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**“Comparison of the Chilean and New Zealand Milk  
Production Costs”**

A thesis presented in partial fulfilment for the degree  
of Masters In Applied Economics  
in Agribusiness

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To Richard

## Abstract

This research concludes that Chilean farmers have lower or competitive winter milk production costs, measured as the cost per unit of production and per unit of production factor.

This research highlights Chilean and New Zealand advantages, being the formers lower labor cost and lower value of land, and the latter's existence of the veal market and a completely vertically integrated industrial organization. This industrial organization provides "tacit protection" to NZ dairy farmers, this protection provides the necessary stability to permit complete specialization by dairy farmers, which increases efficiency. The "tacit protection" explains the higher prices paid to New Zealand winter milk producers in comparison to Chilean farmers. Finally NZ's Industrial Organization (I.O.) (farmers, companies and NZDB, completely vertically integrated) eliminates the additional cost of having predominantly even year round milk production and having a lower reception & elaboration (processing) capacity.

Finally the research shows Chilean disadvantages: the political economic environment and the Industrial Organization. The first disadvantage is related the use of the exchange rate as an economic tool, which has reduced its real value by 40% since 1990. And the second disadvantage is the pressure on farmers from elaborating companies to produce more during the winter in order to avoid a larger plant reception/elaboration capacity investment, which has a high cost if the seasonal production system were predominantly used instead. Another disadvantage for Chilean farmers is that companies keep farmers convinced this is the best production system, and that they are not able to compete with countries such as New Zealand. Companies like Soprole (controlled by the NZDB) and Nestle, greatly benefit out of the winter production system, by having lower infrastructure costs and by having all the imports controlled in their hands. This creates monopolic powers in the final product market. NZDB and the NZ I.O. benefit by maintaining through Soprole the beliefs of Chilean farmers that they are unable to compete, otherwise they would be a threat in the International Market.

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