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Chile

Dairy and Products

Annual

2007

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Report Highlights:
Chile's dairy production this year is expected to expand due to an increased number of cows and productivity of the herd. An increase in milk prices paid to farmers due to an increase in international prices for dairy products is expected to expand output in the coming years.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Table of Contents

Executive Summary

Chile's milk production is expected to increase in 2007 (Jan-Dec). A significant increase in the prices paid to producers together with an increasing number of cows and productivity of the milk-producing herd and fair weather in most producing areas, are the main factors for the larger output. Domestic milk prices are an important factor that affects total milk output. Additionally weather is an important factor for pasture production, Chile's basic feed input. The outlook for the next three-to-five year's milk production also will depend on international dairy prices, government policies, and continued improvements in technology and animal genetics.

Production

Production General

Chile's total milk output rose a modest 4 percent from 2.30 billion in 2005 to 2.40 billion liters in 2006, mainly due to an increase of the number of cows and productivity of the milk-producing herd. Additionally, climatic conditions in the primary dairy producing regions of the country were another factor which affected total production positively.

As a result of low domestic milk prices paid to producers during the last two years farmers were in the process of reducing their production herd and consequently total output milk output fell during the first semester of 2007 when compared to the previous year. But as a result of a significant price increase, paid to producers during the first half of CY2007 together with good weather in the main milk-producing region, which had a positive effect on pastures, milk production is expected to increase only slightly in MY2007 to 2.44 billion liters, from 2.40 billion liters in 2006. Domestic milk prices have increased due to a significant increase observed in international milk prices during the end of CY2006 and beginning of 2007. Chile currently has an estimated 16,000 dairy farmers with approximately 630,000 cows in production, of which 80 percent are considered small producers and the whole dairy industry employs directly and indirectly an estimated 35,000 persons.

TABLE - Dairy Production								
	Total Rec'd by Industry	Fluid Milk	Dry Milk	Butter	Cheese	Farmers Cheese	Yogurt	Conden. Milk
Year	--Million Liters--		---------------------------Thousand Kilograms--------------					
1980	592	127	32,566	4,016	13,902	3,868	15,054	7,835
1990	890	138	45,126	6,448	24,513	5,422	0,939	8,325
1995	1,358	225	61,418	6,651	40,816	5,873	67,663	8,674
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	60,597	11,007	44,777	7,034	100,203	15,742
2000	1,447	275	59,669	9,855	44,718	7,167	106,624	24,400
2001	1,637	291	71,464	11,836	50,417	7,150	95,249	25,418
2002	1,605	296	67,710	11,551	53,075	7,480	127,057	24,190
2003	1,563	293	61,867	10,849	53,037	7,555	139,344	30,558
2004	1,676	289	63,633	13,084	58,849	8,296	159,828	38,698
2005	1,723	298	62,792	14,655	67,176	10,507	189,436	39,645
2006	1,818	319	69,491	17,157	62,072	9,088	157,980	43,426
Source: Ministry of Agriculture								

Trade

Chile became a net exporter of dairy products in CY2004, the dairy industry's exports exceeded imports in volume and value. In CY2006 the trade balance increased when compared to the previous year, in volume and value. The trade balance exceeded US$43 million. Latin American countries are the main destination for Chile's dairy exports. Reportedly, the industry's goal is to export over US$200 million in milk and dairy products in 2007.

Policy

Although Chile bound its dairy product import duties (HS 04.02, 04.05, 04.06) at 31.5 percent in the Uruguay Round, a flat import tariff of 6 percent is applied on nearly all imported dairy products. Additionally, a value-added tax of 19 percent is charged at the consumer level on all goods, domestic or imported. Chile has reduced import duties only for Colombia and the United States for whole and non-fat dry milk as a result of the Free Trade Agreements with these countries. Non-fat dry milk enters duty free in 2007 and whole dry milk will be tariff free in 2011. Colombia will have duty fee access for both, whole and non-fat dry milk by 2012. For all other countries that have signed agreements with Chile, dairy products are excluded from the tariff reduction schedule.

TABLE-Chilean Tariff Reduction Schedule for Whole Dry Milk 0402.2118									
Country of Origin	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bolivia	Free of Duty								
Canada	General Tariff, 6%. Product excluded of tariff reduction								
Colombia	6%	6%	6%	5%	4%	3%	2%	1%	0
Costa Rica	General Tariff, 6%. Product excluded of tariff reduction								
Ecuador	General Tariff, 6%. Product excluded of tariff reduction								
El Salvador	General Tariff, 6%. Product excluded of tariff reduction								
U.S.	5,25%	4,5%	3,75%	3,0%	2,25%	1,5%	0,75%	0	0
Mexico	General Tariff, 6%. Product excluded of tariff reduction								
Mercosur	Free of Duty								
Peru	General Tariff, 6%. Product excluded of tariff reduction								
EU	6%	6%	At the third year a revision of the agreement						
Venezuela	General Tariff, 6%. Product excluded of tariff reduction								

TABLE-Chilean Tariff Reduction Schedule for Nonfat Dry Milk 0402.1000									
Country of Origin	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bolivia	General Tariff, 6%. Product excluded of tariff reduction								
Canada	General Tariff, 6%. Product excluded of tariff reduction								
Colombia	6%	6%	6%	5%	4%	3%	2%	1%	0
Costa Rica	General Tariff, 6%. Product excluded of tariff reduction								
Ecuador	General Tariff, 6%. Product excluded of tariff reduction								
El Salvador	General Tariff, 6%. Product excluded of tariff reduction								
U.S.	5%	3%	2%	0	0	0	0	0	0
Mexico	General Tariff, 6%. Product excluded of tariff reduction								
Mercosur	Free of Duty								
Peru	General Tariff, 6%. Product excluded of tariff reduction								
EU.	6%	6%	At the third year a revision of the agreement						
Venezuela	General Tariff, 6%. Product excluded of tariff reduction								

As a result of Chile's trade agreements, the dairy industry expects to increase its export market share. The US – Chile FTA provides for a 3,500 metric ton duty free quota for Chilean dairy products. This volume increases 10 percent each year until Chile gains duty free access in 2016. The agreement with the EU offers a duty free quota of 1,500 Tons, with a yearly increment of 5 percent. The agreement reached with South Korea gives only a

1,000 Metric Ton duty free quota for whey powder, but there is an agreed upon reduction in the high duties for dairy products like yogurt and cheese in 10 years. Duties applied to these products are 40 and 38 percent respectively. No preferences were agreed for dairy products in the Chile-Japan trade agreement.

The effort to increase domestic consumption of milk and milk products continues with a promotional campaign, which is evenly financed by the producers, the industry and the government. These three players have agreed to form and finance an association (Promolac), which spends approximately 900 million Chilean pesos (US$1.5 Million) on the publicity campaign in CY2004, increased it to 1,200 million Chilean pesos (US$2.1 Million) in 2005 and the budget was reduced to only an estimated 600 million pesos (US$1.1 Million) for CY2006 and the same figure for 2007. Promotion of fresh milk consumption is mainly through TV and printed media.

Due to an influx of dairy imports mainly from Argentina, the GOC imposed safeguard measure against Argentinean dairy product imports. The share of imports from Argentina increased from 35 percent in 2005 to over 75 percent in 2006. The imposed safeguard rate, which came into effect October 13, 2006, was 23 percent. But as a result of significant increases of dairy product prices the GOC decided in July of 2007, to suspend the safeguard measures temporarily and left an option to re-impose the measure if it becomes necessary.

Whole Dry Milk

Production

Close to 90 percent of Chile's production of dry milk is whole milk powder. Production of whole dry milk increased again in CY2006 when compared to the previous year but not much as previously estimated, as demand and production for other dairy products (butter, cheese and yogurt) outgrew increases of milk deliveries to the industry. For 2007, the industry does not expects whole dry milk production to increase, as consumption and export demand for other milk products increased more than demand for dry milk.

Consumption

Dry milk is available for sale in practically all Chilean supermarkets and smaller grocery stores. Families that do not consume large quantities of milk or lack refrigerators to keep UHT fresh after opening prefer dry rather than fluid milk. Ultra high heat treated milk (UHT milk) is very common in Chile because you can store the containers for long time without refrigeration, but once opened the containers have to be kept in refrigerators. Government food programs also account for a significant proportion of dry milk consumption. Government tenders for dry milk may be filled by either domestic or imported product. During the winter months, the industry reconstitutes fluid milk from dry milk produced during the summer, in order to produce dairy products that have a constant demand throughout the year.

Trade

Higher international prices together with an expected increase in domestic milk production, is expected to result in a fall of imported dry milk in 2007.

Chile's dry milk export markets are expected to expand in the coming years as the industry becomes more competitive and the price incentive increases. In the long-term, Chile's success in the dairy export market will depend upon its ability to compete with other countries. Chile's main export markets are in Latin America, particularly Cuba, Mexico, Brazil and Bolivia.

PSD Table									
Country	**Chile**								
Commodity	**Dairy, Dry Whole Milk Powder**						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Beginning Stocks	2	2	2	4	4	3	4	4	2
Production	54	54	50	58	58	51	0	0	54
Other Imports	9	9	6	7	7	4	0	0	10
Total Imports	9	9	6	7	7	4	0	0	10
Total Supply	65	65	58	69	69	58	4	4	66
Other Exports	10	10	7	12	12	9	0	0	14
Total Exports	10	10	7	12	12	9	0	0	14
Human Dom. Consumption	51	51	48	53	53	47	0	0	48
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	51	51	48	53	53	47	0	0	48
Total Use	61	61	55	65	65	56	0	0	62
Ending Stocks	4	4	3	4	4	2	0	0	4
Total Distribution	65	65	58	69	69	58	0	0	66
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Export Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2006		**2007**
U.S.	466	U.S.	167
Others		Others	
Venezuela	3524	Syria	3500
Guatemala	658	Venezuela	1466
El Salvador	566	Guatemala	1054
Pakistan	500	Honduras	626
Cuba	350	El Salvador	439
Peru	257	Peru	261
Dominican Rep.	250	Bolivia	76
Bolivia	77	Nicaragua	50
Honduras	53	Switzerland	10
Syria	13		
Total for Others	6248		7482
Others not Listed	4		0
Grand Total	6718		7649
Note: Year 2007 data are for January through August only			

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2006		**2007**
U.S.	0	U.S.	
Others		Others	
Argentina	5646	Uruguay	127
Uruguay	355	Argentina	81
New Zealand	81	Brazil	75
Brazil	25	New Zealand	17
France	13		
Total for Others	6120		300
Others not Listed	0		0

Grand Total	6120		300
Note: Year 2007 data are for January through August only			

Nonfat Dry Milk

Production

Chile's NFDM production increased again in 2006, as milk output increased. Production in the coming years will depend on expected prices in international markets and changes in food industry consumption or specific strategies from individual industries.

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 and yogurt. The consumption rate of these products is in line with Chile's economic growth. For 2005 and beyond, utilization is expected to continue to increase, but at a slower rate.

Trade

After many years Chile imported NFDM (non fat dry milk) from the US in 2006. Competitive US prices for NFDM is the main reason for US milk imports in 2006, according to industry sources.

PSD Table									
Country	**Chile**								
Commodity	**Dairy, Milk, Nonfat Dry**						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Beginning Stocks	5	5	5	5	5	6	4	4	4
Production	14	14	16	15	15	15	0	0	16
Other Imports	8	8	6	8	8	4	0	0	4
Total Imports	8	8	6	8	8	4	0	0	4
Total Supply	27	27	27	28	28	25	4	4	24
Other Exports	0	0	1	0	0	1	0	0	1
Total Exports	0	0	1	0	0	1	0	0	1
Human Dom. Consumption	22	22	20	24	24	20	0	0	20
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	22	22	20	24	24	20	0	0	20
Total Use	22	22	21	24	24	21	0	0	21
Ending Stocks	5	5	6	4	4	4	0	0	3
Total Distribution	27	27	27	28	28	25	0	0	24
CY Imp. from U.S.	2	2	2	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Export Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2006		**2007**
U.S.	398	U.S.	0
Others		Others	
El Salvador	110	Venezuela	150
Panama	84	Mexico	100
Mexico	80	Peru	66
Cuba	50	El Salvador	7
Ecuador	36	Panama	8
Honduras	17	Bolivia	2
Bolivia	8		
Total for Others	385		333
Others not Listed	0		0
Grand Total	783		333
Note: Year 2007 data are for January through August only			

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2006		**2007**
U.S.	1210	U.S.	165
Others		Others	
Argentina	2763	Netherlands	820
Uruguay	1511	Uruguay	623
Brazil	234	Germany	325
Canada	176	New Zealand	251
		France	48
		Argentina	25
		Australia	25
Total for Others	4684		2117
Others not Listed			
Grand Total	5894		2282

Note: Year 2007 data are for January through August only			