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Dairy and Products

Annual

2000

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Report Highlights:

Milk powder output in Colombia is estimated at 50,000 tons in 2000. Milk use is projected at 56,000 tons in 2000, up 2 percent from the previous year. In 1999, Colombia imported 11,000 tons of milk, down 50 percent from 1998, but this should rise 20 percent in 2000. U.S. milk accounted for 10 percent of Colombian milk imports in 1999. Milk imports are approved only when local stocks are below 6,139 tons.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Bogota [CO1], CO

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Executive Summary

Production of powdered milk in Colombia during 2000 is projected at 50,000 tons. Colombians are estimated to consume 56,000 tons of powdered milk in 2000, a two-percent increase over the previous year; this is slightly higher than population growth. Colombia imported 10,664 tons of powdered milk in 1999, down 46 percent from 1998. The local demand recovery is projected to improve milk imports fourteen percent in 2000. The United States dropped to a 10-percent share of Colombia's milk imports in 1999, but a recovery to a 20-percent market share is expected in 2000. Overall, no more than three percent of milk consumption in Colombia in 2000 will be met by imports. Milk import licenses are not approved when domestic stocks exceed 6,139 tons. Local stocks usually fall below this amount in the February-April and August-October periods. To improve fluid milk quality, a purchasing program for cold storage tanks is underway, with an expectation of having 4,000 new cold tanks on farms in four years.

Production

1. General

Colombia's powdered milk production (both whole and non-fat) in 2000 is estimated at 50,000 tons. Fourteen-percent growth is forecast for the year 2001. Insecurity, government supports, and crop substitution have been factors that explain this upward trend. In recent years, security problems have made many farmers turn to the cattle sector, since cattle ranches are easier to monitor and manage absentee by their owners who are forced to live in large cities to reduce kidnaping risks. In addition, there has been a reduction in the number of coffee plantations, because of lower international coffee prices and a program for reducing coffee production developed by the Colombian Coffee Federation, which have been replaced in many cases by cattle ranches.

Another important factor that has contributed to growing milk production is the development of cooperatives, among smaller dairy producers. The Ministry of Agriculture, through FINAGRO, the agricultural financing corporation, is supporting the new cooperatives. Cooperatives are applying these resources to develop an aggressive program for expanding the use of cold storage tanks for milk at the farm level. It is expected that by the end of the current year 1,000 new tanks will have been put in place, with a target of reaching 4,000 in four years. These improvements in the dairy sector are made under the dairy chain agreement where milk producers, dairy manufacturers, and the government jointly assume responsibility for gains in the efficiency, productivity, and streamlining of the dairy sector. Cooperatives have become an organizational solution for small farmers to improve production and become part of a better organized commercialization chain.

Dual-purpose cattle, which are commonly used in these types of operations offer the option of selling either milk or beef, depending on market conditions. This movement toward dual-purpose cattle herds and cooperatives, have intensified recently. The dual-purpose nature of many cattle make it possible that recent figures on dairy production could be underestimated.

2. Production Factors

Generally, 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. April and October usually are the wettest months in Colombia and, therefore, pasture conditions are ideal in May and November. In contrast, a milk deficit situation normally occurs in February through April and again in August through October, which correspond to the dry seasons.

The dairy chain agreement has set out a buying price system that is intended to stimulate milk producers to offer more stable milk quantities throughout the year. Manufacturers set a price for quota purchase level that is the daily average of the six lowest sales months during the previous year by milk producers to the manufacturing industry. 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. Producer prices on average have risen 14 percent in January-August 2000 period compared to 1999.

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.

Powdered milk production capacity of the Colombian industry is estimated at 65,000 tons per year. There are 15 plants in Colombia producing powdered milk and a new plant with the high technology will come into operation this year increasing the annual capacity.

3. Dairy Production and Rural Insecurity

The majority of Colombia's dairy farmers must face ongoing personal and business threats from guerrilla groups, including theft of animals, extortion, and kidnaping for ransom. Nevertheless, the dairy sector continues to grow, as farmers switch from beef cattle production (which is even riskier) to dairy production. Cattle production has been shifting to areas closer to urban centers, which are considered more secure.

Consumption

1. General

Per capita milk consumption (fluid and its products) is estimated at 145 liters in 2000, showing an estimate average growth of three percent during 1987-1999 period. In comparison, the United States has a per capita consumption of 227 liters. Total powdered milk consumption is expected to rise two percent in 2000 to 56,000 tons, slightly higher than the 1.7 percent increase in population. Powdered milk consumption is projected to continue growing at an average annual rate of two percent over the next five years.

Powdered milk is used mainly by processing facilities for reconstitution into fluid milk and other dairy products. Only 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 whenever the Government increases its regulatory checks on milk quality and detections of substandard fluid milk are publicized. At these times, consumers become suspicious of fluid milk quality and turn to milk powder.

Also, the Government of Colombia sponsors a supplementary lunch program, including milk, reaching 500,000 low income elementary students. It is expected to be expanded to reach 4.5 million students in the near future. 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 liquids other than 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 12 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 of this milk has increased from 0.7 percent of fluid milk consumption in 1996 to around 3 percent in 2000. At present, UHT milk is sold as whole, skim, and delactosed milk.

2. Prices

The Colombian market price for milk does not distinguish between whole and non-fat dry milk powder. The average retail price of powdered milk in October 2000 was 7,940 pesos per kilo (\$1.86/lb), up nine percent from a year ago. This price growth was similar to the general rate of inflation during the same period of 9.2 percent, indicating that real prices have changed little.

3. Production Policy

Colombian regulations require that all milk sold at retail be 70 percent milk which has not been reconstituted, or a maximum of 30 percent derived from powdered milk. In practice, enforcement of this regulation is not necessary, since Colombian consumers usually express a dislike for the taste of milk when the product contains more than 30 percent reconstituted milk.

Trade

1. Imports

In 1991, Colombian powdered milk imports totaled only 1,000 tons, but, since then, they have grown to a peak of 23,629 tons valued at about \$50 million in 1998 (up 11 percent from 1997). This trade expansion was fostered by the GOC's trade liberalization policy called 'Apertura,' implemented in 1991. In 2000, two percent of Colombia's overall milk consumption is expected to be imported.

Milk imports in 2000 are estimated at 13,000 tons, up one percent from 1999. During the first seven months of 2000 about 10,000 tons of powdered milk have been imported, recovering from a sharp drop in 1999. Milk powder imports are forecast to resume growth but at lower pace than previous periods, because of the increasing capacity of the local powder industry. A growth rate of about three percent annually over the next 3 to 5 years could be expected. Whole-fat milk accounts for about 70 percent of all milk imports. Through August 2000, around 60 percent of powder milk was imported by multinational companies, such as Nestle and Cicolac.

The United States supplied 10 percent of the imported milk powder in 1999, which is a 50 percent reduction compared with 1998. The United States was the fourth-ranked supplier, after Chile Venezuela and Canada in 1999. As a member of the Andean Community, Colombia allows duty-free milk imports from Ecuador, Peru, Bolivia, and Venezuela. However, only Venezuela and Ecuador, because of their proximity, export milk to Colombia. These two countries account for about 20 percent of all Colombian milk imports.

2. Exports

Colombia and its closest neighbors, Venezuela and Ecuador, exchange powdered milk depending on the price differential. Consequently, Colombia both imports from and exports milk to Ecuador and Venezuela. In 1999, Venezuela took almost all of the Colombian powdered milk exports. Colombian cheese producers have targeted Venezuela as their most important market and have also started to look at Peru as a potential market. Colombia is expanding its milk exports, initially selling surpluses to neighbors and recently as a deliberate marketing policy. In 1999, exports to Venezuela reached 7,000 tons and are expected to grow further as marketing efforts improve to other Andean Community members countries.

3. Dairy Export Incentive Program, DEIP

In 1992 and 1993, Colombia imported 4,456 tons of powdered milk under the Dairy Export Incentive Program (DEIP). However, since then, Colombian importers have not been able to use this program, because of the Andean Community's price band system (see the Marketing-Import Requirements section). Under this system, import charges are assessed to reflect DEIP bonuses, removing the attractiveness of the program.

Stocks

Colombia's 2000 end-of-year powdered milk stocks are expected to be 2,000 tons, down from 3,000 tons at the beginning of the year, because of the dynamics of exports and consumption. End-of-year 2000 stocks are enough for four weeks of consumption and exports.

Policy

1. Import Policy

In 1991, the Colombian government initiated a market liberalization program called "apertura" (economic opening), which reduced import duties and expedited the import licensing process for most imports. The GOC's intent was to open domestic industries, including agriculture, to foreign competition. This trade policy is designed to stimulate efficiency within the domestic industry at the same time that it dampens inflationary pressures. However, lobbying for the protection of domestic agricultural products remains strong, and, in the case of milk, import restrictions continue.

As of June 1998 (decrees 1958/98 and 396/98), milk imports were placed on the "previous import license" list, which means that the Ministry of Agriculture (MOA) reviews each powdered milk import request to determine if it will adversely affect the local dairy industry. At the same time it was established that no milk imports will be approved whenever national powdered milk stocks exceed 6,139 tons. Stocks are calculated by adding stocks at the milk drying plants, plus an estimate for stocks in pasteurizing plants, supermarkets and general stores in such a way that counted stocks at drying plants account for 70 percent of all powdered milk stocks in Colombia. At the end of 1998, the GOC abolished the MOA approval but the stocks requirement remained. Because of the new regulations, it is now virtually impossible to obtain an import license for powdered milk during Colombia's high milk production seasons--May-July and October-December.

2. Export Policy

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. Under Apertura, 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 4.5 percent. Exports to the Andean Community countries do not enjoy this subsidy.

Marketing

1. Market Development Opportunities

The price of domestic milk in relation to the cost of imported powdered milk is the most important factor determining milk import levels. Traditionally, powdered milk has been imported in the months of February through April and August through October, when domestic milk production falls

to its lowest levels during the year. About 85 percent of all powdered milk imports are used by dairies for reconstitution into fluid milk. Close to 10 percent is used for the production of other dairy products, such as cheese and yogurt, and the remainder is marketed to households.

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. This event is next scheduled for July 2001.

2. Import Requirements

Milk 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, a negative charge is applied to the 20 percent duty.

For the second half of October 2000, the reference, floor and ceiling prices for powdered milk have been set at US\$1,895, \$2,194, and \$2,434 per metric ton, respectively. Accordingly, the variable duty for powdered milk is currently fixed at 39 percent of the reference price or \$739 per ton.

3. Import Registration and Product Labeling

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 INCOMEX, the Foreign Trade Institute. This grants Government of Colombia authorization for this company to import all food

products.

Labeling: Colombian regulations do not require that imported food products have labels in Spanish. In practice, most imported U.S. food products sold in Colombia enter with the same labels carried in the United States. The Ministry of Health requires that all imported food items that do not have a Spanish label, have a sticker affixed to the product, which specifies in Spanish the product name, INVIMA registration number, recommended method of storage of product, and product expiration date. In practice, powdered milk imports that are destined for further processing, including reconstitution into fluid milk, are not subject to the above labeling requirements. However, if bulk shipments of powdered milk are destined for repackaging and resale in Colombian retail stores, this product is subject to the GOC's labeling requirements. In this situation, retail packages of powdered milk carry the label of local repackagers and are required to provide details on the contents but are not required to specify content origin. The above labeling requirements would apply in full for powdered milk imports, as well as other dairy product imports that enter in consumer-ready packages. INVIMA may test or analyze imported powdered milk at the port of entry or after entering the Colombian marketing system at the expense of the importer.

Tables

Colombia: Dairy, Dry Whole Milk Powder PSD, 1999-2001 (1,000 Metric Tons)

PSD Table						
Country:	Colombia					
Commodity:	Dairy, Dry Whole Milk Powder					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	12	12	10	3	7	2
Production	35	42	35	50	0	57
Intra EC Imports	0	0	0	0	0	0
Other Imports	23	11	24	13	0	14
TOTAL Imports	23	11	24	13	0	14
TOTAL SUPPLY	70	65	69	66	7	73
Intra EC Exports	0	0	0	0	0	0
Other Exports	4	7	5	8	0	9
TOTAL Exports	4	7	5	8	0	9
Human Dom. Consumption	56	55	57	56	0	57
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	56	55	57	56	0	57
TOTAL Use	60	62	62	64	0	66
Ending Stocks	10	3	7	2	7	7
TOTAL DISTRIBUTION	70	65	69	66	7	73
Calendar Yr. Imp. from U.S.	3	1	6	3	0	4
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Colombia: Dairy, Milk, Nonfat Dry PSD, 1999-2001 (1,000 Metric Tons)

PSD Table						
Country:	Colombia					
Commodity:	Dairy, Milk, Nonfat Dry					
		1999		2000		2001
	Old	New	Old	New	Old	New
Calendar Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	2	2	2	1	2	1
Production	4	4	4	4	0	4
Intra EC Imports	0	0	0	0	0	0
Other Imports	6	4	7	5	0	6
TOTAL Imports	6	4	7	5	0	6
TOTAL SUPPLY	12	10	13	10	2	11
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	10	9	11	9	0	10
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	10	9	11	9	0	10
TOTAL Use	10	9	11	9	0	10
Ending Stocks	2	1	2	1	2	1
TOTAL DISTRIBUTION	12	10	13	10	2	11
Calendar Yr. Imp. from U.S.	2	1	2	1	0	2
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Colombia: Powdered Milk Exports, 1999 (Metric Tons)

Export Trade Matrix			
Country:		Units:	Tons
Commodity:			
Time period:	01/1998		
Exports for	1999		2000
U.S.	0	U.S.	
Others		Others	
Venezuela	6951		
Total for Others	6951		0
Others not listed	24		
Grand Total	6975		0

Source: DIAN (Revenue and Customs Agency).

Colombia: Powdered Milk Imports, 1999 (Metric Tons)

Import Trade Matrix			
Country:		Units:	Tons
Commodity:			
Time period:	01/1999		
Imports for	1999		2000
U.S.	1179	U.S.	
Others		Others	
Chile	2363		
Canada	1341		
Venezuela	1334		
Belgium	870		
Ecuador	833		
Ireland	178		
Bolivia	525		
Argentina	498		
Germany	546		
Total for Others	8488		0
Others not listed	997		
Grand Total	10664		0

Source: DANE (National Statistics Bureau).

Colombia: Powdered Milk Retail Prices, 1999-2000 (Pesos per liter)

Prices Table					
Country:	Colombia				
Commodity:	Dairy, Dry Whole Milk Powder				
Year:	2000				
Prices in (currency)	pesos	per (uom)	kilo		
Year	1999	2000	% Change		
Jan	6810	7240	6.3%		
Feb	6860	7340	7.0%		
Mar	6920	7480	8.1%		
Apr	6970	7520	7.9%		
May	7030	7550	7.4%		
Jun	7080	7660	8.2%		
Jul	7140	7710	8.0%		
Aug	7200	7750	7.6%		
Sep	7250	7820	7.9%		
Oct	7250	7940	9.5%		
Nov	7250		-100.0%		
Dec	7100		-100.0%		
Exchange Rate	2163	(Local currency/US \$)			
Date of Quote	19-Oct-00	(MM/DD/Y Y)			

Source: Surveys by the Agricultural Attache's Office.

Colombia: Milk Processors and Importers**Parmalat-Proleche**

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