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Chile

Grain and Feed Annual

The U.S. Becomes Chile's Top Supplier of Wheat and Corn

Approved By:
Anita Katial, Agricultural Attaché

Prepared By:
Sergio Gonzalez, Agricultural Specialist

Report Highlights:
In MY 2016/17 the Chilean wheat planted area dropped by 10.5% to 255,000 hectares (ha), as anticipated droughts caused farmers to plant less. MY2017/18 wheat production is expected to remain flat at 1.4 million metric tons (MMT), as domestic prices remain competitive and producers do not have an incentive to plant more wheat. U.S. wheat exports to Chile reached 373,000 MT in MY2015/16 compared to 186,000 MT in MY2014/15, surpassing Canada as the main supplier.

Chile's corn planted area also decreased in MY2016/17 to 95,000 ha and production is expected to decline to 1.09 MMT, a 7% decrease over 2015/16. Corn imports increased by 13.3% in MY2015/16 over MY2014/15 reaching a total of 1.5 MMT. Competitive U.S. corn prices contribute to its 56% import market share and the U.S. is now the number one supplier of corn to Chile.

Executive Summary:

In MY 2016/17 the Chilean wheat planted area dropped by 10.5% to 255,000 hectares (ha), as anticipated droughts caused farmers to plant less. MY2017/18 wheat production is expected to remain flat at 1.4 million metric tons (MMT), as domestic prices remain competitive and producers do not have an incentive to plant more wheat. U.S. wheat exports to Chile reached 373,000 MT in MY2015/16 compared to 186,000 MT in MY2014/15, surpassing Canada as the main supplier.

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Commodities:

Wheat

Production:

Wheat production occurs throughout Chile and is concentrated in the Araucanía, Biobío and Maule Regions, which hold 38%, 31% and 15% of the total wheat planted area respectively. The overall wheat planted area in MY 2016/17 reached 255,000 hectares (ha), which is a 10.5% reduction over MY2015/16. Although all regions reduced their planted area due to worries of imminent drought, the main decline in planted area occurred in Biobio and Maule. As a result, production is estimated to decrease to 1,366,005 MT in MY2016/17.

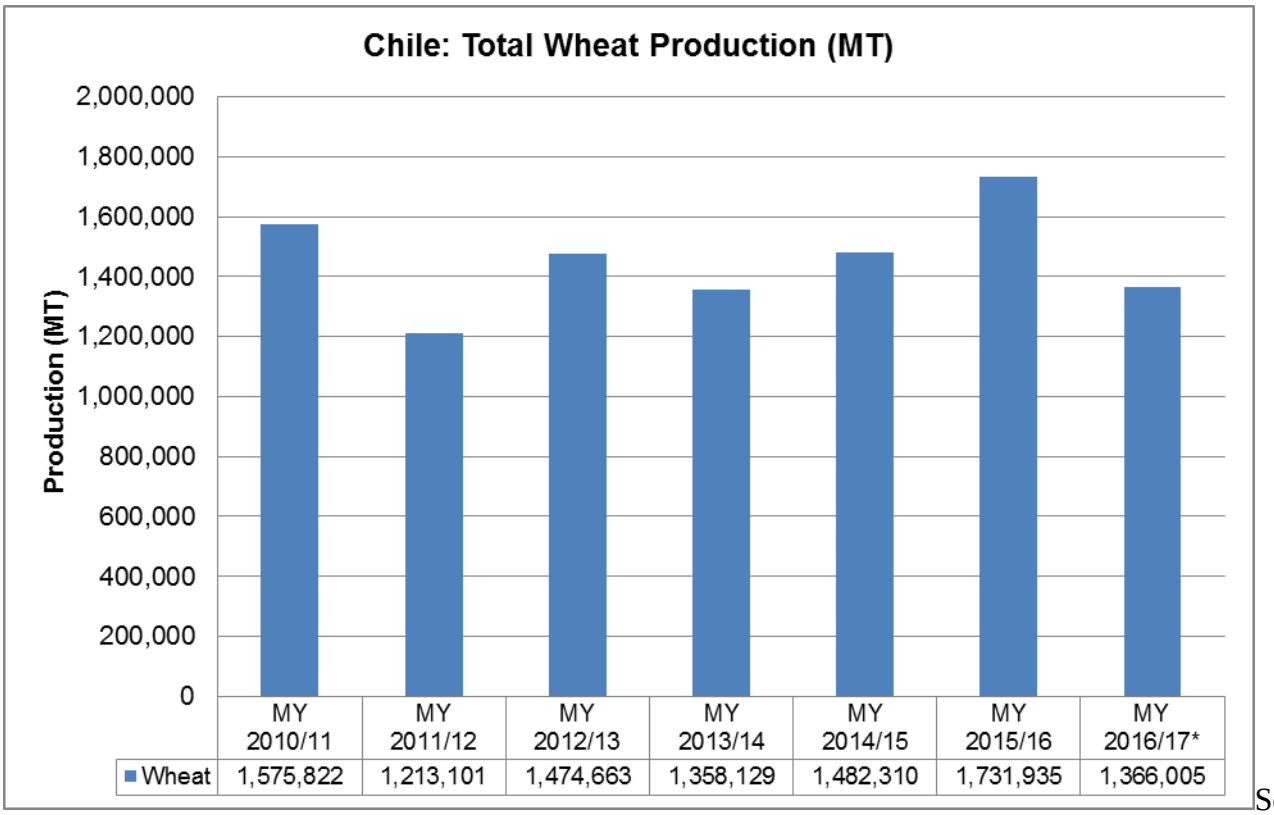
According to FAS Santiago contacts, from June-July there was insufficient rain, which caused problems during the sowing process for wheat, especially in Maule region. Since water availability was expected to be low, producers lowered their planted area. However, the expected drought conditions were not as bad as anticipated.

In the case of Biobío and Araucaria regions, the wheat planted area decreased but was replaced by oat crops. This decision was price oriented, since oat crops are reporting higher profits for farmer producers. The oat planted area increased by 19% in MY2016/17 reaching 139,000 ha.

Producers claim that the drought lowered wheat yields. In addition, there were drought periods over the last three years during the winter of MY2016/17 in the south-central regions of Chile. On the other hand, producers were also concerned about low international prices, which directly correlated with the domestic price they receive from buyers. Some producers claim that the purchasing power, or demand for wheat has been insufficient. They said that the demand is non-existent in some cases, as some mills import their wheat during months of December and do not buy from local producers. Thus, producers are forced to store their production. In many cases, producers lack the infrastructure and/or financial capacity to store their wheat causing them to sell at low prices.

Many wheat producers are small and do not have the capacity or resources to shift to higher value crops. For example, in the Maule region larger producers have been able to switch to profitable fruit crops, such as hazelnuts and require 5-6 years to recover their initial investment cost. This is not an option for the majority of small producers that lack the financial capacity to make such a medium term investment. Additionally, farmers claim that wheat produced in this region have a cost structure that is not competitive with imported wheat. Nevertheless, wheat production is also a cultural practice, being carried out by farms from one generation to the next, which is the primary reason production has not declined further.

Chile's market conditions remain competitive and its planted area is expected to remain steady at 260,000 ha for MY2017/18, as water availability is not expected to be a problem as the previous marketing year.

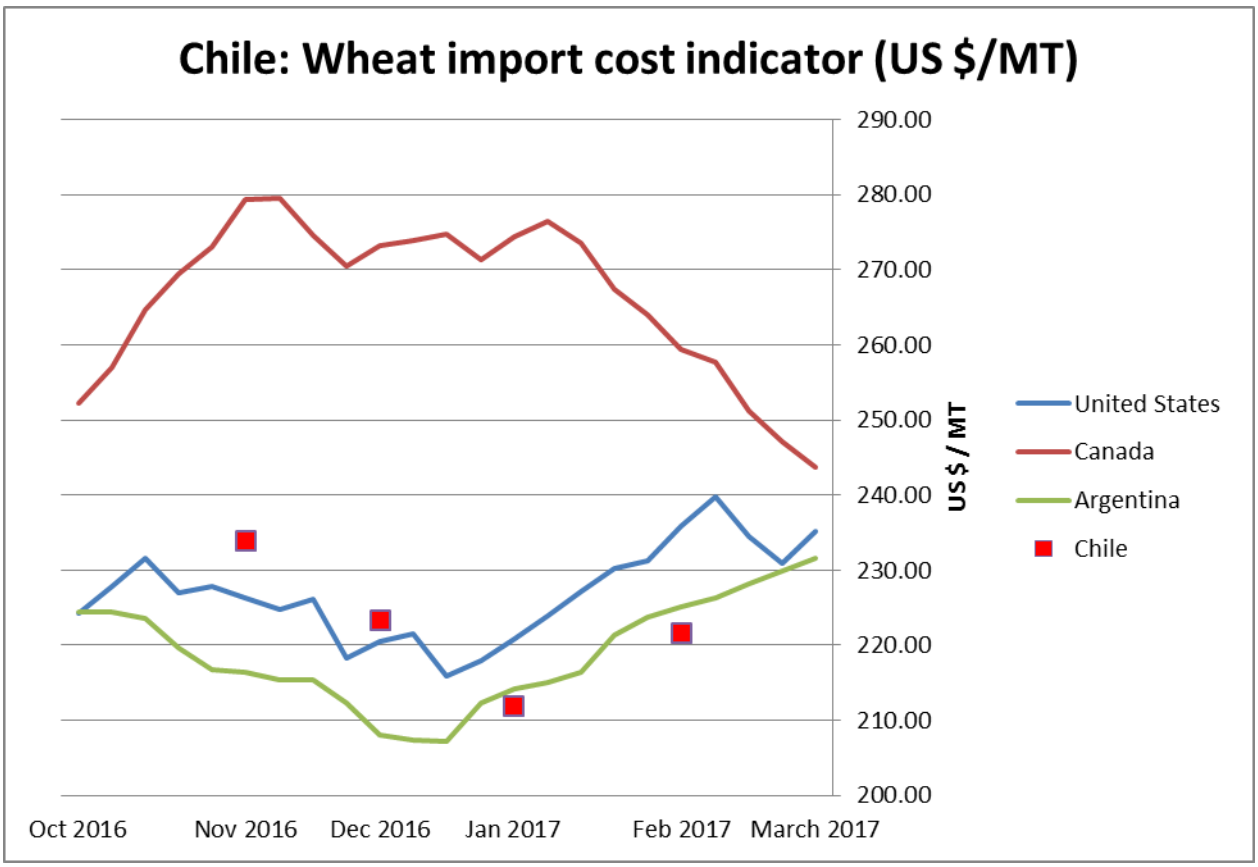


Source: Based in Instituto Nacional de Estadísticas (INE).
*: Estimation

Prices:

In order to maintain transparency on the domestic market, Ministry of Agriculture and Cotrisa (Comercializadora de Trigo S.A.) publish a weekly "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, transportation cost, insurance, credit, and other operational costs involved in importing wheat.

The wheat import cost indicator for Argentina was the lowest from October 2016 to March 2017, when the import cost levels were very similar to the wheat coming from the United States (See graph "Chile: Wheat Import Cost Indicator)". Canada's wheat import cost indicator was relatively higher than Argentina and the United States but has been decreasing since January 2017. Domestic prices have been the lowest in January and February 2017 compared to the import cost indicator.



Source: ODEPA, 2017

Consumption:

Wheat consumption is used both in human consumption as well as feed by the pork and poultry sectors. Mills continue to look for a high gluten percentage and quality consistency, which not all producers are able to provide. U.S. and Canadian wheat are considered to be consistent in their quality. Many producers still favor quantity over quality, which translates into higher yields per hectare and a low percentage of protein in the crop, which is directly correlated with the price payed by the mill.

The "sample and counter-sample law" (Ley de Muestra y Contramuestra) is operating for the third time, this law aims at keeping transparency during the transactions between the producer and the buyer, especially in the factors that are related to price determination by gluten percentage. 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 is a second order transaction.

Trade:

U.S. wheat exports grew by 100% in volume in MY2015/16 over the previous marketing year and became the top wheat supplier to Chile with a 40% market share. Competitive U.S. wheat prices and consistent quality (high gluten content) are the key reasons behind the surge in U.S. exports. Canada was the second largest suppler holding a 31% market share, followed by
Argentina. According to FAS Santiago contacts, Argentinian wheat offers a wide variety of qualities.

Considering current market conditions, wheat production in Chile is not likely to increase and is estimated at 1.4 MMT in MY2017/18 and since consumption is expected to remain constant; imports are expected to reach 1.05 MMT in MY2017/18.

Table 1. Chile: Wheat import volume (MT) by country of origin

	MY2014/15 (MT)	MY2015/16 (MT)	Market share MY2015/16(%)	Variation (%)
World	804,051	939,573	100%	16.9%
United States	186,244	372,586	40%	100.1%
Canada	395,327	292,277	31%	-26.1%
Argentina	174,518	145,432	15%	-16.7%
Peru	23,511	23,366	2%	-0.6%
Others	24,451	105,912	11%	333.2%

Source: Servicio Nacional de Aduana-Chile Customs

Table 2. Production, Supply and Demand Data Statistics

Wheat	2015/2016		2016/2017		2017/2018	
Market Begin Year	Dec 2015		Dec 2016		Dec 2017	
Chile	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	285	285	250	255	0	260
Beginning Stocks	244	244	466	456	0	462
Production	1,732	1,732	1,375	1,366	0	1,400
MY Imports	900	940	1,000	1,100	0	1,050
TY Imports	845	845	1,000	850	0	1,100
TY Imp. from U.S.	228	228	0	200	0	0
Total Supply	2,876	2,916	2,841	2,922	0	2,912
MY Exports	10	10	10	10	0	10
TY Exports	9	9	10	10	0	0
Feed and Residual	250	250	200	250	0	250
FSI Consumption	2,150	2,200	2,175	2,200	0	2,200
Total Consumption	2,400	2,450	2,375	2,450	0	2,450
Ending Stocks	466	456	456	462	0	452
Total Distribution	2,876	2,916	2,841	2,922	0	2,912
(1000 HA) ,(1000 MT)						

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

Commodities:

Corn

Production:

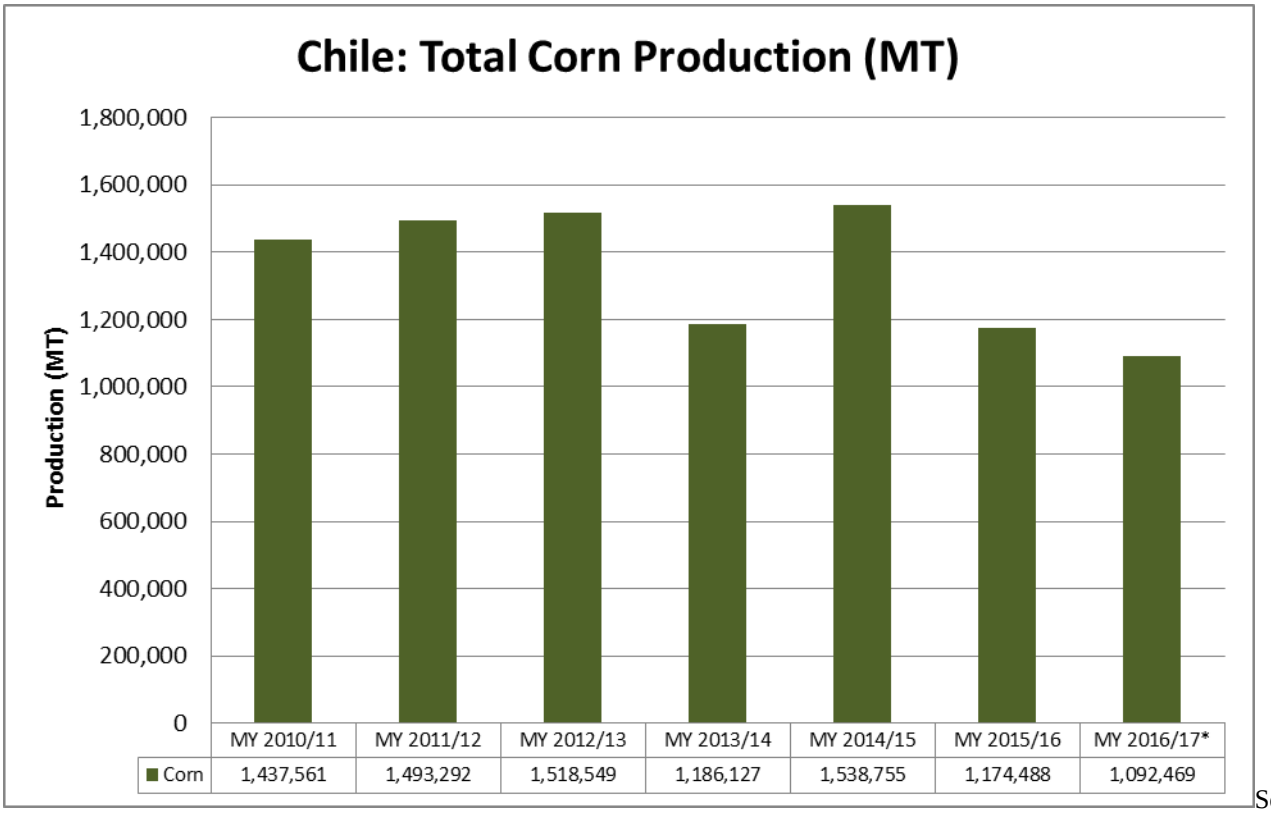
Chile's corn planted area in MY2016/17 decreased to 95,000 ha. Corn production is expected to decline in 2016/17 to 1,092 MT, a 7% decrease over 2015/16. As in wheat, the corn planted area was lower because producers were expecting to have less water availability in MY2016/17, especially in the Maule region, which impacted planting decisions.

The Maule region holds 28% of the planted area for MY2016/17 in Chile. Corn yields were lower, due to high temperatures during the summer, which accelerated maturity of the corn and reduced the growth period. Farmers expect that yields could be 20% lower in MY2016/17 over MY2015/16.

Because of these factors, many farmers are not reaping high profits from corn production and some of them are moving towards other more profitable crops.

Corn producers claim that current corn prices barely cover production costs because the price of inputs for production, such as seeds and chemical products, increased in MY2015/16.

Corn planted area is expected to decrease further to 90,000 ha in MY2017/18 as market conditions are very competitive and imports are expected to increase.



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

Consumption:

Corn consumption is destined in majority to animal feed for poultry and pork industry. Prices of fish oil for feed have increased and the current trend is moving towards vegetable sources of protein for animal feed, which is obtained from corn and soybean.

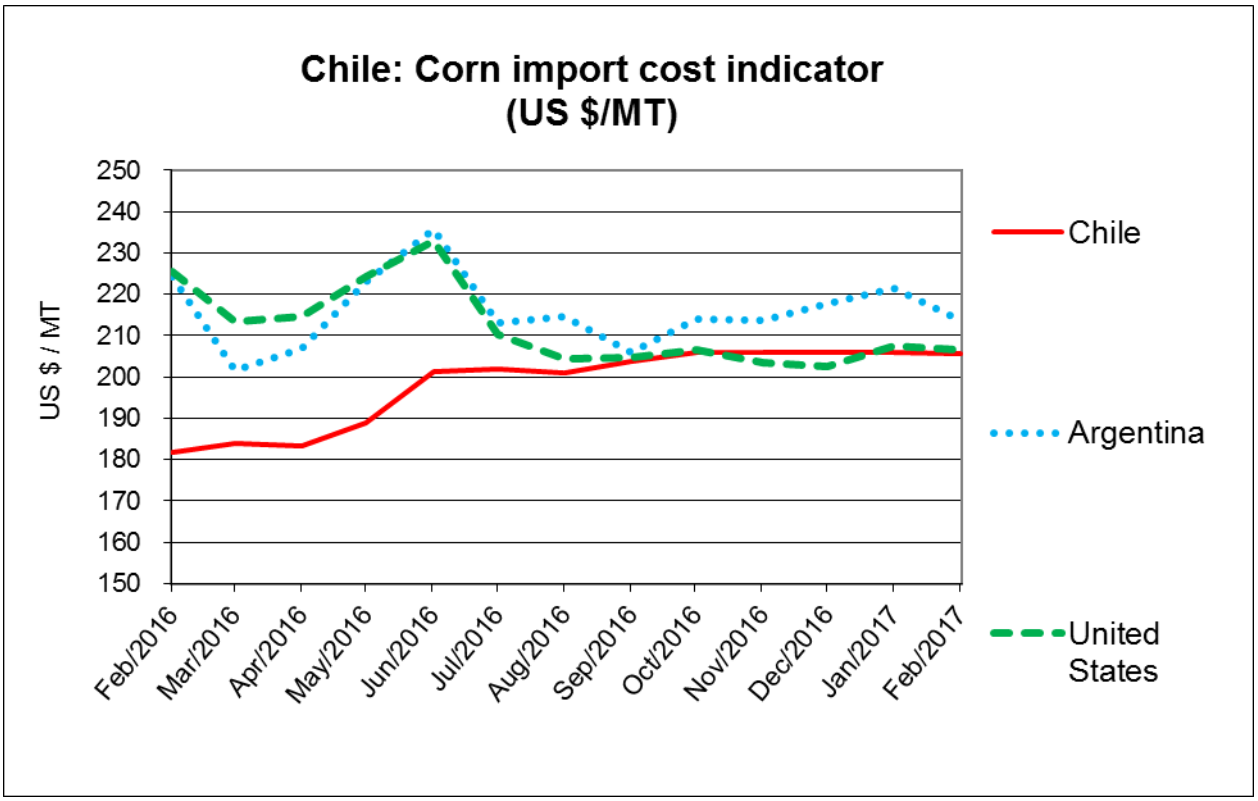
Pork production in Chile has not been able to grow since no major investments have been made to expand, and has remained stable with a production capacity of around 520,000 MT. The pork industry has been focused on developing entrance to markets in Asia (China, Japan, South Korea) were they export high value added cuts (boneless cuts) and obtain high prices.
Broiler meat production grew 3.5% CY2016 over CY2015 and is expected to keep growing in 2017 at a similar rate.

Trade:

The imported corn in Chile is destined for animal feed and import decisions are entirely price oriented. Corn prices in Chile have been increasing since February 2016 (see graph below "Chile: Corn import cost indicator").

The United States has very competitive prices and has become the main provider of corn holding 56% market share in CY2016 (see Table 3). Argentina is the second largest provider of wheat products with 37% market share. Paraguay has lost market share reaching only 7% in CY2016.

Total corn imports increased by 13.3% MY2015/16 over MY2014/15 reaching 1,500,000 MT and are expected to keep increasing by 13% reaching 1,697,000 MT in MY2016/17 as production contracts 7% and domestic consumption for feed keeps growing (See Table 4).

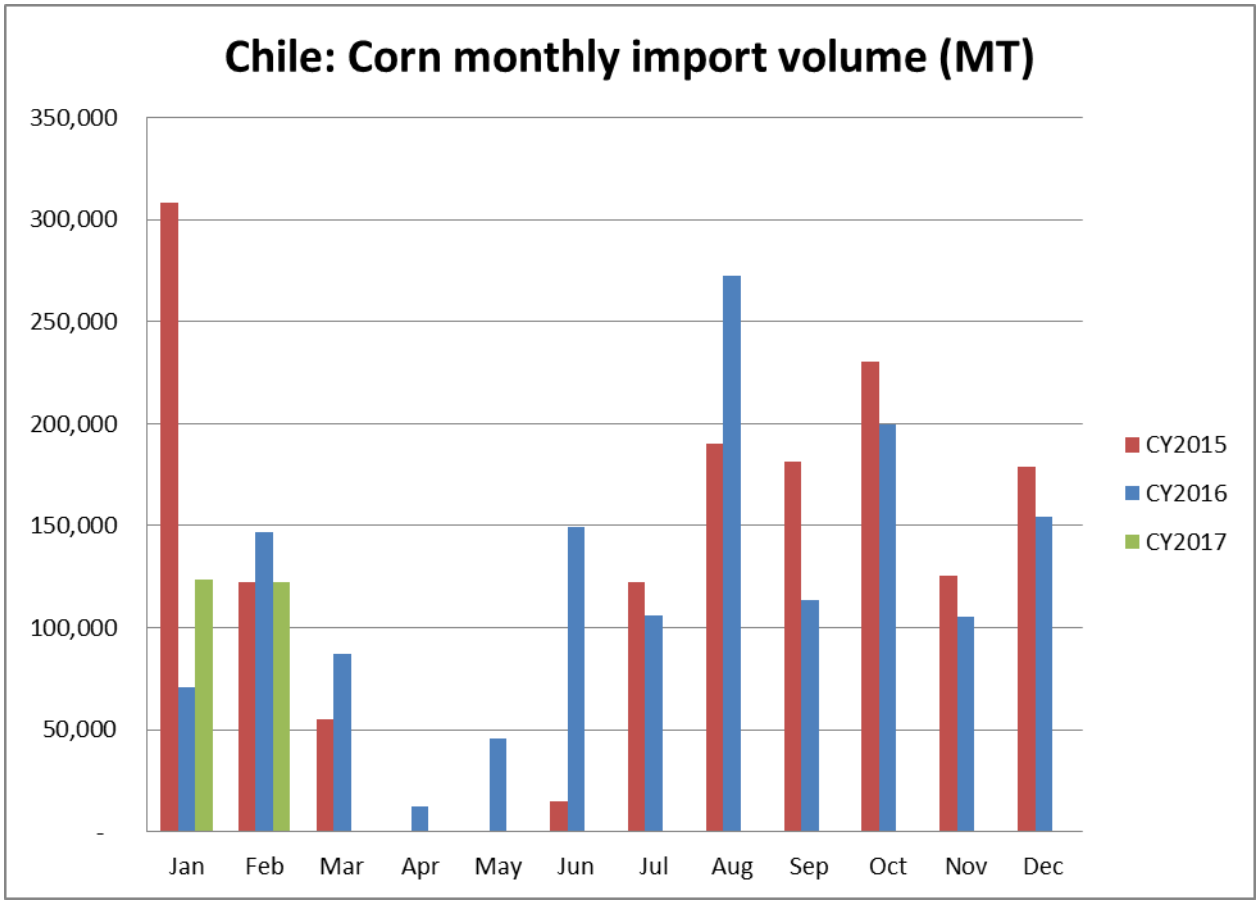


Source: Based on ODEPA, 2017
Note: Domestic price informed by industry and converted to USD (1USD = 660 Chilean pesos).

Table 3. Chile: Corn import volume by country (calendar year).

	Import Volume (MT) CY2015	Import Volume (MT) CY2016	Market Share CY2016
World	**1,530,249**	**1,464,267**	**100%**
United States	72,471	820,056	56%
Argentina	130,952	547,714	37%
Paraguay	1,319,314	95,325	7%
Uruguay	-	143	0%
Bolivia	6,056	41	0%
Others	1,456	988	0%

Source: Servicio Nacional de Aduana-Chile Customs.



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

Production, Supply and Demand Data Statistics:

Corn	2015/2016		2016/2017		2017/2018	
Market Begin Year	Mar 2016		Mar 2017		Mar 2018	
Chile	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	102	102	97	95	0	90
Beginning Stocks	287	287	261	211	0	200
Production	1,174	1,174	1,164	1,092	0	1,050
MY Imports	1,800	1,500	1,800	1,697	0	1,750
TY Imports	1,600	1,540	1,800	1,600	0	1,800
TY Imp. from U.S.	507	497	0	0	0	0
Total Supply	3,261	2,961	3,225	3,000	0	3,000
MY Exports	25	25	25	25	0	25
TY Exports	25	25	25	25	0	0
Feed and Residual	2,650	2,400	2,600	2,450	0	2,500
FSI Consumption	325	325	325	325	0	325
Total Consumption	2,975	2,725	2,925	2,775	0	2,825
Ending Stocks	261	211	275	200	0	150
Total Distribution	3,261	2,961	3,225	3,000	0	3,000
(1000 HA) ,(1000 MT)						

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