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## Chile

### Dairy and Products

### Annual

### 2005

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**Report Highlights:**

Chile's dairy production this year is expected to expand. Good weather conditions improved forage production and milk productivity. An increase in milk prices paid to farmers due to an increase in export demand for dairy products is expected to expand output in the coming years.

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Includes PSD Changes: Yes  
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## Executive Summary

Chile's milk production is expected to increase in 2005 (Jan-Dec). Increased prices paid to producers together with good weather conditions, which improved forage supplies, are the main factors for the recovery in output. Domestic milk prices are an important factor that affected 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 years 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 in CY2004 rose from 2.13 billion to 2.25 billion liters, mainly due to an increase in productivity in the milk-producing herd. Good climatic conditions in the primary dairy producing regions of the country, together with higher prices paid by the dairy industry in 2003 and beginning of 2004, were the main factors affecting total production. Better prices paid to producers by the domestic milk industry allowed a larger number of producers to use supplemental feeding with concentrates to make up for deficiencies in their pastures to increase the production level of their herds.

As a result of an increase in the price paid to producers in 2004 together with good weather in the main milk-producing region, which had a positive effect on pasture, production of milk is expected to increase another 6 percent in MY2005, to 2.38 billion liters. Chile currently has an estimated 49,000 dairy farmers with approximately 620,000 cows in production.

Real prices paid to producers for milk in Chile, which had been falling slowly but steadily since 1992, recuperated in 2003 and rose further in 2004. For CY2004, prices paid to milk producers rose 3 percent in real terms, when compared to CY2003.

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
Source: Ministry of Agriculture								

## Trade

Chile has become a net exporter of dairy products. For first time, the dairy industry's exports exceeded imports in volume and value during CY2004. Imports fell 48 percent to 147 billion liters, whereas exports rose 25 percent to 287 billion liters. Latin American countries are the main destination for Chile's dairy exports. Reportedly, the industry's goal is to export US\$100 million in milk and dairy products in 2005.

## 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 will enter duty free in 2007 and whole dry milk will be tariff free in 2011. Colombia will have duty free 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.

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.

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 will spend approximately 900 million Chilean pesos on the publicity campaign in CY2004 and the contribution for the 2005 campaign is expected to be 1,200 million Chilean pesos. Promotion of fresh milk consumption is mainly through TV and printed media.

## Whole Dry Milk

### Production

Close to 90 percent of Chile's production of dry milk is whole milk powder. Production of whole dry milk expanded slightly in CY2004, as total production and deliveries to the industry, of milk increased. For 2005, the industry expects a significant increase in whole dry milk production, as total milk output and export demand for dry milk is increasing.

### 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 they 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

In CY2003, the industry expected a larger fall in domestic milk production and over reacted importing larger than necessary volumes of whole dry milk, thus increasing carry over stocks, which together with a slight expansion in production resulted in significantly smaller imports in 2004.

Chile's dry milk export markets are expected to expand in the coming years as the industry becomes more competitive. 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)	
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Beginning Stocks	9	9	5	4	4	3	(1000 MT)
Production	51	51	55	55	0	60	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	8	4	8	5	0	5	(1000 MT)
TOTAL Imports	8	4	8	5	0	5	(1000 MT)
TOTAL SUPPLY	68	64	68	64	4	68	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	11	8	12	8	0	11	(1000 MT)
TOTAL Exports	11	8	12	8	0	11	(1000 MT)
Human Dom. Consumption	52	52	52	53	0	53	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	52	52	52	53	0	53	(1000 MT)
TOTAL Use	63	60	64	61	0	64	(1000 MT)
Ending Stocks	5	4	4	3	0	4	(1000 MT)
TOTAL DISTRIBUTION	68	64	68	64	0	68	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

<b>Import Trade Matrix</b>			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2004		2005
U.S.	0	U.S.	0
Others		Others	
Argentina	3571	Uruguay	2383
Uruguay	504	Argentina	1765
New Zealand	87	New Zealand	57
Total for Others	4162		4205
Others not Listed	0		0
Grand Total	4162		4205
Note: Year 2005 data are for January through August only.			

<b>Export Trade Matrix</b>			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2004		2005
U.S.	582	U.S.	418
Others		Others	
Cuba	4522	Cuba	1100
Venezuela	1344	Honduras	700
Peru	453	Dominican Rep.	664
Guatemala	319	Argentina	624
Bolivia	181	Guatemala	568
Mexico	100	El Salvador	401
		Brazil	400
		Venezuela	350
		Bolivia	58
		Trinidad & Tobago	32
Total for Others	6919		4897
Others not Listed	0		31
Grand Total	7501		5346

Note: Year 2005 data are for January through August only.

## Nonfat Dry Milk

### Production

Chile's NFDM production increased slightly in 2004, as milk output increased. Production in the coming years will depend upon 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.

PSD Table							
Country	Chile						
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Beginning Stocks	5	5	5	3	5	3	(1000 MT)
Production	9	10	9	10	0	11	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	6	3	6	5	0	5	(1000 MT)
TOTAL Imports	6	3	6	5	0	5	(1000 MT)
TOTAL SUPPLY	20	18	20	18	5	19	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	1	(1000 MT)
TOTAL Exports	0	0	0	0	0	1	(1000 MT)
Human Dom. Consumption	15	15	15	15	0	16	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	15	15	15	15	0	16	(1000 MT)
TOTAL Use	15	15	15	15	0	17	(1000 MT)
Ending Stocks	5	3	5	3	0	2	(1000 MT)
TOTAL DISTRIBUTION	20	18	20	18	0	19	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

<b>Import Trade Matrix</b>			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan- Dec	Units:	M.T.
Imports for:	2004		2005
U.S.	0	U.S.	0
Others		Others	
Uruguay	1305	Uruguay	2470
Argentina	1170	Argentina	1766
Brazil	720	Brazil	96
Total for Others	3195		4332
Others not Listed	0		0
Grand Total	3195		4332
Note: Year 2005 data are for January through August only.			

<b>Export Trade Matrix</b>			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2004		2005
U.S.	0	U.S.	0
Others		Others	
Guatemala	75	El Salvador	106
Brazil	25	Panama	36
Bolivia	24	Bolivia	21
El Salvador	15	Honduras	5
Peru	10		
Total for Others	149		168
Others not Listed	0		0
Grand Total	149		168

Note: Year 2005 data are for January through August only.