

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Chile

Food Service - Hotel Restaurant Institutional

HRI Food Service Sector

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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

Executive Summary:
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. However, the most recent survey of income levels in Chile showed a surprising increase in poverty in 2009, the first increase in 20 years. According to the CASEN survey (Socioeconomic Characterization Survey), poverty in Chile increased to 15.1% of the population during 2009, compared to 13.7% in 2006.
- Despite this set-back, 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 sector. According to Sernatur (National Tourism Service), the national tourism industry counted 2.7 million tourists visiting Chile during 2009 and it is expected to reach 3.0 million in 2010.
- Even though Chile receives more international tourists than many other countries in the region, revenue generated by the tourism industry is relatively small. In 2009 Chile generated USD 1.5 billion in revenue from tourism, while Colombia and Peru generated USD 2.0 billion and Argentina generated over USD 3.0 billion. Nevertheless, Sernatur is expecting to see a significant increase in tourism dollars in 2010, with projections as high as USD 2.0 billion.
- It is estimated that in 2010 Chile will have 4,350,969 obese people (2,732,015 adults, 1,294,649 children and 324,305 senior citizens). Including the 4,679,400 people considered "overweight", the total reaches 9,030,369 people, equivalent to just over half of the population. As a result of this trend, 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 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 predicts between 4.5 and 5.5 percent growth in GDP for 2010.	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.

Author Defined:

Section II. Road Map for Market Entry

A. Entry Strategy

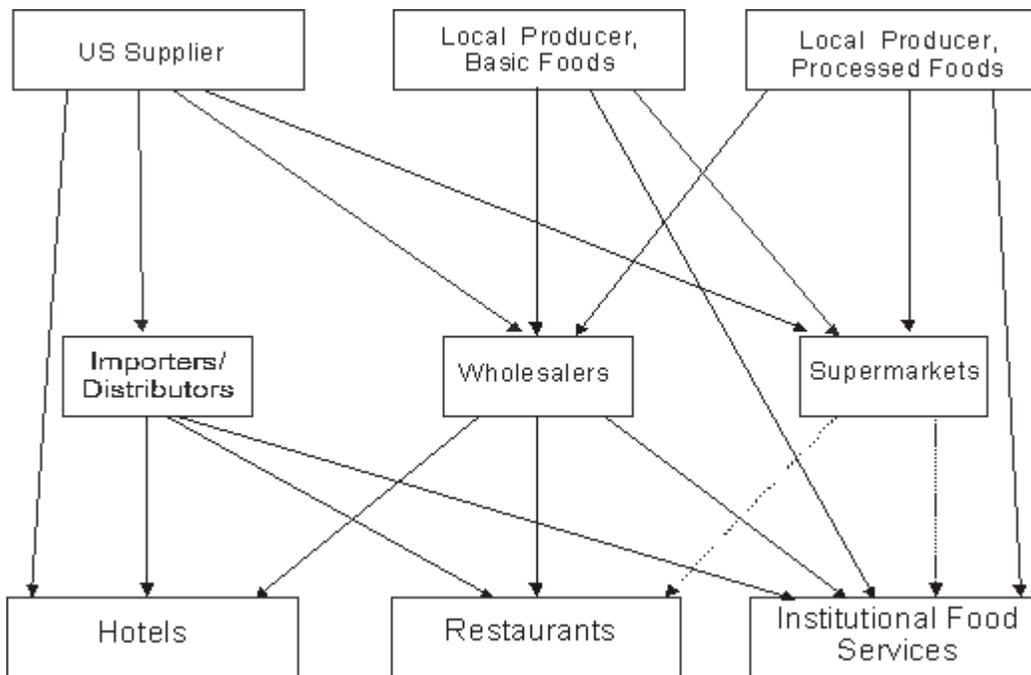
- Establishing local or regional operations or joint ventures can be a reasonable way to become a player in South American markets like Chile. Lower-cost supply of competing products from neighboring markets represent a threat, as cost is a fundamental factor, and an inability to compete on a price basis 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.

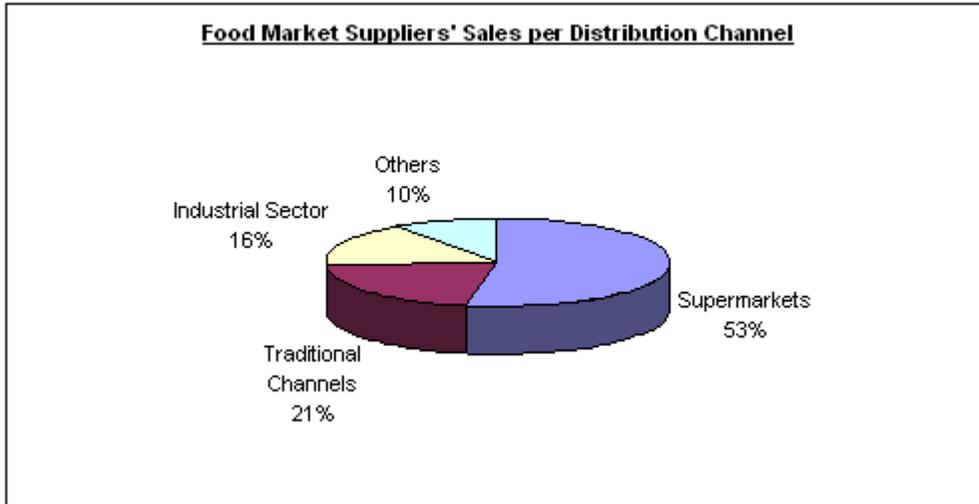
Distribution Channel Diagram



Distributors

Supermarkets:	Wholesalers:	Traditional Channels:	Others:
D&S /Wal-Mart (Lider) (34%)	Rabié (25%)	Grocery stores	Exports
Cencosud (Jumbo and Santa Isabel) (29%)	Adelco (13%)	Minimarkets	Industrial Sales
SMU (Unimarc and other small supermarket chains)(16%)	Alvi (30%)	Kiosks	Casinos
Supermercados del Sur (8%)	La Caserita (5%)	Gas Stations	Pharmacies
Falabella (Tottus) (6%)	Mayorista 10 (15%)	Retail	Malls
Montserrat (2%)			

Source: Press, ASCH (Supermarket Chilean Association) and company interviews 2010



Source: Chilealimentos 2009

Demand from restaurants and hotels is increasingly more sophisticated, as chefs are becoming more selective about ingredients and the gourmet food is penetrating the market. Hotels tend to have the most restrictive budgets in this sector, and price is often a determining factor; approximately 95 percent of their purchases come from local suppliers. Many of their imports come from specific distributors determined by their headquarters, as they must order specific brands (e.g., Special K or Jim Beam) as determined by company policy.

Interviews with managers in the HRI sector reveal that many Chilean consumers are not willing to spend more money to try a new food product. However, if two items are the same price, a typical consumer may opt for the imported product which often is deemed as higher quality.

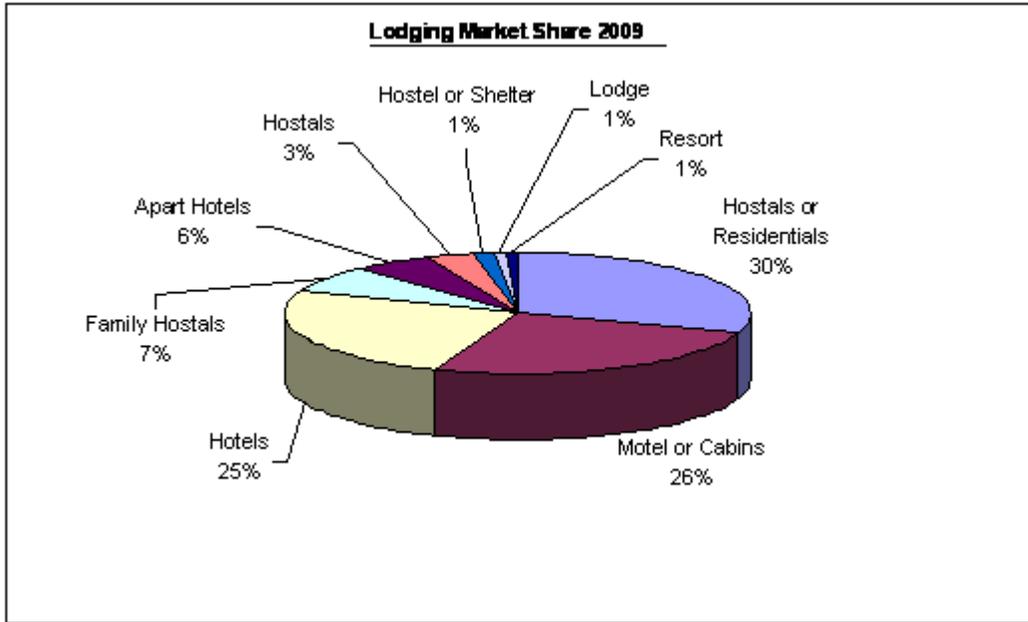
Almost all five-star hotels, high-end restaurants, and institutional food service companies are located in Santiago.

C. Sub-Sector Profiles

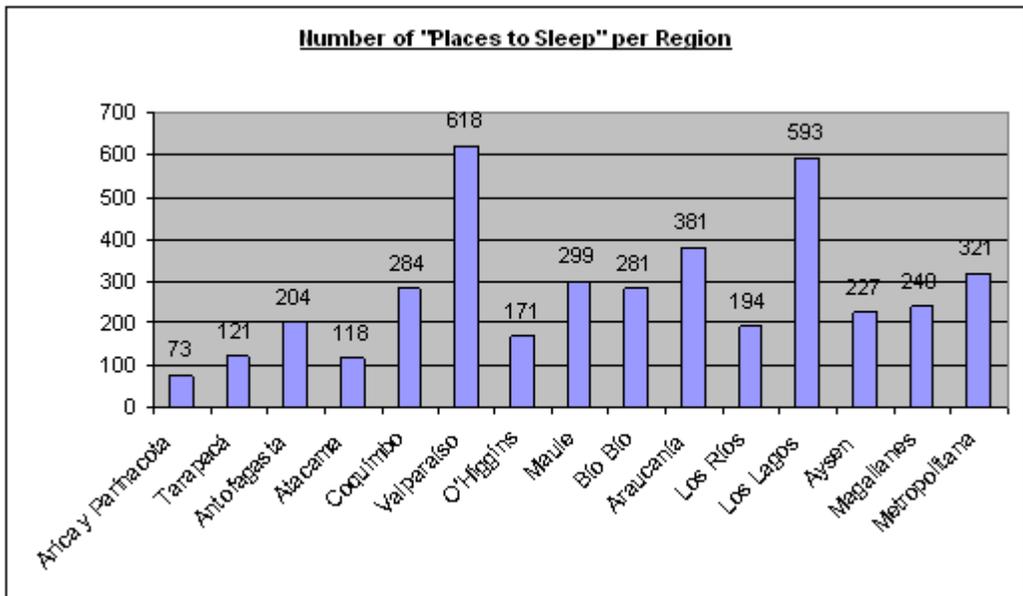
1. Hotels and Resorts

According to Sernatur, in Chile there are 4,059 lodging or touristic places to sleep, with a capacity of 71,295 rooms and 152,936 beds, throughout the country.

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



Source: Sernatur, Tourism Yearbook 2009



Source: Sernatur, Tourism Yearbook 2009

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:

Type of food	Purchasing Agent
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.
- There are 15 **casinos** operating during 2009 and 18 approved, which raises the number of outlets authorized to operate in the country to 24. Some of the factors considered when assigning the licenses were the impact of the casinos on tourism in the area, as well as hotels, restaurants and other foodservice units.
- 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 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.

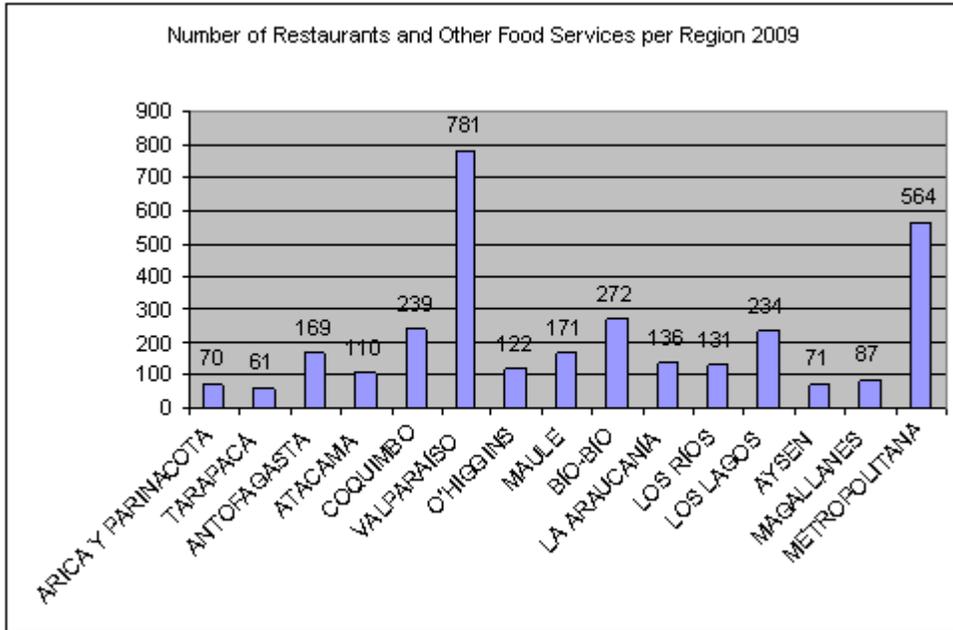
Best Hotel Restaurants

Restaurant Name	Hotel Name	Location	Type of food	Purchasing Agents
EL CID	Hotel Sheraton	Santiago	International food with French influence	Third-party distributor
Brick	Hotel Radisson	Santiago	International	
Balandra	Gran Hotel Colonos del Sur	Puerto Varas	International with southern Chilean traditions	
Adra	Hotel Ritz-Carlton	Santiago	Mediterranean	
BRISTOL	Hotel Plaza San Francisco	Santiago	International food based on 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 2009" and [Culinary Guide 2009](#)

2. Restaurants

According to Sernatur, during 2009 there were 3,218 food service establishments related to the tourism sector in Chile, including restaurants, pizza places, coffee shops, fast-food establishments, tea salons, etc. Most of them are located in the Valparaíso Region (24.3%), followed by the Santiago Metropolitan Region (17.5%), Bío Bío (8,5%), Coquimbo (7,4%) and then the Southern Region of Los Lagos (7.3%).



Source: Sernatur, Tourism Yearbook 2009

- According to the Chilean Gastronomy Association, Achiga, restaurant revenues in the Santiago Metropolitan Region are increasing after the contraction they had last year. Sales in the second quarter of 2010 grew 6.8 percent compared to the same period in 2009. It is estimated that the restaurant sector is recovering after the earthquake at the end of February, 2010.
- 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 D&S/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 USD 250 million.

Selected Fast Food Restaurants					
Company Name	Sales Range (USD)	Country of Origin & Number of Outlets	Location	Purchasing Agents	
Mc Donald's	USD 5 billion (worldwide)	USA, 75	Nationwide	Third-party distributor	
Doggi's	USD 67 million (Chile)	Chile, 160			
Burger King	USD 2.2 billion (worldwide)	USA, 32			
Kentucky Fried Chicken	USD 40 million	USA, 46			
Schopdog	USD 25 million	Chile, 45			
Lomitón	USD 12 million	Chile, 60			
Others					
Domino's Pizza	Less than USD 10 million	USA, 21	Nationwide & Santiago		
Dunkin Donuts		USA, 38			
Pizza Hut		USA, 32			
Subway		USA, 75			
Taco Bell		USA, N/A			
Telepizza		Spain, 100			

Sources: Chile Potencia Alimentaria, company and press information

Selected Family Restaurants				
Company Name	Sales Range (US\$)	Country of Origin & Number of Outlets	Location	Purchasing Agents
Gatsby	USD 30 million	Spain, 17	Nationwide	Third-party distributor
Tip y Tap	USD14 million	Chile, 12		
Ruby Tuesday	USD 2 Million	USA, 11		

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 (worldwide)	USA, 30	Nationwide	Third-party distributor
Juan Valdéz	N/A	Colombia,10	Santiago	
Starlight Coffee	USD 1.5 million	Chile, 7	Santiago	
Tavelli	N/A	Chile, 15	Santiago	
Coppelia	USD 10 million	Chile, 14	Santiago	
Cory	USD 4 million	Chilean-Austrian, 10	Santiago	

Sources: Chile Potencia Alimentaria, company and press information

Franchises.

Over the course of the past five years, the franchising system in Chile has grown 30%. After a boom in growth, the franchising market in Chile is in a steady and stable growth line. Today there are 65 franchises operating in Chile, invoicing USD 200 million annually and employing over 20,000 people.

Forty-five percent of all franchises in Chile are in the hotel and restaurant sectors, 50 percent of them come from the U.S., with McDonald's being the most representative. Among the national chains, Lomitón, Doggi's and Schopdog are the leaders. The location strategies are focused on high-traffic locations such as malls, main streets and avenues.

3. Main Institutional Food Service Firms

The Chilean institutional food service industry generated an estimated USD 1.4 billion in revenues in 2009 and the top three companies control 64 percent of the market. The largest is Central Restaurantes Aramark (“CDR”), with 31 years in the business, 21,000 employees, and sales close to USD 11 billion worldwide. The company also has operations in Peru, Colombia, Argentina, and Brazil.

This company is strong in the corporate-industrial cafeteria sector and in the mining industry, with a 65% share of the catering/casino services. Sodexho and Compass (the latter company’s revenues in Chile reached USD 60 million in 2009) are the main competitors and they are strong in the institutional (education, health, etc.) sector. Sodexho is also strong in food services in the prison system.

Aramark, as well as Compass, Sodexho 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 2009***

Selected Institutional Food Service Firms				
Company Name	2009 Sales (USD)	Clients	Location	Purchasing Agents
Central de Restaurantes Aramark	11.0 billion (worldwide)	Schools, universities, health institutions, mining companies, industries	Over 20 countries Worldwide	Direct Import
Sodexho Chile	19.8 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

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 increase tourism’s share of GDP to 10 percent by the end of 2010.

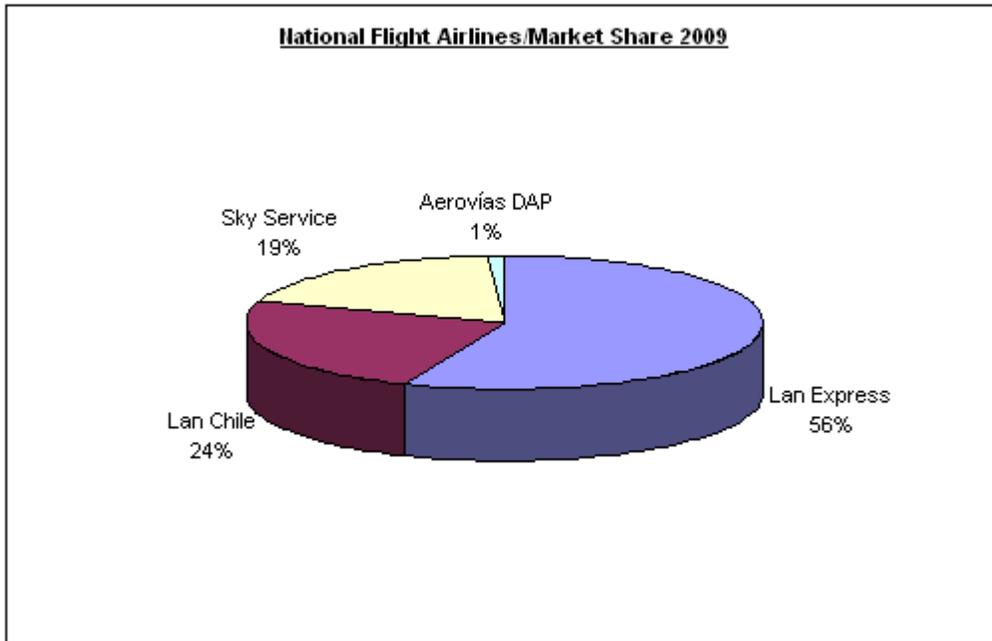
National Flights

During 2009 there were 5,058,106 passengers flying commercial flights within the country, representing a 6.0 percent increase over the previous year.

Nearly 87.7 percent of the flights are to or from the capital city of Santiago. The highest frequency national flights in order of importance are:

- Santiago - Antofagasta
- Santiago - Concepción
- Santiago - Iquique

Santiago - Puerto Montt
Santiago - Calama



Source: Sernatur (Tourism National Service)

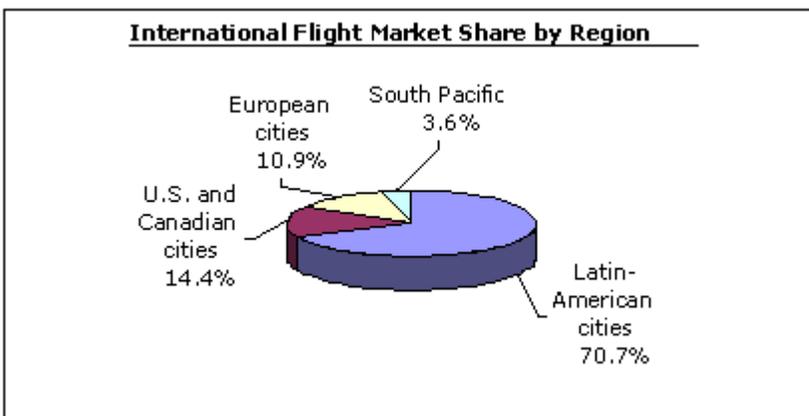
Lan Express, Lan Chile and Sky Service have flights all along the country, while Aerovías DAP is the only airline that concentrates its flights in the extreme south of Chile: Punta Arenas with Puerto Natales; Porvenir; Puerto Williams and Antártica.

International Flights

During 2009, international flights registered 4,653,776 passengers, 5.8 percent lower than the previous year, which shows the effects of the global financial crisis.

Of all the air traffic, 70.7 percent of flights are with Latin-American cities and Chile; 14.4 percent with U.S. and Canadian cities; 10.9 percent with European cities; and 3.6 percent with the South Pacific, such as Sidney, Auckland y Papeete.

The flights with most arrivals and departures are Santiago - Buenos Aires (903,173 passengers) and Santiago - Sao Paulo (532,481).



Source: Sernatur (Tourism National Service) -- 2009



Source: Sernatur (Tourism National Service) – 2009

Chilean Airlines with International Flights

Lan Chile (2,326,445)

Lan Express (133,977)

And also Aerolínea Principal, Aerovias DAP, Sky Service and Pluna

Latin American Airlines operating in Chile

TAM Líneas Aéreas (235,126)

Lan Perú (177,506)

Lan Ecuador (172,507)

COPA (143,766)

North American Airlines operating in Chile:

American Airlines

Delta Airlines

Air Canada

European Airlines operating in Chile:

Iberia

Air France

Swiss

In August, 2010, LAN Airlines and TAM Airlines announced plans to merge, creating a new holding company called Latam Airlines Group. The brands will be operated separately. If the deal is finalized, the new entity will control over 17% of passenger revenues in Latin America, creating the largest airline in Latin America with revenues of USD 9 billion.

Cruise Ships

Foreign Tourist Entry to Chile through Ports (2009)

Year	2009
TARAPACA	2,673
ANTOFAGASTA	1,282

ATACAMA	156
COQUIMBO	3,719
VALPARAISO	7,146
BIOBIO	33
LOS LAGOS	182
MAGALLANES Y ANTARTICA CHILENA	96,510
Total	111,701

Source: Sernatur

Chilean tourist attractions such as the Antarctica have become a favorite destination of international cruise lines.

Iquique, Arica, Antofagasta, Coquimbo, Valparaiso and Puerto Montt are the Chilean ports that receive cruise ships.

Approximately 85 percent of these visitors are from the U.S. and the U.K. and they spend approximately USD 180 daily on transportation, food, and entertainment.

In Chile, the most preferred destinations are Patagonia, the Lake Region in the south, the Atacama Desert in the north, Valparaiso, Easter Island and Santiago.

Much of the food on cruise ships is prepared on-board, so the majority of their food purchases are fresh ingredients. Foreign products can be found in the companies' liquor collections, as Scottish whisky on ice from the glaciers is a popular drink. Exact sales figures for this market are very difficult to estimate, but they typically purchase food through the same distributors as hotels and restaurants and from their main headquarters.

International Cruise Ships operating in Chile:

- CARNIVAL CRUISES LINES
- CELEBRITY CRUISES / INFINITY
- COSTA CRUCEROS
- C & O Tours
- CRYSTAL CRUISES
- LE DIAMANT (Compagnie des Isles Du Ponant)
- CUNARD LINE
- HOLLAND AMERICA LINE / PRINSENDAM / ROTTERDAM
- ISLAND CRUISES
- LOUIS CRUISES LINES
- NORWEGIAN DREAM CRUISE LINE / NCL CHILE
- MSC CRUCEROS
- ORIENT LINES / STAR CRUISES
- PERTER DEILMANN
- PULLMANTUR CRUISES
- PRINCESS CRUISES
- RADISSON SEVEN SEAS
- ROYAL CARIBBEAN INTERNATIONAL
- SEA CLOUD CRUISES
- SEABOURNE
- SILVERSEA
- TRAVEL CRUISES – CENTRAL DE CRUCEROS
- WINDSTAR CRUISES

Chilean Cruise lines operating in Chile:

- CRUCEROS NACIONALES
- CATAMARANES DEL SUR
- CRUCEROS AUSTRALIS
- NAVIERA MAGALLANES (NAVIMAG)
- NAVIERA MAGALLANES (NAVIMAG)
- PATAGONIA CONNECTION

-SKORPIOS

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 Ángeles, Miami and New York-JFK. The contract is valued at approximately USD 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) increased exports considerably for both countries.
- Imported products are mainly beef and meat 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 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
Beverages & Spirits	ARGENTINA 17.47% UNITED KINGDOM 13.63% MEXICO 10.79% VENEZUELA 8.51% DOMINICAN REPUBLIC 8.34% USA 6.76% AUSTRIA 5.94% NICARAGUA 4.61%	Rum (USD 37 million) beer (USD 21 million) and whiskey (USD 19 million) are the most imported beverages	Chilean wine competes on the world market with a good price/quality ratio; major international beverages have established bottling facilities in Chile
Confectionery	ARGENTINA 38.63% GUATEMALA 30.52% COLOMBIA 23.17% EL SALVADOR 1.44% USA 1.33% BRAZIL 1.24% CHINA 1.22% BOLIVIA 0.4%	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	ARGENTINA 54.02% URUGUAY 16.83% USA 9.81% BRAZIL 6.46% PERU 2.91% CANADA 2.77% NEW ZELAND2.64% FRANCE1.43%	Argentina is very price-competitive with its weak currency and geographical proximity; opportunities for licensing agreements (e.g., Yoplait with local producer, Quillayes)	The local industry is dominant and strong
Fish & Seafood	ECUADOR 45.27% ARGENTINA 9.45% NORUEGA 7.54% SPAIN 5.37% CHINA 4.98% PERU 4.26% VIETNAM 4.25% URUGUAY 3.37%	Ecuador is recognized as a premium supplier of shrimp and sea food.	Chile is one of the largest fish exporters in the world (1 st for trout, 2 nd for salmon); nevertheless its local supply is not as abundant, and very expensive.
Fruits & Nuts	ECUADOR 65.88% USA 15.14% PERU 4.24% ARGENTINA 2.74% BRAZIL 2.06% BOLIVIA 1.72% PHILIPINAS 1.29% CHINA 1.03%	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	ARGENTINA 53.81% CANADA 13.92% USA 13.83% PARAGUAY 5.32% BRAZIL 3.94% URUGUAY 0.86% FRANCE 0.8% INDONESIA 0.79%	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 74.74% BRAZIL 6.94% USA 3.6% GERMANY 3.49% FRANCE 2.78% SWISS 1.82% HOLLAND 1.8% SPAIN 1.22%	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)	ARGENTINA 26.14% USA 16.27% BRAZIL 10.11% MEXICO 5.4% CHINA 4.83% PERU 4.55% HOLLAND 4.4% BELGIUM 4.25%	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	PARAGUAY 48.12% ARGENTINA 38.55% BRAZIL 5.02% URUGUAY 3.46% AUSTRALIA 1.91% CANADA 1.51% USA 1.01% SPAIN 0.2%	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)	Sauces & Condiments USA 43.18% ARGENTINA 33.58% BRAZIL 6.23% GERMANY 3.4% Coffee & Tea BRAZIL 26.16% SRI LANKA 24.01% ARGENTINA 17.52% PERU 7.58%	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 32.97% CHINA 17.72% USA 12.02% ARGENTINA 10.58% PERU 10.31% HUNGARY 3.82% HOLLAND 2.63% NEW ZEALAND 2.34%	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.)
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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.
- Organic and natural food are also growing in demand in Chile.
- 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.
- 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 2009 (USD)	Estimated Import Growth for 2010	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Grain Mill Products & Dry Goods	615 million	10%	0% after full implementation of FTA*	Strong competition from Argentina	Very low local production; the U.S. is an established supplier

Red Meat & Poultry	509 million	15%		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	127 million	3%		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)	90 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	61 million	5%		Strong presence of local and Argentinean suppliers	Opportunities for introducing innovative products via licensing agreements
Fruits & Nuts	72 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 2009 (USD)	Estimated Import Growth for 2010	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Health Food Products	N/A	30%	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	295 million	40%			Opportunities to introduce new innovations in this category
Cereal	480 million	25%			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	N/A			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

*: 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

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