Grain Trade Policy

August 22, 2004

Chile

Summary

Chile is a net importer of grains. According to official U.S. export data, Chilean grain imports from the United States were valued at approximately $44.6 million in 2003, a 55 percent increase from the previous year. Wheat accounts for more than 80 percent of U.S. grain exports to Chile and competes against Canada and Argentina for market share. Argentina is the largest supplier of bulk corn to Chile, due to lower costs and quality preferences.

Market Access

Tariffs

Chile has very low tariffs, with a universal applied rate of 6 percent except for products under the priceband system (i.e. wheat and wheat flour). This applied rate falls well below Chile's WTO bound rate of 25 percent for all grains, except for wheat and wheat flour, which are bound at 31.5 percent.

Tariff Schedule for Chile's Grain Imports (CY2004, Percent)

Product	MERCOSUR							
	Argentina	Brazil	Paraguay	Uruguay	US	EU	Canada	Mexico
Wheat, excl. durum	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Corn, not for seed	1.2	1.2	1.2	1.2	6.0	4.0	6.0	6.0
Rice, brown	3.0 *i/*	6.0	6.0	3.0 *ii/*	5.5	4.92	0.0	0.0
Sorghum	1.2	1.2	1.2	1.2	0.0	0.0	6.0	6.0

i/ Argentina: only for a 5,000 mt quota from October to December until duties are fully phased out. Over the quota 6.0 percent.
ii/ Uruguay: only for a 14,000 mt quota annually until duties are fully phased out. Over the quota 6.0 percent.

Price Bands

Until recently Chile maintained a complex price band system for wheat, wheat flour, edible vegetable oils and sugar. The price band system was created in 1985 and was intended to provide a buffer against significant fluctuations in the world price for these commodities, but effectively resulted in protecting domestic production against low cost competition. Under this system, imports often are subject to both a specific duty and the ad valorem tariff. The specific duty is designed to keep domestic prices within a predetermined range. Even though Chile is gradually reducing ad valorem rates, the specific duties can effectively keep tariffs on these agricultural products quite high.

The new values for wheat's floor and ceiling prices began in November 2003 and will remain fixed until 2007. The floor will be US$128 f.o.b. and the ceiling will be US$148 f.o.b. Starting in 2008, the floor will be adjusted downward by 2 percent a year, until 2014, when the President will evaluate whether to continue with the priceband system or eliminate it. The reference price will be a fixed amount in USD per ton, and it will be published six times a year. The reference price will be based on an average of the daily price for the 30 days preceding the date of publication. For the first semester the relevant market will be f.o.b. an Argentine port, and for the second semester it will be soft red winter wheat #2, f.o.b. Gulf of Mexico. It will be applied on the date of entry of the goods. For wheat flour, Chile plans to use the wheat calculation, but increase the amounts by 56 percent.

Value Added Tax

All products sold in Chile are assessed a value added tax of 19 percent.

Bilateral Agreements with the United States

On January 1, 2004, the United States and Chile implemented a free trade agreement (FTA) that will liberalize all trade between the two countries by 2016. Although the agreement has been in force for only a few months, Chile appears to be complying with the specific rules and the market access commitments undertaken in the agreement. Chile eliminated the import tariffs on durum wheat, barley and sorghum on January 1. The tariff on corn will remain unchanged at 6 percent until 2006, when it will be eliminated. The tariff on rice will fall from 6 percent to zero in equal increments over 12 years. The FTA also sets out a 12-year, non-linear tariff reduction on non-durum wheat and wheat flour that will eliminate the price band.

(Go to http://www.fas.usda.gov/grain/policy/southAmerica/chile.htm for more information, including the text of the agreement.)

U.S. Non-Party Agreements

Chile has systematically negotiated preferential trade agreements with many of its key trading partners (i.e. the United States, EU, Mexico, Canada, Mercosur, EFTA, Bolivia, Poland, Colombia, Ecuador, Costa Rica, El Salvador, Nicaragua, Honduras, Guatemala, and most recently Korea) and is in the process of negotiating additional agreements with India and China. For example, under the Chile-Mercosur Economic Complementary Agreement of 1996, most grains will enter duty free by 2005.

Trade Agreements that impact U.S. grains

Date Ratified	Country Partner	Phase-out Period
1992	Mexico	1992-1998
1993	Venezuela	1993-1999
1993	Bolivia	Immediate
1994	Colombia	1994-1999
1996	MERCOSUR	1996-2006
1996	Canada	1997-2015
1996	Ecuador	1996-2000

Date Ratified	Country Partner	Phase-out Period
1999	Central America	
2003	United States	2004-2016
2003	European Union	2003-2013
2003	EFTA	2003-2013
2004	Korea	2004-2017

For more information, contact Elizabeth Autry (202-720-6233 or Elizabeth.Autry@fas.usda.gov) or the Office of Agricultural Affairs (AgSantiago@usda.gov).