USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 4/27/2016
GAIN Report Number: CI1605

Chile

Grain and Feed Annual

Low Domestic Prices Impact Grain Producers

Approved By:
Anita Katial, Agricultural Attaché

Prepared By:
Sergio González, Agricultural Specialist

Report Highlights:
Total wheat production increased 8% in MY2015/2016 reaching 1.6MMT. Production is expected to decrease on MY2016/17 as prices for domestic producers declined in MY2015/16. A slight increase in Chile's import volume is expected MY2016/17 to offset decrease in the production. As corn prices are low, there is no expectation of an increase in corn area harvested for MY2016/17. Chile's traditional corn producers expect to continue to produce a minimum of 100,000 ha, even if other producers seek alternative, more lucrative crops. As a result, imports are expected to increase to 1.8 MMT in MY2015/16 and 1.9MMT in MY2016/17due to the lower domestic production and high demand by poultry and pork industry.

Executive Summary:

Total wheat production increased 8% in MY2015/2016 reaching 1.6MMT. Production is expected to decrease on MY2016/17 as prices for domestic producers declined in MY2015/16. A slight increase in Chile's import volume is expected MY2016/17 to offset decrease in the production.

As corn prices are low, there is no expectation of an increase in corn area harvested for MY2016/17. Chile's traditional corn producers expect to continue to produce a minimum of 100,000 ha, even if other producers seek alternative, more lucrative crops. As a result, imports are expected to increase to 1.8 MMT in MY2015/16 and 1.9MMT in MY2016/17due to the lower domestic production and high demand by poultry and pork industry.

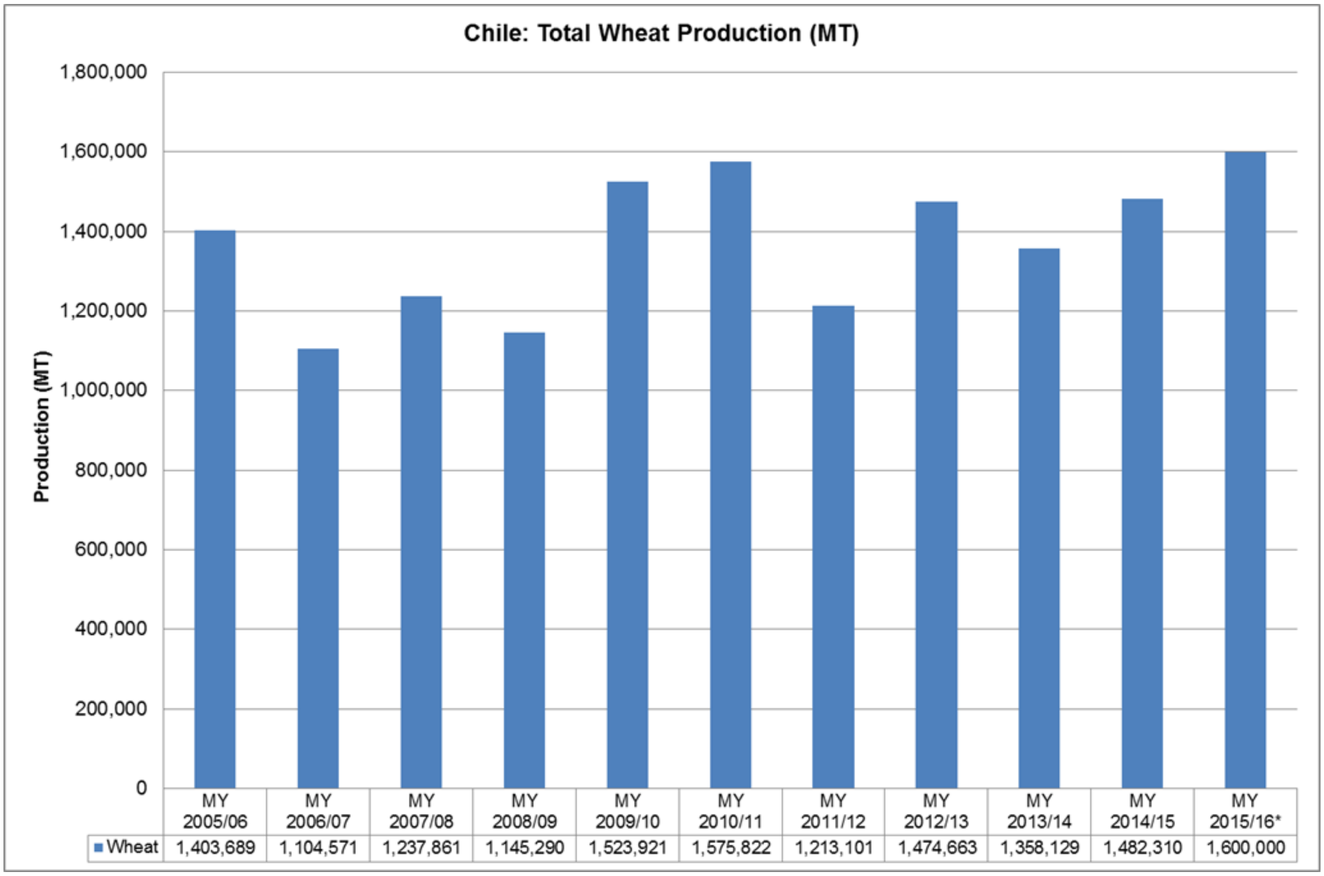
Commodities:

Wheat

Production:

Wheat production in Chile covers about 65% of Chile's demand. While the remaining 35% demand is met through imports from the United States, Canada and Argentina. Chile's average wheat production area over the past 9 years has remained at 260,000 hectares (ha). In MY 2015/16 Chile's wheat planted area reached 281,000 ha with a production total of 1.6MMT. This is an increase of 8% over MY 2014/15. Area and Production are expected to decrease on MY2016/17 since prices for domestic producers have been lower than MY2015/16.

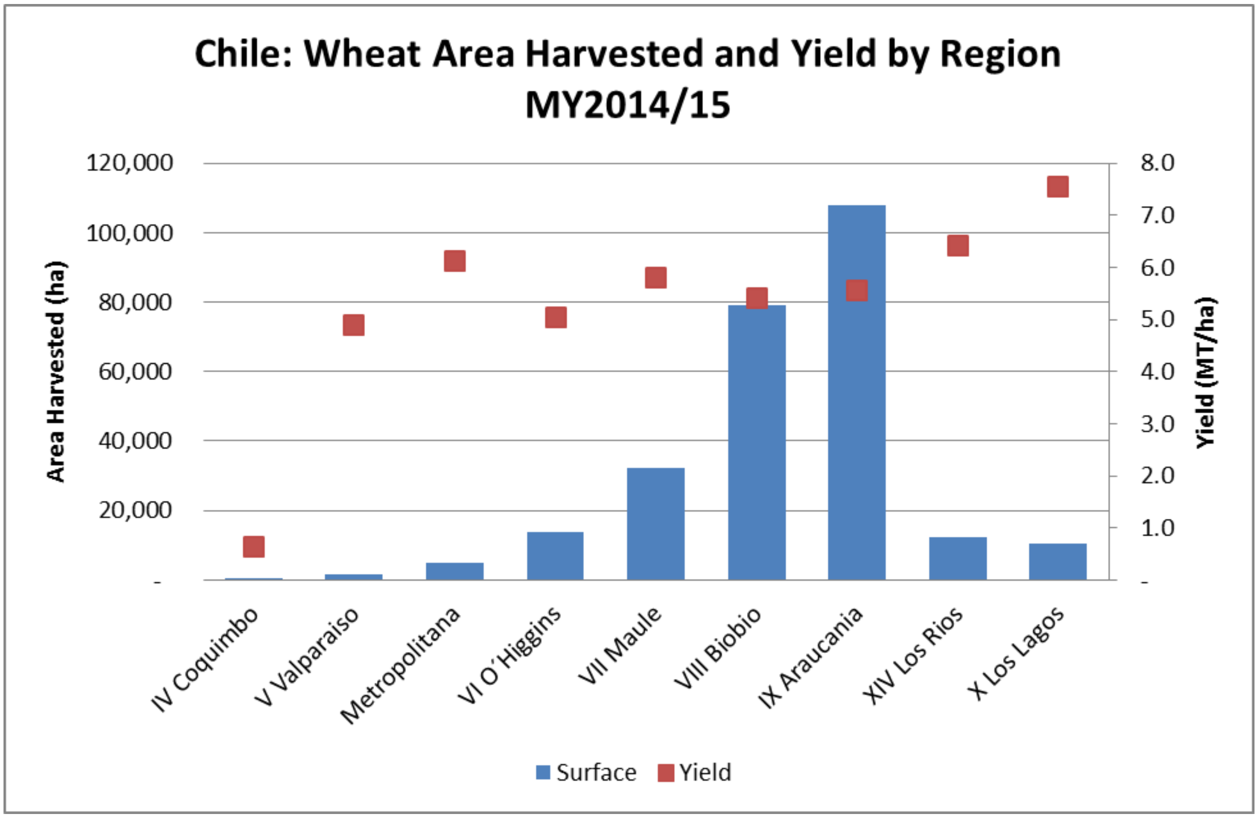
Quite commonly, wheat producers also produce oat and canola and adjust or shift the production area of each crop based on different factors like price or market conditions and to technical factors like crop rotation requirements.



Source: Based in Instituto Nacional de Estadísticas (INE).
*: Estimation

70% of Chilean wheat is produced between the Araucania and Biobio region. Araucania region has 40% of the wheat planted surface area, which is a large concentration of Chile's overall wheat production. The highest wheat yields take place in Los Rios and Los Lagos regions, which are located in the southern part of Chile and that accumulate more rainfall during the season.

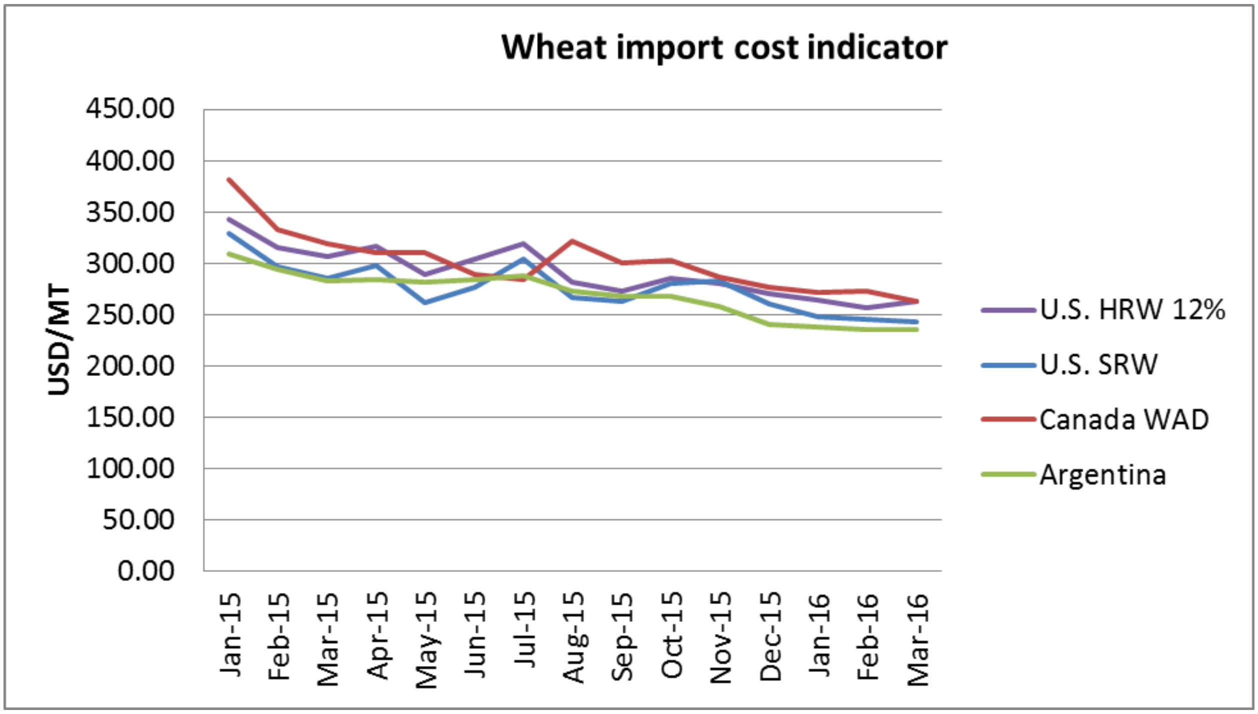
Water availability is considered a recent problem in both the Biobio and Araucania regions, as recent droughts over the last three years impacted overall agricultural production, resulting in lower wheat yields in these regions. The Chilean Government is concerned with this issue and has been working on developing water reservoirs. Research for the use and development of irrigation systems is being carried out in order to increase yields.



Source: Based in Instituto Nacional de Estadísticas (INE).

In order to maintain transparency on the domestic market, Ministry of Agriculture and COTRISA publish weekly a 'wheat import cost indicator' that shows how much it would cost to import wheat from different international markets to Santiago-Chile. This indicator uses a formula that considers the wheat price, transport costs, insurances, credit, and other operational costs involved in importing the wheat.

The wheat import cost indicator has shown a decrease in the cost of wheat imports from U.S., Canada and Argentina, which should be directly aligned with a decrease in domestic prices for wheat (see graph below). Wheat prices paid by mills were low on MY2015/2016.



Source: ODEPA, 2016

Consumption:

During MY2015/16 mills have demanded high quality wheat containing a high gluten percentage, which not all producers were able to provide. It is common knowledge that many producers privilege quantity over quality, which translates into high yields per hectare but with a low protein percentage content for wheat.

In order to maintain consistency between imported wheat and prices paid in the domestic market, Chilean Ministry of Agriculture carried out a buying program for small producers (Programa de compra MINAGRI) through the Company COTRISA. In this way one of the objectives of the program is ensure that the domestic market reflects the conditions of international markets. COTRISA buys wheat from small producers with a maximum of 35 MT per producer. Producers must be an eligible user of INDAP (Ministry of Agriculture's National Institute for Agriculture Development), client of "Banco Estado Microempresas" (State Bank credits given for small companies) or Agroseguro (Ministry of Agriculture Insurance Program).

Another measure related to wheat market transparency is the "sample and counter-sample law" (Ley de Muestra y Contramuestra). This law indicates that a counter-sample must be kept when a transaction is held. One of the parties in the transaction can require using a quality evaluation by a third independent party in order to litigate when a problem in quality assessment and price occurs. This law does not operate when there is direct contract that establishes a price between the two parties or when it's a second order transaction.

Trade:

Trade reforms in Argentina eliminated export tariffs for wheat on December 2015 (for more info see Report). Chilean producers feared a rapid increase in wheat imports from Argentina, but this has not yet occurred. However, Post anticipates a gradual increase on imports is expected to occur during the following years.

In MY 2013/14, the U.S. was the second largest supplier of wheat to Chile after Canada. In MY2014/15 U.S. wheat continued to lose market share to Canada and Argentina which offered more competitive prices. U.S. wheat exports to Chile where almost nonexistent between Jan-July 2015 period but began to recuperate from July-October 2015 as U.S. prices became more competitive.

Wheat imports increased 1.9% in volume in MY2014/15 over MY2013/14, however imports decreased by 12% in value. Wheat from Canada decreased slightly and substantially from the US. Wheat imports from Argentina increased 170 MT, a 4000% increase from the previous MY, but only payed 2000% more than it did the previous MY.

A slight increase in import volume is expected in and MY2015/16, as domestic production was high. In addition, a 14.5% increase is projected for MY2016/17 as domestic production is expected to fall to 1375 MT due to low prices received by domestic producers on MY2015/16 and a shift towards crops that were more profitable like oat.

Chilean wheat exportation is virtually non existent. Any wheat exported is in the form of pasta. Exportation increased in quantity (MT) by 6% on MY2014/15 over MY2013/14, but decreased in price (USD) by 5%. Haiti remains the largest importer of Chilean pasta, importing nearly 50% of all Chilean pasta products. Second largest market for Chilean pasta is the U.S. in volume, although the U.S. is the first in value.

Chile: Wheat Imports by country of origin

Country of Origin	Quantity (MT)		Variation (%)		Country of Origin	Value (USD)		Variation (%)
	MY 2013/2014	MY 2014/2015				MY 2013/2014	MY 2014/2015	
Canada	437,279	395,327	-9.6%		Canada	141,565,764	110,324,157	-22.1%
United States	319,353	186,244	-41.7%		Argentina	2,737,856	48,116,100	1657.4%
Argentina	4,384	174,518	3880.8%		United States	98,911,513	46,040,304	-53.5%
Peru	20,848	23,511	12.8%		Peru	19,385,592	20,960,712	8.1%
Paraguay	84	10,956	12942.9%		China	2,392,230	3,179,874	32.9%
FTZ-Arica	896	7,010	682.4%		Paraguay	22,841	3,091,561	13435.1%
Italy	1,696	2,026	19.5%		Italy	2,973,562	2,857,978	-3.9%
Germany	24	1,623	6662.5%		FTZ-Arica	277,028	1,918,819	592.6%
Others	4,531	2,827	-37.6%		Others	4,515,994	3,561,998	-21.1%
Total	**789,094**	**804,051**	**1.9%**		**Total**	**272,782,369**	**240,051,489**	**-12.0%**

Chile: Wheat Exports by country of origin

Country of destination	Quantity (MT)		Variation (%)		Country of destination	Value (USD)		Variation
	MY 2013/2014	MY 2014/2015				MY 2013/2014	MY 2014/2015	
Haiti	2,317	2,949	27.3%		United States	3,204,945	3,171,413	-1.0%
United States	1,514	1,729	14.2%		Haiti	1,337,062	1,630,044	21.9%
Paraguay	766	711	-7.2%		Colombia	1,296,733	1,305,127	0.6%
Colombia	498	503	1.0%		Paraguay	1,079,734	997,006	-7.7%
Guatemala	272	412	51.5%		Brazil	1,181,034	584,793	-50.5%
Brazil	666	305	-54.2%		Guatemala	338,737	446,093	31.7%
Bolivia	272	226	-16.9%		Bolivia	465,382	353,853	-24.0%
Others	625	527	-15.7%		Others	737,578	655,177	-11.2%
Total	**6,932**	**7,358**	**6.1%**		**Total**	**9,641,194**	**9,143,499**	**-5.2%**

Source: Based on Servicio Nacional de Aduana-Chile Customs

Production, Supply and Demand Data Statistics:

Wheat	2014/2015		2015/2016		2016/2017	
Market Begin Year	Dec 2014		Dec 2015		Dec 2016	
Chile	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	263	263	255	281	0	0
Beginning Stocks	190	190	244	169	0	257
Production	1482	1482	1400	1600	0	1375
MY Imports	882	804	950	830	0	950
TY Imports	862	808	1000	836	0	850
TY Imp. from U.S.	229	196	0	200	0	200
Total Supply	2554	2476	2594	2599	0	2582
MY Exports	10	7	10	7	0	10
TY Exports	10	10	10	8	0	10
Feed and Residual	200	200	200	200	0	200
FSI Consumption	2100	2100	2150	2135	0	2200
Total Consumption	2300	2300	2350	2335	0	2400
Ending Stocks	244	169	234	257	0	172
Total Distribution	2554	2476	2594	2599	0	2582
(1000 HA) ,(1000 MT)						

Source: based on ODEPA, INE, Servicio Nacional de Aduana-Chile Customs.

Commodities:

Corn

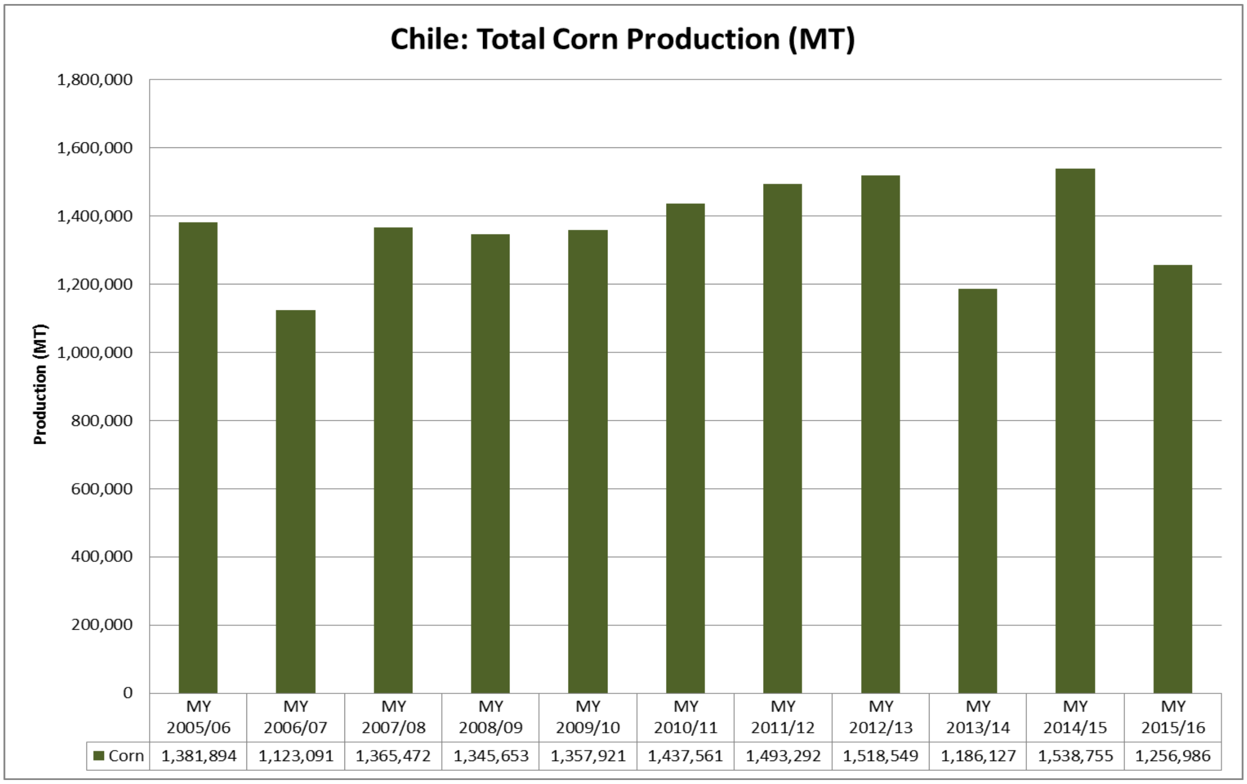
Production:

Total corn harvested area over the past 7 MY totaled 120,000 ha on average. In MY2015/16 the harvested area declined to 102,000 ha as prices decreased in the domestic market. As a result, production followed suit, declined 18% over MY2014/15 and totaled 1,256,989 MT.

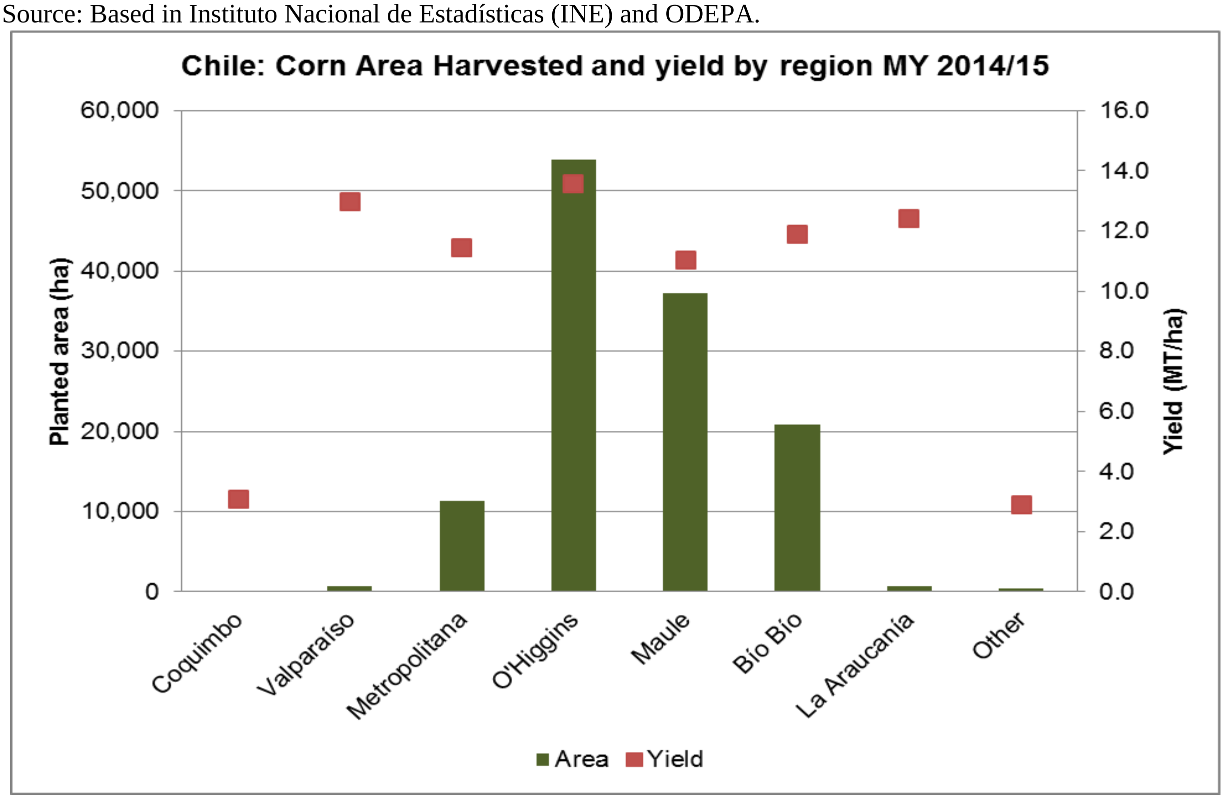
Corn production is concentrated in the O'Higgins and Maule regions, which account for 77% of the corn area harvested in Chile (MY2014/15). The average corn yield is 12.3 MT/ha, and higher yields are obtained in O'Higgins region, which is the main producing region in the country.

Domestic corn prices have been reducing since April 2013 to levels around US $200/MT, and have not recovered to price levels of US$250/MT that took place on 2011 and 2012 (see graph Domestic Corn Price). As prices have remained low, there is no expectation of an increase in corn harvested area for MY2016/17, as producers are moving towards more profitable crops. Nonetheless, there is still a minimum area harvested of 100,000 ha by traditional corn producers which would total 1,232,000 MT for MY2016/17.

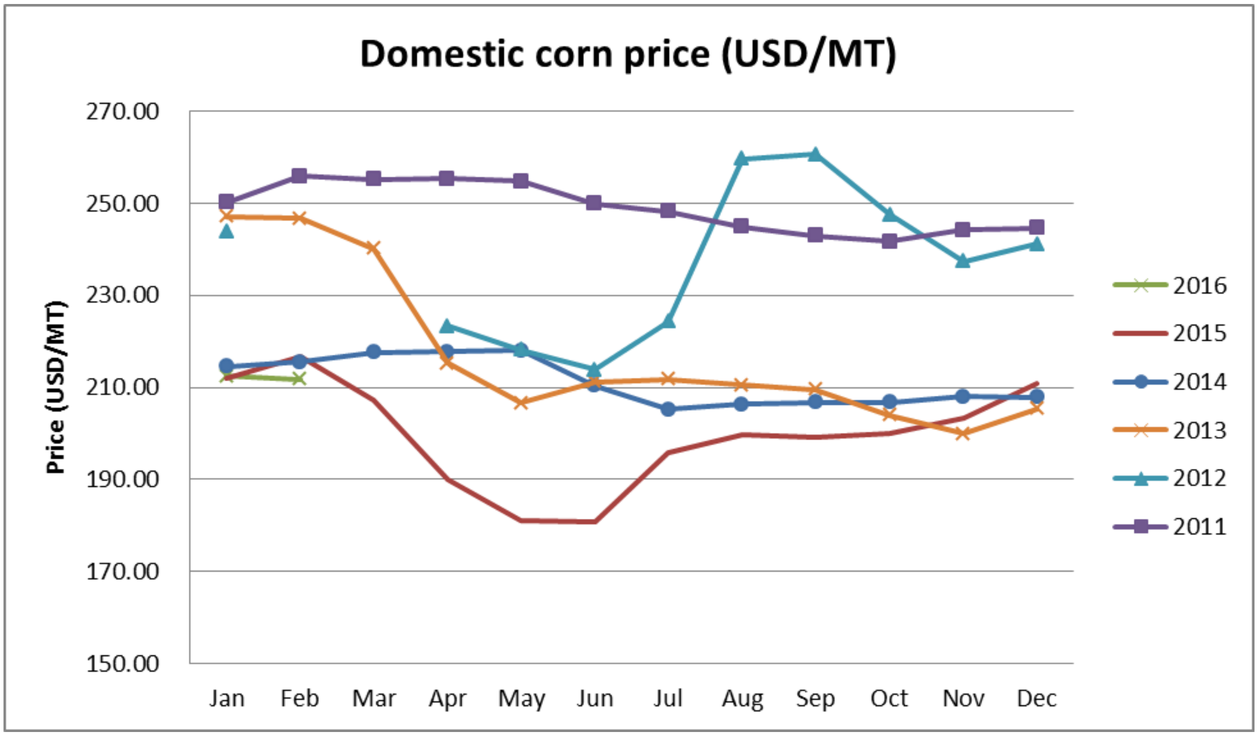
Production



Source: Based in Instituto Nacional de Estadísticas (INE) and ODEPA.



Source: Based in Instituto Nacional de Estadísticas (INE) and ODEPA.



Source: Based on ODEPA, COTRISA.
Note: Domestic price informed by industry and converted to USD (1USD = 670 Chilean pesos).

Consumption:
The majority of Chile's corn consumption is destined for animal feed for its poultry and pork industries. Chilean production of broiler meat in CY 2015 reached 599,000 MT, which was a 5.6% increase over CY 2014. Broiler production in October through December 2015 period was at its highest level reaching near 54,000 MT monthly. Production has been growing constantly because a high demand of poultry products (healthier product and poultry has a lower price than beef) and the low price of grain and feed products used by the industry. Thus, corn demand is expected to increase in MY2015/16 and MY 2016/17.

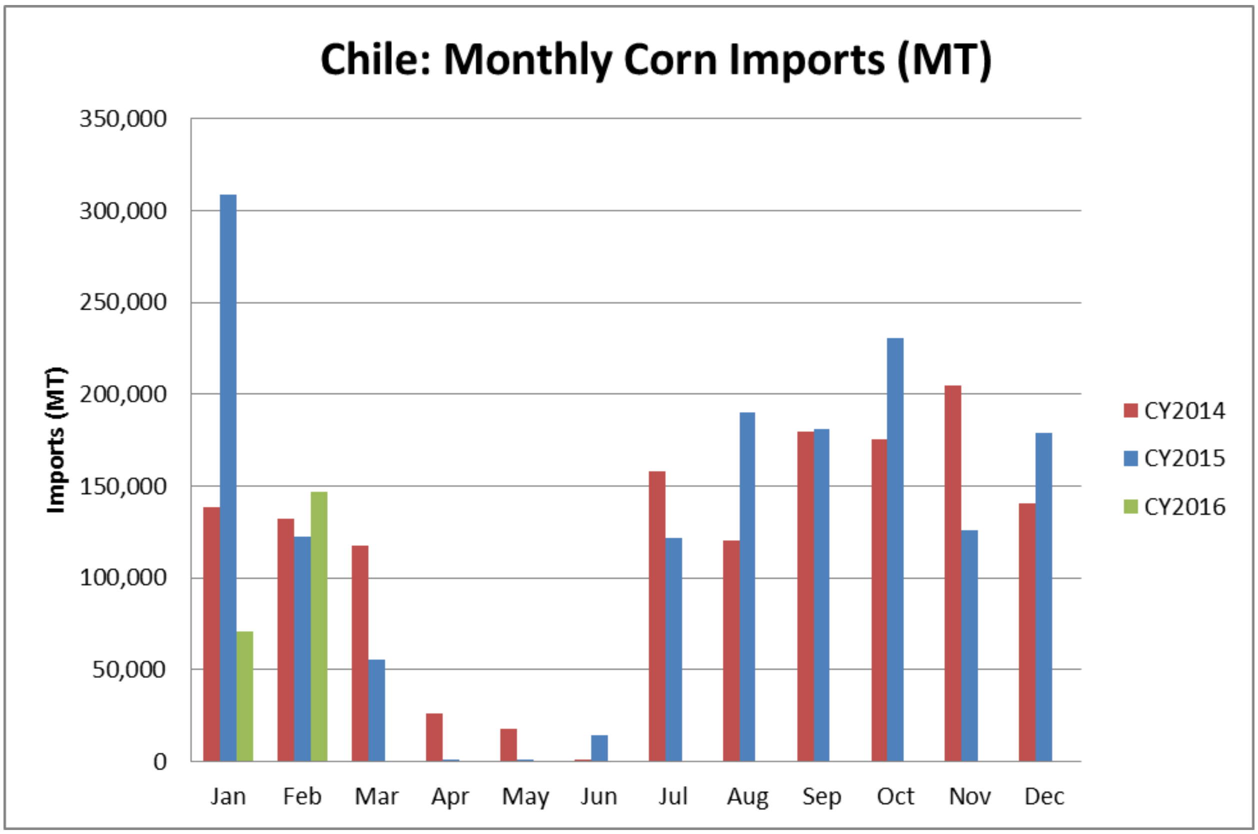
Trade:
The United States is the third largest corn supplier after Paraguay and Argentina. Total corn imports decreased both in quantity (-16.2%) and value (-27.6%) in MY2014/15 over MY 2013/14. Imports are expected to increase to 1,800 MT in MY2015/16 due to lower domestic corn production and high demand by poultry and pork industry. Argentina should increase market share because of the elimination of the corn trade export rate by the new elected president Mauricio Macri (for more info see Report).

Corn imports are almost non existing April-June, which coincides with the start of the corn harvest in March. Imports peak in September-November, but remain high until February. A large volume of corn was imported in January 2015 from Paraguay, which explains the high imports that took place on MY2013/14 (starting march 2014).

Chile exports significantly less corn than it imports quantity wise. This is because Chile's main corn export is hybrid seeds which are a high-value agricultural commodity. The US remains the largest importer of Chilean corn seeds. It imports nearly 75% of Chile's corn seed production.

Chile: Corn Imports by country of origin								
	Quantity (MT)					Value (USD)		
Country of Origin	MY 2013/14	MY 2014/15	Variation (%)		Country of Origin	MY 2013/14	MY 2014/15	Variation (%)
Paraguay	968,318	1,028,736	6.2%		Paraguay	200,750,600	191,718,100	-4.5%
Argentina	552,871	243,874	-55.9%		Argentina	127,224,800	44,838,700	-64.8%
United States	48,928	36,609	-25.2%		United States	10,976,300	7,526,700	-31.4%
Others	432	7,035	1527.5%		Others	401,300	1,698,500	323.2%
Total	**1,570,549**	**1,316,254**	**-16.2%**		**Total**	**339,353,000**	**245,782,000**	**-27.6%**

Source: Servicio Nacional de Aduana-Chile Customs and ODEPA.



Source: based in ODEPA.

Production, Supply and Demand Data Statistics:

Corn Market Begin Year Chile	2014/2015 Mar 2015		2015/2016 Mar 2016		2016/2017 Mar 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	125	125	100	102	0	100
Beginning Stocks	377	377	366	277	0	234
Production	1539	1539	1240	1257	0	1232
MY Imports	1400	1316	1800	1800	0	1900
TY Imports	1516	1516	1800	1800	0	1900
TY Imp. from U.S.	75	75	0	0	0	0
Total Supply	3316	3232	3406	3334	0	3366
MY Exports	25	30	75	75	0	80
TY Exports	23	23	75	75	0	80
Feed and Residual	2600	2600	2700	2700	0	2750
FSI Consumption	325	325	325	325	0	325
Total Consumption	2925	2925	3025	3025	0	3075
Ending Stocks	366	277	306	234	0	211
Total Distribution	3316	3232	3406	3334	0	3366
(1000 HA) ,(1000 MT)						

Source: Based on INE, Servicio Nacional de Aduana-Chile Customs and ODEPA.