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VIABILITY AND PROFITABILITY OF THE CHILEAN DEER INDUSTRY

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VIABILITY AND PROFITABILITY OF THE CHILEAN DEER INDUSTRY

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ABSTRACT

Chile is located in the south-west corner of South America, with climates that vary from hot and dry in the north to mild cold in the south. This large range of climates enables Chile to produce a variety of animal and plant products. The Chilean economy is strongly based on the exports of agricultural products. Even though the economy was negatively affected by the Asian economic crisis in 1997/98, the economic sector is through a recovery process. Diversification is one important factor in the recovery process of the economy. The Chilean economy needs to diversify (products and markets), to spread the risk involved in the trade sector. Agriculture is one of the most important sectors in the Chilean economy. This sector is composed of fruit, crops, and livestock production. Within the latter sector, the main activities are beef cattle and dairy production. In the last few years, diversification of the current productive systems in Chile has been through the introduction of new animal species, such as ostriches and deer. These activities are considered to be very new, and consequently are unknown to a vast number of people. In addition to this, and in particular with regards to the deer industry in Chile, structure is almost non-existent, and its marketing channels and quality controls are unorganised. Deer farming is an opportunity to diversify the agricultural sector in Chile. As a new activity it must be developed either by domestic private or public institutions and/or by foreign investors. As any other business, this industry works within certain conditions, determined by the country’s economy and situation of its sector, in this case agriculture. Deer have a highly efficient conversion rate from grass to protein when compared to other farmed animals. Deer products are commonly in demand in European and Asian countries. The farmed deer industry is a world-wide business, with New Zealand as the leader. In 1999 the New Zealand deer industry exported venison, velvet antler and co-products with a value of about NZ$210 million. For the year 2002 is forecasted that New Zealand deer exports will reach about NZ$270 million. The main markets for New Zealand deer products are Europe, USA and Asian countries.

The deer industry in Chile is in an embryonic stage, and is a growing activity. However, it still needs further development in areas such as processes, transport, management practices, etc. This industry does not present a fixed structure, and deer
products have to be marketed through traditional beef marketing channels. Regulations are almost non-existent, with the exception of minimal import, farming and slaughter regulations. Total farm gross margins results for deer farms in Chile suggest that deer farming in Chile is profitable (US$20,982 for Farm A and US$10,578 for Farm B). However, compared to New Zealand, the gross margins from Chilean farms are low. On a total farm and per hectare gross margin basis, New Zealand has higher gross margins compared to Chilean farms. However, on a stock units basis, Chilean farms have higher gross margins. This may be due to the fact that Chilean farms have a lower stocking rate than New Zealand.

Even though gross margin results suggest that Chilean deer farms are profitable, this activity shows important issues that need to be addressed. These issues are related to infrastructure and regulations for deer production, and marketing and promotion of deer products. Probable reasons for New Zealand’s higher profitability in the deer industry compared to Chilean deer farms are management practices and know-how of deer farming. The threat of new entrants in the Chilean deer industry is weak. The bargaining power of suppliers and buyers also is weak, because production and demand in the domestic market are very low. Rivalry within the industry is between deer farms and hunting operations, and is related to quality issues. In Chile, substitute products for deer products are mainly other protein sources for venison, and other herbal tonics for velvet. Strengths of the Chilean deer industry are represented by geographical and physical factors, and include the fact there are no presence of natural deer predators in Chile. The main weaknesses are related to the size of Chilean deer farms, low production levels and lack of a complete legislation. Land availability, increasing meat and healthier product consumption trends in Chile, are the main opportunities for the Chilean deer industry. The main threat to the industry in Chile is the variability of venison quality and lack of quality controls in the marketing process.