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## Chile

## Grain and Feed

## Annual

## 2008

**Approved by:**

Joseph Lopez, Agricultural Attaché  
Office of Agricultural Affairs

**Prepared by:**

Luis Hennicke, Agricultural Specialist

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**Report Highlights:**

An increase in wheat planting intentions calls for a larger output in the forecast year, which should result in smaller imports when compared to the previous year. Corn production and imports are also forecast to increase as planted area will expand and domestic demand keeps expanding as a result of the continuously growing chicken and pork industry.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
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## Executive Summary

As a result of a significant increase in wheat prices and good weather conditions, planted area and output are estimated to increase in MY2007 when compared to the previous year. For MY2008, initial planting surveys show an increase in planting intentions and production. Therefore imports are forecast to be slightly less than in MY2007.

Chile's corn production for MY2007 increase as high prices encouraged plantings when compared to the previous year. Forecasts for MY2008 show another increase in production and imports as requirements are expected to keep growing, as consumption is expected to increase due to growth in the poultry and hog industries.

## Wheat

### Production

Wheat is politically Chile's most important annual crop. There are an estimated 89,000 producers, of which a little over 10,000 producers are in the so-called subsistence group with little or no alternative crops (production). Just over 70,000 are small farmers, 5,000 are medium size producers and less than 3,000 are large producers.

Revised planting and production figures for MY2006 resulted smaller than previously estimated because abnormal weather conditions did not allow farmers to plant on time. As a result a large number of producers decided for alternative crops. For MY2007, although smaller than previously forecasted, total wheat planted area increased again, in response to increasing domestic wheat prices. Normal weather conditions during planting and harvest time in most growing areas, together with higher prices offered to producers for the coming harvest are the main reasons for the important increase in planted area and production. But an important increase in prices for alternative crops like oats is the main reasons for the lower than previously estimated increase in total planted area. Initial planting survey forecasts another increase in the total planted area for MY2008, when compared to the previous marketing year. This increase is being attributed mainly to another jump of domestic wheat prices for CY2008. Wheat prices have been climbing as a result of increasing international prices. International prices have been increasing in a response to a fall of world stocks of wheat. But significant increases of fuel and fertilizers prices has risen wheat production costs to a point where farmers prefer lower cost and less risky crops like oats, mainly in the Ninth (Temuco) and Tenth (Osorno ) Regions where over the 50 percent of the total wheat is planted.

### Consumption

Total human consumption of wheat has been rather stagnant and in line with population increase during the last few years. According to the local bakery association, Chileans consume an average of close to 100 kilos of bread per capita per year, making them the second largest consumers of bread in the Western hemisphere after Germany. Approximately 25,000 persons are employed in the industry. Domestic feed consumption of wheat has reportedly been expanding the last few years. A fast growing salmon and trout feed industry has become an alternative outlet for some wheat producers' production who have no storage capacity and have to sell their wheat right after harvest.

The milling industry is Chile's main wheat destination. An estimated 85 percent of total wheat supply (domestic production plus imports) is milled for flour. An estimated 80 percent of wheat flour is sold directly and produced by 85 milling facilities nationwide. Industry

sources indicate that the wheat produced in Chile is in general of a lower quality than that required by the bread and pasta industry. It is mainly low in protein and the quality varies a lot.

### Prices

After some years of a significant fall of wheat prices paid to farmers by the milling industry, which has been affecting planted area and production, these increased significantly during the last two years. An expected fall in total worldwide production and a reduction of stocks increased international and domestic prices again in Chile's wheat market.

### Trade

The MY2007 import figures are forecasted to be larger than previously estimated as planted area and production resulted smaller than previously forecasted. For MY2008, a slightly smaller amount of imports is forecasted, as production will expand again in response to better prices paid during this season.

Domestic import decisions are normally driven by price followed by quality, but sometimes price and/or quality take a back seat when a shipload needs to be filled. Under these conditions a higher price may be paid and/or a lower quality accepted for the remaining portion of the shipment. Consequently, although you would expect importers to get wheat from a U.S. supplier when a higher quality product is sought, the supplier in a third country, even with a lower quality product might get the sale.

### Price Band

To settle a continuous dispute presented by Argentina in the WTO about price bands the Chilean Government has in Congress a project which modifies the present price band system. The new project calls for modifying the mechanism used to determining the surcharges applied to imports of bread wheat and wheat flour. The variable values determined by a complex system in the past will be replaced by a fixed value of 30 dollars in the case of wheat and 47 dollars per metric ton to be charged to all imports, independently of the wheat market price.

Until the new project is approved all wheat and wheat flour imports are subject to surcharges or discounts outlined in the present price band system. The present values for the floor and ceiling prices are USD\$126 f.o.b. and USD\$146 f.o.b. respectively. These prices will remain fixed until Jun 15, 2008. Starting this year, the floor is being adjusted downward by 2% a year until 2014, when the price band should disappear as it was agreed in the FTA agreement with the United States. The reference price is a fixed amount in US dollar per ton and it is published six times a year. The reference price is based on an average of the daily price for the 30 days preceding the date of publication. For the first semester the relevant market is FOB at Argentinean port and for the second semester it is soft red winter wheat #2, FOB Gulf of Mexico. The reference price is determined based on the date of entry of the goods. For wheat flour imports, an additional 56% is applied to the values set under the wheat price band. Presently, due to high international wheat prices, above the ceiling of the price band, imports enter duty free. Since the reference price is presently above the ceiling price all imports of wheat and wheat flour pay no duty. This has been the case for all imports since June 2006, with the exception of wheat flour imported from Argentina which is subject to a safeguard measure until the end of this month (April), see Gain Report CI7008.

| PSD Table          |               |               |                   |               |               |                   |                             |               |                   |
|--------------------|---------------|---------------|-------------------|---------------|---------------|-------------------|-----------------------------|---------------|-------------------|
| Country            | Chile         |               |                   |               |               |                   |                             |               |                   |
| Commodity          | Wheat         |               |                   |               |               |                   | (1000 HA) (1000 MT) (MT/HA) |               |                   |
|                    | 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  |               | 12-2006       | 12-2006           |               | 12-2007       | 12-2007           |                             | 12-2008       | 12-2008           |
| Area Harvested     | 284           | 284           | 232               | 350           | 320           | 271               | 0                           | 0             | 295               |
| Beginning Stocks   | 533           | 430           | 533               | 258           | 408           | 318               | 293                         | 452           | 329               |
| Production         | 1100          | 1259          | 1110              | 1500          | 1435          | 1293              | 0                           | 0             | 1357              |
| MY Imports         | 987           | 1100          | 1067              | 950           | 1010          | 1130              | 0                           | 0             | 1100              |
| TY Imports         | 987           | 800           | 1032              | 950           | 990           | 1088              | 0                           | 0             | 1000              |
| TY Imp. from U.S.  | 309           | 300           | 313               | 0             | 320           | 518               | 0                           | 0             | 650               |
| Total Supply       | 2620          | 2789          | 2710              | 2708          | 2853          | 2741              | 293                         | 452           | 2786              |
| MY Exports         | 12            | 1             | 12                | 15            | 1             | 12                | 0                           | 0             | 13                |
| TY Exports         | 12            | 1             | 11                | 15            | 1             | 12                | 0                           | 0             | 12                |
| Feed Consumption   | 200           | 200           | 200               | 200           | 200           | 200               | 0                           | 0             | 200               |
| FSI Consumption    | 2150          | 2180          | 2180              | 2200          | 2200          | 2200              | 0                           | 0             | 2200              |
| Total Consumption  | 2350          | 2380          | 2380              | 2400          | 2400          | 2400              | 0                           | 0             | 2400              |
| Ending Stocks      | 258           | 408           | 318               | 293           | 452           | 329               | 0                           | 0             | 373               |
| Total Distribution | 2620          | 2789          | 2710              | 2708          | 2853          | 2741              | 0                           | 0             | 2786              |
| Yield              | 3,873239      | 4,433099      | 4,784483          | 4,285714      | 4,484375      | 4,771218          | 0                           | 0             | 4,6               |

| Import Trade Matrix |         |            |         |
|---------------------|---------|------------|---------|
| Country             | Chile   |            |         |
| Commodity           | Wheat   |            |         |
| Time Period         | Jan-Dec | Units:     | M.T.    |
| Imports for:        | 2006    |            | 2007    |
| U.S.                | 296487  | U.S.       | 518489  |
| Others              |         | Others     |         |
| Argentina           | 564717  | Argentina  | 413095  |
| Canada              | 171681  | Canada     | 147893  |
| Uruguay             | 28      | N. Zealand | 7613    |
| Other               | 6438    | Paraguay   | 976     |
|                     |         |            |         |
| Total for Others    | 742864  |            | 569577  |
| Others not Listed   | 0       |            | 0       |
| Grand Total         | 1039351 |            | 1088066 |

| Prices Table  |                |                      |          |
|---------------|----------------|----------------------|----------|
| Country       | Chile          |                      |          |
| Commodity     | Wheat          |                      |          |
| Prices in     | Constant Pesos | per uom              | Kg.      |
| Year          | 2006           | 2007                 | % Change |
| Jan           | 119            | 135                  | 13%      |
| Feb           | 121            | 134                  | 11%      |
| Mar           | 122            | 132                  | 8%       |
| Apr           | 122            | 135                  | 11%      |
| May           | 121            | 141                  | 17%      |
| Jun           | 121            | 143                  | 18%      |
| Jul           | 122            | 153                  | 25%      |
| Aug           | 124            | 174                  | 40%      |
| Sep           | 125            | 183                  | 46%      |
| Oct           | 137            | 191                  | 39%      |
| Nov           | 142            | 185                  | 30%      |
| Dec           | 137            |                      | -100%    |
| Exchange Rate | 443            | Local Currency/US \$ |          |
| Date of Quote | 03/30/2008     | MM/DD/YYYY           |          |

| Prices Table  |                |                      |          |
|---------------|----------------|----------------------|----------|
| Country       | Chile          |                      |          |
| Commodity     | Wheat Flour    |                      |          |
| Prices in     | Constant Pesos | per uom              | Kg.      |
| Year          | 2006           | 2007                 | % Change |
| Jan           | 188            | 219                  | 16%      |
| Feb           | 188            | 219                  | 16%      |
| Mar           | 187            | 222                  | 19%      |
| Apr           | 185            | 217                  | 17%      |
| May           | 184            | 217                  | 18%      |
| Jun           | 183            | 219                  | 20%      |
| Jul           | 183            | 236                  | 29%      |
| Aug           | 184            | 247                  | 34%      |
| Sep           | 187            | 268                  | 43%      |
| Oct           | 196            | 284                  | 45%      |
| Nov           | 218            | 303                  | 39%      |
| Dec           | 218            |                      | -100%    |
| Exchange Rate | 443            | Local Currency/US \$ |          |
| Date of Quote | 03/30/2008     | MM/DD/YYYY           |          |

## Corn

### Production

Economic returns for the previous year and futures expected prices are important but not the only factors for farmers when they decide to plant corn for the next year, weather and alternative crops are also important for a large number of producers. During 2007, strong and rising international prices for corn as a result of falling stocks also increased domestic prices in Chile. As a result total planted area increased again in MY2007 when compared to the previous marketing year but much less than our previous estimate. For MY2008 we are expecting a large expansion in production as planted area increased significantly. The larger planted area together with excellent weather conditions in most corn growing areas will result in a larger than previously estimated total production. In spite of a larger output, imports are estimated to grow to a record level of 1.95 million MT as demand from the growing pork and chicken industries is stronger than ever in MY2008. For MY2009 a strong demand and good domestic corn prices is not expected to expand planted area significantly as projected adverse climatic conditions will favor wheat production by farmers that have the option, according to sources of the producers associations. As not enough snow precipitations in the high mountains are predicted due to a major drought present in the whole country, a shortage of water for irrigation purpose can be expected in the coming spring and summer months of this year. Since a shortage of irrigation water affects corn production much more than wheat or other alternative crops, farmers are not willing to risk and will most probably not expand total corn plantings.

Imports are forecast to stay at similar levels than the previous year as domestic demand for corn is expected to keep growing and as a larger area of marginal land goes into corn production it is expected that average yields will fall and production will not grow at the same rate as planted area in MY2009.

### Consumption and Trade

Corn imports are expected to expand, due to expanded feed use in the hog and poultry industries. Argentina is the largest supplier of bulk corn to Chile mainly because it continues to have cost/quality advantages as the trucks are loaded directly on the farms and driven across the border to the consumer's (in Chile) storage facilities, thus avoiding the unloading and loading of ships at the port and reducing total transportation costs. But, since the import duty for Argentinean and US corn became the same (zero %) in January 2006, Chilean importers have started buying increasing amounts of US corn because of quality and reliability of supplies, as it was stated by industry sources.

| PSD Table          |               |               |                   |               |               |                   |               |               |                   |  |
|--------------------|---------------|---------------|-------------------|---------------|---------------|-------------------|---------------|---------------|-------------------|--|
| Country            | Chile         |               |                   |               |               |                   |               |               |                   |  |
| Commodity          | Corn          |               |                   |               |               |                   | (1000 HA)     | (1000 MT)     | (MT/HA)           |  |
|                    | 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  |               | 03-2007       | 03-2007           |               | 03-2008       | 03-2008           |               | 03-2009       | 03-2009           |  |
| Area Harvested     | 134           | 134           | 126               | 150           | 150           | 135               | 0             | 0             | 137               |  |
| Beginning Stocks   | 463           | 535           | 463               | 448           | 520           | 341               | 523           | 525           | 432               |  |
| Production         | 1510          | 1510          | 1462              | 1700          | 1680          | 1566              | 0             | 0             | 1500              |  |
| MY Imports         | 1800          | 1800          | 1690              | 1800          | 1750          | 1950              | 0             | 0             | 1950              |  |
| TY Imports         | 1700          | 1850          | 1752              | 1800          | 1400          | 1800              | 0             | 0             | 1700              |  |
| TY Imp. from U.S.  | 216           | 650           | 357               | 0             | 450           | 550               | 0             | 0             | 650               |  |
| Total Supply       | 3773          | 3845          | 3615              | 3948          | 3950          | 3857              | 523           | 525           | 3882              |  |
| MY Exports         | 75            | 75            | 74                | 75            | 75            | 75                | 0             | 0             | 74                |  |
| TY Exports         | 75            | 75            | 74                | 75            | 75            | 75                | 0             | 0             | 74                |  |
| Feed Consumption   | 2900          | 2900          | 2900              | 3000          | 3000          | 3050              | 0             | 0             | 3070              |  |
| FSI Consumption    | 350           | 350           | 300               | 350           | 350           | 300               | 0             | 0             | 300               |  |
| Total Consumption  | 3250          | 3250          | 3200              | 3350          | 3350          | 3350              | 0             | 0             | 3370              |  |
| Ending Stocks      | 448           | 520           | 341               | 523           | 525           | 432               | 0             | 0             | 438               |  |
| Total Distribution | 3773          | 3845          | 3615              | 3948          | 3950          | 3857              | 0             | 0             | 3882              |  |
| Yield              | 11,26866      | 11,26866      | 11,60317          | 11,33333      | 11,2          | 11,6              | 0             | 0             | 10,94891          |  |

| Import Trade Matrix |         |           |         |
|---------------------|---------|-----------|---------|
| Country             | Chile   |           |         |
| Commodity           | Corn    |           |         |
| Time Period         | Jan-Dec | Units:    | M.T.    |
| Imports for:        | 2006    |           | 2007    |
| U.S.                | 421100  | U.S.      | 357163  |
| Others              |         | Others    |         |
| Argentina           | 1144213 | Argentina | 1345652 |
| Paraguay            | 166928  | Paraguay  | 43583   |
| Brazil              | 9946    | Bolivia   | 4962    |
| Peru                | 14      | Uruguay   | 504     |
| Germany             | 2       | Peru      | 50      |
|                     |         | Mexico    | 9       |
| Total for Others    | 1321103 |           | 1394760 |
| Others not Listed   | 0       |           |         |
| Grand Total         | 1742203 |           | 1751923 |

| Prices Table  |                |                      |             |
|---------------|----------------|----------------------|-------------|
| Country       | Chile          |                      |             |
| Commodity     | Corn           |                      |             |
| Prices in     | Constant Pesos | per uom              | Kg.         |
| Year          | 2006           | 2007                 | %<br>Change |
| Jan           | 79             | 128                  | 62%         |
| Feb           | 81             | 125                  | 54%         |
| Mar           | 83             | 123                  | 48%         |
| Apr           | 80             | 111                  | 39%         |
| May           | 81             | 110                  | 36%         |
| Jun           | 83             | 111                  | 34%         |
| Jul           | 84             | 112                  | 33%         |
| Aug           | 88             | 112                  | 27%         |
| Sep           | 90             | 119                  | 32%         |
| Oct           | 102            | 126                  | 24%         |
| Nov           | 123            | 125                  | 2%          |
| Dec           | 123            |                      | -100%       |
| Exchange Rate | 443            | Local Currency/US \$ |             |
| Date of Quote | 03/30/2008     | MM/DD/YYYY           |             |