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Dairy and Products

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Report Highlights:

Chile's dairy industry, facing harder times and falling production after years of rapid growth, seeks protection from subsidized, lower-priced imports of milk powder.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Chile's milk production is expected to fall in 2000 due to the long-term effects of falling milk prices paid to producers by processors. The industry also suffered the affects of drought and reduced pasture during the first half of 1999.

Winter rains have brought relief from the drought, but the outlook for the next three-to-five years will depend on international dairy prices, government policies, and continued improvements in technology and animal genetics.

Domestic consumption is expected to rise moderately when compared to the last decade. In the near term, consumption could be encouraged by a projected new, joint public and private sector promotional campaign, but the rate of increase will probably decline from the strong pace of the past years.

Production

Production General

In 1999, Chile's total milk production fell after many years of expansion, in response to a) low prices which affected the dairy industry, and b) the impact of the drought on pastures in the primary dairy producing regions in the southern part of the country in late 1998 and beginning of 1999. Output in 1999 reached only 2.05 billion liters after a record level of 2.08 billion liters in 1998, while real milk prices paid to producers fell another 4 percent. During the last 10 years, the dairy sector grew by an average of almost 7 percent per year. A close to 4 percent fall in total output of milk is expected in the year 2000. Chile currently has an estimated 49,000 dairy producers with approximately 616,000 cows in production.

The fall in real domestic prices paid to producers is attributed to falling international prices during 1998 and 1999. Chile's domestic milk market is usually relatively open to dairy product imports, being protected solely by an import duty of 9 percent currently. However, imports surged to such an extent that Chile has applied a safeguard duty of 16 percent implemented in July of this year. Chile's dairy producers place a major portion of the blame for the fall in prices to the international oversupply of dairy products, and on countries that support their dairy industries with large subsidies and protected domestic markets.

As mentioned above, prices paid to Chilean milk producers have fallen for a number of reasons. Increased competition has reduced prices for milk products, and processing costs have risen due to new investments in technology at the industrial level to stay competitive. As a result, in order to maintain profit margins, the industry has had to reduce the price of their principal input. Additionally, milk prices paid to farmers in Chile are normally linked to international CIF prices for dry milk powder. During 1999, domestic prices for fresh milk paid to farmers fell over 4 percent, and the prices paid for imports of dry milk fell over 15 percent.

Dairy Production

Year	Total Rec'd by Industry	Fluid Milk	Dry Milk	Butter	Cheese	Farmers Cheese	Yoghurt	Conden. Milk	
	(----Million Liters---)	(-----Thousand Kilograms-----)							
1980	592	127	32,566	4,016	13,902	3,868	15,054	7,835	
1987	667	110	33,544	4,986	16,334	6,031	45,647	9,061	
1988	681	125	32,375	4,899	18,812	6,002	46,188	8,016	
1989	771	134	36,868	5,412	21,791	5,546	51,799	9,205	
1990	890	138	45,126	6,448	24,513	5,422	50,939	8,325	
1991	948	135	44,307	7,279	27,178	5,342	54,379	8,803	
1992	1,019	155	46,700	7,305	32,193	5,568	62,640	10,179	
1993	1,121	178	51,404	7,728	36,405	6,627	66,036	9,413	
1994	1,236	189	53,594	6,995	38,569	6,941	66,607	10,560	
1995	1,358	225	61,418	6,651	40,816	5,873	67,663	8,674	
1996	1,406	235	63,344	6,452	42,177	6,292	73,744	8,937	
1997	1,497	271	65,726	9,582	43,712	7,106	79,423	10,219	
1998	1,530	269	70,877	11,159	46,528	7,631	82,243	13,244	
1999	1,470	279	69,515	11,494	45,965	8,744	100,203	15,742	

Source: Ministry of Agriculture

Policy

In the Uruguay Round, Chile bound its dairy product import duties (04.02, 04.05, 04.06) at 31.5 percent. However, Chile applies a flat import tariff of 9 percent on nearly all products, including all dairy products. This applied rate will be reduced to 8 percent on January 1, 2001, 7 percent on January 1, 2002 and finally, to 6 percent on January 1, 2003. Additionally, a value-added tax of 18 percent is charged at the consumer level on all goods.

On October 21, 1999, the Chilean government launched a countervailing duty (CVD) investigation against imports of subsidized milk powder from the European Union (EU) and the United States. This was the first CVD investigation ever undertaken by the Government of Chile. Products investigated were dry milk, with and without fat, sugar and sweeteners. The investigation was conducted by the National Commission Responsible for Investigating the Existence of Distortions in the Prices of Imported Goods, and was in response to a petition by the National Farmers Society (SNA) and the Federation of Dairy Producers. The farmers' organizations charged that dairy export subsidy programs managed by the EU and the U.S. were responsible for depressed dairy prices in Chile and were causing economic harm. As a result of this investigation the Commission recommended a 21 percent CVD in addition to the general duty of 9 percent, which was to be applied beginning January 1, 2000 to dry milk imports from the U.S. and the EU.

Subsequently, the farm groups realized that the CVD on imports from the EU and the U.S. neither eliminated competition from low-priced imports nor had any significant impact on dairy prices. The SNA petitioned the government to impose safeguards measures to restrict dairy product imports from all origins. After a lengthy process, in July 2000 safeguard measures were imposed only to dry milk imports. A preliminary 16 percent additional duty to dry milk imports was proposed. Finally, in October 2000, a 12 percent safeguard was confirmed by the Price Distortion Commission, but only for dry milk imports. As a result, the CVD imposed in January to imports from the EU and the U.S. are no longer in effect.

Dry Milk

Production

About 90 percent of Chile's production of dry milk is whole milk powder. Chile's production of whole dry milk fell significantly in 1999 relative to the previous year. Weak domestic demand due to the country's economic slowdown, together with a fall in milk production, were the main reasons for this reduction. The production estimate for 2000 has been revised downward to reflect this same impact.

For 2001, the initial forecast is a slight recovery in dry milk output. Industry sources indicate that an expansion in dry milk production is expected, in spite of a further reduction of total milk output, due to increased demand. Large imports of cheese at the end of 1999 and beginning of 2000, which were not affected by countervailing duties and/or the recently imposed safeguard, will force most of the industry to produce dry milk to improve their economic results.

Expansion of dry milk production in the coming years will depend on the results of total milk production, government feeding programs, and on the price of dry milk imports. If the cost of dry milk imports rises, the industry will surely increase dry milk output to substitute for imports. Although processed products, like yogurt, are generally more profitable, they are perishable and therefore more risky to produce than dry milk.

Dry milk production occurs primarily in the summer months of November, December and January when domestic fluid milk production is at its peak. Chile produces dry milk from surplus milk that would not otherwise be consumed as fluid milk or used to produce other dairy products, such as cheese.

Consumption

Dry milk is available for sale in practically all Chilean supermarkets and smaller grocery stores. While the new lower consumption estimates for 1999 and 2000 reflect the country's short-term economic slowdown, consumption is forecast to recover in 2001 due to the current economic recovery. Families that do not consume large quantities of milk, or lack refrigerators to keep UHT fresh after opening, prefer dry rather than fluid milk. Government food programs also account for an important proportion of dry milk consumption. Government tenders for dry milk may be filled by either domestic or imported product. In addition, during the winter months, the industry reconstitutes fluid milk from dry milk produced during the summer in order to produce dairy products which have a constant demand throughout the year.

Trade

Dry milk imports fell significantly in calendar 1999 as a result of weaker domestic demand due to a slowdown in Chile's economy. There was some recovery in 2000, which is expected to continue in 2001 as the economy further improves.

Chile's dry milk exports are expected to remain steady in 2001. Export markets are mainly the neighboring Latin American countries. Increased production will likely mean expanded milk and dairy exports from Chile. Fluid and other milk is mainly exported to Peru, Bolivia and Argentina.

In the long-term, Chile's success in the dairy export market will depend upon its ability to compete with other

countries that benefit from subsidy programs.

PS&D Table - Whole Dry Milk

PSD Table						
Country	Chile					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	27	27	29	17	29	19
Production	65	56	66	64	0	65
Intra EC Imports	0	0	0	0	0	0
Other Imports	5	3	5	5	0	7
TOTAL Imports	5	3	5	5	0	7
TOTAL SUPPLY	97	86	100	86	29	91
Intra EC Exports	0	0	0	0	0	0
Other Exports	4	8	5	5	0	5
TOTAL Exports	4	8	5	5	0	5
Human Dom. Consumption	64	61	66	62	0	63
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	64	61	66	62	0	63
TOTAL Use	68	69	71	67	0	68
Ending Stocks	29	17	29	19	0	23
TOTAL DISTRIBUTION	97	86	100	86	0	91
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Import Trade Matrix - Whole Dry Milk

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Dec	Units:	M. T.
Imports for:	1998		1999
U.S.	38	U.S.	0
Others		Others	
Ireland	1503	Argentina	1534
Belgium	1369	Indonesia	475
Australia	1195	New Zealand	441
Argentina	1019	Denmark	224
New Zealand	507	Germany	144
U.K.	395	U.K.	127
Denmark	156	Ireland	45
Germany	128	France	32
Uruguay	100	Netherlands	4
Netherlands	99		
Total for Others	6471		3026
Others not Listed	154		0
Grand Total	6663		3026

Nonfat Dry Milk

Production

Chile's NFDM production increased significantly in 1999 to meet increased domestic demand for end-products. Production in the coming years will depend upon expected prices in the international markets or specific strategies from individual industries. Production is currently expected to remain steady through 2001.

Consumption

Chile's food industry determines to a great degree the consumption level of NFDM in Chile. Leading products made from NFDM are chocolate, ice cream (Nestle and Unilever), and yogurt. The consumption rate of these products increased during the last few years in line with booming economic growth, but slowed in 1999 and 2000. For 2001 and beyond, utilization is expected to continue to increase but at a slower rate.

PS&D Table - Nonfat Dry Milk

PSD Table						
Country	Chile					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Beginning Stocks	2	2	4	4	4	5
Production	9	10	10	10	0	10
Intra EC Imports	0	0	0	0	0	0
Other Imports	9	9	7	9	0	9
TOTAL Imports	9	9	7	9	0	9
TOTAL SUPPLY	20	21	21	23	4	24
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	16	17	17	18	0	20
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	16	17	17	18	0	20
TOTAL Use	16	17	17	18	0	20
Ending Stocks	4	4	4	5	0	4
TOTAL DISTRIBUTION	20	21	21	23	0	24
Calendar Yr. Imp. from U.S.	1	1	1	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Import Trade Matrix - Nonfat Dry Milk

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	Jan-Dec	Units:	M.T.
Imports for:	1998		1999
U.S.	1913	U.S.	624
Others		Others	
Poland	2356	Denmark	1970
Germany	1950	Poland	1136
U.K.	1040	Germany	1121
New Zealand	397	Uruguay	1025
Uruguay	375	Argentina	929
Ireland	356	Czech Republic	713
Czech Republic	256	U.K.	512
Canada	192	New Zealand	441
Belgium	155	Ireland	304
France	96	Netherlands	241
Total for Others	7173		8392
Others not Listed	90		412
Grand Total	9176		9428