

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 10/28/2013

GAIN Report Number: CI1319

Chile

Food Service - Hotel Restaurant Institutional

Chile's HRI Food Service Sector

Approved By:

Rachel Bickford,
Agricultural Attaché

Prepared By:

Maria Jose Herrera,
Marketing Specialist

Report Highlights:

Opportunities vary depending on the subsector within the HRI sector. Increasing economic prosperity and changing consumption patterns offer new opportunities for U.S. products but competition from local producers and neighboring countries will remain fierce.

Post:

Santiago

Section I. Market Summary

- The overall scenario appears highly favorable for the Chilean HRI Food Service sector. Chileans' busier lifestyles, more working women, a growing middle class and higher disposable incomes were the main reasons for increased sales.
- Over the past five years the economic conditions of middle- and lower-income segments have been improving while poverty in Chile has been diminishing, so a growing number of Chileans can now pay for a wide range of services which had been out of their reach before, or were used only sporadically. This trend has been pushing the expansion of chain restaurants to mid-sized cities and to middle- and lower-income neighborhoods.
- Improvements in purchasing power in the middle class have encouraged the development of shopping centers, malls and strip centers nationwide, generating space for food services expansion in high-traffic locations. Chain-food services investors have made shopping centers, malls and strip centers a key part of their growth strategy.
- The leading food retailers, Cencosud (Jumbo and Santa Isabel supermarkets) and Walmart (Lider supermarkets), invested in introducing self-service cafeterias, coffee shops and increasing their offering of take-away dishes. Self-service cafeterias generally provide a full range of home-style meals at highly affordable prices. These outlets cater for workers in areas where there are few affordable foodservice options. Unimarc, a smaller chain, has a gourmet ready-to-eat line that the other supermarkets are copying.
- Chile enjoys a healthy tourism industry. According to Sernatur (National Tourism Service), the national tourism industry counted 3.5 million tourists visiting Chile during 2012 and it is expected to reach 4.0 million in 2014.
- According to Sernatur during 2012 Chile received over US\$ 2.5 billion generated by tourism.
- According to OECD (Organization for Economic Co-operation and Development) 22% of the Chilean population in 2012 was obese. As a result, Chileans are increasingly concerned about the impact of dietary habits on their health, and are in search of food alternatives which can help them feel better and avoid obesity. Slowly, processed food services units have incorporated more dishes based on vegetables, fruit and white meat into their menus. The trend has not only impacted menu design, but has also fuelled the demand for healthier food.
- On January 31, 2008, Chile's Livestock and Agricultural Service (SAG) approved the entry of U.S. poultry and turkey into the Chilean market. U.S. poultry benefits from a zero-duty tariff rate.
- Competitive pricing is very important in the Chilean food market.

Advantages	Challenges
The domestic farm sector produces a wide variety of crops, but Chile is still a net importer of most bulk and intermediate commodities.	Domestic production and European imports present the greatest challenge to U.S. processed foods.
The depreciation of the U.S. dollar against the Chilean peso makes U.S. products cheaper for Chilean consumers.	Imports from Asia and other South American countries usually have lower prices, making them very attractive to Chileans.
Chile's healthy export-oriented economy is helping to fuel the country's growth rate, and its expanding per-capita income should continue to increase local demand for food and beverages.	Less than two percent of beverages in Chile are imported.
Eighty percent of Chilean companies provide their employees with in-house food services or vouchers to eat at local restaurants.	Most Chileans prefer fresh foods, which they perceive as higher quality.
The majority of importers have their main office in Santiago or the surrounding Metropolitan Region, and many act as local distributors for foreign products. A good local distributor will have an aggressive sales force with national coverage.	Shipping expenses and delivery times and minimum-order quantities (especially by boat) can be onerous. Imports from neighboring countries have an advantage here.
Partially processed foods (frozen, etc.) save time and compensate for lack of kitchen staff abilities.	U.S. products do not enjoy as much of a gourmet image as European products do. The image should be strengthened.
Maintenance of cold chain, warehouses and on-time delivery are appreciated.	Sometimes, U.S. products are perceived to be too unnatural (long lists of ingredients and additives, cholesterol and sugar contents, etc.).
The value-added of U.S. products may compensate for the higher price, especially for large volume products.	Portions are not always according to local usage, both at home and in HRI establishments.
Imported products compensate for seasonal drops in local production and ensuing price hikes.	Finding a good, reliable distributor is not easy. To gain an advantage, ensure that the distributor complies with your quality, customer service and delivery standards.
The Chilean Government forecast for 2013 GDP growth is 4.6%. This is not as high as originally expected, but stable around the 5% level set over the last five years.	Chile has Free Trade Agreements with the NAFTA countries, Mercosur, the European Union, many Latin American countries, South Korea and China; as such, U.S. products face stiff price competition.

Section II. Road Map for Market Entry

A. Entry Strategy

- Establishing local or regional operations or joint ventures can be a reasonable way to become a player in South American markets like Chile. Lower-cost supply of competing products from neighboring markets represent a threat, as cost is a fundamental factor, and an inability to compete on a price basis may be compensated by the possibility to establish production facilities in Chile or in neighboring countries.
- Chileans are generally conservative and traditional, tending to frequent their favorite restaurants and order their favorite dishes. They place importance on local taste, and thus **restaurants** will typically offer fresh vegetables, seafood, meat, and poultry which were purchased locally.

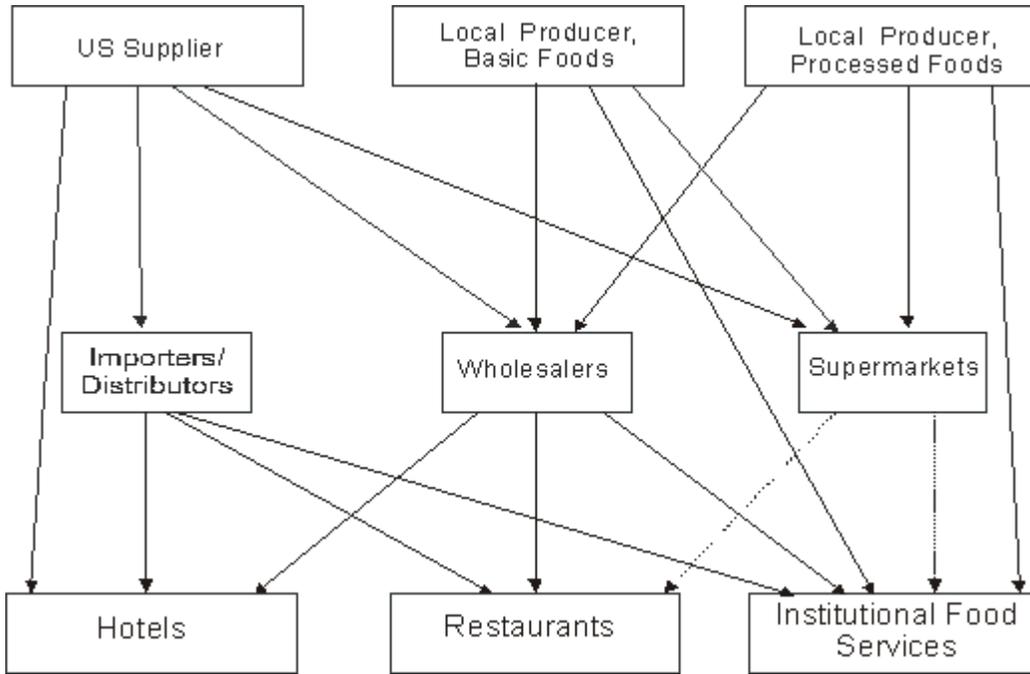
- Opportunities exist for U.S. companies interested in supplying specialized categories such as gourmet or ethnic foods or “functional food” such as probiotic yogurt.
- The main opportunities lie with products that guarantee a level of quality control, product uniformity, and reliability not always available in local products. Part of this is the development of improved distribution service quality levels.
- Chileans are becoming more familiar with foreign products, and promotion of U.S. products is the key for successful market entry and development.
- There is a perceived prestige for European products, thus Chilean buyers must be courted with an image of U.S. products that compares favorably with their European competitors that already have higher visibility. Suppliers should highlight the traditional strengths for which the U.S. is recognized, emphasizing quality control, uniformity, reliability, and innovation.
- Organic and natural products serve as a particularly attractive import from the U.S., given that the market is growing as Chileans become more health-conscious.

B. Market Structure

- The HRI sector typically does not import products directly, but contracts with local distributors; almost all foreign companies wishing to sell food products in Chile must take this route. However, international hotels and restaurants may have their own distribution networks arranged by company headquarters.
- There are a number of large food distributors in Chile which deliver products to clients in the HRI sector, as well as supermarkets and other food outlets. Distributors will usually ask the end client to pay for transportation costs outside of Santiago or will already have these additional costs worked into their prices for distribution outside of the Metropolitan Region.
- All HRI sub-sectors procure most of their dry goods from large distributors that also supply supermarkets and other stores. Specialty products are often purchased at supermarkets, and fresh products are obtained under delivery contracts with specialized suppliers for each of these, such as beef, fish, produce and fruit (from distributors), and dairy and poultry (usually from the producers).
- The institutional market buys more products directly from local producers or imports because the companies have their own purchasing center and storage facilities.
- Restaurants depend on large distributors or specialty importers/resellers and make purchases with greater frequency and in smaller quantities to keep an adequate though limited stock.
- The HRI purchasing patterns are heavily price-dependent. This motivates a broad diversification of suppliers for any one food service institution.
- Restaurants use the widest range of food product sources, depending on their product quality, price and delivery requirements. They complement wholesaler and producer sources with spot purchases in supermarkets to replenish supplies in limited quantities given their limited

warehousing capabilities.

Distribution Channel Diagram



Distributors

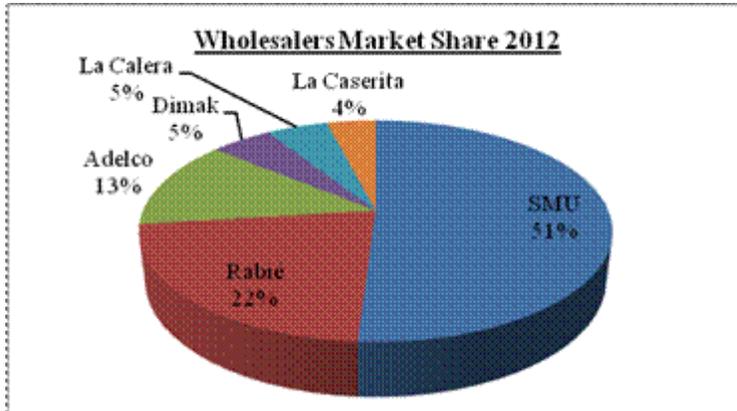
Supermarkets



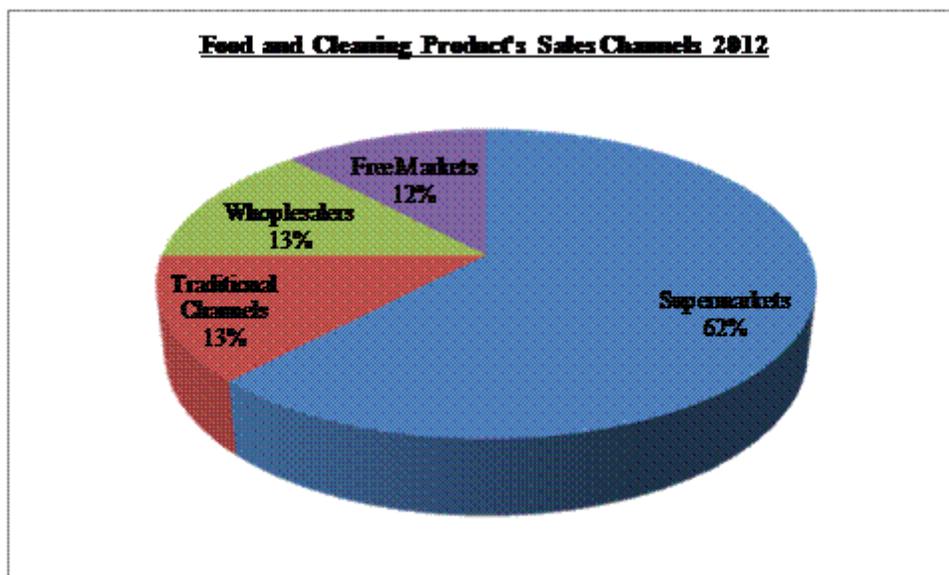
Source: SMU Annual Report 2012.

Note: O= Others

Wholesalers



Traditional Channels:	Others:
Grocery stores	Exports
Minimarkets	Industrial Sales
Kiosks	Casinos
Gas Stations	Pharmacies
Retail	Malls



Source: America Economía Magazine 2012

- In December 2012 the supermarket industry in Chile was composed of approximately 1,319 stores across the country, including hypermarkets and supermarkets. The National Statistics Institute (INE) estimates the size of the industry at US\$ 15.1 billion as of December 2012.
- Wholesale chains, meanwhile, concentrated just over 12% of retail sales, and are estimated at about US\$ 2 billion. The SMU group is the leader of this business, with 51% of the market share.
- Meanwhile, in the HRI channel, the institutional subsector is the most important, followed

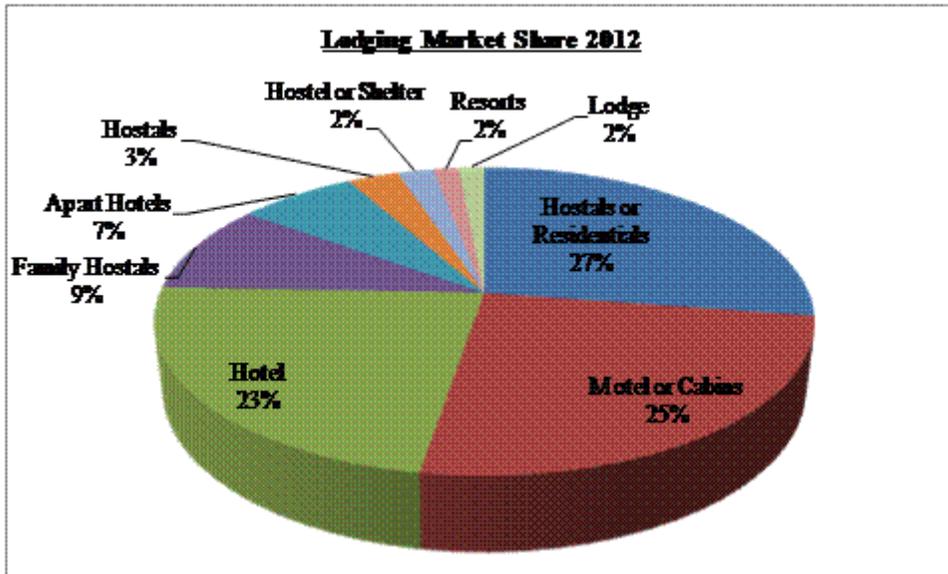
closely by restaurants and, finally, is the hotel industry. It is estimated that about 15% of the products used in these channels are imported.

- The tourism sector is in full development in the country, so it will grow, predictably, gaining importance and can become a business opportunity for companies interested in exporting their products to Chile.

C. Sub-Sector Profiles

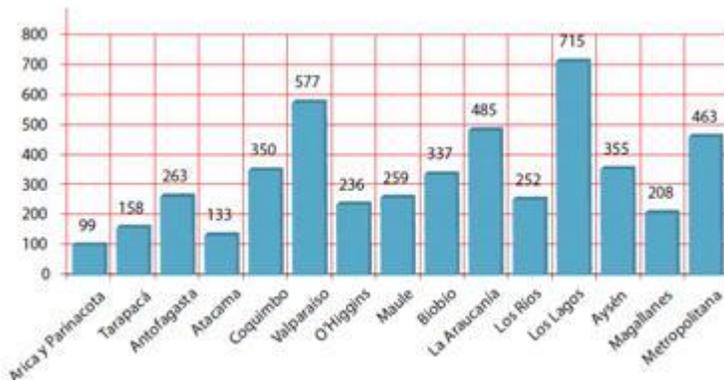
1. Hotels and Resorts

Food and beverage sales are made through on-site bars, restaurants, and room service.



Source: Sernatur, Tourism Yearbook 2012

Number of Places to Sleep per Region 2012



Source: Sernatur, Tourism Yearbook 2012

Hotels import directly only the amenities and special food products required by their hotel headquarters. Other food products are bought locally through the following purchasing agents:

<i>Type of food</i>	<i>Purchasing Agent</i>
Dry goods	Distributors
Fresh fruits and vegetables	Fresh markets, wholesalers
Red meat	Meat processing plants
Poultry	Producers
Dairy products	Producers
Seafood	Fresh markets, wholesalers
Specialty foods (including imported processed foods)	Individual importers/distributors

- Organic and natural foods are beginning to increase in popularity in hotels and higher-end lodges. They either cultivate themselves or buy from local producers.
- The Superintendence of Casinos (SCJ) said that during 2012 the 17 operating casinos generated gross gaming revenue of US\$ 594.8 million and received 6,964,522 visitors, which spent an average of US\$ 41,517 each. In addition, this industry generated US\$ 98.7 million in specific gaming taxes, US\$ 39.7 million in income tax and US\$ 95.0 million in gaming VAT, totaling US\$ 233.4 million in tax collections.
- On average, less than five percent of hotels' gastronomic budgets go toward imports.
- Quality is very important in this sector, as many hotel restaurants only provide the "best" food to their guests. Given their patrons' refined tastes, typical imports include caviar, special spices from Asia, top-quality meat (mainly from Argentina), and other ethnical or specialized products.
- Chileans used to perceive hotel restaurants as too expensive and fairly ordinary. However, this has changed with the sector's increased investment in state-of-the-art technology with professional staff, and chefs who have traveled around the world learning different trends and styles, making this cuisine more sophisticated, exclusive and of better quality.
- Hotels are also launching offers for happy hours to attract more customers to their bars and restaurants.

Best Hotel Restaurants

Restaurant Name	Hotel Name	Location	Type of food	Purchasing Agents
Arola	Hotel Ritz-Carlton	Santiago	Mediterranean	Third-party distributor
El Cid	Hotel Sheraton	Santiago	International food with French influence	
Cumbres del Lago	Hotel Cumbres	Puerto Varas	International	
Balandra	Gran Hotel Colonos del Sur	Puerto Varas	International with southern Chilean traditions	
Bristol	Hotel Plaza San	Santiago	International food based on	

	Francisco		Chilean food	
Anakena	Hotel Grand Hyatt	Santiago	International and Thailand food	
Latin Grill	Hotel Santiago Marriott	Santiago	Meats	

Source: "Premiación anual del círculo de cronistas gastronómicos 2012" and Press Information

2. Restaurants

According to Sernatur, during 2012 there were 3,789 food service establishments related to the tourism sector in Chile, including restaurants, pizza places, coffee shops, fast-food establishments, tea salons, etc.

Number of Restaurants and Food Services per Region 2012

Arica y Parinacota	103
Tarapacá	74
Antofagasta	213
Atacama	120
Coquimbo	244
Valparaíso	855
O'Higgins	162
Maule	210
Biobío	347
La Araucanía	164
Los Ríos	131
Los Lagos	390
Aysén	90
Magallanes	93
Metropolitana	593

Source: Sernatur, Tourism Yearbook 2012

- While 2012 began with a complex scenario for restaurants in Chile given the new "Zero Tolerance law" related to drinking alcohol and driving, which hit sales and margins-the sector was able to reverse this scenario and close the year 2012 with growth of over 15%. However, Chile remains sixth place in Latin America in money spent on eating out, with a per capita spending of US\$ 144 per year, according to Euromonitor International. The first place, meanwhile, is occupied by the U.S. with US\$ 1,372, followed by Brazil with US\$ 534, and third place is Argentina with US\$ 415.
- The current market size of food services in Chile is US\$ 2.445 billion. Thus, the country also ranks sixth in the Americas. The U.S. leads the ranking with US\$ 421.8 billion, followed by Brazil (US\$ 102.2 billion), and third is Mexico with US\$ 37.0 billion.
- The economic conditions of middle- and lower-income segments improved, and a growing number of Chileans can now pay for a wide range of services which had been out of their reach, or were used only sporadically.
- Restaurants are one area which is benefiting from the improving economic conditions, which have fuelled the expansion of restaurant chains to mid-sized cities and to middle- and lower-income neighborhoods. At the same time, improvements in purchasing power have encouraged the development of shopping centers nationwide, generating space for fast food restaurants'

expansion in high traffic locations. Fast-food restaurant chains have made shopping centers a key part of their growth strategy.

- The leading food retailers, Cencosud (Jumbo and Santa Isabel supermarkets) and Walmart (Lider supermarkets), have invested in extending their reach to consumer foodservice by introducing self-service cafeterias, coffee shops and improving their offering of take-away dishes.
- Franchise restaurants experienced tremendous growth in Chile in the 1990s, and fast-food establishments have been particularly successful. There are no laws in the country specifically targeted at franchises. On average, it takes these restaurants 44 months to recover their initial investment.
- Fast food establishments are diversifying their offer with more nutritional information, new light menus and table service.
- The Chilean fast-food industry has estimated annual revenues of US\$ 250 million.

Selected Fast Food Restaurants						
Company Name	Sales Range 2012 (USD)	Country of Origin & Number of Outlets	Location	Purchasing Agents		
Gastronomía & Negocios (Doggi's, Mamut, Juan Maestro and Bob's)	USD 150 million (Chile)	Chile, 250	Nationwide	Third-party distributor		
Mc Donald's (Arcos Dorados Chile)	USD 126 million (Chile)	USA, 1,840 (Latin America)				
Burger King (Fast Food Chile S.A.)	USD 8.9 billion (worldwide)	USA, 32 (Chile)				
Yum's (Kentucky Fried Chicken, Pizza Hut and Taco Bell)	USD 10.8 billion (worldwide)	39,000 (Worldwide)				
Schopdog	USD 25 million	Chile, 35				
Lomutón	USD 2 million	Chile, 20				
Others						
Domino's Pizza	Less than USD 10 million	USA, 17 (Chile)				
Dunkin Donuts		USA, 52 (Chile)				
Subway		USA, 50 (Chile)				
Telepizza		Spain, 150				

Sources: Chile Potencia Alimentaria, company and press information

Selected Family Restaurants				
Company Name	Sales Range (US\$)	Country of Origin & Number of Outlets in Chile	Location	Purchasing Agents
Gatsby	USD 30 million	Spain, 30	Nationwide	Third-party distributor
Tip y Tap	USD 14 million	Chile, 15		
Ruby Tuesday	USD 2 Million	USA, 8		

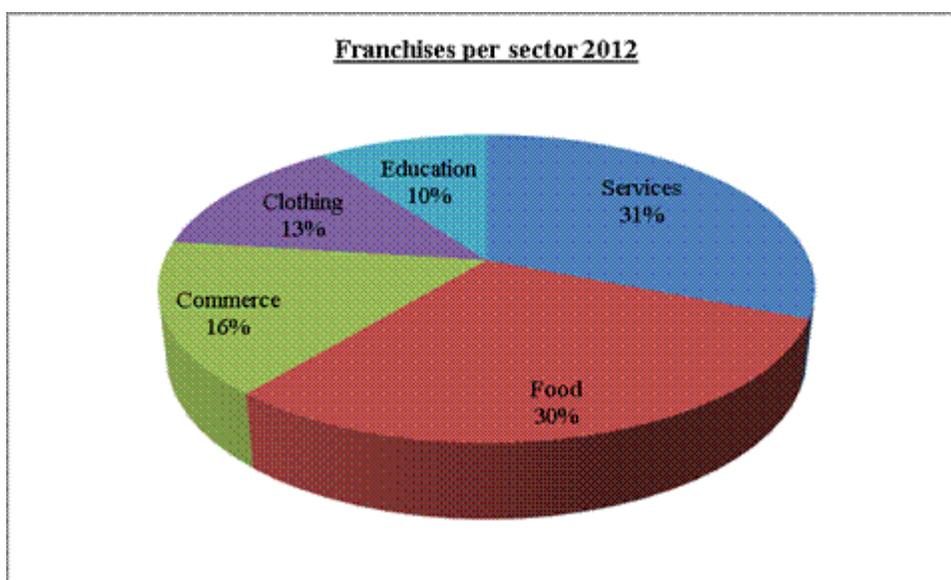
Sources: Chile Potencia Alimentaria, company and press information

Selected Coffee Shops				
Company Name	Sales Range (US\$)	Country of Origin & Number of Outlets	Location	Purchasing Agents
Starbucks	USD 2.6 billion	USA, 41	Nationwide	Third-party

	(worldwide)			distributor
Juan Valdéz	N/A	Colombia, 13	Santiago	
Starlight Coffee	USD 1.5 million	Chile, 7	Santiago	
Tavelli	N/A	Chile, 16	Nationwide	
Coppelia	USD 10 million	Chile, 14	Nationwide	
Cory	USD 4 million	Chilean-Austrian, 8	Santiago	
Sources: Chile Potencia Alimentaria, company and press information				

Franchises

Total annual sales of the franchise industry reached approx. US\$ 1.4 billion in 2012.



Source: Chilean Franchise Market 2012, Universidad de Chile

Food franchising companies in Chile have 30% of the overall franchising market. Of that 30%; the fast-food category has 17%, restaurants 5%, coffee and ice cream 5%, and pizza 3%.

Over a period of almost five years in Chile, franchised brands grew by 12%, including a total of 130 companies operating in this format, and a growth of 58% in the number of premises.

3. Main Institutional Food Service Firms

- The main demand for food in the food market for public administration institutions are the mining and education sectors.
- The three main companies that meet the needs of this subsector are Sodexo Chile SA; Central Compass Restaurant and Catering SA totaling 64% of total market share.
- Aramark, as well as Compass, Sodexo and the smaller Express Group are dedicated to a range

of outsourced services, including not only catering, but also cleaning and security.

- The expected growth rate for the leading companies is on average 15 percent per year.

***Institutional Food Service Firms:
Estimated Market Share 2012***

Selected Institutional Food Service Firms				
Company Name	2012 Sales (USD)	Clients	Location	Purchasing Agents
Central de Restaurantes Aramark	13.5 billion (Revenues) (worldwide)	Schools, universities, health institutions, mining companies, industries	Over 20 countries Worldwide	Direct Import
Sodexo Chile	16 billion (worldwide)	Schools, health institutions, mining companies, industries	Worldwide	
Compass Catering (Eurest)	60 million (Chile)		Over 70 countries Worldwide	
Casino Express	20 million	Schools, health institutions, industries, agriculture	Santiago Metropolitan Region	

Source: Company interviews

4. Airlines & Cruise Ships

Chileans increased their frequency of trips abroad by 9% in 2012, whilst arrivals increased by 5%. This supported growth in air transportation, which increased by 5% in current value terms. Strong macroeconomic conditions supported Chile's stability, which in the case of Chilean tourists allowed them to finance holidays in the country and abroad, whilst for foreign tourists Chile appears an attractive destination to visit, considering the diverse places to go and its safety standards.

Lan Airlines led air transportation with a 75% value share in 2012.

After much negotiation, the LATAM merger was complete and begun operations as such in 2013. A whole myriad of debates and opinions have accompanied the operation. However, the key reasons behind the approval of the merger were the increase in quality and safety standards of the industry – as now a local company would become a global one – and that competitiveness is expected to intensify, as LATAM will widen the routes and price ranges, but opening up space to locally-based low-cost carriers.

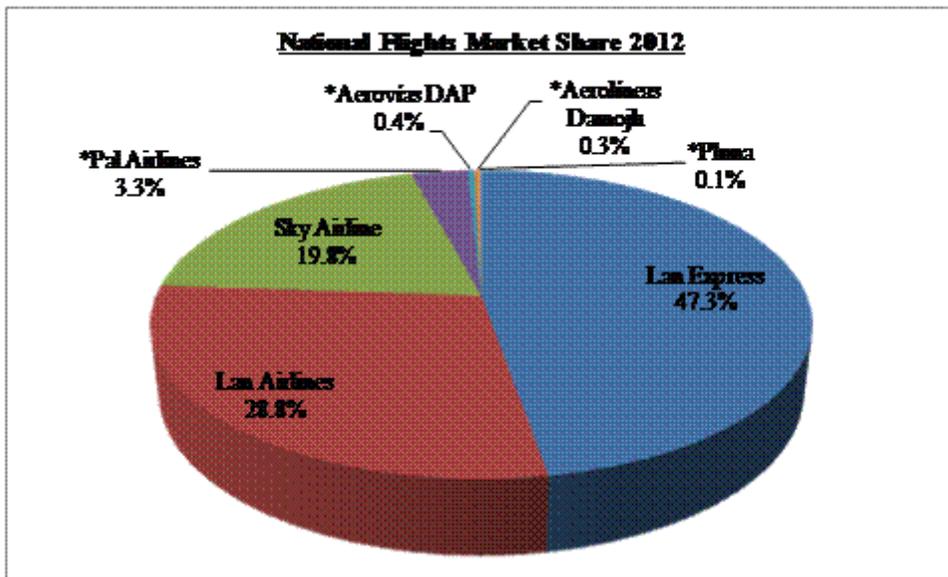
National Flights

During 2012 there were 8.334,841 passengers flying in the country, representing a 18.6% increase compared to 2011.

National Flights (Thousand Passangers)



Source: Sernatur



Source: Sernatur

International Flights

International air traffic, which contemplates the arrival and departure of passengers between Chilean and foreign cities, recorded 6,899,139 passengers in 2012, up by 15.7% over that recorded the previous year.

International transportation is done by 58.9% of Chilean airlines, among which predominates:

- Lan Airlines (3,734,415)

- Sky Airline (275,930)
- Pal Airlines (34,485)
- Lan Express (14,910)
- Aerovías DAP (665)

27.1% of international transport is carried out by 14 Latin American airlines (excluding Chilean airlines).

Among those who received more than one hundred thousand passengers include:

- TAM Líneas Aéreas (343,491)
- COPA (299,032)
- Lan Perú (217,598)
- Lan Argentina (144,237)
- Avianca (138,878)
- Taca-Perú (130,287)
- Austral (117,052)
- Gol Trans (115,688)
- Lan Ecuador (100,838)

Companies with higher growth, 2011-2012:

- Lan Argentina 97.0%
- Avianca 50.0%
- COPA 29.5%
- Aeroméxico 23.7%

North American lines carry 7.5% of passengers between Chile and foreign countries, the ones with the highest growth in number of passengers were: Air Canada (17.7%), American Airlines (9.3%) and Delta Airlines, (3.6%).

Meanwhile European lines that grew were: Iberia (5.8%) and Air France (11.3%).

Among those four groups of airlines (Chilean, Latin American, European and North American) the Chileans are the ones with the highest growth with 20%.

Cruise Ships

Cruise tourism is an activity that stands out for its sustained growth. International figures show that the activity has grown from 1980 to 2012 at a rate of 7.5% per year, and occupancy rates are 100%. By 2013, the upward trend continues, with an estimated growth of 3% over the previous year, reaching 20.9 million passengers, which translates to US\$ 34 billion in revenue worldwide.

Chile has captured the arrival of major cruise companies, including the following:

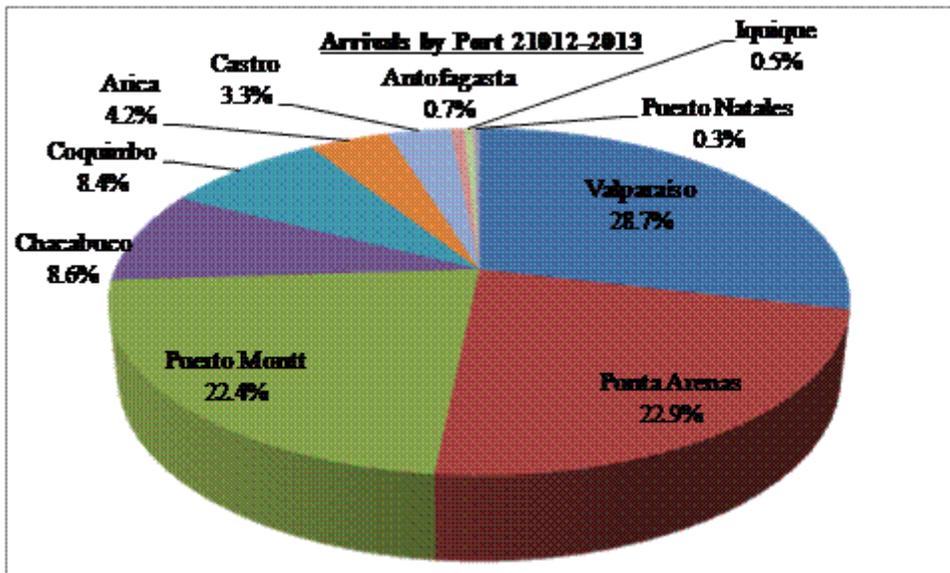
- Holland America Line
- Seabourn Cruise Line
- Princess Cruises

- Celebrity Cruise
- Silversea Cruises

Three of them belong to the exclusive group Carnival Corporation & Plc, the leader of the sector currently with a fleet of 100 ships, capable of transporting 200,000 people simultaneously, neither including the crew nor the seven ships that will be added by 2016.

The season 2012 - 2013 ended with the arrival of 21 international cruise companies which is 25.3% more than the previous season. Of these, 34.6% are part of the lines associated with CLIA North America, while 36.7% are part of the companies associated with CLIA Europe. Moreover, as regards the level of ship arrivals, Chile captures 7.2% of the global offer. As an example, of the 24 ships that are part of the Carnival company fleet, only one of them registered arrival at national coasts. At the same time, two of the 17 ships of Princess Cruises came to Chile, and only 13% of Holland America Line's ships arrived in Chile.

In terms of seasonality, it is worth mentioning that arrivals are concentrated over 50% in the months of January and February, with February concentrating a third of the total arrivals.



Source: Sernatur

Notable are Castro and Chacabuco ports for their high growth rates, 142.4% and 200.4%, respectively.

Cruise passengers visiting Chile are equally divided among men and women, for the most part beyond 55 years of age, and who regularly travel in groups of 2-3 people. These passengers are experienced in this type of travel, considering that about 85% of them have taken at least one cruise trip elsewhere in the world, and on average have taken seven to 10 trips. The length of stay at the destination is often around 3-4 hours doing shore excursions, which are bought on board the cruise by almost 44% of passengers disembarking, while the remaining passengers organize their trips ashore hiring taxi services and / or unofficial vans, or walking around the harbor on their own.

Per capita total expenditure on average amounts to nearly US\$ 85, whereas the median expenditure is

US\$ 70, which is generated mainly by the acquisition of crafts / souvenirs, drinks / meals and excursions purchased on board.

Main Airline and Cruise Ship catering companies:

LSG Sky Chefs Chile S.A.:

- Air Canada
- Air France
- American Airlines
- Cargolux Airlines International
- Delta Air Lines
- GOL Transportes Aeros
- LAN Airlines
- Pluna
- Polar Air Cargo
- Sky Airlines
- TACA International Airlines
- TAM Mercosur

Gate Gourmet and LAN Airlines re-signed a four-year contract in 2009 covering the following airports: Santiago, Lima, Guayaquil, Quito, Río de Janeiro, Sao Paulo, Ezeiza, Jorge Newberry, Madrid, Los Angeles, Miami and New York-JFK. The contract is valued at approximately US\$ 200 million. "LAN" makes reference to the consolidated entity that includes LAN Airlines, LAN Express, LAN Peru, LAN Ecuador, and LAN Argentina, as well as LAN Cargo and its affiliates. Gate Gourmet is the world's largest independent airline catering, hospitality and logistics company with dual headquarters in Zurich, Switzerland, and Reston, VA, USA.

Casino Express:

Aerolíneas Argentinas, Aerolíneas del Sur and Air Comet, and Cruceros Skorpio.

Section III. Competition

- Most of the vegetables, fruit and processed foods, poultry, pork and seafood consumed by the HRI sector are of local origin.
- The agreement that allowed Chilean poultry to enter the U.S. market (signed on December 3rd, 2007) and U.S. poultry to Chile (signed on January 31st, 2008) continues to increase exports considerably for both countries.
- Imported products are mainly beef and other meat from Argentina, Brazil and Uruguay, and legumes and cereals such as corn and wheat from Argentina and Canada.
- Chileans still value freshness as much as possible, but do consume considerable amounts of frozen food because of storage convenience and year-round availability. However, most of the frozen foods are produced domestically.
- Other typical imported products are baked goods, bakery and confectionery ingredients, some

fruits and fruit juices, and edible oils.

- Top level hotels consume up to 20-30 percent of their food budget on imported foods, and most spirits are also imported.
- Some chain hotels must also follow corporate instruction on certain foods and amenities, which must be imported.
- Institutional food services buy imported foods such as beef, pork, poultry and dried legumes (peas, etc.), but very few processed foods such as sauces or seasonings. The great majority of their purchases are local products.

A. Free Trade Agreement & Free Trade Zones

Chile ratified a Free Trade Agreement (FTA) with the U.S., which came into effect on January 1st, 2004:

- The FTA immediately eliminated tariffs on almost 90 percent of U.S. products imported into Chile and more than 95 percent of Chilean exports to the U.S. Tariffs on all products will be eliminated within 12 years.
- Elimination of Chile’s six percent general tariff has made U.S. products significantly more competitive, as they had been losing ground to other countries with which Chile already had preferential trade agreements (mainly Argentina, Brazil, Canada, and Mexico).

Benefits of the FTA for the agricultural sector:

- Since 2009, approximately 75 percent of both U.S. and Chilean farm goods are tariff-free, with all tariffs and quotas phased out within 12 years.
- U.S. access to this market is competitive with Canada and the European Union, both of which already had FTAs with Chile.

Although the FTA allows immediate duty-free entry into Chile for the majority of U.S. goods, Chile’s two free trade zones still offer some advantages: (Region I) Free Trade Zone of Iquique in the north and (Region XII) Free Trade Zone of Punta Arenas in the extreme south. Modern facilities for packaging, manufacturing, and exporting exist in each zone, and the latter has a free port. Imports entering and remaining in the Free Trade Zones pay no value-added tax (VAT).

Product Category	Import Supply Sources	Strengths of Key Supply Countries	Advantages & Disadvantages of Local Suppliers
Wine, Spirits & Beer	Argentina (50%), France (22%), Spain (17%) Mexico (38%), Argentina (9%)	U.S. has 40% of the beer imported market, being this sector the one with the most promising growth.	Chilean wine competes on the world market with a good price/quality ratio; major international beverages have established bottling facilities in Chile

Sugars and sugar confectionary	Colombia (34%), Argentina (22%), Guatemala (17%)	Nestlé's presence is so strong it is almost viewed as a Chilean product; neighboring supply countries share Chile's sweet tooth (generally sweeter than in the U.S.)	Many Chileans value fresh ingredients and artisanal products baked locally
Dairy	U.S. (39%), Argentina (36%), New Zealand (5%)	Argentina is very price-competitive with its weak currency and geographical proximity. Nevertheless, U.S. products are highly accepted.	The local industry is dominant and strong
Fish & Seafood	Ecuador (46%), Vietnam (19%), China (12%)	Ecuador is recognized as a premium supplier of shrimp and sea food. Fish from Asian countries are cheaper than the local fish.	Chile is one of the largest fish exporters in the world; nevertheless its local supply is not as abundant, and very expensive.
Fruits & Nuts	Ecuador (56%), U.S.A. (20%) Peru (6%)	USA's participation has been growing in recent years taking advantage of the opposite seasons with Chile, and taking market share away from Ecuador.	Local fruit and nut production is strong, but since the growing regions of the country experience all four seasons there is insufficient supply in the winter months
Grain Mill Products & Dry Goods (including cereals) (HTS CODE 11: milling products; malt; starch; inulin; wheat gluten HTS CODE 10: cereals; HTS CODE 12: oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder	<u>Code 11:</u> Argentina (72%) China (7%) <u>Code 10:</u> Argentina (62%), Paraguay (17%) U.S.A (9%) <u>Code 12:</u> Argentina (33%) Bolivia (17%), U.S.A. (9%)	Argentina has an established production base and is very competitive in terms of proximity and price. Nevertheless U.S. breakfast cereals are the most popular in the local market.	Low local production; imports are necessary to meet demand

Pet Food	Argentina (66%), Brazil (10%)	Argentina is competitive with high product quality and packaging	Demand in niche markets like super premium brands and special diet supplements is not currently satisfied
Prepared Foods (HTS CODE 19: prepared cereals, flour, starch or milk; bakers wares; HTS CODE 20: prepared vegetables, fruit and nuts or other plant parts; HTS CODE 21: miscellaneous edible preparations)	<u>Code 19:</u> Argentina (28%), Mexico (12%), Peru (11%) USA (8%) <u>Code 20:</u> Argentina (18%), Belgium (14%) <u>Code 21:</u> USA (34%) Argentina (14%) Brazil (8%)	Opportunities to introduce new innovations in this category. Prepared gourmet food and ready-to-eat food increasing in popularity.	Local suppliers reacting well to increased demand in frozen and other prepared food categories
Red Meat & Poultry	<u>Red Meat:</u> Brazil (48%), Argentina (22%) Australia (13%) <u>Poultry:</u> Argentina (49%), Brazil (24%).	The weaker dollar and the recently enacted poultry trade agreement represent important opportunities for US meat and poultry suppliers.	Challenging for US grain-fed beef to compete against local and neighboring grass fed beef, which is completely priced
Sauces & Condiments (including coffee & tea)	Brazil (27%), Argentina (22%), Sri Lanka (20%)	USA sauces and condiments are well positioned in the Chilean market. Tea and exotic products are becoming more popular in the local market. FTA with Asian countries introducing new products in Chile.	Chilean tastes are diversifying slowly as they become familiar with new products.
Vegetables	Canada (22%), China (20%)	Opportunities for foreign suppliers in Chile's off-season. USA participation has been growing in the past years.	Local supply is strong, with significant distribution through informal channels (street markets, etc.)

Alcoholic Beverages

Although the FTA has eliminated the majority of tariffs on U.S. exports into Chile, certain luxury goods incur additional taxes:

- Beer, cider, wine, champagne: 15%
- Grape pisco, whisky, aguardiente, liquorice wines: 27%

B. Labeling and Marking Requirements

All processed food must be tested and found in compliance with government health regulations, and the Chilean Health Services officer at the port of entry approves the import of processed food products on a case-by-case basis. There is no blanket approval process for permitting identical products into the country. Meeting the labeling and fortification standards can be cumbersome, which raises the overhead cost of introducing new products into the Chilean market.

Imported products intended for public consumption must specify the country of origin and be labeled in Spanish. All canned or packaged food products must display the quality, purity, ingredients or mixtures (including additives), net weight in the metric system, manufacturing and expiration dates, nutritional facts (since 2006) and the name of the producer or importer. Labeling and fortification standards often differ from those in the U.S. and some U.S. processed foods must be labeled and/or formulated especially for Chile. Goods not complying with the requirements may be imported but not sold until the conversion is made.

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

- Chilean Ministry of Health

http://www.redsalud.gov.cl/portal/url/page/minsalcl/g_proteccion/g_alimentos/reglamento_sanitario_alimentos.html

- Office of Agricultural Affairs (U.S. Embassy, Santiago)

www.usdachile.cl

Section IV. Best Product Prospects

- Chilean consumers are more demanding of new flavors and textures. The gourmet food market is growing at a fast rate spurred by an increasing interest in foreign foods.
- In Chile the most consumed meat is chicken, followed by pork and beef. Currently, however, a wide range of exotic, organic and hunting meats can be found in the local market, which besides having the characteristic of intriguing the public, they are also noted for their features and quality.
- Organic and natural food are also growing in demand in Chile.
- On-line media is becoming very important as 82% of Chilean users do their first search through an on-line search engine when they are looking for a place to go.

- Societal changes in Chile are fueling changes in the food service industry. More Chileans are eating outside of the home, with many women in the workforce and employees working longer hours.
- In Chile, between 2008 and 2013, bottled water consumption grew 71.8%, from 110 million to 189 million liters. According to figures from the National Soft Drink Association - ANBER-, during the first nine months of 2012 Chileans drank 16 liters of bottled water, representing an increase of 21% over the same period the previous year. This background placed Chile in fourth place in Latin America in terms of bottled water consumption, be it with or without gas, minerals, demineralized, no sodium, purified, with designation of origin, and even functional with vitamins.
- Although products from the U.S. do not presently command recognition in the HRI market, the FTA, evolving local tastes, and a weak U.S. dollar should create an attractive environment for U.S. companies wishing to export.
- One interesting trend in the HRI sector comes from casinos, hotels and restaurants, which are demanding -in their annual contracts- from institutional food services, vegetables ready to serve, already chopped and cleaned.

A. Products present in the market with good sales potential

Products Present in the Market					
Product Category	Imports 2012 (USD)	Estimated Import Growth for 2013	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Grain Mill Products & Dry Goods	147 million	2%	0% after full implementation of FTA*	Strong competition from Argentina	Very low local production; the U.S. is an established supplier
Red Meat & Poultry	899 million	20%		Brazil and Argentina grass-fed beef dominates the market, while the U.S. exports mainly grain-fed beef	The agreement signed to allow U.S. poultry entrance to Chile increased U.S. presence in the market. Chile imports 30% of its meat

Beverages & Spirits	130 million	10%		Require strong national distribution, which restricts U.S. companies to working with a small number of partners	Chilean companies with national distribution have an established track record for adhering to licensing agreements, etc.
Sauces & Condiments (including coffee & tea)	108 million	8%		Asian products are penetrating the market.	US sauces and condiments have good opportunities in the national market. Opportunities for offering a complete line exist in association with specific retailers
Dairy	165 million	5%		Strong presence of local and Argentinean suppliers	Opportunities for introducing innovative products via licensing agreements
Fruits & Nuts	197 million	8%		Strong local production	Demand for imports rises in Chile's off-season, which is opposite to that of the U.S.

*The 2004 FTA states that the majority of products have no tariffs now, while the rest will be fully phased out within 12 years.

B. Products not present in significant quantities but which have good sales potential.

Products Not Present in Significant Quantities					
Product Category	Imports 2012 (USD)	Estimated Import Growth for 2013	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Health Food Products	N/A	35%	0% after full implementation of FTA	Local production growing for exporting. Significant investment in marketing/promotion compared to size of market	Good opportunities in growing health food segment; Chilean consumers more demanding and aware of nutritional and healthy food ingredients.
**Prepared Foods	327 million	50%			Opportunities to introduce new innovations in this category
Cereal	819 million	35%			USA is the 3rd most important Chilean supplier of cereal.
Organic Food	N/A	50%			Good opportunities for market entry.
Gourmet ready-to-serve	N/A	50			It is a new and growing market in Chile.
Ethnic Foods	N/A	N/A		Small market size. Also significant investment in marketing/promotion compared to size of market	Growing interest in alternative foods especially after FTA signed with different countries.

*: The “Wellness” trend is more and more popular in Chile: Consumers are trying to achieve a “healthy” lifestyle combining a measured diet with more physical activity.

** Domestic consumption of processed foods is on the rise, and the ever-increasing presence of women in the work force calls for production of new packaged-food products to replace home-cooked meals.

C. Products Not Present 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 sugar-containing products 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.

Section V. Post Contact and Further Information

Mailing Address:

Office of Agricultural Affairs
FAS/USDA
3460 Santiago Pl.
Washington, D.C.
20521 / 3460

Street Address:

Office of Agricultural Affairs
U.S. Embassy, Santiago
Av. Andres Bello 2800 – Las Condes
Santiago, Chile

Tel.: (56 2) 2330-3704

Fax: (56 2) 2330-3203

E-mail: agsantiago@fas.usda.gov

Websites:

<http://www.usdachile.cl>; Agricultural Attaché's Office in the U.S. Embassy Santiago homepage.

<http://www.fas.usda.gov>; Foreign Agricultural Service homepage.