

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 10/30/2015

**GAIN Report Number:** CI523

## **Chile**

### **Dairy and Products Annual**

#### **United States Increases Market Share in Chile**

**Approved By:**

Anita Katial, Agricultural Attaché

**Prepared By:**

Sergio Gonzalez, Agricultural Specialist

**Report Highlights:**

Overall dairy exports to Chile were up by 24% in the first eight months of CY 2015, when local producer prices were lower and are expected to maintain similar levels for CY2016. In addition, the market share for U.S. dairy products in Chile increased to 23%, positioning the U.S. as Chile's second largest supplier after New Zealand during the same period. Chile's milk production has shown nearly a 7% decrease in the first eight months of CY2015 compared to the same period in CY 2014, due droughts in early January-April. These severe droughts resulted in less pasture for animals to graze on, causing lower production.

**Executive Summary:**

Overall dairy exports to Chile were up by 24% in the first eight months of CY 2015, when local producer prices were lower and are expected to maintain similar levels for CY2016. In addition, the market share for U.S. dairy products in Chile increased to 23%, positioning the U.S. as Chile's second largest supplier after New Zealand during the same period. Chile's milk production has shown nearly a 7% decrease in the first eight months of CY2015 compared to the same period in CY 2014, due droughts in early January-April. These severe droughts resulted in less pasture for animals to graze on, causing lower production.

**Production General:**

Chile has about 6,000 dairy producers and 500,000 cows that are concentrated mainly in the southern regions of Los Lagos (known as region X) and Los Rios (known as region XIV) in Chile. These two regions account for nearly 76% of Chile's largest milk collection facilities. The Metropolitana region, in the center of Chile where Santiago is located, accounts for 7% of production, while southern regions of Biobio and Araucania account for 9% production each. Total milk production is situated at an average of 2.15 million liters (ML) a year, by major processing plants. If small industry is included production generally reaches 2.7 ML each year. Total dairy consumption is 146 liters per capita/year.

Although milk production between CY2012-CY2014 has remained stable, total milk production between January-May CY2015 has been 6.9% lower than CY2014. While dry milk production had a greater decline by 17.8% less production between 2014 and 2015 for the January-May period.

The lower production in CY 2015 is related to climate factors. The availability of water is crucial for pasture growth, and the intense drought in January – April 2015 resulted in reduced pasture production. Irrigation for pasture has been implemented by some producers, typically larger scale to reduce vulnerability caused by droughts. However, irrigation is not always possible for small and medium dairies, especially because of limited resources. In addition, irrigation depends on subterranean water availability in mainly the central valley and less on coastal area. At the same time, superficial water is available but depends on water ownership regulations which are mainly designated for energy production. Investment in irrigation systems is not economically viable for most. Such irrigation investments are only made by producers with high yields and production surface.

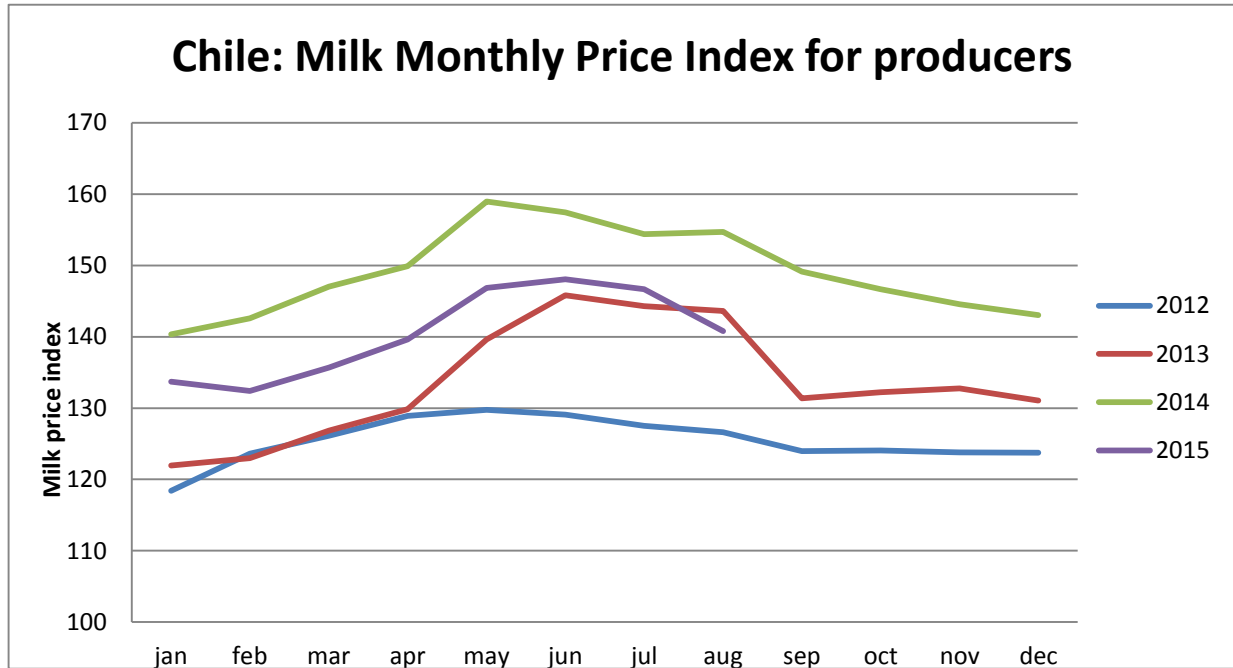
According to "Instituto de Investigaciones Agropecuarias" (INIA), climate change has impacted Chile's main dairy production regions by an average increase of 1.5 degrees Celsius in 2015, thus causing shortfalls in pasture production or grassland growth used for feeding dairy cows.

<b>TABLE – Total Dairy Production</b>									
	Total received by industry (million liters /ML)	Fluid milk (ML)	Dry milk (MT)	Whey (MT)	Butter (MT)	Cheese (MT)	Farmers cheese (MT)	Yogurt (ML)	Condensed milk (MT)
2002	1,605	296	67,710	10,041	11,551	53,075	7,480	127,057	24,190
2003	1,563	293	61,867	15,240	10,849	53,037	7,555	139,344	30,558
2004	1,676	289	63,633	17,037	13,084	58,849	8,296	159,828	38,698
2005	1,723	298	62,792	23,850	14,655	67,176	10,507	189,436	39,645
2006	1,818	319	69,491	24,303	17,157	62,072	9,088	157,980	43,426
2007	1,871	330	74,204	27,791	18,229	61,745	8,579	162,505	45,287
2008	1,972	323	102,955	24,849	16,765	57,369	7,960	178,215	41,501
2009	1,773	341	73,431	23,973	17,102	56,526	8,139	191,933	33,255
2010	1,896	367	82,321	29,232	21,086	64,558	8,349	198,825	36,829
2011	2,104	369	92,812	26,790	21,041	80,620	9,135	222,063	34,579
2012	2,119	389	93,197	26,721	22,205	82,307	9,049	229,996	39,828
2013	2,149	398	95,993	23,365	21,566	89,046	9,104	228,590	36,302
2014	2,149	423	103,510	21,480	21,874	81,574	9,133	227,460	36,751
2014 (jan-may)	861	178	41,236	8,812	9,106	33,078	3,845	96,196	14,118
2015 (jan-may)	802	175	33,902	8,682	9,007	33,891	3,943	98,023	15,480
Variation (jan-may 2014/2015)	-6.9%	-1.7%	-17.8%	-1.5%	-1.1%	2.5%	2.5%	1.9%	9.6%

Source: Odepa, 2015.

Milk producer prices in Chile have a seasonal variation during the year, with price at their peak May and August, when production is at its lowest. In CY2014 milk producers received the highest price for their milk compared to CY2012, CY2013 and also in the first eight months of CY2015 (see graph below).

Today, in CY 2015, milk producers are receiving prices that are barely covering production costs. Four of Chile's milk processing plants collect nearly 80% of the country's total milk produced.



Source: INE, 2015

Chile's top five milk processing plants have shown a significant decrease between January-May 2014 and 2015. For example, Nestle, one of Chile's main processing plants reported a 15% decrease in the amount of milk it collected for the same period.

Milk reception by processing plant Liters						
Processing plant	Calendar Year (CY)		Jan-May		Variation %	Market Share %
	2013	2014	2014	2015		
Colún	532,427,334	550,930,648	216,368,773	205,990,038	-4.8	25.7
Soprole	486,285,558	506,202,291	202,231,724	195,480,345	-3.3	24.4
Nestlé	472,639,832	432,152,555	176,442,141	150,025,926	-15.0	18.7
Watt's S.A.	267,136,471	263,214,133	104,945,938	96,596,700	-8.0	12.0
Surlat	135,081,356	147,351,220	60,848,843	54,568,546	-10.3	6.8
Valle Verde	57,146,457	62,975,177	25,721,908	26,922,634	4.7	3.4
Lácteos del Sur	40,733,252	54,130,844	20,357,345	20,954,174	2.9	2.6
Quillayes	57,896,707	51,889,333	21,893,020	19,904,226	-9.1	2.5
Danone Chile S.A.	52,698,826	49,839,250	20,257,980	17,603,814	-13.1	2.2
Chilolac	16,938,512	20,170,059	8,278,786	8,449,086	2.1	1.1
Biolche	7,630,922	9,873,510	3,821,198	5,397,503	41.3	0.7
Lácteos Valdivia	15,933,744					0.0
Lácteos Puerto Varas	6,602,685					0.0
<b>Total</b>	<b>2,149,151,656</b>	<b>2,148,729,020</b>	<b>861,167,656</b>	<b>801,892,992</b>	<b>-6.9</b>	<b>100.0</b>

Source: ODEPA

### Trade General:

New Zealand was the main supplier of dairy products in CY2014 and continues to be the leader in CY2015. New Zealand is a significant investor in Chile's dairy market. For example, one of the major producers of milk in Chile, Soprole, is owned by Fonterra from New Zealand. The United States is the second main supplier of dairy products to Chile, followed by Argentina.

United States has increased exports to Chile in 24% when comparing the January-August period for CY2014 and CY2015, while both New Zealand and Argentina have decreased their exports in the same period.

### Chilean Dairy Products Imports by Country of Origin

January- August

Country	Value (thousands of US\$)		Variation %	Market Share %
	2014	2015		
New Zealand	65,205	36,476	-44.1	24.0
United States	28,335	35,142	24.0	23.1
Argentina	31,886	25,685	-19.4	16.9
Uruguay	7,896	16,991	115.2	11.2
Mexico	7,057	8,540	21.0	5.6
Ireland	3,283	4,180	27.3	2.7
Germany	39	4,096	10517.0	2.7
Brazil	4,832	3,845	-20.4	2.5
Netherlands	2,531	3,217	27.1	2.1
Peru	1,956	2,602	33.0	1.7
France	2,509	2,502	-0.3	1.6
Canada	1,359	2,207	62.4	1.4
Denmark	638	1,842	188.9	1.2
Others	6,522	4,893	-25.0	3.2
<b>Total</b>	<b>164,048</b>	<b>152,216</b>	<b>-7.2</b>	<b>100.0</b>

Source: ODEPA, 2015

### Chilean Dairy Products Exports by Country of Origin

January- August

Country	Value (thousands of US\$)		Variation %	Market Share %
	2014	2015		
Mexico	30,176	19,791	-34.4	16.4
United States	7,582	13,327	75.8	11.1
Peru	15,482	12,588	-18.7	10.4
Venezuela	17,678	8,161	-53.8	6.8
Colombia	7,397	7,118	-3.8	5.9
Nicaragua	9,944	6,906	-30.6	5.7
Costa Rica	7,291	6,905	-5.3	5.7
Cuba	5,148	6,753	31.2	5.6
Honduras	6,265	6,048	-3.5	5.0
Russia	746	5,161	591.7	4.3
Guatemala	5,426	4,698	-13.4	3.9
Panama	8,060	4,190	-48.0	3.5
El Salvador	4,096	3,568	-12.9	3.0
Others	73,155	15,301	-79.1	2.8
<b>Total</b>	<b>198,446</b>	<b>120,515</b>	<b>-39.3</b>	<b>100.0</b>

Source: ODEPA. 2015

**Policy General:**

The United States and Mercosur countries have zero import duties with Chile. New Zealand, one of the main dairy products exporters to Chile currently has a 2 percent tariff for powder milk products, which is reduced by 1 percent every year until 2017. TPP agreement signed by Chile does not modify any of the old agreement on dairy products between United States and Chile. Although Chile had already bilateral free trade agreements with all of TPP countries, Chilean Public authorities believe it will have a positive effect on dairy exports to countries like Japan.

Production of higher value added products, mainly cheese and fresh milk is being studied by government (INIA). Less environmental footprint production systems are a concern on government institutions.

**Commodities:**

Dairy, Dry Whole Milk Powder

**Production:**

Production of whole dry milk in Chile was 82.1 thousand metric tons (TMT) in CY2013 and dropped to 75.5 TMT in CY2014. In CY2015, production figures for whole dry milk are lower from for February-May compared to the same months of CY2014. This reduced whole dry milk production is related to the rain deficit that caused less pasture production for animal feed in the first four months of the year. However since May, the rain deficit in dairy producing regions has decreased and pastures recuperation has been on the rise.

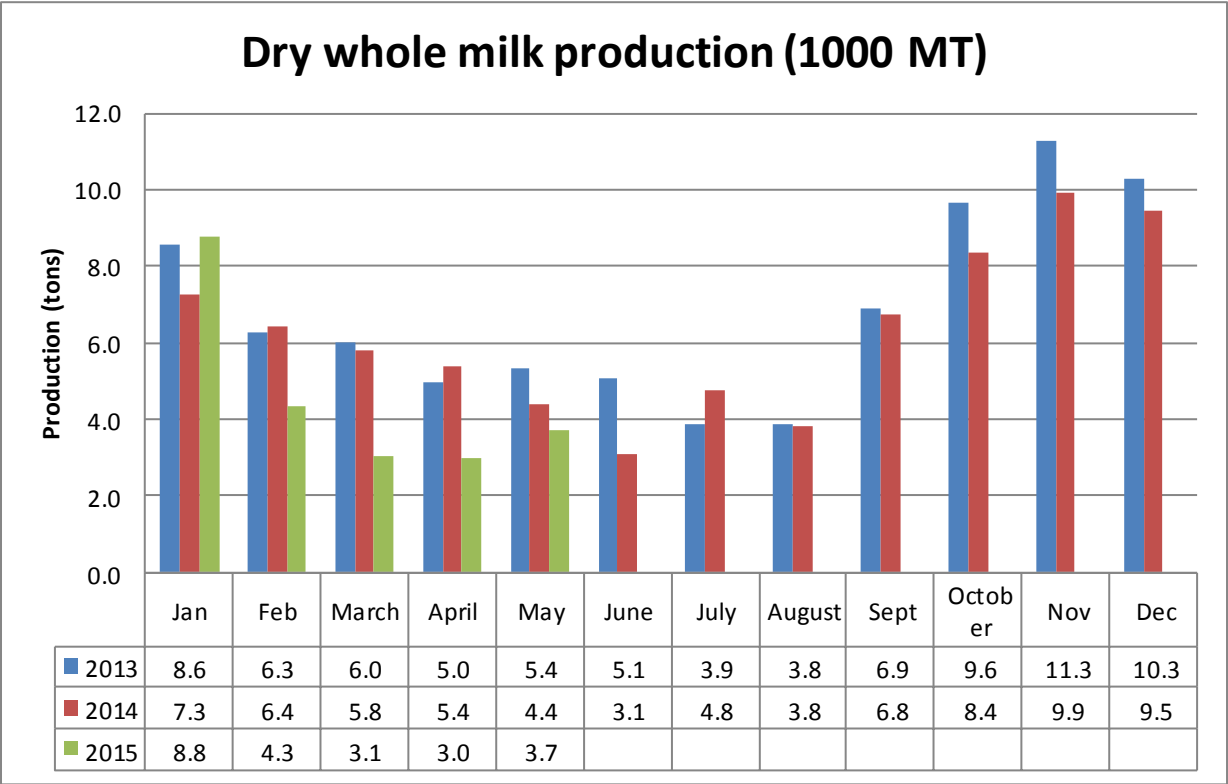
In CY2015 production losses are estimated to be 7% less related to CY2014. CY2016 whole dry milk production is expected to reach CY2014 levels due to water availability and price recuperation.

**Production whole Dry milk (in 1000 MT)**

Months	2013	2014	2015	% Variation 2015/2014
Jan	8.6	7.3	8.8	21
Feb	6.3	6.4	4.3	-33
Mar	6.0	5.8	3.1	-47
Apr	5.0	5.4	3.0	-44
May	5.4	4.4	3.7	-15
Jun	5.1	3.1		
Jul	3.9	4.8		
Aug	3.8	3.8		
Sep	6.9	6.8		
Oct	9.6	8.4		
Nov	11.3	9.9		
Dec	10.3	9.5		
<b>Total</b>	<b>82.1</b>	<b>75.4</b>	<b>22.9</b>	

Source: ODEPA, 2015.

Whole dry milk production in Chile shows a seasonal variation that shows higher production numbers at the beginning of the calendar year, then decreasing during the months of April through May and moving to its highest from October through December (accounting for nearly 35% of total CY production). The majority of annually whole dry milk production is concentrated between October 15 to November 30 and spring weather conditions determine overall calendar year outcomes. Since weather conditions have been favorable for production during the CY2015 spring, production is expected to rebound towards the end of the year.



Source: Based on ODEPA, 2015.

**Consumption:**

Total milk consumption in Chile is situated on 146 liters per capita. Per capita milk consumption has shown a yearly 1 percent increase from 2001. Chile’s population is expected to grow at a 0.97% year rate between 2015-2020, a slightly lower rate than the annual 1.08% rate for the 2005-2015 period. Milk consumption is not expected to suffer any major changes in the following year. Obesity is a concern in Chile and tendency towards healthy product consumption is being promoted by government and NGOs. Dairy products are considered to be part of a healthy diet in Chile. In fact, the industry is in the process of releasing a campaign to support this.

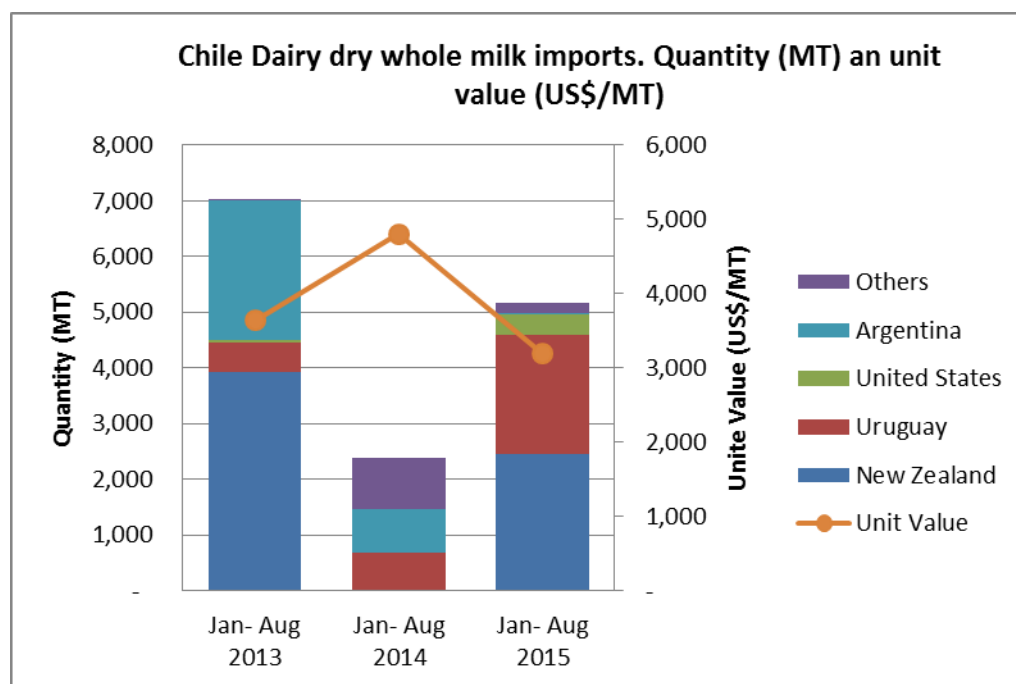
**Trade:**

Imports of whole dry milk were 3,955 MT in CY 2014, nearly half of CY2013 imports. On the other hand, exports in CY 2014 had a slight increase to 20,998 MT from 19,108 MT in CY 2013. The overall trade balance has been on a constant increase from CY2012 to CY2014.

Commodity: Dairy whole dry milk, milk powder more than 1.5% fat				
Calendar Year: 2012 - 2014				
	Unit	Quantity (MT)		
		2012	2013	2014
Imports	T	6,418	7,639	3,955
Exports	T	14,950	19,108	20,992
Balance	T	8,532	11,469	17,037

Source: Chile Customs - Servicio Nacional de Aduana (Global Trade Atlas)

Dry whole milk imports January-August went from 2,392 MT in CY 2014 to 5,173 MT in 2015. During this period the United States had a market share of 7.19% of total dry whole milk imports. In contrast, Argentina reduced its market share, from nearly 33% between n Jan-August 2013 and 2014 to less than 1% of imports from Jan-August 2015.



Source: Chile Customs - Servicio Nacional de Aduana (Global Trade Atlas)

Whole dry milk production is exported mainly to Venezuela, Cuba, Colombia and China. Its price is higher in international markets, for this reason Chile is a net exporter of whole dry milk and an importer of nonfat dry milk. Some of the exports are transfers between major firms that supply their producing plants in Central America. Imports are very sensible to price. 27% of whole dry milk production was exported on CY2014. Exports to United Arab Emirates and





**Commodities:**

Dairy, Milk, Nonfat Dry

**Production:**

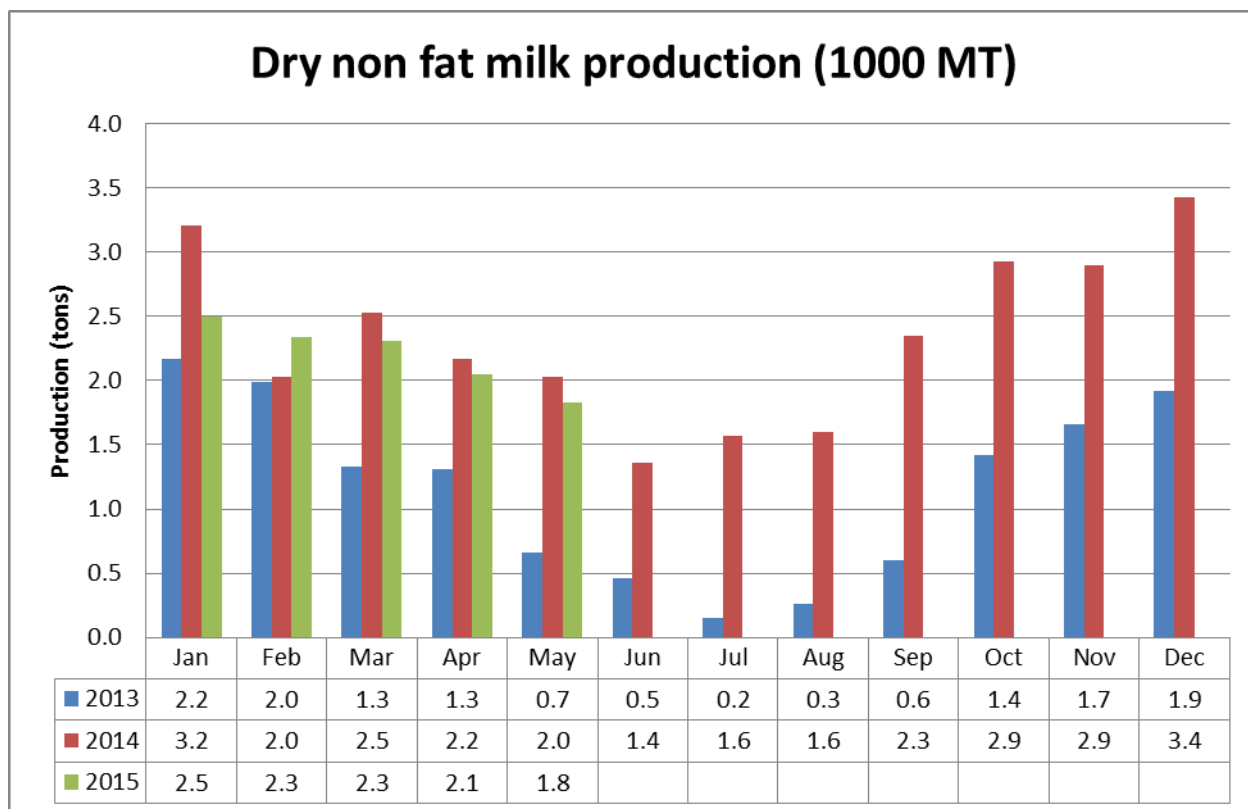
Production of nonfat dry milk more than doubled in CY2014 to 28.1 TMT, according to official government data from ODEPA. Production for the beginning of the year has been lower than the same months in 2014, due to the same reasons as whole dry milk -- rain deficit at the beginning of the year which resulted in less pasture production that affected milk yields/production.

**Nonfat dry milk production (1000 MT)**

Months	2013	2014	2015	% Variation 2015/2014
Jan	2.2	3.2	2.5	-22
Feb	2.0	2.0	2.3	15
Mar	1.3	2.5	2.3	-9
Apr	1.3	2.2	2.1	-5
May	0.7	2.0	1.8	-9
Jun	0.5	1.4		
Jul	0.2	1.6		
Aug	0.3	1.6		
Sep	0.6	2.3		
Oct	1.4	2.9		
Nov	1.7	2.9		
Dec	1.9	3.4		
<b>Total</b>	<b>13.9</b>	<b>28.1</b>	<b>11.0</b>	

Source: ODEPA, 2015

Production of nonfat dry milk shows a seasonal variance that is higher at the beginning and the end for the CY. Since weather conditions were favorable for production during the CY2015 spring. Thus, production is expected to recuperate towards the end of the year, but a total lower production is expected for CY2015.



Source: Based on ODEPA, 2015.

#### Consumption:

A slight increase on consumption is expected for the following years, as population acquires more healthy eating habits. In Chile nonfat dry milk is preferred over whole milk powder, which is minimal.

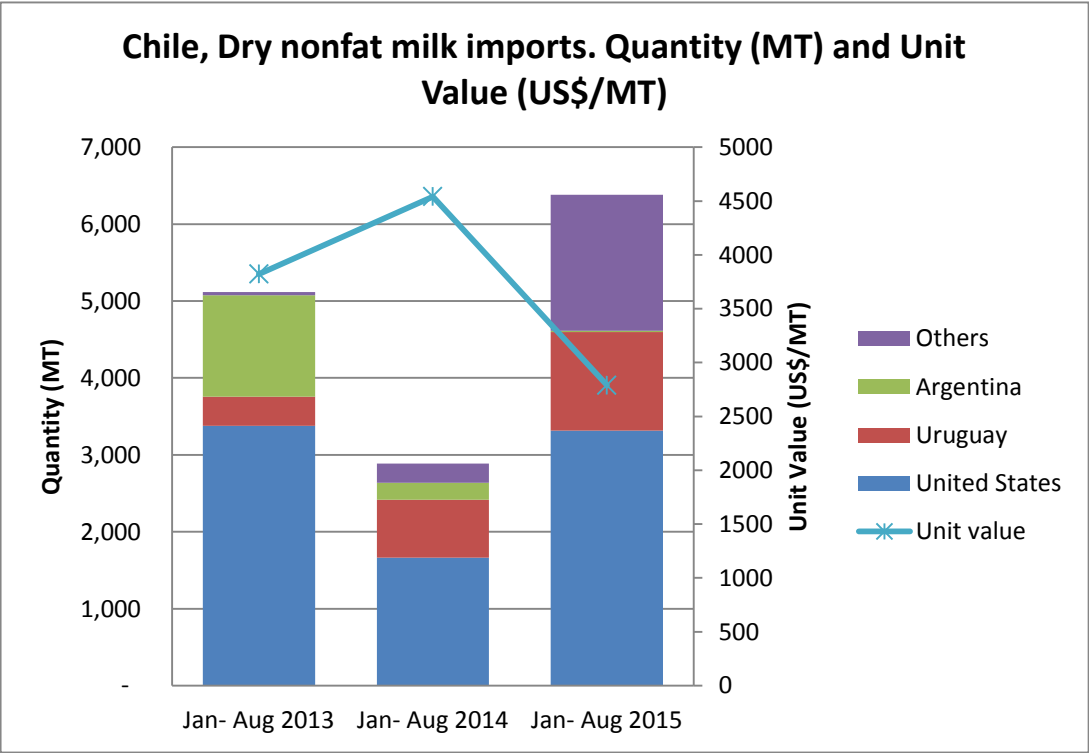
#### Trade:

Nonfat dry milk imports have been lower in CY2014, compared to the two previous years. Exports of nonfat dry milk were 1,969 MT on CY2014, a higher quantity than CY2013, when exports were only 111 MT. The trade balance was -3,528 MT on CY2014.

Commodity: 040210, Milk And Cream, Concentrated, Whether Or Not Sweetened, In Powder, Granules Or Other Solid Forms, Of A Fat Content, By Weight, Not Exceeding 1.5%				
Calendar Year: 2012 - 2014				
	Unit	Quantity (MT)		
		2012	2013	2014
Total Imports	T	10,103	6,678	5,497
Total Exports	T	4,383	111	1,969
Balance	T	(5,720)	(6,567)	(3,528)

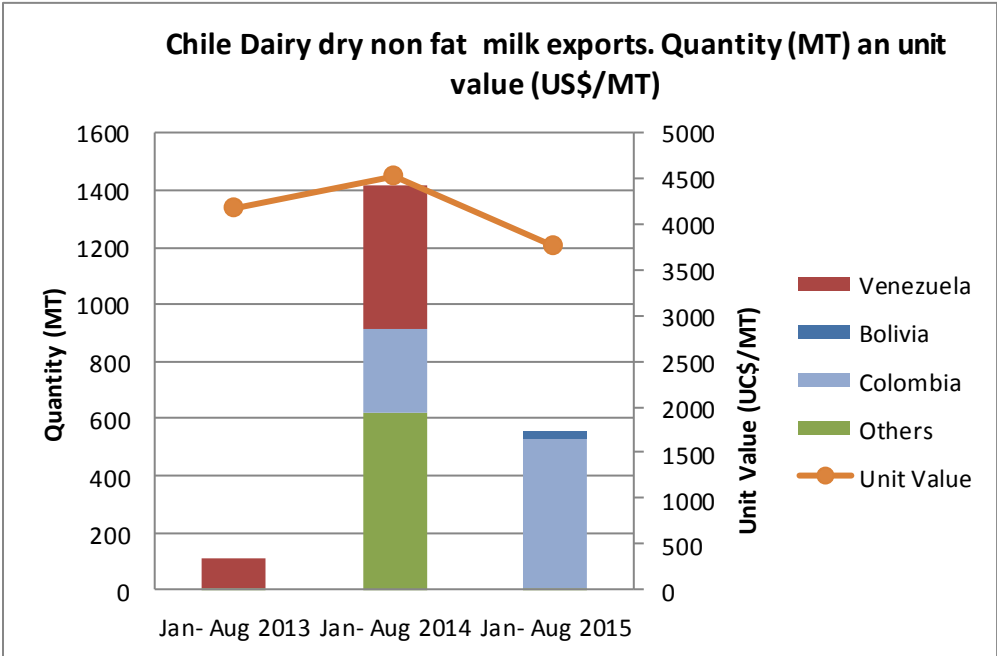
Source: Chile Customs - Servicio Nacional de Aduana (Global Trade Atlas)

Imports of whole dry milk for the January-August 2015 period have been higher than the previous year resulting in an increase from 2,887 MT in January-August 2014 to 6,382MT in January-August 2015. United States imports represent 51.97% of Chiles CY2015 nonfat dry milk imports so far.



Source: Chile Customs - Servicio Nacional de Aduana (Global Trade Atlas)

Exports of nonfat dry milk are mainly to Venezuela and Colombia, but quantities are very low compared to whole dry milk exports. This is because nonfat dry milk prices are lower on international markets so there is an incentive on exporting whole dry milk and importing nonfat dry milk.



Source: Chile Customs - Servicio Nacional de Aduana (Global Trade Atlas)

