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Chile

Dairy and Products

Annual

2004

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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.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Executive Summary

Chile's milk production is expected to increase in 2004 (Jan-Dec), an increase in 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 milk production over the next three-to-five years 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 at farm level in CY2003 fell slightly from 2.17 billion to 2.13 billion liters, mainly due to a loss of productivity of the milk-producing herd. Adverse climatic conditions in the primary dairy producing regions of the country in 2003, together with low prices paid by the dairy industry in 2001 and 2002, are the main factors affecting total production. A significant drop in the domestic milk prices paid to producers prevented most producers from using supplemental feeds with concentrates to make up for deficiencies in their pastures to increase or maintain the production level of their herds.

As a result of an increase in the price paid to producers in 2003 together with good weather in the main milk-producing region, which had a positive effect on pasture, milk output is expected to increase in MY2004. Chile currently has an estimated 49,000 dairy farmers with approximately 614,000 cows in production.

Real prices paid to producers for milk in Chile, which have been falling slowly since 1992, recuperated slightly in 2003. For CY2003, prices paid to milk producers rose 10 percent in real terms, when compared to last year (CY2002). Statistics show another 4 percent increase during the first 8 months of this marketing year.

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	50,939	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	311	61,867	10,849	53,037	7,555	139,344	30,558
Source: Ministry of Agriculture								

Trade

Chile's dairy industry imports exceeded exports slightly in volume, imports of 284.0 billion liters versus exports of 230.0 billion liters, during CY2003. Latin American countries are the main destination for Chile's dairy exports. The industry has set as its immediate goal the 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 dairy products imported. Additionally, a value-added tax of 18 percent is charged at the consumer level on all goods, domestic or imported.

As a result of the Free Trade Agreements Chile has signed, the dairy industry expects to increase their export market share. Chile has a 3,500 metric ton duty free quota for dairy products entering the United States. This volume increases 10 percent each year until trade with Chile is completely liberalized after 12 years. 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 of 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 financed by the producers, the industry and the government, a third each. These three players have agreed to form and finance an association (Promolac), which will spend approximately 650 million Chilean pesos on the publicity campaign. Promotion of fresh milk consumption is mainly through TV and printed media. The increase in consumption as a result of the campaign has not been measured yet.

Whole Dry Milk

Production

Close to 90 percent of Chile's production of dry milk is whole milk powder. Production of whole dry milk fell significantly in CY2003, when compared to the previous year, mainly due to a smaller output of milk and a significant increase in other fresh dairy products, like yogurt, fresh fluid milk and condensed milk. Dry milk is produced mainly from surplus milk that would otherwise be consumed as fluid milk or used to produce other dairy products. For 2004, the industry expects a slight increase again in whole dry milk production, as total milk output is expected to rise. Industry sources have indicated that in the long term, production increases in whole dry milk are expected to level off, as demand moves to high value dairy products as the country develops economically.

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. 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.

Statistics show that there has been a reduction in whole dry milk consumption. Industry sources indicate that due to the promotional campaign, dry milk consumption has been replaced by fluid milk and yogurt. During MY2003 production of fluid milk expanded 5 percent, yogurt production expanded almost 10 percent and condensed milk expanded over 26 percent.

Trade

A fall in production of whole dry milk resulted in an expansion of imports in 2003. For 2004, industry sources indicate that imports are expected to fall, because the industry over reacted and imported more whole dry milk than needed during CY2003 as they expected a larger fall in domestic milk production.

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 that benefit from subsidy programs. 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)			
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	5	5	4	9	3	5	(1000 MT)
Production	52	50	55	51	0	55	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	10	16	8	8	0	8	(1000 MT)
TOTAL Imports	10	16	8	8	0	8	(1000 MT)
TOTAL SUPPLY	67	71	67	68	3	68	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	11	10	12	11	0	12	(1000 MT)
TOTAL Exports	11	10	12	11	0	12	(1000 MT)
Human Dom. Consumption	52	52	52	52	0	52	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	52	52	52	52	0	52	(1000 MT)
TOTAL Use	63	62	64	63	0	64	(1000 MT)
Ending Stocks	4	9	3	5	0	4	(1000 MT)
TOTAL DISTRIBUTION	67	71	67	68	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)

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2003		2004
U.S.	0	U.S.	0
Others		Others	
Argentina	8935	Argentina	3308
Uruguay	3451	Uruguay	429
Irland	1244	New Zealand	57
Belgium	949		
Denmark	616		
Netherlands	200		
Canada	48		
France	46		
New Zealand	25		
Brazil	25		
Total for Others	15539		3794
Others not Listed	0		
Grand Total	15539		3794
Note: Year 2004 data are for January through August only.			

Export Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2003		2004
U.S.	11	U.S.	304
Others		Others	
Cuba	6727	Cuba	2172
Brazil	1000	Venezuela	208
Bolivia	705	Bolivia	108
Argelia	400	Mexico	100
Guatemala	296	Peru	25
Peru	246		
El Salvador	75		
Panama	60		
Honduras	25		
Haiti	1		
Total for Others	9535		2613
Others not Listed	0		0
Grand Total	9546		2917
Note: Year 2004 data are for January through August only.			

Nonfat Dry Milk

Production

Chile's NFDM production fell slightly in 2003, as milk output fell and due to an increase in production of higher value dairy products reduced the surplus of milk, which is normally destined for dry milk production. Production in the coming years will depend upon expected prices in the international markets and changes in food industry consumption or specific strategies from individual industries. Production is currently expected to remain steady through 2004. A fall in production of NFDM resulted in an expansion of imports in 2003. For 2004, similar as what happened with whole dry milk, industry sources indicate that imports are expected to fall, because the industry over reacted and imported more than needed during CY2003 as they expected a larger fall in domestic milk production.

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 is in line with Chile's economic growth. For 2003 and beyond, utilization is expected to increase again, but at a slower rate.

PSD Table							
Country	Chile						
Commodity	Dairy, Milk, Nonfat Dry			(1000 MT)			
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	3	3	4	5	4	5	(1000 MT)
Production	10	9	10	9	0	9	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	7	9	6	6	0	6	(1000 MT)
TOTAL Imports	7	9	6	6	0	6	(1000 MT)
TOTAL SUPPLY	20	21	20	20	4	20	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	16	16	16	15	0	15	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	16	16	16	15	0	15	(1000 MT)
TOTAL Use	16	16	16	15	0	15	(1000 MT)
Ending Stocks	4	5	4	5	0	5	(1000 MT)
TOTAL DISTRIBUTION	20	21	20	20	0	20	(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)

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2003		2004
U.S.	0	U.S.	0
Others		Others	
Uruguay	3761	Uruguay	1028
Argentina	2343	Argentina	659
Canada	1704	Brazil	96
Germany	288		
U.K.	208		
Denmark	204		
Ireland	112		
New Zealand	72		
Total for Others	8692		1783
Others not Listed	0		0
Grand Total	8692		1783
Note: Year 2004 data are for January through August only.			