

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Chile

### EXPORTER GUIDE ANNUAL

**2009**

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**Report Highlights:**

This report provides practical tips to U.S. exporters of consumer-oriented foods/beverages on how to do business in Chile. It provides a brief overview of the food processing, food service and retail sectors.

**Post:**

Santiago

**Commodities:**

## **Executive Summary:**

### **Author Defined:**

#### **I. Market Overview**

Chile's economy is driven by exports, concentrated in primary products and processed natural resources (principally copper, fresh fruit, forestry and fishery products). The international economic crisis that underwent in the second half of 2008 also affected the Chilean economy; a GDP of 4.78 in 2007 that went down to 3.2 in 2008 and has an estimated projection of around - 0.75 to 0.25 for 2009 according to the Central Bank.

Despite of the seriousness of the international crisis, Chile has demonstrated to be well prepared to cope overcome the situation due to its solid fundamentals, in particular, its fiscal solvency. This factor continues to position Chile as a platform for regional investment.

Based on size, market growth rate, and the U.S. competitive position in the market, the following products have the greatest potential in Chile: ingredients for feed, processed meat, and processed foods/bakery industries (e.g. dairy, soy, meat and poultry by-products, etc), seeds, high value wood products for the furniture industry and oak for wine barrels, as well as pet food and snack foods/high value processed foods. Competition from Mercosur suppliers remains fierce for meat, grains, soybean products and pet food, while domestic and European imports present the greatest challenge for U.S. processed foods.

#### **II. Exporter Business Tips**

- An importer/agent is becoming a necessity. Most supermarket chains prefer to buy new or less well known products from importer/distributors.
- U.S. products can fill gaps in the local market if supported on the ground. Intensive sampling, in conjunction with prominent shelf space in supermarkets, are key to successfully launching imported products.
- Agent/importers must also have the ability to store imported products until they are tested, and released for sale and distribution by health officials of the region.
- While regulations are relatively transparent, changes are not widely advertised. Therefore the exporter or his/her representative needs to monitor the Diario Oficial, where the Ministry of Health and the Ministry of Agriculture periodically publish changes, and/or consult the websites of the Ministry of Agriculture ([www.sag.gob.cl](http://www.sag.gob.cl)) and the Ministry of Health ([www.sesma.cl](http://www.sesma.cl)).
- For labeling and certification requirements for meat, poultry, dairy and fresh produce consult the USDA office in Santiago web page at [www.usdachile.cl](http://www.usdachile.cl) under "Import Requirements" and "Food Law".

- Spanish labeling is a must.
- Consumers are very brand oriented, but major supermarket chains are introducing private labels.
- Sampling is usually required to introduce new products successfully.
- Middle and upper class consumers generally steer clear of spicy, "ethnic" foods.
- Consumers are not overly concerned about the health aspects of fat, cholesterol, and extensive processing. At the same time, noting the health benefits of a product can be helpful in marketing a product.
- Consumers relate expired shelf life to spoilage, which is one of their major concerns when shopping.

The table below identifies U.S. supplier strengths and market opportunities (**Advantages**) as well as U.S. supplier weaknesses and competitive threats (**Challenges**).

<b>Advantages</b>	<b>Challenges</b>
The U.S. can produce many niche products at low cost due to economies of scale.	The single most important factor influencing purchasing decisions is price.
Domestic transportation and communication systems are efficient in Chile.	Chile produces a wide range of high quality inexpensive inputs, so imports tend to be more expensive vis a vis domestic products.
Regulations are transparent and enforcement is generally free of corruption.	Strict animal and plant quarantine regulations prohibit the import of some products and all products have to be approved by the Regional office of the Ministry of Health where the product enters, as Chile's labeling requirements vary from the US.
Middle and upper class shoppers are much more apt to purchase prepared meals at supermarkets.	The most common worry of consumers is food spoilage; in particular, they are concerned about the expiration of shelf life.
25% of the most affluent shoppers look for variety and a wide selection of products.	U.S. products have no special cultural appeal compared to products from other countries.
The market for imported consumer foods is concentrated in Santiago, where 40% of the country's population lives.	Importers seldom have the ability to market full container shipments of consumer food products from the United States.
Supermarket chains are seeking suppliers of well-recognized, high sales volume	Retail power is concentrated in three chains and they demand considerable marketing support for

products to expand their line of private label items.	branded products.
Rising consumer spending and adoption of foreign food types favor new types of inputs.	Domestic fresh fruit and vegetable markets are abundant
Chile has the highest GDP per capita in South America	
U.S. food inputs are known for their quality. They meet respected FDA & USDA standards. Health concerns are low.	Quality of food ingredients is said to have become very similar from the U.S., Europe, Asia, etc., and many European inputs meet U.S., European and Japanese standards.
The U.S. is a strong, traditional trading partner and its products are welcome.	U.S. food input producers sometimes are not as aggressive in following up sales leads as European or other suppliers.
The U.S.-Chile Free Trade Agreement, which went into force on January 1, 2004, is making U.S. products more competitive.	Prices for U.S. products may still be higher than local products or imports from nearby countries. FOB prices for U.S. inputs, even before adding freight, insurance and duties, often are 10-14% higher, or more, than local prices for equivalent quality. This remains true even after the import tariffs for U.S. products have been reduced or eliminated.
The relatively weak dollar compared to the Chilean peso will make imports from the U.S. more competitive.	The Argentine and Brazilian recessions and currency devaluations preceded the U.S. dollar's depreciation, so their products displaced U.S. raw materials, and U.S. products will have a hard time recovering their market position.
Certain companies have corporate requirements to purchase U.S. inputs, for example Nestlé for products re-exported to the U.S.	Purchase decisions are often global and are influenced by headquarters, not just local management.
Shipping from the U.S. is cheaper and quicker than from Europe.	U.S. ingredients are often more expensive than local equivalents. The FOB cost is sometimes 10% or higher.
Population of 16 million is very centralized, with over 40 percent living within 100 miles of the capital's metropolitan region.	Artisanal products have a significant share of the market; Chileans tend to prefer fresh foods, which are perceived as higher quality.
	Many local consumers are becoming more sophisticated, seeking out brand names they recognize as capable of supporting their needs.
Chile has one of the highest percentage of non-traditional (i.e. non "mom & pop") store sales in Latin America, which allows suppliers to target large retail chains for larger volume sales.	The typical Chilean consumer is not immediately attracted to foreign products, as local producers typically provide well-priced quality options.
The Economist Intelligence Unit reports that foreign companies may conduct business in Chile on the same basis as local companies, while they enjoy guaranteed access to foreign exchange for repatriation of capital and profits.	Abundant agricultural resources support exports whose total doubles that of imports, while only 15-20% of products sold in supermarkets are imported.

### **III. Market Sector Structure and Trends**

#### **Food Processing Sector**

The Chilean food industry is primarily based on the country's agricultural resources and remains, to a significant degree, dependent on agro-based exports. Indeed, the agricultural industry is one of the staples of the Chilean economy, generating around US\$ 4 billion in exports annually. It represents around 24% of the country's GDP and is the second most important exporting sector.

The fruit, wine, poultry, pork, beef and fish-farming industries each offer tremendous export potential as a result of global trade liberalization, particularly between Chile and Asia.

Furthermore, these sectors benefit from the government's efforts to diversify its export sector away from copper to high value-added agricultural exports – most notably salmon and wine.

Multinational food manufacturers have a long history of investing in Chile and firms such as Nestlé and PepsiCo have manufacturing plants in the country. Although domestic consumption of processed food is rising steadily, thanks to the country's strong economic growth, most food and drink firms investing in Chile also have one eye on how they can utilize the country's extensive natural resources and network of trade agreements to boost their sales in markets outside of Chile. The country has many advantages that encourage multinational firms to build production facilities in Chile. The country's southern hemisphere location means that it produces crops during the opposite seasons to the world's major consumer markets in the northern hemisphere, while its elongated shape and north-south orientation also mean that harvests can be staggered throughout the growing season. In addition, the country's relative geographical isolation – thanks to the Andes in the east, the Atacama Desert in the North, and Pacific to the West allows the country's food production areas to be free from most pests and diseases that plague other food producing countries.

These natural advantages are supplemented by the country's political and economic stability and its liberal trade agreements with many of the major consumer markets.

Chile is known today as the largest exporter of fresh fruit of the Southern Hemisphere. Chilean agriculture covers a wide range of activities such as the cultivation of annual crops, cattle ranching, dairy farming, vegetable production and organic farming.

Chile has a flourishing and competitive food industry that processes and exports food products and beverages as diverse as canned, dehydrated and frozen fruits and vegetables, wine, fruit juices, fruit pulps, olive oil, pork, lamb, poultry, beef, as well as a variety of dairy products. All of these products reach the most demanding markets globally.

A solid economic foundation, a reasonably high technology-based industry, and a sound environment, play a fundamental role in the development and growth of Chilean agriculture and the food industry.

The main Chilean processed food industries are those related to fresh fruits, dairy products, salmon, processed or canned seafood, meats, wine, crackers/cookies, candy, chocolates, canned peaches, jams, tomato sauces, pasta and juices.

Chile has a longstanding commitment to trade liberalization and has signed free trade agreements with the European Union, Mexico, Canada, South Korea, EFTA, Central America, Mercosur, Singapore, Japan, China, India, New Zealand, Colombia, Venezuela, Ecuador, Bolivia, Peru, the U.S., and is negotiating agreements with Malaysia and Thailand. The U.S.-Chile Free Trade Agreement took effect in 2004 prompted new interest in U.S. products and opened new opportunities for previously prohibited products, such as red meat, certain fresh fruits, and dairy products. This FTA reduces the previous 6% across-the-board tariff to 0% for 87% of non-agricultural products immediately, and for three quarters of agricultural products within four years, the rest over 12 years. U.S. and Chile Tariff Schedules for all Harmonized Tariff System customs codes can be found at [www.ustr.gov/new/fta/Chile/text/](http://www.ustr.gov/new/fta/Chile/text/), "Section 3. National Treatment and Market Access for Goods".

Trade is the engine of Chilean growth. According to the Global Competitiveness Report published by the World Economic Forum, Chile is ranked as the most competitive nation in Latin America in terms of growth prospects, and is also placed ahead in the rankings of 15 of the 27 countries in the European Union.

Consumer spending on food and beverages has risen significantly since 2003 to reach US\$ 24.3 billion in 2008. This growth in consumer spending has mainly been propelled by improving living standards as a result of falling unemployment and increased purchasing power. This makes the purchase of processed food products an option for a growing proportion of the population, and offers food and drink manufacturers opportunities to launch new, innovative value-added products.

With personal income being higher than the regional standards, the consumption patterns in Chile have undergone tremendous transformations over the past decade. For instance, people are shifting from locally produced staples to more expensive branded products, and are integrating processed packaged foods in their diet chart.

Despite solid growth in consumer spending on food and beverages over the last few years, the rate of growth has recently declined due to the impact of the global economic downturn. However, the long-term prospects are bright as consumer spending will increase with stabilization in the country's economy.

The processed (packaged) food sector's annual growth is represented by the sector's exports, which grew from US\$ 717 million in 2004 to more than US\$ 1.5 billion in 2008. According to ChileAlimentos ([www.chilealimentos.com](http://www.chilealimentos.com)), the main association of food companies in Chile, the processed food sector is one of the main reasons that explains the growth in Chilean exports in the last decades, mainly due to the production increase of fruits and vegetables in their different formats (canned, dehydrated, frozen and juices), apart from the increase in exports of chocolates, cookies, candies, refreshments and other products of the kind. Each one of these products has its origin in more than 200 industrial plants distributed along the country.

Certain sub sectors continue to see strong growth as more people join the work force and eat out-of-home, as domestic help salaries rise and their availability drops. Especially promising products are convenience and fast foods, out-of-home foods (snacks, etc., which are surprisingly consumed more by lower-income households and young consumers than others), and health and light foods.

Manufacturers in mature sectors such as pasta, oils and fats, have launched value-added products in order to develop high value niches of market.

The "gourmet food" sector includes spices and sauces; cheese and dairy products; red meat, poultry and seafood products; prepared foods and soups; pastas, grains and legumes; bakery; crackers and snacks; desserts, confectionery and drinks. The sub sectors with the largest market share are spices, tea, cheese, coffee and snacks. Leading hypermarkets chains compete for the best international gourmet section at the stores, with dedicated sections at the shelf and activities (PR and marketing included) destined to attract high-end niches of consumers to their stores.

Consumption trends influencing the type and quality of inputs being used include easy-to-prepare food as more people join the workforce and spend less time at home, as out-of-home meals become more frequent, as young people continue adopting new fast foods and snack foods and as diet and light foods and beverages continue capturing market share. Chilean consumers have increasingly felt pressed for time to cook. Convenience is the main trend in packaged food. More women are working, so they have less time to spend on meal preparation, and schools are extending the school day.

Consumers declare that the most valued benefit from specific items is health, quality, convenience and security. Functional foods are part of the usual shopping list of Chileans; especially among women and the medium and upper classes. Chileans give important credit to brands (in 80% of the cases, it determines the purchase selection due to its quality warranty) and also choose supermarkets because they offer more items that are practical, have larger formats and offer healthier products. Traditional name brands have an advantage; hence they have extended their product line to this group. In the last four years, in dairy products, there have been 15 new functional products or with added value.

The small organic food market has been steadily growing over the past eight years. The market, which was worth only US\$ 200,000 in 2003, today represents US\$ 7.4 million in sales and is expected to grow to US\$ 53 million by 2013. The high price of organic goods is the main obstacle preventing some from consuming these alternative food products. Organic production in Chile is so far an export driven activity including fruits, vegetables and wines for most part.

Other advantages for U.S. food ingredients in Chile are:

- certain companies have corporate requirements to purchase U.S. inputs, for example Nestlé for products re-exported to the U.S.;
- shipping from the U.S. is cheaper and quicker than from Europe;
- the rapidly dropping U.S. Dollar exchange rate (against the Chilean Peso), 13% in nine months in 2009, will make U.S. inputs more competitive;
- U.S. food inputs are known for their consistent high quality;
- the public perceives these products to have met the highest sanitary standards;
- the U.S.-Chile Free Trade Agreement, which went into force on January 1, 2004, is making U.S. products more competitive, or at least places them on an even playing field;
- the U.S. is a strong, traditional trading partner and its products are welcome; and
- rising consumer spending and adoption of foreign food types favor new types of inputs.

The following foreign food ingredient imports are in the highest demand: powdered milk, whey, specialty cheeses, durum wheat, corn starch, wheat gluten, animal fat, fish and olive oils, vegetable fats and oils, glucose, other sugars, cocoa powder, essences, protein concentrates and emulsifier agents, pork, turkey and chicken.

### **Hotel, Restaurant and Tourist Industry**

Although no official government or industry sales figures exist for any for the HRI sectors, the Institutional market is the largest of the three in terms of food sales, followed closely by the restaurant sub-sector and fairly distantly by the hotel sub-sector.

Around 30 percent of this is food and beverage costs, and 10 to 20 percent of this food and beverage cost component, i.e. \$15 million to \$30 million, is estimated to be imported foods. The average food/beverage ratio of restaurant sales in Chile is 60 percent food to 40 percent beverages.

Total restaurant sales are fairly flat as shrinking sales and margins, especially for lower-echelon restaurants, compensate for the growth in the number of restaurants.

The institutional food service market reported sales of US\$900 million for 2007, and the top three companies (Sodexo Chile S.A., Central del Restaurantes, Compass Catering S.A.) control 64 percent of the market. Mines and educational institutions dominate demand for institutional food



services. The three giants currently source mainly domestically or from Brazil and Argentina. However with export pricing on institutional unit sizes, the following products offer good opportunities: tuna, rice, oil, canned vegetables, deli meats, cheese and other dairy products, low carbohydrate products and pre-mix sauces. With export pricing designed to offer discounts on the unit sizes intended for institutional use, these companies would be interested in U.S. products.

The three leading companies are: Compass Catering S.A. has the contract for the military, schools, and state programs, including some hospitals and jails. Therefore they are particularly interested in products that can meet the special price and nutritional requirements of their customers. They do not direct import, but work through a variety of brokers and importers. They serve approximately 260,000 meals a day and have a market share of approximately 20%.

Sodexo Chile, S.A. has operations in 66 countries with a regional director in Brazil. Consequently they have traditional ties to suppliers in Brazil, as well as Argentina. Price competitiveness is essential or targeting niche products not normally sourced from these two countries. Most imports are brought in through brokers. They service a wide range of private industries such as: mining, petroleum, construction, fisheries, forestry, textile, steel, auto, chemical, pharmaceutical, service companies, banks and supermarkets, hospitals, schools and government programs. They have a market share of approximately 21%.

Central de Restaurantes uses a large quantity of imports, particularly high value food items. However, they do not bring these products in directly, they use brokers and importers. Currently, most of the products they carry are from Latin American suppliers. They service mines, banks, airlines, tv channels/the press, private colleges, and hospitals and clinics. They do more than 200,000 meals a day and have a 30 percent market share.

Institutional food service is a good market for basic staples as opposed to the specialty foods demanded by the hotel and restaurant sub-sectors. The main imported foods in its purchasing program are legumes, beef, pork and rice.

The leading local products sold to the Hotel, Restaurant, Institute (HRI) sector are produce, poultry and pork, seafood/fish, fruits and wine. Imported food accounts for about 10 percent of the demand. Imported products are mainly beef from Argentina, Brazil and Uruguay, legumes and cereals such as corn and wheat from Argentina and Canada. Chileans still value freshness as much as possible, but do consume large amounts of frozen food, mostly from domestic suppliers.

For Jan-October 2008, the following U.S. processed food products showed promising growth in exports to Chile: poultry meat (550%), wine and beer (383%), processed fruits and vegetables (260%), nursery products and cut flowers (240%), fresh fruits (140%), dairy products (109%), breakfast cereals and pancake mix (72%), snack foods (55%), eggs and products (55%), red meats fresh/chilled/frozen (47%) and tree nuts (40%).

## Travel and tourism

Growth in international tourist arrivals is likely to remain strong over the forecast period as world economic growth picks up and the Argentinian peso recovers. Chile will continue to focus on attracting long-haul tourists, and this effort will receive more resources as the government seeks to honor its pledge to double tourism's share of GDP to 10% by 2010.

Chile's natural beauty and its good infrastructure is attracting a growing number of international conventions. The country is already the second-largest organizer of such events in South America, after Brazil, but its world share is still small.

Business travel will also expand as a result of Santiago's growing importance as a South American business centre. Over 40 multinational companies have established their regional headquarters in Chile since the country launched its investment platform program in 2003. This program includes mechanisms to avoid double taxation. With international flight occupancy rates recovering to around 70%, the airlines serving Chile will continue to increase frequencies and destinations. Lan in particular is planning to expand its operations in Asia to reflect increasing commercial links between Chile and China, Japan and South Korea.

Foreign tourist arrivals reached 2.7 millions in 2008. Dollar revenue from international tourism rose even more rapidly, owing to the appreciation of the Chilean peso and a rise in arrivals of higher-spending long-haul tourists in the period. The overall rise in earnings and arrivals reflects the increasing importance of long-haul tourism, which has been aggressively promoted in recent years in order to offset low tourism demand from within the region. The number of visitors from Europe and North America rose to 10% in 2008. Visitors from all over the world rose 15% in the same period.

Chilean tourist attractions as the Antarctica have become the favorite destiny of international cruise lines. The arrival of cruise lines have increased during the past years and the tourist authorities hope that Chilean destinations become one of the most important of the South Pacific. Only in six years the number of passengers has increased 500%.

In Chile, the most frequented destinations are Patagonia, the Lake Region, Atacama, Valparaiso, Easter Island and Santiago. Considerable growth is expected considering that only 16% of Americans have traveled on these cruise ships and the polls show that in the next three years 27 million Americans will use them. Great opportunities exist to supply this growth sector with premium products. The high percentage of U.S. travelers bodes well for brands and product formulations familiar to U.S. consumers.

## **Retail Sector**

Chile has a modern, highly competitive supermarket sector. The number of retail food stores grows approximately one percent per year. The market for consumer-ready food products and imports is concentrated in Santiago, where higher incomes and the city's population density command almost half of the country's consumer demand. Supermarkets, i.e., stores with 3 or more checkouts, serve about 60% of the grocery market and number about 799. Traditional neighborhood mini-markets, beverage stores, vegetable stands, etc. serve about 20% of the market and number about 90,000. Convenience stores, gas marts and kiosks sell limited quantities of imported candy and snack foods. In general, they do not import, but purchase from local wholesalers/distributors.

There are important differences between the products carried by both hypermarkets and supermarkets in the low versus mid to high socio-economic segments. The stores located in low-income areas normally carry a limited number of specialty items (usually higher-priced imported goods), apart from the items destined for massive consumption. Hypermarkets and supermarkets in the mid to high-income areas carry a varied assortment of specialty items with a relatively high degree of imported products. A rise in consumer sophistication in the mid to high socio-economic areas, in terms of products, brands and price, has resulted in increased demand for imported food products. These stores now account for 26% of total sales, offering customers fresh bakery goods, delicatessen items, fresh seafood, coffee bars, prepared salads, pizzas and meat dishes, in addition to fresh, frozen and dry grocery products. Warehouse outlets and wholesale clubs have not yet made an appearance.

Nevertheless, despite the increasing selection of products and advances made in the super and hypermarket sector as a whole, compared to the US, the selection of imported specialty products is still limited. About 10-15% of products sold in supermarkets are imported, but this segment has grown by 85% over the last six years. The U.S. - Chile FTA has prompted new interest in U.S. products and opened new opportunities for previously prohibited products, such as red meat, poultry, certain fresh fruits, and dairy products.

#### Market Summary:

- The retail food market (supermarkets, department stores and others) accounted for 22% percent of Chile's GDP in 2008 with sales of U.S. \$38 billion, with 38% of this, or US\$14.6 billion, comprised of retail food, according to AC Nielsen.
- During 2008, retail sales remained stable representing 22% of Chile's GDP. In total, retail sales reached US\$ 38 billion, with 38% of this, or US\$14.6 billion, comprised of retail food.
- Due to free trade agreements and other commercial treaties, Chile has beneficial trade agreements with 60.2% of the World's population and with countries representing 86% of global GDP.

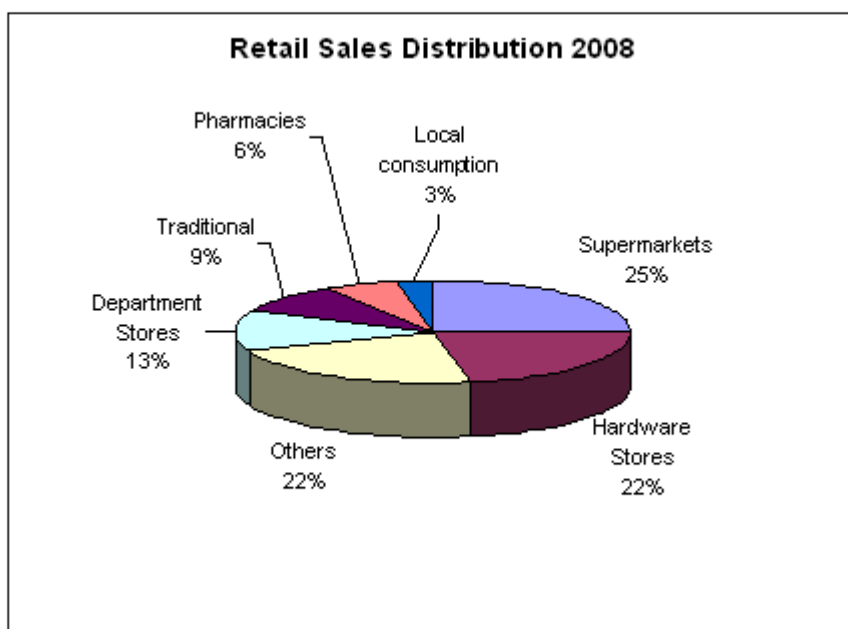
- In 2009, Chilean GDP is expected to contract by 1%. However, growth is expected to resume in 2010 and the outlook for the retail sector during the period 2008-2013 is positive. Higher consumer spending power, well developed physical infrastructure and a business-friendly regulatory environment are key factors behind the forecast growth in Chilean retail sales.
- Average annual GDP growth of 2.4% is now predicted by Business Monitor between 2008 and 2013. With the population increasing from 16.9 million in 2008 to an estimated 17.9 million by 2013, GDP per capita is forecast to rise 41.3% by the end of the forecast period, reaching US\$14,157. Consumer spending per capita is set for an increase from US\$ 7,821 in 2008 to US\$ 10,702 by 2013.
- Just over a third of Chileans surveyed in 2008 stated they would cut down on groceries in order to adapt to the global economic crisis, whilst 51% of people surveyed stated that they would switch to cheaper food brands.
- Chileans are considered to have a “Mediterranean diet”, with staple foods such as bread, rice, pasta, pork, chicken, legumes, fruit and vegetables, seafood and dairy products. According to the website, [www.fitnessspotlight.com](http://www.fitnessspotlight.com), the Chilean diet is about 68% carbohydrates, most of which is consumed in grain form representing 41% of total caloric intake. Animal foods contribute only 19% of the daily calories, one third of that being dairy products. Therefore up to 20% of the diet could be fat, assuming that possibly half of those animal foods are composed of fat while the rest is protein. In the last 40 years, grain intake has nearly doubled, which has obvious health implications compared to a whole foods-based diet.
- Chile is the 17<sup>th</sup> ranked exporter of foods in the world, and recently President Michelle Bachelet reaffirmed the country’s ambition to enter the top 10. In the last eight years Chile has increased its agricultural exports by 149%. Chile’s unique and diverse climatic conditions allow the country to produce a wide variety of agricultural products with a high level of food purity, and Chile has become a very important player in certain agricultural sectors:
  - • Chile ranks as the no.1 southern hemisphere exporter of apples, peaches, nectarines, blueberries, raisins, nuts, prunes, and almonds.
  - • Chile is the 1<sup>st</sup> world exporter of plums.
  - • Chile is the 2<sup>nd</sup> world exporter of kiwis and salmon.
  - • Chile is the 5<sup>th</sup> world exporter of wine.
- Arguably, Chile’s greatest economic challenge of recent years – one that it has met for the most part except in 2008 -- has been to maintain inflation under control. The food sector has been one of the industries most affected in this area. The main reasons for inflation in the food sector in 2008 were petroleum, natural gas and electricity prices, growing demand

for bio-fuel and the components to produce it, and increased demand in Asia for agricultural products which has raised the cost of agricultural inputs to produce food.

- Favorable credit conditions and the easy access to store credit cards have contributed to an improved retail demand in recent years. However, 2008 inflation and government policies to curb it plus a tightening of credit resulted in a contraction in consumption.
- A comparatively weak dollar compared to the Chilean peso should maintain import demand.
- Santiago, the capital city, is home to 40 percent of the population and the great majority of the retail food sector companies that purchase imported food products.
- Chileans spend on average around 20% of their household income on food, drinks and tobacco. In per capita terms, Chile is the second biggest consumer of bread in the world after Germany, the 3rd biggest consumer of tea (800 grs), and an important per capita consumer of pasta, rice, seafood, carbonated beverages and beer.
- Supermarkets are the leading retail channel for food products.
- 65% of the total retail sector sales were in food and clothing.

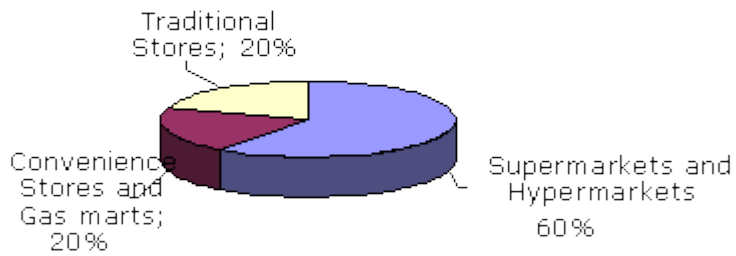
### **Retail Food Sales**

- The supermarket industry represents 25% of the total sales of the retail market.
- The retail food sector reached US\$ 18.8 billion in 2008.



Source: AC Nielsen 2008

Food Sales per sub-sector.



Source: Fitch ratings Retail Sector Report 2008

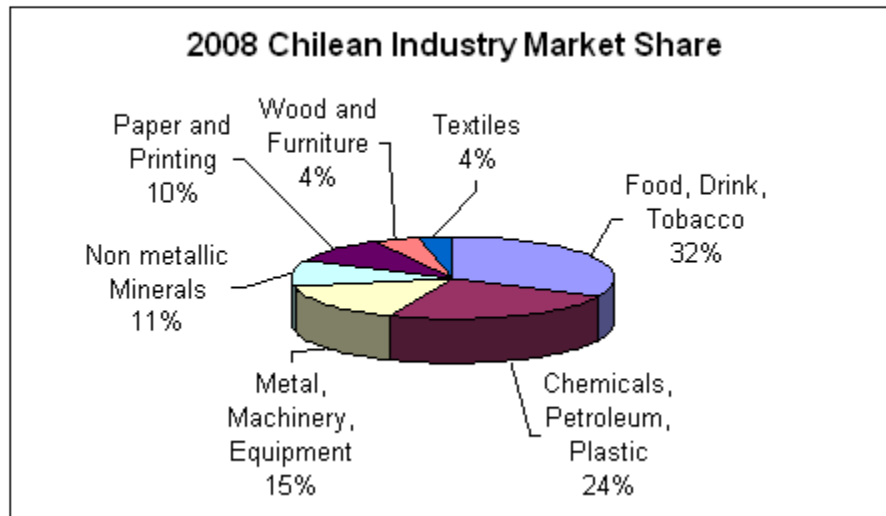
Annual Supermarket and Retail Sales

	2004	2005	2006	2007	2008
<b>Annual Sales Retail (US\$ billion)</b>	<b>22.9</b>	<b>27.1</b>	<b>33.9</b>	<b>34.0</b>	<b>38.0</b>
<b>Supermarkets Sales (US\$ billion)</b>	<b>5.7</b>	<b>6.8</b>	<b>8.1</b>	<b>8.3</b>	<b>9.5</b>
<b>Supermarkets: Number of sales points</b>	<b>682</b>	<b>696</b>	<b>731</b>	<b>780</b>	<b>812</b>

Source: INE (National Statistics Institute – [www.ine.cl](http://www.ine.cl))

**Imports and Local Production**

- In 2008 Chile exported US\$ 13 billion of agricultural produce, and the agricultural industry accounted for 17% of employment in the country.
- For the first quarter of 2009 Chile had imported US\$ 1.2 billion of food, drink and tobacco. This represents a 20% decrease compared to the same period of 2008.
- For the same period Chile exported US\$ 3.8 billion of food, drinks, and tobacco. This is a slight decrease of 0.9% compared to the same period in 2008.



Source: SOFOFA (Federation of Chilean Industry) and Central Bank.

Agricultural GDP Growth %

2005	2006	2007	2008	2009 est.
9.3	5.9	4	3	1-2

Source: National Statistics Institute (INE)

Chilean Agricultural and Meat Exports (US\$ billions)

2005	2006	2007	2008	2009 est.
8.1	9.3	10.5	12	13.5

Source: INDAP (Institute of Agricultural and Meat Development)

Chilean Agricultural and Meat Imports (US\$ billions)

2005	2006	2007	2008	2009 (until Sept)
1.1	1.9	3	3.8	2

Source: INDAP (Institute of Agricultural and Meat Development)

Chilean Agricultural and Meat Imports Originating from the US (US\$ millions)

2005	2006	2007	2008	2009 (until Sept)
147	271	453	495	138

Source: INDAP (Institute of Agricultural and Meat Development)

**Growth**

- According to research by the Catholic University of Chile, it is estimated that by 2015 Chile's food exports will reach US\$ 17 billion and imports US\$ 3 billion.
- Future growth is expected in the agriculture industry resulting from Chile's economic and political stability, and a series of President Michelle Bachelet's initiatives in this sector. The President's "New Policy for Family Farming", announced in August, 2006, includes a series of projects that will increase the overall level of agricultural production. Additionally, the President announced the formation of the "Chile: World-Class Food Producer by 2010" Advisory Council in October, 2006. One of the Advisory Council's goals is to make Chile into a world-class food exporter, something it has already achieved in several sectors. Both of these initiatives are promising for Chilean food producers.
- Chile recognizes its potential to become a major producer of functional foods and the ability to develop other sectors, and has carried out a study called "Constructing a technological platform for emerging themes in the food industry". The report, released in October 2009, provides advice about the challenges that Chile faces to set up a center of excellence for the food industry in concert with the University of Wageningen, Holland.

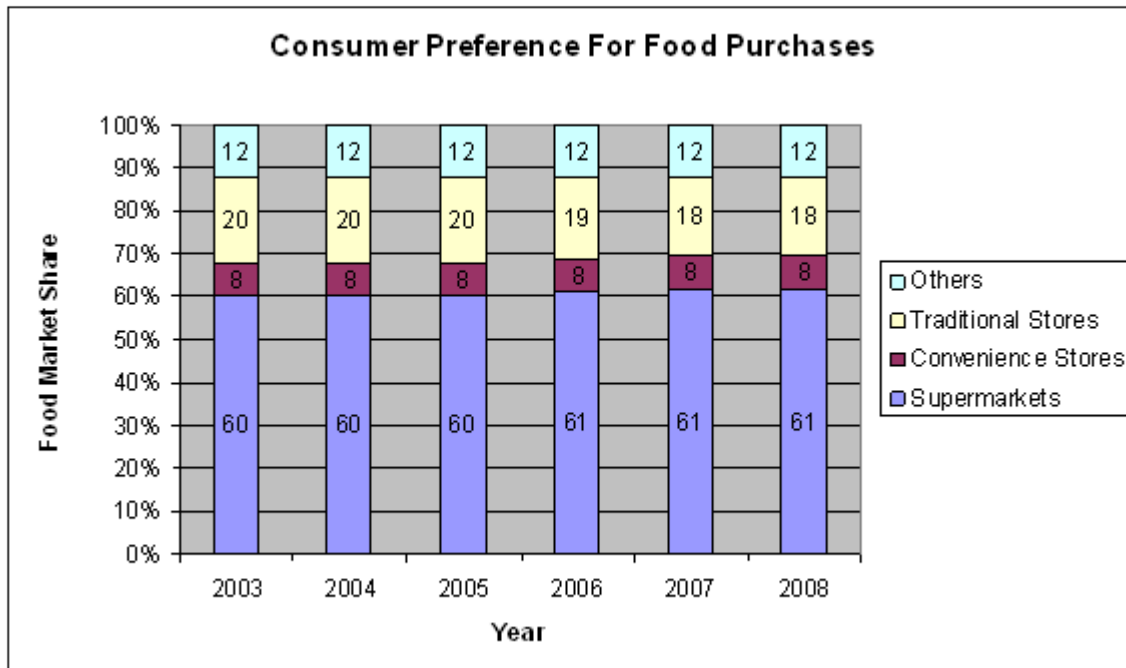
The report highlights the need for investigation to determine which parts of the country produce the most nutritious crops. Investigation will also be carried out into new packaging. Arguably, the most important declaration of the report regards investment in technology especially in food separation, nanotechnology, water control, and conservation.

The technological needs and knowledge requirements of Chile in this sector represent a significant opportunity for US firms to enter the market.

- Another area where Chile has identified the need for investment is in the area of radio frequency identification technology (RFID) in order to meet the international requirements of traceability and food safety. Again, US companies that work with this technology or provide other IT and communication solutions for the agricultural industry could find promising opportunities in the Chilean market.



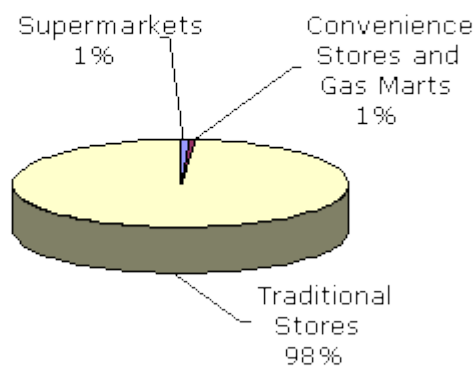
Consumer's Preferred Stores for Purchasing Food



Source: AC Nielsen 2008

**Main Sub Sectors**

Percentage of Number of Stores by Channel.



Source: AC Nielsen 2008

**IV. Best High-Value Product Prospects**

**Category A: Products Present in the Market That Have Good Sales Potential**

#### Categories with the biggest growth (2004-2008)

- Rum
- Vodka
- Cereal
- Alfajor (two biscuits join with chocolates)
- Cat and Dog Food
- Sweeteners
- Mashed Potato Mix
- Snacks
- Water
- Whisky
- Fruit Juice
- Sponge Cake
- Health food and Energy supplements
- Cookies
- Tuna
- Candy
- Baking food and Mixes
- 

Source: AC Nielsen Homescan, of 87 products

Other advantages for U.S. food ingredients in Chile are:

- rising consumer spending and adoption of foreign food types favor new types of inputs as consumers become more sophisticated and demanding in their tastes;
- Chile has the highest GDP per capita in South America;
- U.S. food inputs are known for their quality;
- the U.S. is a strong, traditional trading partner and its products are welcome;
- the U.S.-Chile Free Trade Agreement, which went into force on January 1, 2004, is making U.S. products more competitive, or at least allows them to compete on a more even playing field;
- the relatively weak dollar compared to the Chilean peso will make imports from the U.S. more competitive;
- shipping from the U.S. is cheaper and quicker than from Europe;
- annual GDP growth has increased at a faster rate than population growth (6 percent versus 1.2 percent over the past decade), reflecting the country's strong economy;
- population of 16.7 million is very centralized, with over 40 percent living within 100 miles of the Santiago Metropolitan Region;
- Chile has one of the highest percentage of non-traditional (i.e. non "mom & pop") store sales in Latin America, which allows suppliers to target large retail chains for larger volume sales;
- the Economist Intelligence Unit reports that foreign companies may conduct business in Chile

on the same basis as local companies, while they enjoy guaranteed access to foreign exchange for repatriation of capital and profits.

**Category B: Products Not Present in the Market Because They Face Significant Barriers**

Although Chile has a general policy of free-market prices, there are some exceptions. Major agricultural products such as wheat, sugar, and certain products containing sugar fall under a price band system which encourages local production. These price bands change with fluctuations in international market prices and are typically announced mid-year to help the local agricultural industry determine what to sow.

For more information about general labeling provisions, please visit the following websites:

- Chilean Secretary of Health Ministry: [www.asrm.cl/](http://www.asrm.cl/)
- Food law under [www.usdachile.cl](http://www.usdachile.cl)

**Category C: Products Not Present in Significant Quantities**

Products Not Present in Significant Quantities					
Product Category	Imports 2008 US\$	Estimated Import Growth for 2009	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Health Food Products	N/A	N/A	0% after full implementation of FTA*	Significant investment in marketing/promotion compared to size of market	Good opportunities in small but growing health food segment; U.S. products have potential because of perceived innovation
Spices, sauces and mayonnaise	\$2.6 million	N/A		Local production of mayonnaise (including the local manufacturing of foreign brands such as Hellmann’s and JB) is sufficient to meet demand. Spices and sauces are not very popular among Chilean consumers.	Opportunities to expand category reach; however, it would need a strong marketing strategy

Ethnic Foods	N/A	N/A		Small market size.	Growing interest in alternative foods because the product offering traditionally has been restricted
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**SECTION V. POST CONTACT AND FURTHER INFORMATION**

**American Embassy Santiago, Office of Agricultural Affairs**

Address: Office of Agricultural Affairs, Unit 4118, APO AA 34033-4118.  
 Tel.: (56-2) 330-3704  
 Fax: (56-2) 330-3203  
 E-mail: [agsantiago@fas.usda.gov](mailto:agsantiago@fas.usda.gov)

For further information, check the "USDA Office in Santiago" home page ([www.usdachile.cl](http://www.usdachile.cl))

**SEREMI de Salud (Chile's Food Sanitation Regulations)**

Address: Avenida Bulnes 194, Santiago  
 Tel: (56-2) 399-2435  
 Fax: N/A  
 Web Page: [www.seremisaludrm.cl](http://www.seremisaludrm.cl)  
 E-mail: N/A

**Chilean Supermarket Association (ASACH)**

Address: Av. Vitacura 2771, Las Condes, Santiago  
 Tel.: (56-2) 236-5150  
 Fax: (56-2) 236-5133  
 Web Page: [www.asach.com](http://www.asach.com)  
 E-Mail: [asach@entelchile.net](mailto:asach@entelchile.net)

**Technical Reports:**

Food and Agricultural Import Regulations and Standards (FAIRS) Report, dated 2005, is available on both the Office of Agricultural Affairs and the FAS websites.

Chile's Food Safety Regulations are available in Spanish (official) and English (unofficial translation) on the Office of Agricultural Affairs website.

Retail Food Sector report, dated November 2009, is available on both the Office of Agricultural Affairs and the FAS websites, the updated version will be posted in October 2009.

HRI Food Service Sector report, dated June 2008, is available on both the Office of Agricultural Affairs and the FAS website, the updated version will be posted in March 2010.

Food Processing Sector report, dated November 2009, is available on both the Office of Agricultural Affairs and the FAS website, the updated version will be posted in October 2009.

Pet Food Brief, dated June 2004, is available on both the Office of Agricultural Affairs and the FAS websites.

Cheese and Dairy Product Brief, dated January 2005, is available on both the Office of Agricultural Affairs and the FAS websites

**Table A. Key Trade and Demographic Information**

Agricultural Imports From All Countries (\$Mil)/U.S. Market Share (%)	2008	4,120/13
Consumer Food Imports From All Countries (\$Mil)/U.S. Market Share (%)	2008	1298/9
Edible Fishery Imports From All Countries (\$Mil)/U.S. Market Share(%)	2008	93/1
Total Population (Millions)/Annual Growth Rate (%)*	2008	16.8/1
Urban Population (Millions)/Annual Growth Rate (%)*	2008	14.5/1.5
Number of Major Metropolitan Areas 1/	2008	3
Size of the Middle and Upper Classes (Millions)/Growth Rate (%) 2/	2008	6.0/20
Per Capita Gross Domestic Product (U.S. Dollars)	2008	10,117
Unemployment Rate (%)	2008	8.5
Annual Food Expenditures Per Household in Santiago (U.S. Dollars)	2008	224
Average Exchange Rate (US\$1= pesos)	2008	522

1/Population in excess of 1,000,000

2/Family income more than US\$12,000

\* Estimated from 2002 Census

**Table B. Consumer Food & Edible Fishery Product Imports**

## Chile Imports

U.S. Dollars

Consumer-Oriented Agricultural Total	Imports from the world			Imports from the U.S.			U.S. Market share		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Snack Foods (Excl. Nuts)	6,1065,872	70,124,214	8,5426,858	2,884,089	3,659,745	7,733,397	4.7	5.2	9.1
Breakfast Cereals & Pancake Mix	9,232,903	9,355,107	12,392,740	3,660,789	3,776,198	5,194,704	39.6	40.4	41.9
Red Meats, fresh/Chilled /Frozen	312,822,235	365,210,252	444,178,263	1,344,049	4,731,277	6,135,824	0.4	1.3	1.4
Red meats, Prepared/Preserved	6,369,554	6,901,130	14,292,703	351,749	380,288	484,587	5.5	5.5	3.4
Poultry Meat	20,153,517	32,508,134	41,377,605	0	0	1,337,621	0.0	0.0	3.2
Dairy products (excl. Cheese)	54,919,139	43,285,024	58,709,675	5,737,350	1	0	10.4	30.9	38.3
Cheese	25,897,413	23,976,428	33,620,640	1,532,917	2,753,055	3,217,754	5.9	11.5	9.6
Eggs & Products	2,103,150	2,991,009	1,883,818	502,068	1,011,318	28,886	23.9	33.8	1.5
Fresh Fruit	43,482,142	46,176,980	56,354,398	393,931	1,196,633	1,952,042	0.9	2.6	3.5
Fresh Vegetables	6,301,953	7,643,828	7,316,889	592,757	2,233,260	1,405,542	9.4	29.2	19.2
Processed Fruits & Vegetables	63,137,472	84,871,429	128,487,049	5,137,425	8,326,957	20,988,953	8.1	9.8	16.3
fruit & Vegetable juices	13,056,303	21,604,810	20,412,719	5,846,487	10,389,913	9,863,956	44.8	48.1	48.3
Tree Nuts	16,906,793	13,805,864	15,227,847	13,134,082	5	7	77.7	74.4	68.8
Wine & Beer	15,556,835	18,600,616	25,202,361	38,642	244,393	2,882,358	0.2	1.3	11.4
Nursery Products & Cut Flowers	9,309,704	12,881,173	14,243,086	186,543	293,296	341,854	2.0	2.3	2.4
Pet Foods (Dog & Cat food)	42,443,425	55,642,894	64,090,678	3,124,244	3,104,002	4,310,054	7.4	5.6	6.7
Other Consumer-oriented Products	159,230,500	220,022,816	275,175,256	25,054,317	33,418,306	36,018,559	15.7	15.2	13.1
Fish & Sea Food Products									
Salmon	407,484	5,824	182,062	246,675	1,762	2,814	60.5	30.3	1.5
Surimi	392,823	242,150	2,378,766	253,355	145,981	106,133	64.5	60.3	4.5
Crustaceans	7,371,947	9,739,506	13,245,494	133,017	99,577	49,290	1.8	1.0	0.4
Groundfish & Flatfish	4,067,878	7,460,070	8,771,586	1,547	23,999	592,920	0.0	0.3	6.8
Molluscs	3,633,381	3,541,957	5,539,724	559	73,717	43,383	0.0	2.1	0.8
Other Fishery Products	40,592,316	4,547,9241	6,377,8645	151,442	87,216	144,454	0.4	0.2	0.2

**Table C. Top 15 Suppliers of Consumer Foods & Edible Fishery Products.**

Chile Import Statistics						
UDG: Consumer Oriented Agric. Total, Group 32 (2007)						
Annual Series: 2003 - 2008						
Partner Country	United States Dollars					
	2003	2004	2005	2006	2007	2008
World	574,723,33	629,010,21	818,049,95	861,988,91	1,035,601,70	1,298,392,58

	5	2	7	1	8	1
Argentina	151,752,513	154,787,288	310,804,422	302,918,171	402,855,742	396,532,475
Brazil	209,562,134	248,411,607	194,366,908	70,834,479	88,071,855	106,058,087
Paraguay	190,517	10,562,774	52,214,794	111,707,820	135,362,043	216,122,197
United States	26,359,932	35,942,734	45,077,528	62,302,020	85,854,922	121,765,519
Ecuador	32,334,688	37,833,918	44,092,614	52,680,568	57,875,356	66,762,575
Uruguay	42,265,256	21,639,125	31,511,682	101,697,504	40,594,424	46,977,776
Netherlands	10,352,580	10,670,166	14,234,669	13,711,014	19,899,189	20,532,762
Mexico	7,734,364	10,132,385	1,156,1849	13,188,122	20,224,852	31,782,892
Colombia	13,061,572	9,855,308	10,666,402	11,567,106	11,687,369	14,215,652
Peru	7,877,813	8,274,545	8,958,913	11,004,948	15,573,020	21,876,062
China	3,941,436	5,935,524	8,958,270	9,865,128	18,792,009	35,948,099
France	5,190,146	7,320,735	7,505,056	9,383,236	12,334,093	12,132,209
Canada	7,938,559	6,245,948	7,341,620	8,709,832	7,757,915	9,319,601
Belgium	6,288,289	5,760,157	6,683,256	7,855,013	11,214,004	15,469,997
Germany	5,666,140	5,588,039	6,042,510	7,310,471	12,264,841	14,060,418

Chile Import Statistics						
UDG: Fish & Seafood Products, Group 9 (2007)						
Annual Series: 2003 - 2008						
Partner Country	United States Dollars					
	2003	2004	2005	2006	2007	2008
World	2,8911,036	38,250,148	46,951,183	56,465,828	66,468,748	93,896,279
Ecuador	17,358,441	16,349,155	18,465,809	26,733,927	29,727,759	40,694,984
Thailand	3,407,238	3,619,743	4,634,195	6,733,564	8,129,466	12,395,045
Colombia	88,014	3,980,346	6,125,580	7,000,914	8,039,243	9,154,751
Argentina	983,665	2,267,603	2041871	3,359,141	3,969,846	5,213,754
Peru	504,513	1,597,622	2,354,423	3,096,399	3,629,225	5,041,035
Spain	1,252,955	3,015,757	2,473,199	2,685,771	2,865,310	3,975,715

Uruguay	2,527,311	2,212,570	4,218,913	1,820,808	2,518,882	3,006,942
Brazil	181,290	843,677	1,818,759	1,001,137	1,598,107	2,809,285
China	190,734	94,685	103,640	309,764	923,096	2,283,220
Guatemala	0	0	0	0	0	2,157,070
Korea South	197,716	896,986	886,977	1,044,128	1,017,289	1,388,380
United States	234,204	213,476	272,068	544,837	316,990	843,420
Vietnam	341,761	36,719	152,020	216,900	500,496	824,730
Singapore	0	7,414	0	0	280,891	436,050
Ireland	57,226	103	95	11,111	1,112	398,510