



Bi-weekly Bulletin

January 31, 2003 Volume 16 Number 3



CHILE

Chile has a prosperous, market-oriented economy which relies heavily on exports of minerals, fish, and forest products. Trade in agri-food products contributes to a lesser extent to Chile's economic and social well-being. Although Chile is an important South American market for Canadian agri-food products, Canadian imports far exceed Canada's exports to Chile. Canadian exports of wheat, durum, and pulse and special crops are expected to increase over the medium-term. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Chile's agricultural sector and prospects for trade with Canada.

BACKGROUND

Economy

The population of Chile, estimated at 15.3 million (M), is growing at an annual rate of about 1.1%. Chile's gross domestic product (GDP) is estimated at US\$66 billion, which equates to about US\$4,300 per person. The services sector accounts for more than half of Chile's economic activity, followed by industry at 38%, and agriculture at 4%.

Chile's economy is heavily reliant on the export of minerals, which account for about one-third of its annual exports. After World War I, Chile began developing the capacity to process raw materials and to manufacture consumer-ready goods. Copper is currently its most valuable resource, but it also produces various food products, fish meal, wood and wood products, transportation equipment, cement, textiles, iron and steel, paper, and chemicals for domestic and international markets.

Chile's reputation as a role model for economic reform was strengthened when civilian governments took over from the military in March 1990. With

that change, the role of government shifted away from direct involvement in the economy and focussed more on public spending programs to improve living conditions.

Growth in Chile's real GDP averaged about 7% through most of the 1990s but decreased to about half of that figure by 1998, due largely to the global financial crisis. The crisis seriously affected Chile's export earnings and forced government to adopt tighter monetary policies to deal with the burgeoning deficit in its current account.

By 2000, Chile's exports and economic activity had begun to recover, supported by its reputation for having solid financial institutions and sound economic policies. The recovery was also aided by Chile's friendly attitude toward foreign investment, a position firmly entrenched in its Foreign Investment Law. The law gives foreign investors the same treatment afforded to Chileans, registration is simple and transparent, and foreign investors are guaranteed access to the official foreign exchange market should they wish to repatriate their profits and/or capital. The Foreign Investment Law allows that all net profits

generated by foreign investment may be remitted immediately, but for capital, repatriation can only occur one year after it has entered Chile; both may be done with easy access to foreign currency.

The Chilean government is committed to annual economic growth of 5%, but its success in achieving that goal will depend largely on world prices for its major exports such as copper, foreign investor confidence, and the government's ability to demonstrate fiscal and monetary prudence.

Agriculture

Chile's climate ranges from tropical to the harshness of the Antarctica. The northern part of the country is extremely arid while the central regions have a Mediterranean-type climate characterized by cool and rainy winters, and relatively moderate temperatures during the summer. The southern region is cool and rainy throughout most of the year. Only about 7% of Chile's land area is agriculturally productive, and the best arable land is concentrated in central Chile.

Some crops are grown in the northern region of Chile, but these crops are

highly dependent on irrigation. About 16% of Chile's total land area provides permanent grazing for its livestock sector, which is concentrated in central Chile and the northern part of southern Chile.

Agriculture provides employment for about 15% of Chile's population, but it accounts for less than 10% of the national wealth generated annually. Chile's agricultural products include wheat, potatoes, corn, beans, sugar beets and fruit. Food self-sufficiency continues to be a problem for Chile as it regularly imports corn, wheat and other grains to cover its food shortfall.

For the most part, Chile's efforts to increase agricultural production have focussed on higher value commodities and, in fact, it has become the largest fruit exporter in South America. Value-added products such as wine have also helped to improve Chile's trade balance. With the change in focus, production of commodities such as corn, wheat and barley has fallen behind relative to some of the other agricultural and agri-food products such as fruit and nuts.

Historically, much of Chile's agricultural land has been in the form of large estates, remnants of the Spanish colonial period during which extensive land grants were made to army officers and colonial officials. As recently as the late 1920s, about 90% of farmland in central Chile was held in this manner. Since then, many of the large estates have been broken up and sold as small farms, but most of the farm work continues to be done by tenants and hired labour.

Trade

Chile has relatively few barriers to trade. Although all imports require a licence, these licences are routinely granted for most goods. Imported products for human consumption must clearly display the country of origin, and packaged goods must display the quality, purity, ingredients and the measure of the contents in metric units. Exports also require a licence, but this is primarily for gathering trade data. There are

phytosanitary and quality regulations for products under the control of the Agricultural and Livestock Service.

Chile's export markets are fairly balanced between North America, the European Union (EU), Asia, and Latin America. Although Asia is the fastest growing market for Chilean exports, the United States (US) is still the largest market, taking in about 18% of Chile's total exports. Chile has a free trade agreement with Canada and in keeping with its trade-oriented development strategy, has just concluded free trade agreements with the EU and the US. Chile has economic cooperation agreements with the Andean Community, Mexico, Costa Rica and the Mercosur countries (Brazil, Argentina, Paraguay, and Uruguay). It is also pressing for continued negotiations for a Free Trade of the Americas Agreement (FTAA).

In terms of imports, the US is also Chile's largest supplier, providing over 20% of its total annual imports. Chile is unilaterally lowering its across-the-board import tariff for all countries with which it does not have an active trade agreement, and that includes the US. Chile lowered the import tariff to 6% as of January 1, 2003.

Higher tariffs are charged on a few products including imports of wheat, vegetable oils, and sugar. For these particular products, this is accomplished by using a system of import price bands, which puts minimum prices on commodities for which Chile is not competitive. The exceptions are beef and some prepared poultry products, sugar, milling wheat, and wheat flour. For example, the price band for wheat provides a floor and ceiling price. When international CIF prices are lower than the price band, a surtax is calculated to bring the landed price up to, or above, the price band floor. Chilean producers

are guaranteed a minimum price equal to the floor of the price band, minus transportation costs to Santiago. Each year, the Ministers for International Trade meet to continue to collaborate on ways to strengthen the Canada-Chile relationship. Both parties have reaffirmed their commitment to the FTAA negotiations.

Trade with Canada

The bilateral Canada-Chile Free Trade Agreement (CCFTA) which came into effect on July 5, 1997 provides duty-free access for most agri-food products, either immediately, or within a period of 5-10 years. The exceptions are milling wheat, sugar, and beef for which tariffs are to be phased out over 17, 16, and 15 years, respectively. The CCFTA provides for immediate duty-free access for specific quantities of pork, canola oil, and beef but, under the agreement, Canada and Chile retain tariffs on supply-managed dairy, poultry and egg products. The second round of amendments to the CCFTA were agreed to in May 1999, and at the same time both parties reaffirmed their commitment to moving ahead with negotiations for the FTAA.

Trade with the US

Agreement was reached on December 11, 2002, in negotiations toward a US-Chile Free Trade Agreement. It is designed to decrease barriers and facilitate trade and investment between both countries. Trade representatives from both countries are expected to sign the Agreement and submit it to their Congresses for approval in 2003. The

CANADA: EXPORTS TO CHILE

<i>August-July crop year</i>	1998	1999	2000	2001	2002
	-1999	-2000	-2001	-2002	-2003f
thousand tonnes.....				
Wheat*	102	201	85	42	15
Durum	150	119	115	94	110
Lentils	12	16	11	10	8
Malt	10	11	5	5	5
Dry Peas	5	4	3	3	3
Canary Seed	2	4	4	3	3

* excluding durum
 f: forecast, AAFC, January 2003
 Source: Canadian Grain Commission

benefits for US producers are expected to be improved market access through duty free trade of soybeans, durum, livestock and processed food products.

Exchange Rates

Since the CCFTA came into effect in 1997, the Chilean peso has weakened steadily against the Canadian dollar, losing about one-third of its value during this period. The devaluation of the Chilean peso has contributed to the obvious trade imbalance between the two countries, one which has existed for several years. In fact, trade data clearly show that the annual value of Canadian imports of agri-food products from Chile is on average three times that of Canadian exports to Chile. There appears to be a strong correlation between exchange rates and the ongoing trade imbalance.

Free Trade Area of the Americas

In global terms, the 34 countries which make up the Americas represent a formidable economic bloc which stretches from Canada's Yukon Territory in the north to Argentina's Tierra del Fuego in the south. This area consists of 40 million square kilometres and over 800 million people and generates a total GDP of about US\$13 trillion. Since the mid-1990s, more than 55% of the total goods sold in the Western Hemisphere have stayed in the region, providing a strong incentive to proceed with negotiations for the FTAA.

The specific goals of the FTAA are: 1) to promote prosperity through increased economic integration and free trade among the negotiating countries, 2) to establish a Free Trade Area, one in which barriers to trade in goods and services and investment are progressively eliminated, 3) to maximize market openness, 4) to provide opportunities for the integration of the smaller economies in the FTAA process, 5) to strive to make trade liberalization and environmental policies mutually supportive, taking into account work undertaken by the World Trade Organization, and 6) to further secure, in accordance with respective laws and regulations, the observance and promotion of worker rights.

OUTLOOK

Wheat

Wheat production in Chile increased significantly over the past decade, due to a combination of increased seeded area and improved yields. For 2002-2003, **production** is estimated at 1.7 Mt, up marginally from 2001-2002.

Chile's wheat **consumption** has remained relatively stable during the past decade and, for 2002-2003, is forecast at 2.2 Mt. Per capita wheat consumption is 140 kilograms per year, making Chileans the largest consumers of bread in the Western Hemisphere.

Wheat **imports** increased considerably during the early 1990s, peaking at 0.8 Mt in 1995-1996, but have since dropped off and are estimated at 0.5 Mt for 2002-2003. Canada supplies a large percentage of Chile's wheat import requirements. Canadian wheat exports have consisted of high protein Nos.2 and 3 Canada Western Red Spring wheat and Nos.2 and 3 Canada Western Amber Durum. The other major suppliers of wheat to Chile are Argentina and the US.

For 2002-2003, Canadian non-durum wheat exports to Chile are forecast at 15,000 t, down significantly from 2001-2002 as a result of the drought in western Canada which resulted in a shortage of high quality wheat. For 2002-2003, Canadian durum exports are forecast to increase to 110,000 t from 94,000 t in 2001-2002.

Coarse Grains

Corn

Area seeded to corn in Chile has decreased over the past decade, however, higher yielding varieties of corn have offset some of the decrease. For 2002-2003, corn **production** is estimated at 0.8 million tonnes (Mt), unchanged from last year, and slightly below the record crop of 0.9 Mt in 1997-1998.

CHILE: WHEAT* SUPPLY AND DISPOSITION

<i>July-June crop year</i>	1998 -1999	1999 -2000	2000 -2001	2001 -2002	2002 -2003f
Area (000 ha)	339	392	414	426	440
Yield (t/ha)	3.5	3.8	4.3	3.9	3.9
.....thousand tonnes.....					
Carry-in Stocks	200	125	200	250	190
Production	1,197	1,493	1,780	1,660	1,700
Imports	722	732	438	450	500
Total Supplies	2,119	2,350	2,418	2,360	2,390
Consumption	1,961	2,131	2,155	2,150	2,150
Exports	33	19	13	20	0
Total Use	1,994	2,150	2,168	2,170	2,150
Carry-out Stocks	125	200	250	190	240

* including durum

f: forecast, USDA, January 2003

Source: USDA

CHILE: CORN SUPPLY AND DISPOSITION

<i>Oct.-Sep. crop year</i>	1998 -1999	1999 -2000	2000 -2001	2001 -2002	2002 -2003f
Area (000 ha)	75	69	82	87	90
Yield (t/ha)	8.3	9.4	9.5	9.2	8.9
.....thousand tonnes.....					
Carry-in Stocks	250	250	235	274	259
Production	624	652	778	800	800
Imports	1,268	1,260	1,362	1,278	1,400
Total Supplies	2,142	2,162	2,375	2,352	2,459
Consumption	1,867	1,902	2,090	2,078	2,200
Exports	25	25	11	15	15
Total Use	1,892	1,927	2,101	2,093	2,215
Carry-out Stocks	250	235	274	259	244

f: forecast, USDA, January 2003

Source: USDA

Corn **consumption** for 2002-2003 is estimated at 2.2 Mt, up marginally from last year. The increase is due to record feed use, which is largely attributed to a burgeoning hog and poultry industry which has nearly doubled production during the past decade. On the other hand, beef and veal production, which peaked at 262,000 tonnes (t) in 1997, has since dropped off and, for 2002, is estimated at 217,000 t. Corn **imports** have nearly tripled during the past decade and are estimated at 1.4 Mt. Currently, Argentina is the largest supplier of corn to Chile. Argentina's export advantage includes lower costs and quality preferences. Argentine corn is also subject to a lower import duty than US corn, as a result of the Mercosur Agreement. Argentina pays a duty of 2.8%, while US corn is subject to a 7% duty. In 2003-2004, the US duty falls to 6%, however the Mercosur duty will also be reduced, thus maintaining the advantage for Argentine corn. Canada does not export any corn to Chile.

Oats

Oat production has increased slightly over the last five years, due to the combination of higher seeded area and improved yields. For 2002-2003, oat production is estimated at 0.3 Mt, up marginally from last year. Chilean producers primarily grow oats as a supplemental feed source for livestock. Chilean oat exports total about 10,000 t annually, largely to Peru and Columbia. Canada is not a supplier of oats to Chile.

Barley

Barley is grown for malting purposes, with the remainder used as feed. Barley production in Chile has fallen over the last five years, largely due to poor prices offered by domestic maltsters. Annual barley production is about 65,000 t and on average 35,000 t is imported for malting purposes. For 2002-2003, Canadian malt exports are forecast to remain unchanged from last year at 5,000 t. Chilean per capita beer

consumption is expected to remain at about 20 litres (L) per year compared to about 75 L in Canada.

Oilseeds

Oilseed production consists largely of rapeseed. On average, only 20,000-25,000 ha are harvested per year and production is processed domestically due to Chile's relatively small plant capacity. For 2002-2003, rapeseed production is forecast at 60,000 t, near the five year average. About 50,000-60,000 t of soybeans are imported annually from Argentina and crushed domestically. Soybean oil imports have remained unchanged over the last four years at 90,000 t.

Pulse and Special Crops

During the past decade, Chile's production of pulse and special crops decreased significantly and imports increased. Dry peas and lentils, for example, were previously grown domestically in fairly large quantities but are now mostly imported. The main crop is dry beans with production of 50,000-60,000 t. Imports of canary seed, which Chile has never produced in any significant quantity, have also increased considerably during the past decade.

For special crops, Chile's total imports of **lentils** have been relatively stable during the last three years with about 17,000 t imported in 2001-2002. Canada's share of the imports has been trending upwards and reached 11,000 t in 2000-2001, mostly large green lentils. Canada's exports of lentils are expected to fall to 8,000 t in 2002-2003 due to lower Canadian lentil supplies.

Total imports of **dry peas** have been stable. In 2001-2002, imports totalled 7,000 t, with 3,000 t from Canada. For 2002-2003, Canadian dry pea exports to Chile are forecast to be unchanged at 3,000 t. Chile's total imports of **canary seed** have been flat with 4,000 t imports in the last two years. Canada is the main

supplier of canary seed with exports of 3,000 t in 2001-2002. For 2002-2003, Canadian canary seed exports to Chile are forecast to remain unchanged at 3,000 t.

Medium-Term Outlook

Over the medium-term, assuming that Canadian grain, pulse and special crop production recovers from the drought conditions of the past two years, Canadian exports of wheat, durum, malt, pulse and special crops to Chile are expected to return to levels similar to 1998-1999 and 1999-2000. Canada does not currently export any oilseeds or products to Chile. However, over the medium-term, the prospect of canola oil exports to Chile is a possibility.

For more information, please contact:

Bobby Morgan
Market Analyst

Phone: (204) 984-0680

E-mail: morganb@agr.gc.ca

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Electronic version available at
www.agr.gc.ca/mad-dam/

ISSN 1207-621X
AAFC No. 2081/E

Bi-weekly Bulletin is published by the:
Market Analysis Division,
Marketing Policy Directorate,
Strategic Policy Branch,
Agriculture and Agri-Food Canada.
500-303 Main Street
Winnipeg, Manitoba, Canada R3C 3G7
Telephone: (204) 983-8473
Fax: (204) 983-5524

Director: Maggie Liu
Chief: Fred Oleson

Editor: Gordon MacMichael

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Issued also in French under title:
Le Bulletin bimensuel
ISSN 1207-6228
AAFC No. 2081/F

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