely impact of Canada's free trade agreement with Colombia on U.S. pork exports to Colombia. Canada and Colombia have concluded negotiations on an FTA, and the agreement is now being considered for approval by the Canadian Parliament.

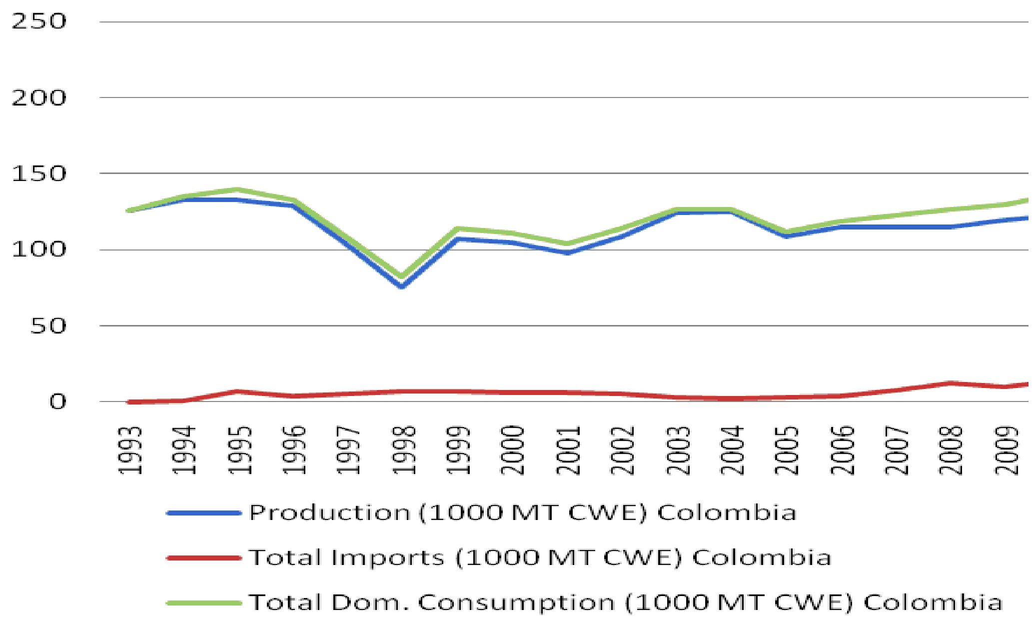
Canada's FTA with Colombia will eliminate import duties on pork that currently fluctuate based on Colombia's "price band" scheme. Under the price band scheme, Colombia's import duties for pork are set based on the difference between a pre-established target price and world pork prices. Import duties under this scheme may go as high as 108 percent based on Colombia's current WTO tariff binding for pork.

Under Canada's agreement with Colombia, the price band scheme will be eliminated and Canada will have access to a reduced duty tariff rate quota that will grow in size over time. By the 13th year of the Canada-Colombia FTA, Canada will have full duty-free access to the Colombian market. Unless the U.S.-Colombia FTA is implemented, the United States meanwhile will continue to face the highly restrictive price band scheme on pork sales to Colombia.

Background

Figure 1 below shows historical trends in the Colombian pork market. As indicated in the graph, total Colombian pork imports are small relative to total pork consumption in the country, accounting for less than 10 percent of total consumption. This is due to the restrictive effect of the price band scheme. Colombia maintains its price band scheme in spite of the fact that its domestic pork industry struggles with classical swine fever and foot-and-mouth disease and is thus in a poor position to meet potential Colombian domestic demand for pork. In addition, the Colombian pork industry must also deal with high domestic feed costs, attributable to import restrictions Colombia has in place on feed grain imports.

Figure 1. Columbian Pork Production, Consumption and Imports from 1993 to 2009



As noted in Table 1 below, the United States has in recent years shared the Colombian import market for pork with Chile and Canada. Chile benefits from the fact that, under the terms of its trade agreement with Colombia, it is not subject to the price band scheme for pork. The Canadian pork industry has recently lost some competitiveness in the Colombian market due to a strengthening Canadian currency relative to the U.S. dollar.

Table 1

Colombia Import Statistics
Commodity: 0203, Meat Of Swine, Fresh, Chilled Or Frozen
Year To Date: January – December

Partner Country	Unit	Quantity			% Share		
		2007	2008	2009	2007	2008	2009
World	T	6,307	8,878	7,196	100.00	100.00	100.0
United States	T	1,689	3,586	2,532	26.78	40.39	35.18
Chile	T	1,519	2,432	2,523	24.08	27.39	35.06
Canada	T	3,099	2,860	2,141	49.14	32.22	29.75

Free Trade Scenarios

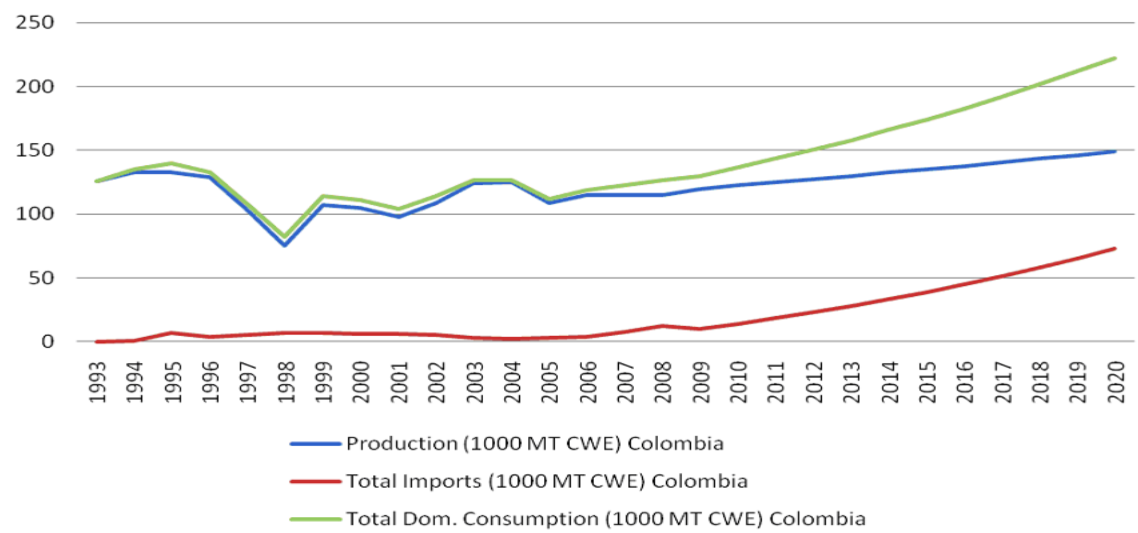
Because Colombia's domestic pork market is relatively small, a Colombia-Canada FTA would force domestic pork prices to fall as import restrictions were eliminated. As a result, Colombian domestic consumption of pork will increase.

Although the United States and Colombia have signed an FTA, it is unclear at this point whether the U.S. Congress will approve the agreement. Until such time as the United States and Colombia implement their FTA, and assuming that Canada implements its FTA with Colombia, Canada will have preferential access to the Colombian market. Canadian pork will not longer face the uncertainty and trade restrictive effects of the price band, putting the United States at a distinct competitive disadvantage in the Colombian market.

Results

The graph below summarizes the potential impact of a Colombia-Canada FTA. Removal of Colombian import restrictions would force Colombian domestic prices to fall, thus increasing consumption. Mexican consumption of pork and other products after the NAFTA was implemented are of value in forecasting likely demand increase in Colombia, since per capita income and consumption of pork in Mexico prior to the NAFTA appear to be similar to those in Colombia now. Mexican pork consumption rose at a 5 percent rate after NAFTA, and we can conservatively estimate that Colombian pork consumption will rise at a similar rate under a free trade scenario with Canada.

Figure 2. Columbian Pork Production, Consumption and Imports from 1993 to 2009 and Projected to 2020



With domestic consumption increasing rapidly and domestic production unable to meet that demand, imports will begin to climb, rising to an estimated 75,000 MT by 2020. Canada would be in a position to fill the vast majority of increased demand, with duties gradually declining and eventually falling to zero.

U.S. Market Share

In the absence of a U.S.-Colombia FTA, U.S. pork will be at a severe disadvantage in Colombia. Both Canada and Chile will be able to compete in Colombia without the de-stabilizing effect of the price band; Canada will eventually benefit from duty-free access.

We estimate projected U.S. export levels under a U.S.-Colombia FTA at 40,000 MT by the 2020. (Note: This projection includes expanded variety meat trade that is translated in muscle meat equivalent.) **<u>Virtually all of this trade would eventually be lost to Canada in the event that the U.S. did not implement its FTA with Colombia while the Colombia-Canada FTA was implemented. This translates to a loss of $95 million in U.S. trade and a fall in U.S. live hog prices of $1.34 per animal.</u>**