

Earthquake in Chile: Extent and Economic Impact
**INTENSE WORK FOR RESTORING TRADE
FLOWS AND INTERNATIONAL PRESCENCE**

**** Despite the unfortunate loss of lives and damages to housing and public and productive infrastructure left by the strong earthquake on February 27th, Chilean trade flows with the world are expected to recover in the short term. The country is also willing to maintain its competitiveness gained during recent years in international markets.**

**** Chile will carry on responding to its previous commitments of wine shipments and main ports are already operative. Fruit sector producers and workers are putting their best efforts to normalize the harvesting without stopping fruit shipments.**

**** The country's connectivity in terms of roads, ports, airports and telecommunications has been restored and the reconstruction phase is already underway.**

Background

On Saturday, February 27, a region of Chile of about 621 miles in length was hit by a major earthquake and tsunami. Especially hard-hit were the Maule and Biobío regions. Population in the affected area -which extends from Valparaíso to Araucanía- stands at 13 million, nearly 80 percent of the total of the population of Chile.

These regions include the cities of Santiago, Concepción and Valparaíso, which are Chile's most populous and home to most of the industrial, services and agricultural activities. Together they account for nearly 70 percent of GDP, including Valparaíso with 7.9; Metro Santiago with 42.9; O'Higgins and Maule with 3.5 each and Araucanía with 2.4 percent. Maule and Biobío alone account for 76 percent of the Chilean agricultural output.

Economic stability will help the reconstruction process

While the exact extent of the losses has yet to be determined, catastrophe risk modeling firms Eqecat and AIR Worldwide have hazarded preliminary estimates ranging from \$15 to \$30 billion dollars.

The Latin American news portal *Infolatam* states that reconstruction efforts should pose no great problem as the Chilean government "possesses the resources required to tackle the disaster and the financial wherewithal to carry out a full reconstruction effort." *Infolatam* adds that "Chile's flexible economic policy provides additional certainty about its continued prospects for growth. While the economy will suffer, the blow will be softened by Chile's fiscal solvency and the consistent macroeconomic policies implemented over the past few decades."

In the U.S., Moody's kept Chile's A-1 risk rating unchanged, noting that "solid institutions and financial flexibility place Chile in a good position" to deal with the current emergency.

Analysts say that the Central Bank's 4.5 to 5.5 percent growth estimates remain mostly on track. JP Morgan Chase estimates that the momentum provided by a vast reconstruction effort should help Chile grow as much as 5.5 percent in 2010.

Impact on Specific Sectors

Damage assessment is taking into account the status of the production chain. For commodities to get to market or to processing plants, basic services and the road and port infrastructure must be operational. As such, restoring the transportation system and energy, water and telecommunications services is the first priority. As a result, a week after the earthquake Chile is suffering no shortages and exports continue to flow.

While these conditions are important to all industries, to agriculture they are essential for three reasons: farmers require water for irrigation, this is harvest time, and their perishable products require operational cold storage facilities.

Damage is concentrated around Maule and Biobío regions, home to a significant steel and metal manufacturing sector and a forest industry that includes from tree plantations to wood pulp, lumber processing and wood manufacturing plants. Key regional products include fresh and processed fruit, wine grapes and basic crops such as sugar beet, potatoes and rice.

While **wood pulp** plants did sustain damage, production is not expected to fall by more than 10 percent. The drop is likely to increase world prices and offset production cuts.

The **fisheries** industry of south-central Chile –which accounts for nearly half of the output- is expected to take a few months to get back to normal. Since the fleet sustained no significant damage, affected firms will be routing their products to plants in unaffected zones, using fishing vessels for transportation.

The bulk of the **salmon** industry is south of the earthquake zone and should not be significantly affected.

Most **Chilean wine** is produced in the affected area. Losses are estimated at some 125 million liters of bulk and bottled products, or 12.5 percent of the 2009 harvest of 1 billion liters. As such, Wines of Chile chairman René Merino says that the industry expects to keep its export commitments.

Wineries are engaged in a vast cleanup effort and are giving priority to bottling casked wine, shipping products and preparing for the 2010 harvest, initially scheduled to start the week of the earthquake. Shipment of containers has begun, although transit times may be slow until the road and port infrastructure gets back to normal.

The **poultry** industry was largely unaffected. Products are shipping normally throughout Chile, although distribution centers in Maule and Biobío face temporary access and energy supply issues. Packing plants remain operational and should resume normal production this week.

The **pork meat** industry is facing power, water, and input supply issues. Alternative plans are being implemented and firms expect to get back to normal within weeks. Producers have given assurances that export commitments will be met.

Most **meat packing plants** in and around Santiago suffered minor damage and remain operational. Plants and freezing works in affected areas suffered little damage but face some supply and basic service issues that are being addressed at this time.

According to the Fruit and Produce Exporters Association (ASOEX), **fruit production** was hit hard, with grapes, apples, pears and blueberries most affected. The industry is concentrated in and around the Metropolitan, O'Higgins, Maule and Biobío regions, where packing plants and cold storage facilities sustained heavy damage. Work is underway to address critical issues by early next week, a job that will be made increasingly easier as basic services return to normal and seaports resume operations.

Infrastructure: The country is interconnected

All of Chile can be traveled overland, with some detours and slow traffic in affected areas.

The **Santiago International Airport** is operating around the clock, albeit with some delays and rescheduling of flights. The Civil Aeronautics Authority and the Public Works Ministry's Airports Directorate report undamaged runways throughout the country. Carriel Sur International Airport in Concepción is temporarily under military control and is accepting only relief flights. Airports in Temuco, Valdivia, Osorno and Puerto Montt are operational, although the number of daily flights has been temporarily restricted.

Besides, the country's main ports are already operative with some restrictions on some of them. Most difficulties are found in ports located in the regions of Maule, Biobío and Los Ríos, which are closed, but their shipments have been derived to other shipping points in the country.

Issuance of **certificates of origin** normally processed at Agricultural and Livestock Service (SAG) facilities in the Port of San Antonio and the SAG-USDA Teno facility in Maule region has temporarily moved to the Santiago International Airport.