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Chile

Dried Fruit

Walnut Annual

2004

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Report Highlights:

Walnut production and exports are expected to increase only slightly this year due to unstable weather in some growing areas last spring.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Santiago [C1]
[C1]

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Executive Summary

Chile's walnut production and exports in MY2003 (Jan-Dec, 2004) are expected to be only slightly larger as the weather in some areas last spring was not favorable. For the coming years, industry sources expect Chile's walnut production to increase as a result of grafting higher-yielding varieties to existing orchards, replacement of uprooted orchards with improved varieties, and overall increases in planted area. This will likely be an ongoing trend into the foreseeable future.

Please note that the average conversion factor used in the past for converting from shelled to in-shell walnuts was 2.7. Industry sources have indicated that a more realistic conversion factor is 2.0. As a result export data from CY2000 on was recalculated with this new conversion factor.

Production

For MY2002 (Jan-Dec 2003) output was higher than our last estimates, due to both favorable weather conditions during most of the growing season and a larger number of new planted areas coming into production. Additionally, many producers have been adopting improved technologies like pruning, which has had a positive effect on yields and total production. For MY2003, industry sources indicate that production is expected to expand only slightly, when compared to last years, as weather during last spring was not favorable in some growing areas. However, as producers are expected to continue to replace aging orchards with improved varieties, increase grafting of their lowest-yielding trees, and expand planted areas, the long term forecast is that production will continue to expand. This forecast assumes normal weather conditions throughout the season.

Crop Area

Although walnuts are planted from the Third Region (Copiapo) down to the Ninth Region (Temuco), over 90 percent are planted in the central areas, specifically Region Five (San Felipe-Los Andes), the Metropolitan Region (Santiago) and Region Six (Rancagua). Industry sources indicate that after many years of a slow but steady decrease in total planted area, due to the uprooting of orchards near urban areas for housing and commercial development, new-planted area is now exceeding the area being uprooted. The two main factors for the overall increase in planted area are a continuous deterioration in the profitability of alternative fruit crops and the relatively good prices obtained by walnut producers.

Table: Chile – Walnut Planted Area and Production

Years	Planted Area (Ha)	Production (MT)	Exports (MT)
1994	6,940	9,500	8,258
1995	6,980	9,800	8,665
1996	7,000	8,800	8,277
1997	7,480	10,950	8,880
1998	7,250	9,955	8,114
1999	7,015	12,000	8,503
2000	7,165	10,000	6,582
2001	7,200	11,800	9,551
2002	7,250	12,400	8,890
2003	7,808	13,800	11,925
2004 1/	7,856	14,000	12,300
2005 2/	8,255	14,500	12,500
2008 3/	9,000	15,800	13,500
1/ Estimated			
2/ Forecasted			
3/ Projected			

Inputs

All commercial walnut orchards are planted on irrigated land. However, only an estimated 60 percent of the planted area has modern irrigation systems. As a result, when there is not enough water supplied from wells, rivers and streams flowing from the Andes Mountains, water availability becomes an important factor limiting production, mainly in Region V and Region VI, where output can be affected significantly. The average orchard size is 10 to 15 hectares, which is double the size of orchards in France and half the size of orchards in the US.

Although a large percentage of walnut trees in production in Chile originate from seeds, budding and grafting of new and improved varieties like Serr and Chandler, has increased in recent years.

Increasing labor costs are an important factor affecting walnut production and processing. Chile has a competitive quality advantage in shelled walnuts, since almost all shelled walnuts are hand-cracked. Although the premium Chile obtains from this quality advantage has thus far continued to encourage hand-shelling; increased labor costs may mean that Chile could lose this advantage in coming years.

Crop Quality

Although there are no statistics on grade quality, only a small portion of the walnut crop is considered to be of high quality by international standards. The fruit on the trees does not mature uniformly, thereby prolonging the harvest and increasing the risk of mold formation. The large number of walnut varieties scattered throughout the country, which hampers efficient orchard maintenance, exacerbates this problem. Walnuts in Chile are harvested when they are ripe and display a darker fruit than in most northern hemisphere countries.

The best quality walnut production normally is produced in Region Five, where dry weather during the March-April harvest allows producers to pick a dry, mold-free nut. Early rains normally affect other regions in the fall.

Consumption

As with most other Chilean fruits, domestic walnut consumption is a residual of the export market. If international prices are low, exports fall off and domestic consumption increases as the larger supply drives domestic prices down. However, domestic demand does not drive consumption or determine market prices. Shelled walnuts are mainly consumed domestically.

Trade

In the past, Chile exported walnuts mainly to the Latin American markets (Brazil and Argentina). But as a result of the deterioration of their economies, export companies have increased their marketing effort towards the EU and deliveries to that market has expanded significantly during the last two years, from not more than 33% of total exports to over 65%. Export to the EU are expected to expand further as a result of the Chile-EU Free Trade Agreement, which lowered tariffs on Chilean in shell and shelled walnuts to zero.

Total exports are expected to expand further in the coming years, due to expansion in production and as improved orchards begin to bear fruit. The industry estimates another increase in exports in CY2004 due to a larger output. Chile has only a small import market, mainly coming from the United States, due to an increase in demand for higher quality nuts.

Stocks

There are no trade or official statistics available on Chile's average stocks. However, exporters reportedly do not normally carry over stocks.

Policy

There are no specific Government policies regulating or benefiting tree nut production in Chile. The general import duty on walnuts was permanently lowered to 6 percent in January of 2003. As a result of the US-Chile Free Trade Agreement duties on in shell and shelled walnuts were lowered to zero as of January 1, 2004. Chilean exports to the US face a zero duty for in shell walnuts and shelled walnuts pay 14.1 cents per Kg. However, the shelled rate will be reduced to zero in 4 years.

Marketing

In August 2003, ChileNut a Chilean walnut producers association was created to improve and standardize production. Export promotion, mainly in developed countries, is another of their objectives. Initial membership exceeded 200 producers and exporters, who will contribute one cent per kilo of walnuts produced and/or exported. An estimated 70% of the production already belongs to this organization.

As indicated, ChileNut's first objective is to standardize and improve the quality of Chilean walnut production, with the goal of creating a quality category called "Chilean Nut". Chilean Nut is expected embody a high international quality standard. A second objective of this organization is to train associated producers in "good agricultural practices", as most of Chile's export markets request higher standards of quality. Finally, ChileNut expects to become an important service organization for walnut producers, generating needed market,

price and agricultural practices information that will be available through their web page. With this they hope to improve Chile's marketing position.

Another important expected activity of this organization will be export promotion. For this, they are in the process of preparing projects that will be presented to ProChile for co financing, like participating in international fairs and probably also in the "Flavors of Chile" export promotion program. This is a multi product promotional campaign in which foods and wine are marketed under a country image. The target audiences for this campaign are importing companies, retailers, Hotel, Restaurant and Catering companies.

PS&D Table

Country Commodity	Chile Walnuts, Inshell Basis						UOM
	2002 USDA Official	Revised Estimate [DA	2003 Official	Estimate Estimate [DA	2004 Official	Forecast Estimate [New]	
Market Year Begin	01/2003		01/2004		01/2005	MM/YYYY	
Area Planted	7769	7808	7800	7856	0	8255 (HA)	
Area Harvested	5600	5600	5650	5680	0	5870 (HA)	
Bearing Trees	545	616	548	636	0	669 (1000 TREES)	
Non-Bearing Trees	210	265	210	261	0	286 (1000 TREES)	
Total Trees	755	881	758	897	0	955 (1000 TREES)	
Beginning Stocks	260	260	140	494	190	444 (MT)	
Production	12500	13800	13000	14000	0	14500 (MT)	
Imports	150	259	150	150	0	150 (MT)	
TOTAL SUPPLY	12910	14319	13290	14644	190	15094 (MT)	
Exports	11000	11925	11300	12300	0	12600 (MT)	
Domestic Consumption	1770	1900	1800	1900	0	2000 (MT)	
Ending Stocks	140	494	190	444	0	494 (MT)	
TOTAL DISTRIBUTION	12910	14319	13290	14644	0	15094 (MT)	

Export Trade Matrix

Country	Chile		
Commodity	Walnuts, Inshell Basis		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2002		2003
U.S.	0	U.S.	18
Others	Others		
Brazil	3209	Italy	2662
Italy	1295	Brazil	2551
Portugal	803	Germany	1473
Germany	797	Spain	1453
Switzerland	555	Portugal	1132
Spain	494	Argentina	971
Netherlands	399	Switzerland	646
Ecuador	309	Netherlands	310
Argentina	297	Ecuador	191
Venezuela	151	Peru	108
Total for Others	8309		11497
Others not Listed	581		410
Grand Total	8890		11925

Import Trade Matrix

Country	Chile		
Commodity	Walnuts, Inshell Basis		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2002		2003
U.S.	80	U.S.	269
Others	Others		
Argentina	61		
Total for Others	61		0
Others not Listed			
Grand Total	141		269