

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Chile

Retail Foods

Retail Food Sector Report

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Report Highlights:

The supermarket industry is constantly looking for new products to satisfy upscale consumer demand. According to supermarkets and suppliers, among the best prospects are snack foods, including high energy nutritional snacks for sports, fruit juices, sweeteners, dietetic snacks and candies and cereals.

Post:

Santiago

Executive Summary:

Section I. Market Summary.

Despite the fact that its population does not exceed 18 million, Chile continues to be seen as the second most attractive market in Latin America, after Brazil, partly owing to its favorable regulatory environment.

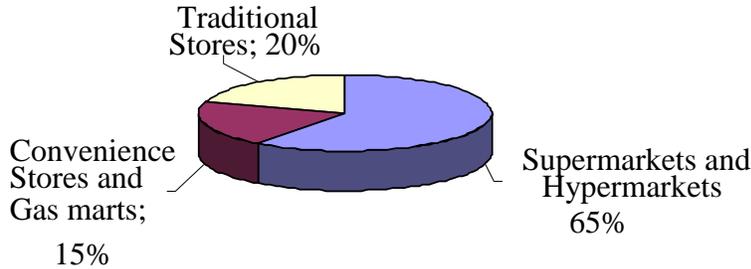
Best Countries for Doing Business	
Country	Ranking
Singapore	1
Switzerland	2
Finland	3
Canada	5
New Zealand	8
U.S.A.	13
Germany	14
Chile	15
Ireland	17
France	19
Mexico	35
Brazil	40
Peru	45
Colombia	51

Source:
Economist Intelligence Unit (www.eiu.com) 2010-2014

Due to the demographic characteristics, most consumption occurs in the Santiago Metropolitan Region since it concentrates one third of the country's total population.

The main food distribution channels are supermarkets, with a share of over 65%. In Chile they are highly concentrated in three main business groups; this gives them greater bargaining power with suppliers. The current trend is opening smaller stores with products that cater to the needs of a specific audience.

Food Sales per Channel



Format	Total Sales USD (including items other than food)	% Market share
Supermarket	13 billion	65
Traditional	4 billion	20
Convenience / GasMarts	3 billion	15
Total	20 billion	100

Source: Company Annual Reports and Press

The Chilean market, as characterized by its openness, is very competitive. Price is a crucial factor, so companies wishing to export their products to Chile should be aware that they must adjust their margins to be as competitive as possible. The other alternative, equally as important, is for the US exporter to differentiate its products so that any added value is understood by the end client and serves to justify a higher price. The Chilean middle class is beginning to have more purchasing power and values the price, quality and brand of the food they buy.

Companies that decide to introduce their products in Chile must know that the consolidation of a relationship based in trust is the key to doing business in the country. Therefore, several visits to the client are usually required to build the relationship. To achieve this atmosphere of mutual trust a constant fluid communication must be developed between the U.S. and Chilean company. In this vein, the US exporter can position himself not only as a business partner, but as a source of information regarding the latest trends in North America and elsewhere, which may be of interest to the Chilean importer wanting to be up to date.

U.S. food products are perceived by Chilean consumers as high quality. The consumers of U.S. food products mainly belong to the upper middle class, although an increasingly powerful middle class is also emerging as a customer base, especially with the arrival of Wal-Mart in Chile with its brand Great Value.

As regards branding, and certainly with the example above, U.S. suppliers have had success in positioning a lower end brand in the U.S. as a higher-end brand in Chile.

Larger players are increasingly pushing out or absorbing smaller ones. For example, Chilean Coca-Cola bottlers Embotelladora Andina and Embotelladoras Coca-Cola Polar have merged their operations. Andina took an 80% stake in the enlarged firm. In 2011, the combined business generated volumes of 641 million cases and revenues of US\$ 2.56 billion, making it the fifth largest Coca-Cola bottler in the world. The move is in line with growing consolidation within the Latin American soft drink industry; from here, Andina should be in a strong position to expand further.

Many U.S. franchises continue to expand in Latin America, such as Starbucks, which in May 2012, announced the opening of its 40th store in Chile. The 40 stores are divided between Santiago and Viña del Mar on the coast. Its development plan for 2012 contemplates the opening of three other stores in Santiago. Also Papa John's is planning to open 40 stores in Santiago, Viña del Mar and Concepción by 2014.

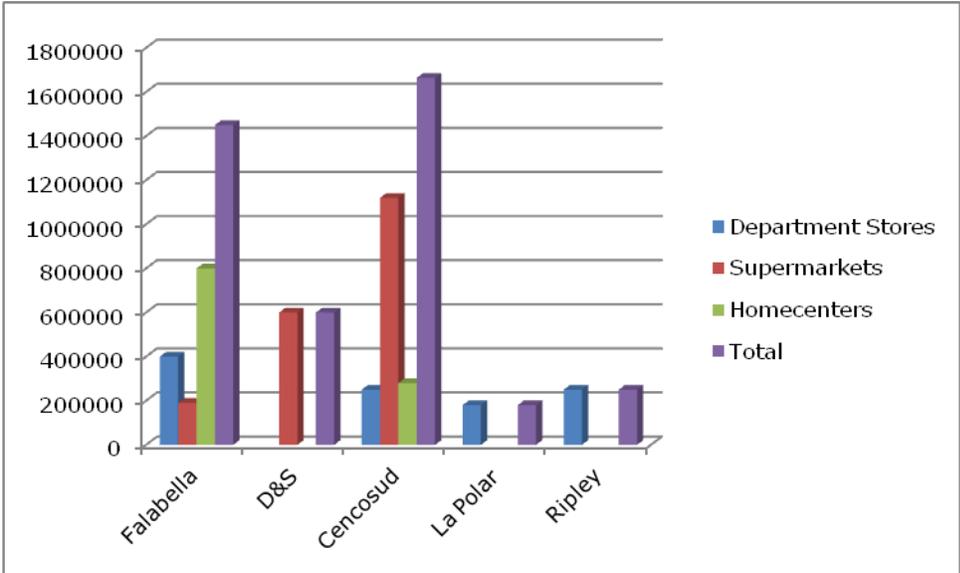
There are five main retailing groups in Chile:

- Falabella
- Cencosud
- D&S (Walmart Chile)
- Ripley
- La Polar

Falabella and Cencosud have department stores, home centers and supermarkets/hypermarkets; D&S is focused on supermarkets and hypermarkets; and Ripley and La Polar are focused on department stores.

Retail Food Sales

Sales per m2



Source: Ceret based on Annual Reports 2010

The higher consumption capacity, increased infrastructure and a favorable regulatory environment will continue to drive retail sales in the country in the next four years.

The food and beverage retail industries are also showing positive growth. Sales in this category are expected to rise 45%, from US\$ 25.04 billion in 2011 to an estimated US\$ 36.3 billion in 2015 and US\$ 38.8 billion by 2016. Given the room to grow outside of Santiago, sales are expected to grow just in supermarkets alone by almost 40% up to US\$ 28.5 billion in 2015.

Although Chile's retail sales continue to grow, the size of the overall Chilean retail sector will diminish as a percentage of the Latin American retail market. If today Chile represents 3.9% of the more than US\$ 1.3 trillion that the retail sector sold in the region, by 2015 this will drop to 3.1%. A similar trend will occur with Brazil and Mexico, which will see their collective market shares fall from 74% to an estimated 72.5%. This will be caused by the increase in market share of Colombia and Peru, and to a certain extent Brazil as well, increasing its share relative to Mexico.

The Chilean market is maturing and already has per capita income above the regional average. Thus the continued development of other countries in the region should create room for more growth in them. Brazil, Colombia and Peru are the countries that should show good performance, and certainly Chilean retailers are expanding to neighboring countries.

Imports and Local Production of Food

Food, Beverages & Tobacco Imports

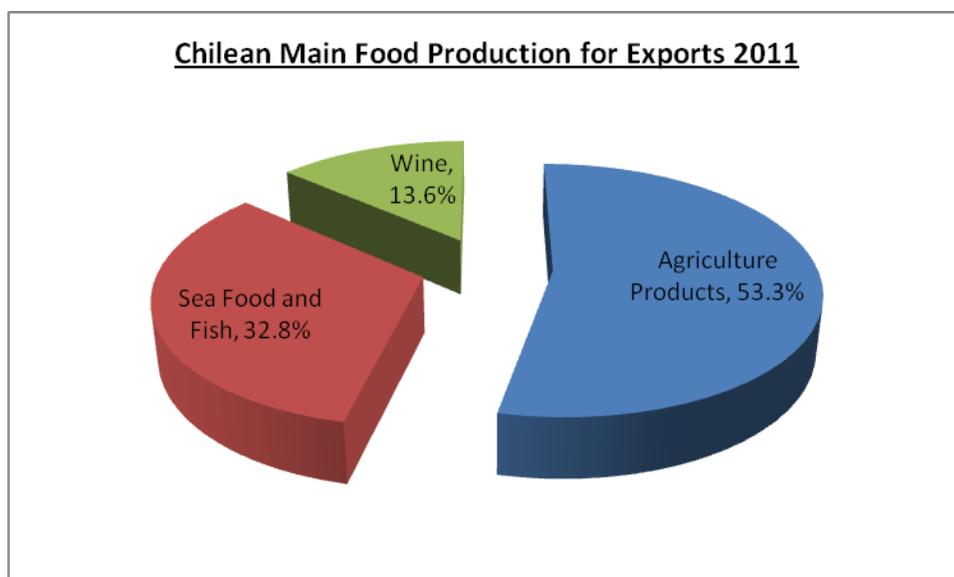
	Million US\$	
Imports	2010	2011
Food and Beverages	\$3,538	\$4,695

Source: Sofofa (www.sofofa.cl) Federation of Chilean Industry), Central Bank (www.bcentral.cl)

Food Beverages & Tobacco Exports

	Million US\$	
Exports	2010	2011
Food and Beverages	\$10,750	\$12,495

Source: Sofofa (www.sofofa.cl) Federation of Chilean Industry) Central Bank (www.bcentral.cl)



Source: ProChile (www.prochile.cl)

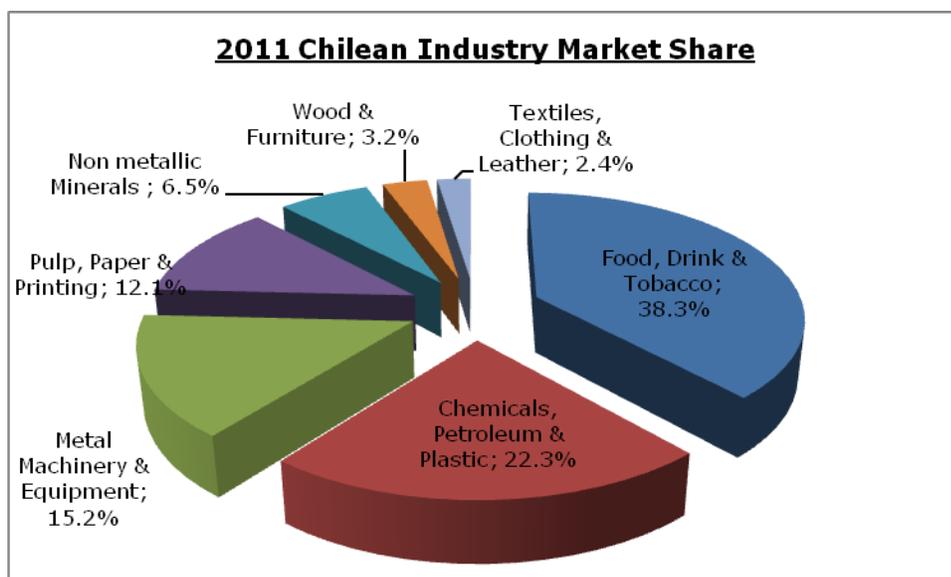
Note: Agriculture products include meat, poultry, cereal, fruits, etc.

Main Imports of Agricultural Products

Main Imported Agricultural Products (US\$ Thousand)								
Ranking	HTS Code	Product	2010	2011	2011	2012	Variation 2012-2011	Market Share
			Jan-Dec	Jan-Dec	Jan-Aug	Jan-Aug		
1°	2013000	Boneless beef fresh or chilled (total)	675,414	752,536	454,155	479,741	5.6%	13.7%
2°	15179000	Blended oils of animal or vegetable plants and animals (total)	269,643	362,075	240,483	248,413	3.3%	7.1%
3°	23099090	Other preparations of a kind used for animal feed	241,251	273,085	175,931	228,686	30.0%	6.5%
4°	17019900	Refined sugar (total)	257,431	364,465	290,203	190,412	-34.4%	5.4%
5°	23040000	Cakes and soybean residues (total)	170,216	253,906	168,051	178,806	6.4%	5.1%
6°	21069090	Other food preparations nencop	83,168	97,817	67,273	67,886	0.9%	1.9%
7°	22030000	Beer made from malt	55,013	65,298	33,483	54,584	63.00%	1.6%
8°	2071400	Cuts and edible offal of poultry, frozen (total)	62,336	84,964	53,273	54,583	2.5%	1.6%
9°	23011000	Flours, meals and pellets of meat or meat offal, greaves, unfit for human consumption	19,363	44,589	24,500	53,137	116.9%	1.5%
10°	23031000	Residues of starch manufacture and similar residues	41,506	64,920	42,159	52,637	24.9%	1.5%
11°	15141100	Rapeseed oil (canola) and rapeseed, low erucic acid content, crude	2,256	53,945	41,172	48,157	17.00%	1.4%
12°	11042300	Corn kernels, hulled, pearled, sliced or kibbled	37,930	84,348	36,946	40,917	10.7%	1.2%
Other Products			1,970,115	2,499,302	1,553,843	1,478,758	-4.8%	42.2%
Total Imported			3,885,642	5,001,249	3,181,471	3,500,079	10.00%	100.00%

Source: ODEPA based on Chilean Custom's Statistics

Local Production



Source: Sofofa www.sofofa.cl (Organization for Promotion of Industrial Production)

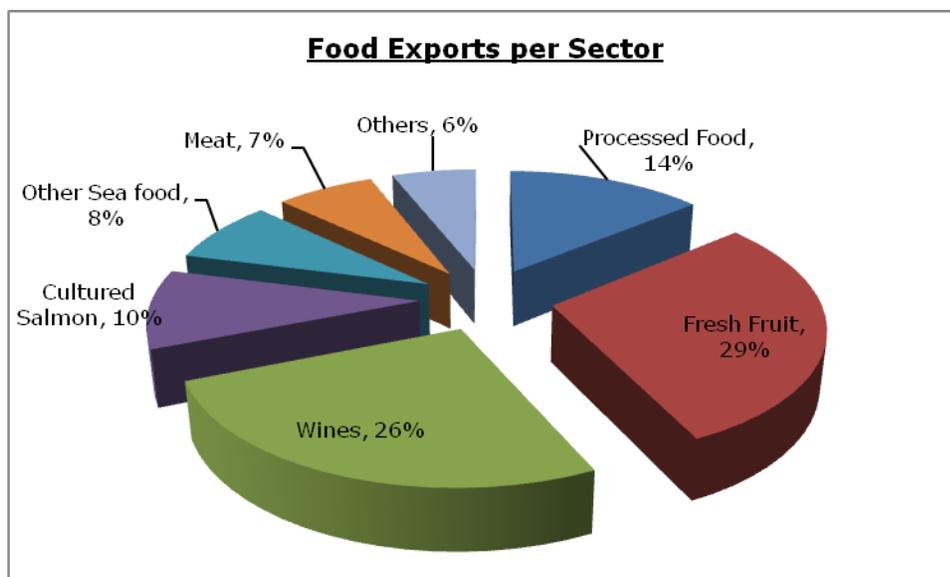
The food, beverage, and tobacco industries include the production, processing and preservation of food products such as meat, fish, fruit, vegetables, oils and fats, dairy, grain mill products, starches, animal fodder, bakery products, sugar, soft drinks and alcoholic drinks, and cigarettes.

According to SOFOFA, analyzing the evolution of production during the year 2011, the sub-industries that showed the highest growth in production were: **meat, fish, fruit and legumes**. These product categories also showed the most positive sales growth during 2011.

Main Exported Agricultural Products (US\$ Thousand)								
Ranking	HTS Code	Product	2010	2011	2011	2012	Variation 2012-2011	Market Share
			Jan-Dec	Jan-Dec	Jan-Aug	Jan-Aug		
1°	8061000	Fresh grapes (total)	1,323,064	1,430,102	1,376,308	1,168,279	-15.1%	11.6%
2°	22042110	Wine with denomination of origin (total)	1,186,463	1,321,552	833,617	865,699	3.8%	8.6%
3°	47032100	Coniferous chemical pulp, soda (soda) or sulphate, other than dissolving, semi-bleached or bleached	1,151,820	1,358,993	980,603	799,274	-18.5%	7.9%
4°	47032900	Chemical pulp timber other than coniferous, soda (soda) or sulphate, other than dissolving, semi-bleached or bleached	1,053,254	1,179,996	832,969	774,098	-7.1%	7.7%
5°	8081000	Fresh apples (total)	632,548	667,208	616,161	557,396	-9.5%	5.5%
6°	44071012	Sawn wood (since 2007)	355,989	458,165	302,293	316,880	4.8%	3.1%
7°	8104000	Cranberries, blue, bilberries and other fruits of the genus Vaccinium (total)	345,911	388,794	295,547	273,380	-7.5%	2.7%
8°	44012200	Other wood in chips or particles non-coniferous (total)	336,511	410,659	276,401	266,189	-3.7%	2.6%
9°	2032900	Other meat frozen pork (total)	297,842	365,300	239,714	260,818	8.8%	2.6%
10°	10051000	Maize planting (total)	166,036	166,164	160,232	229,231	43.1%	2.3%
12°	22042990	Other wine (total)	243,255	245,242	136,623	196,142	43.6%	1.9%
13°	44123910	Other plywood, veneered wood and similar laminated wood conifers (since 2007)	328,409	413,421	281,884	189,295	-32.8%	1.9%
15°	44091020	Beadings and moldings, furniture conifers (total)	177,524	197,332	130,239	150,440	15.5%	1.5%
Others			4,831,971	5,904,259	4,049,859	3,662,662	-9.6%	36.4%
Total Exported			12,430,598	14,507,186	10,512,449	10,065,163	-4.3%	100.0%

Source: ODEPA based on Chilean Custom's Statistics

Wine, fresh fruits and pork are the most important food exports.



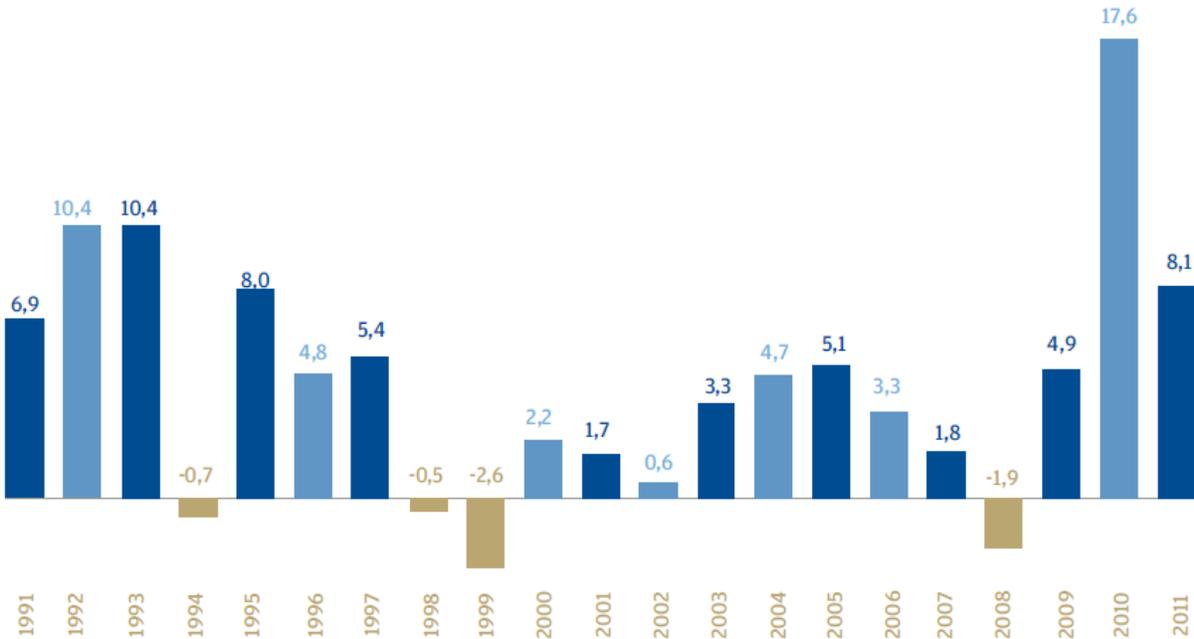
Source: SOFOFA, ODEPA and Chilealimentos

Growth

According to the report issued by Chile's National Chamber of Commerce (*Cámara Nacional de Comercio*), retail sales in the Santiago Metropolitan Region grew by 8.1% in 2011. This

increase was primarily attributable to the year’s rising employment and wages, as well as expanded financing for consumer goods.

RETAIL SALES IN THE METROPOLITAN REGION (% ANNUAL VARIATION, IN REAL TERMS)



SOURCE: NATIONAL CHAMBER OF COMMERCE, 2011

Sales in the supermarket industry grew by 9.1% in 2011.

Variation in Sales, Santiago Metropolitan Region -- 2011

Item	% Variation
Perishables	-3.1
Groceries	0.8
Furniture	8.6
Home	8.1
Electronics	15.9
Footwear	19.9
Clothing	13.9

Source: National Chamber of Commerce 2011

The Chilean food industry is the second largest generator of foreign exchange after copper, and grows at a rate of US\$ 1 billion per year, duplicating the value of its exports in the past 10 years.

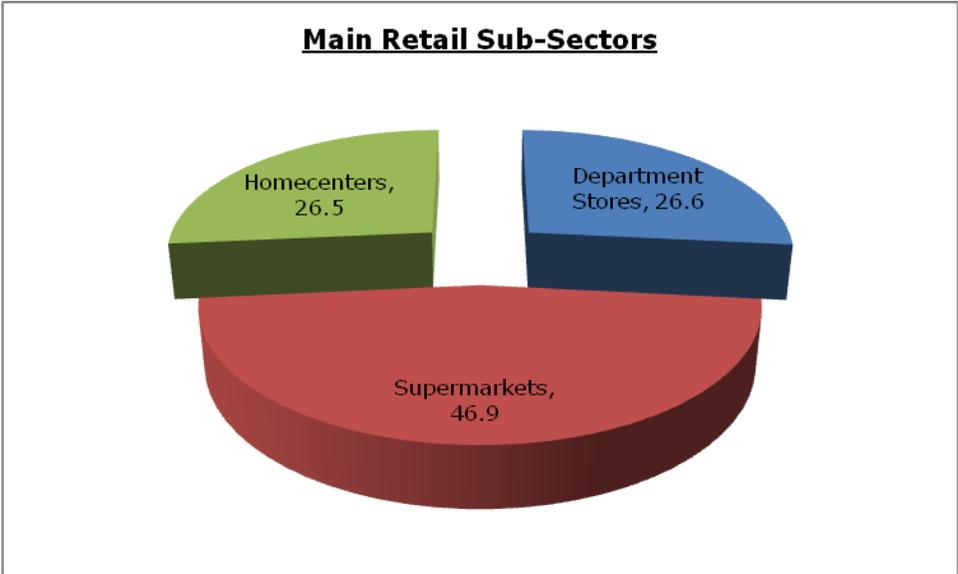
According to research by the Catholic University of Chile, it is estimated that by 2015 Chile’s food exports will reach US\$ 17 billion and imports US\$ 3 billion.

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, U.S. 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.

The food and beverage retail industries' sales will rise 45%, from US\$ 25.04 billion in 2011 to an estimated US\$ 36.3 billion in 2015. Sales are expected to grow just in supermarkets almost 40% up to US\$ 28.5 billion by 2015.

Main Sub Sectors



Source: Ceret, based on sales per m2

According To America Retail, a Latin American retail news portal (www.america-retail.com), the Chilean supermarket business has experienced an important shift. Ten years ago, consumers preferred the hypermarket, but today the biggest openings are on the side of convenience stores such as Ekono of Walmart, Ok Market of SMU and Big John, linked to Juan Pablo Correa. Traffic is increasingly complicated and people are looking to shop quickly and nearby.

Ceret, a Chilean retail consultancy focused primarily on the supermarket industry (www.ceret.cl), agrees that new store formats are tending to be smaller and focused on neighborhood consumers.

Retailers also offer a more diversified selection of products. For example, supermarkets and hypermarkets offer not only food but also clothing, electronics and even the possibility of a coffee or lunch. At department stores people can find not only clothes but also spirits,

chocolates, cookies and a wide range of gourmet food products. And in pharmacies customers can not only find drugs, but also sophisticated perfumes, candies and cosmetic lotions.

The traffic, longer commuting distances, parking issues, and overcrowding has also led to certain segments buying via the Internet, a channel that is growing and that Walmart and Falabella among others have already identified and expect to increase significantly.

Supermarkets & Hypermarkets

INE (National Statistics institute www.ine.cl) estimates the size of the supermarket industry in December 2011 reached USD 12.9 billion with approximately 70% corresponding to food sales and other household items.

According To Ceret, the supermarket formats that represent a higher sales volume in order of sales are:

- Hypermarkets
- Traditional supermarkets
- Small supermarkets or convenience stores

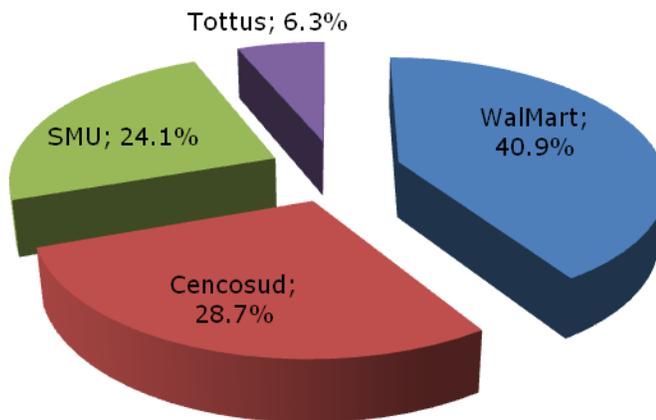
According to ASACH, the Chilean Supermarket Association (www.asach.cl), during 2011, 152 new stores were opened reaching a total of 1,233 stores nationwide by the end of the year, which according to the National Statistics Institute (INE), represents an increase of 11.9% over 2010.

Of this total 1,233 stores, 262 belong to Cencosud, the second most important supermarket player in the national market after D&S (WalMart), which accounts for 314 stores.

Each of the actors in this industry is seeking out differentiation, emphasizing low prices or quality service. In recent years, expansion has focused on urban areas with less purchasing power. Recent trends in the industry have been private label products and increased demand for organic products and prepared meals.

Walmart, Chile Comercial S.A. was previously known as Comercial D&S S.A., which was overtaken by Walmart by the end of 2011.

Supermarket Sales Market Share 2011



Source: [La Segunda](#) newspaper.

- Walmart owns the supermarkets: Lider, Ekono and ACuenta, each one representing different formats.
- Cencosud owns Jumbo and Santa Isabel supermarkets.
- SMU owns Unimarc, Bigger, Mayorista, Alvi and OK Market.
- Falabella owns Tottus supermarkets.

The trend is to open small to medium-size supermarkets of between 400 m² to 1,000 m².

Supermarkets are clearly the most important channel representing approximately 65% of retail food sales, despite only representing 1% of sales outlets.

Supermarket sales are highest in the Santiago Metropolitan Region followed by the Bio-Bio Region in the south and Valparaiso, just west of Santiago on the coast.

Supermarket Profiles

Cencosud (Jumbo and Santa Isabel)

In the supermarket industry Cencosud is in a new growth cycle, with a focus on Peru, Colombia, and Brazil through acquisition and organic growth.

By the end of 2011 Cencosud operated 684 supermarkets in Chile, Argentina, Brazil and Peru, and in 2012 they bought Carrefour Colombia. It is one of the largest supermarket operators in Peru with 74 stores, and the second largest operator of supermarkets in Chile and Argentina in terms of sales. They were the pioneers in the format of hypermarkets in Chile with the opening of the first hypermarket, Jumbo, in 1976. Since then they have expanded and grown in the supermarket division, and now operate 32 Jumbo hypermarkets and 157 Santa Isabel supermarkets in Chile. They operate 21 Jumbo hypermarkets and 248 supermarkets (Disco and Super Vea) in Argentina. In Brazil, as a result of recent acquisitions, they are the fourth largest player in the country according to ABRAS (Brazilian Association of Supermarkets), and the

largest operator in the region of Minas Gerais, the second largest in the northeast area of Brazil, and third largest in the state of Rio de Janeiro in terms of sales.

In January 2012 they acquired Prezunic, a supermarket operator with 31 stores in the state of Rio de Janeiro in Brazil, so they continue to expand their presence in the Brazilian market.

In Chile Jumbo hypermarkets continue their expansion at a regional level, establishing a significant presence in towns such as Iquique, Calama, Con-Con and Los Angeles.

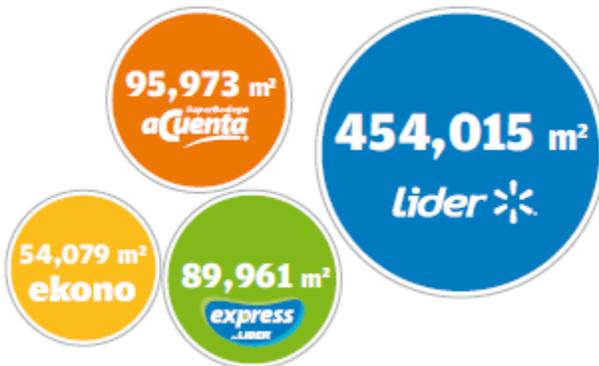
Santa Isabel currently has 157 supermarkets offering a wide selection of products, service and good locations. During 2011, Santa Isabel opened 23 new stores.

Wal-Mart Chile

Walmart Chile's participation in the industry includes the traditional supermarket line (groceries and perishables) as well as lines traditionally dominated by department stores, such as clothing, footwear, electronic appliances, and home and furniture lines.

As a result of Wal-Mart's purchase of D&S, at the end of 2011 the company operated 314 stores: 69 Lider, 57 Express Lider, 137 Ekono and 51 SuperBodega.

694,028 m²
Sales surface area



Tottus

Tottus, Fallabella's supermarket chain, during 2011 added six new stores to reach a total of 37 in five regions of the country. Regional expansion includes new stores in the regions of Antofagasta and O'Higgins, with the opening of two locals in Machali and one in Calama. The company also opened two supermarkets in Lolleo and Viña del Mar, and one in the Santiago Metropolitan Area, with the second local Huechuraba. Ending 2011 with 37 stores in five regions of the country.

In 2011 the company focused on the development of its private label lines among other initiatives, adding new products in various categories such as frozen food, perfumes, cakes, chocolates and others.

They also developed sales and customer service online through its web page (www.tottus.cl).

Convenience Stores

Name	Number of Stores
Castaño	56
OK Market	43
Big John	42
Tienda Va y Ven	39

Source: www.pulso.cl Newspaper

The number of convenience stores and gas marts has grown consistently over the past decade.

Convenience stores are small (3,300-10,700 sq. ft), are typically located in high-traffic residential and commercial zones, and have a small quantity of select items, targeting a consumer with little time in need of specific products. Snacks, beverages, candy, milk, bread, and fruit are common items found in stores in this segment.

According to El Diario Financiero newspaper (www.df.cl), while private labels in convenience stores and gas marts in the U.S. and Europe can represent up to 80% of total sales, in Chile private labels in these store formats only represent approx. 15% of sales.

The number of convenience stores and gas marts in 2011 represented around 15% of the total retail food sector sales.

The biggest convenience store chains are Big John and OK Market, primarily located in the Santiago Metropolitan Region.

OK Market was owned by Salcobrand until 2010 when SMU bought it and started an expansion plan, opening 20 new stores in that year.

Ok Market is followed by Big John (owned by Juan Pablo Correa) and Ekono Convenience store (owned by D&S – WalMart).

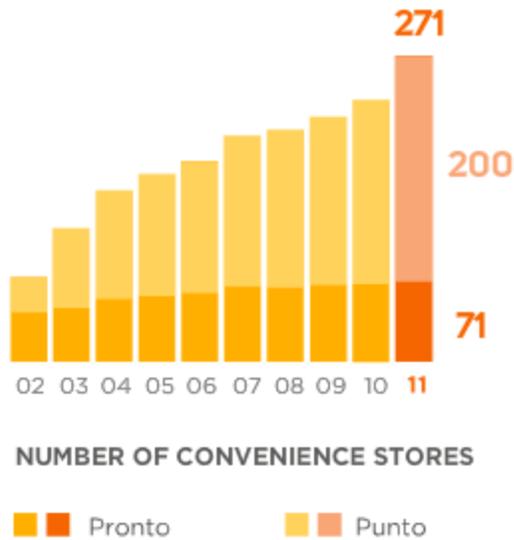
Ok Market (Salcobrand) and Big John (Farmacias Ahumada) are associated with pharmacies to increase their target customers.

Gas Marts

Gas marts have been present in Chile since the mid-1990s, when some of the larger multinational chains introduced them to the market.

The gas station convenience store concept is currently a growing market in Chile.

Copec (www.copec.cl) is the market leader with 621 gas stations and 271 convenience stores which are Pronto and Punto (Punto is smaller than Pronto, with only 16m²):

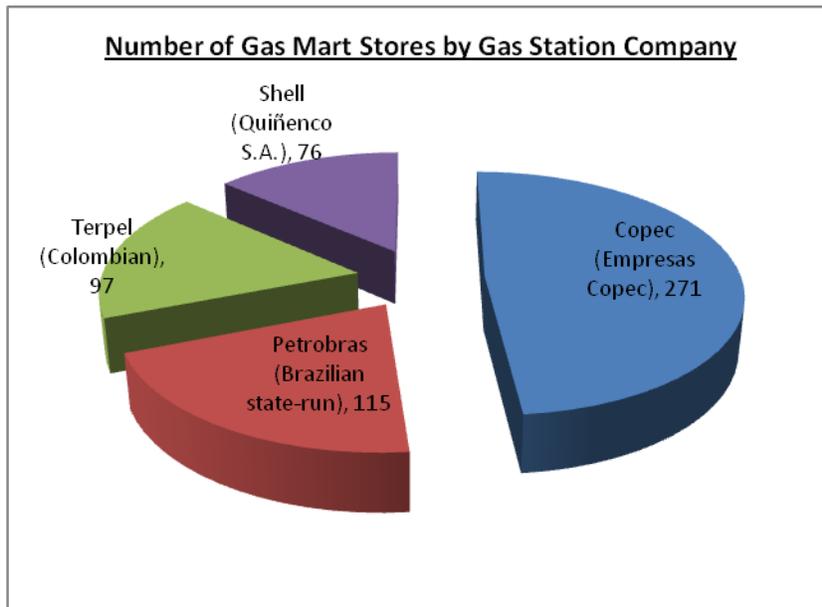


Source: Copec Annual Report 2011.

The most popular products in these gas marts are:

- Soft drinks
- Juices
- Ice creams

At the end of 2011 there were approximately 559 minimarkets of this type operating in Chile, representing a 26% growth in the market in the past four years.



Source: Press reports and companies' annual reports

Convenience stores, gas marts and kiosks sell limited quantities of imported candy and snack foods. These stores and chains do not generally import directly, but rather purchase from local wholesalers/distributors.

Traditional Markets

Although this category represents 98% of all retail food channel stores, its share of sales is at most 20 percent.

These outlets tend to offer an array of items and profit from their convenient locations. The majority of these outlets have minimal imported food stock.

Traditional markets are suffering a crisis due to the increasing supply of large supermarkets, with lower prices and greater choice. Industry margins have been falling from about 16% to less than 10%.

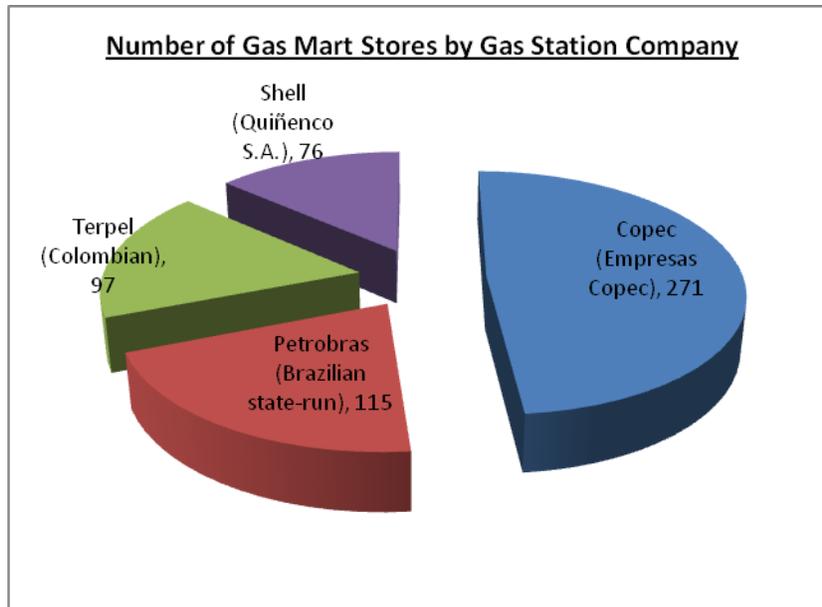
But the traditional markets do not give up. Now they are focusing on specific niches such as gourmet products, special breads, or teas for example, and are attempting to modernize and share best practices via such associations as <http://clubalmacen.cl/>.

Trends in Distribution Channels

The main food distribution channel is represented by the supermarkets, with a share of over 65%.

In Chile, supermarkets are highly concentrated among three main business groups (Cencosud, WalMart and SMU) this gives them greater bargaining power with suppliers.

The current trend is opening smaller stores with products that cater to the needs of a specific consumer segment.



Other Trends

- Some examples of new consumer trends are: the preference for healthier products, new life styles and preference for more exotic foods.
- Due to the strong competition that exists in the industry, it is becoming more difficult to differentiate from the competition, and one of the key aspects is packaging.
- Chile has a strong middle-class equivalent to about 40% of the population. The upper middle-class segment, of which 60% are concentrated in Santiago, is the consumer target for high-end imported food products.
- Demographic changes directly affect the packaging of products, for example, the individual packs for people who live alone and concerns about health and healthy eating habits, such as low blood sugar, no trans fats, etc.
- The growing middle class in Chile is causing what might be called the democratization of exclusiveness, which has increased the demand for quality goods and gourmet foods, previously destined only for the upper classes.
- Chile has the highest per capita income in the region (amounting to GDP US\$ 14,394 according to the World Bank), with sustained growth in recent years, so it has a relatively high purchasing power.
- About 10-15% of products sold in supermarkets are imported, but this segment has grown by 85% over the last five years. The US-Chile FTA signed 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.
- Vegetable and fruit consumption has remained stable.

- The change in purchasing habits is also reflected in the place of purchase. Due to price concerns wholesale supermarkets such as Alvi (www.alvi.cl) are becoming more popular, and people are returning to local markets to purchase their fruits and vegetables.
- Chile is a country which in general gives importance to brand names and therefore it is possible to build brand loyalty in a normal (non crisis) economic environment.
- Obesity is a major concern for the Chilean government. In order to fight obesity, in October, 2011, the government introduced measures under the “Valparaiso declaration” to regulate the food industry. The measures have proven to be controversial, and include:
 - Maximum sugar levels
 - Maximum levels of fats and salt
 - Clearer labeling
 - Restricted advertising of certain products
- Certain processed foods continue to see strong growth as more people join the work force and eat out of the home, or do not have time to cook. Especially promising products are convenience and fast foods, out-of-home foods (snacks, etc., which are consumed more by lower-income households and young consumers), and health and light foods.
- Generally speaking, spicy food is not popular in Chile.
- As consumer lifestyles change, Chileans are seeking more convenient alternatives, such as pre-packaged bread which is more durable, etc.

Sector Strengths and Weaknesses

Advantages	Challenges
Rising consumer spending and adoption of foreign food types favor new types of inputs as consumers become more sophisticated and demanding in their tastes.	Price sensitivity is becoming stronger because of the rise in local prices in food and other products.
Chile has the highest GDP per capita in South America.	Domestic fresh fruit and vegetable markets are abundant.
U.S. food inputs are known for their quality. They meet respected FDA & USDA standards.	Quality of food ingredients is said to have become very similar to 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 producers sometimes are not as aggressive in following up on 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	With WalMart the prices of U.S. products have dropped significantly, making competition for other players more difficult.

competitive, or at least allows them to compete on a more even playing field.	
Shipping from the U.S. is cheaper and quicker than from Europe.	Artisanal products have a significant share of the market. Chileans tend to prefer fresh foods, which are perceived as higher quality.
Population of 16.7 million is very centralized, with over 40 percent living within 100 miles of the Santiago Metropolitan Region.	Many local consumers seek out brand names they recognize as capable of supporting their needs. This represents a barrier to new products entering the market but once this has been overcome this brand loyalty/recognition could also represent an opportunity for U.S. companies.
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.
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.

Section II. Road Map for Market Entry

Entry Strategy

- Large corporations increasingly prefer to import directly from foreign suppliers, while smaller retailers are often not able to purchase whole containers or prefer that an importer/distributor manages logistics and inventory. Eventually, large sales volumes would justify establishing a local subsidiary to guarantee customer service, quality levels, and supply.
- All edible products must be approved by the Chilean health authorities and receive a registration number and open sales permit before being put on the market.
- Distribution trade is very receptive to U.S. products as they are a guarantee of quality and good packaging. When possible, larger buyers try to avoid local middlemen and buy direct in order to keep profit margins and remain competitive.
- U.S. food products are respected for their high quality levels, but prices are generally uncompetitive. To compete in Chile, U.S. producers need to consider lower profit margins. Specialty, value-added products have a better chance of success than more basic products, which are often sourced locally.
- In order to enter the market, products must meet certain criteria:

- Food must be labeled
- Information must be in Spanish
- Information must include country of origin, name, ingredients, additives, weight/volume, packaging/manufacture date, expiration date, details of the company responsible for the sale.
- Livestock and vegetation require food certificates from the country of origin.

Keys to Successfully Enter and Develop the Chilean Market

The key market success drivers are:

- A strong proactive attitude including long-term commitment to the market and conscientious follow-through of the exporting effort
- Marketing and promotion
- Adapting to competitive local price points and margins
- Customer service
- Flexibility with minimum order quantities
- Flexibility with terms of payment

The Chilean market for retail food products imported from the U.S. is small compared to sales in the U.S., even at a State level. Chile's overall GDP is roughly equivalent to the State of Louisiana. High U.S. market shares are linked mainly to a product's uniqueness (e.g. peanut butter, baked beans, etc.) or special characteristics (above-average quality or quality consistency especially with respect to human health, service, international corporate headquarters requirements, quick response and delivery capabilities, etc.). Low U.S. market share is generally due to the high impact of freight costs on commodity products, the acceptably high quality of products offered at much more attractive prices by other regional competitors, or the inability to adapt product and packaging to local standards.

The strongest recommendation would be to be as aggressive and committed as European competitors in their marketing, to make an effort to develop and nurture strong relationships with good distributors and large retailers so that the U.S. supplier becomes a trusted business partner, and then to be willing to compete by limiting profit margins to the degree necessary and possible while maintaining quality and service in order to compete, at least in the initial stages of market penetration.

The relationships of trust and open communication with potential distributors and especially with end retailers will be the key to being given the chance to learn about what products are required and which ones present the best market potential opportunities.

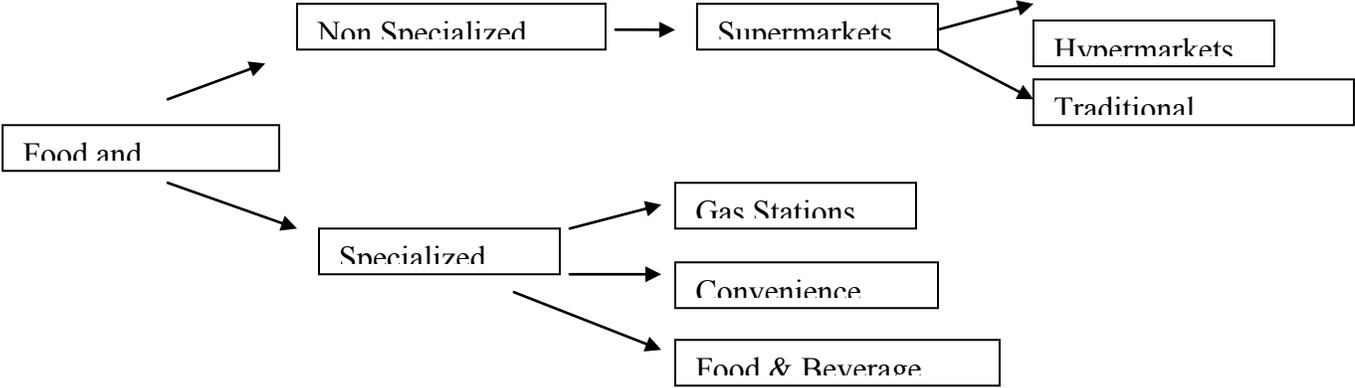
Market Structure

Food sales generally go mostly to supermarkets, followed by traditional retailers and to a small extent to institutions (HRI food services). Institutional sales are often handled as a separate business by the food companies.

Small neighborhood food stores continue to grow in number but nevertheless they struggle to compete with the large supermarket chains which are constantly gaining a higher market share as

smaller independent stores cannot match the efficiencies and location advantages of market-leading hypermarkets. The supermarket sector is dominated by a few chains.

Distribution Channel Flow Diagram for Imported Foods & Beverages



Generally, if sales volumes are not too high, direct imports will not be of interest to Chilean buyers as the costs and effort required to have an edible product approved are disproportionately high. In this case, it is more reasonable to have a local representative/distributor to handle the import process, health approval, marketing and promotion, selling, and stocking.

Section III. Competition

Chile has international trade agreements with 58 countries, such as China, Canada, Mexico and the European Union, among others.

The U.S. - Chile FTA came into effect on January 1st, 2004. It immediately eliminated tariffs on almost 90% of U.S. products imported into Chile and more than 95% of Chilean exports to the United States. Tariffs on all products will be eliminated by 2016. Bilateral trade in all goods grew by 33% that same year, reaching nearly US\$ 8 billion, while U.S. exports of consumer-oriented food products to Chile grew by 54%.

Although the FTA allows immediate duty-free entry into Chile for the majority of U.S. goods, Chile’s two free trade zones (Iquique and Punta Arenas) still offer some advantages. Modern facilities for packaging, manufacturing, and exporting exist in each zone. Imports entering and remaining in the Free Zones only pay value-added tax (VAT) when brought into Chile. The extreme locations of each zone (north and south) diminish their effectiveness as a source of distribution to Santiago.

U.S. and Chile tariff schedules can be found at www.ustr.gov/new/fta/Chile/text/, “Section 3. National Treatment and Market Access for Goods.”

Comparative Chilean Food and Agricultural Product Imports

Comparative Chilean Food and Main Agricultural Products Imports					
Product	Total Imports 2010	Total Imports 2011	Total Imports 2012 (Jan-Aug)	US Market Share	Main Competitors
	CIF US\$ Million			%	(% of market Share)
Beef	699	785	507	2.48	Paraguay (35%), Brazil (26%), Argentina (17%), Australia (10%)
Pork	34	44	34	58.79	Brazil (22%) Canada (18%)
Poultry	105	131	83	29.51	Argentina (46%), Brazil (30%)
Dairy	838	960	625	0.02	Argentina (98%), Brazil (0.8%)
Cereals	492	686	477	22.24	Argentina(50%) Paraguay(16%) Canada (9%)
Te/Coffee/Herbs	95	109	70	1.22	Brazil (28%), Sri Lanka (23%), Argentina (16%)
Fruits	103	114	85	21.77	Ecuador (57%), Peru (6%) Argentina (3%)
Vegetables	53	52	50	10.95	Canada (27%), China (23%), Peru (15%)
Wine/beer/alcohol beverages	156	166	135	Beer 25% Others 4.73%	Beer: Mexico (39%), Argentina (17%) Others: Holland (31%) Dominican Republic (12%) Panama (11%), UK (7%)
Fish & Seafood	32	45	31	1.89	Ecuador (41%), Vietnam (17%), China (12%) North Korea (6%)

Source: Chilean Customs Statistics and Odepa.

Note: 2012: Jan-Aug

Section IV. Best Product Prospects

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

Functional foods are showing good growth potential as increasingly health-conscious consumers seek new products. The dairy sector is one of the most important players in this respect with pro-biotic products becoming more popular.

Pork has become the country's second preferred meat after chicken. Chicken consumption is over 25 kg per capita annually, pork 20 kg, and beef 19.9 kg.

Major products in this category are:

- Baby Formulas
- Baking food and Mixes
- Breads & Cookies
- Candy (gummies, chewing gum, etc.)
- Cereal
- Dairy Products (cheese, yoghurt, milk varieties)
- Fruit Juice
- Healthy Food Products and Energy Supplements
- Hot Dogs
- Ice Cream
- Olive Oil & Cooking Oil
- Pastas
- Pet Food
- Pork, Turkey and Chicken
- Rum, Vodka, Beer, and Whisky
- Snacks

- Soft Drinks, Energy Drinks
- Sweeteners
- Tomato Sauces
- Tuna

Category B: Products Not Present in Significant Quantities

Products in this category are newly developed and recently introduced products with health certificates being finalized. Also, there are products, like beef, that are being sought because of recent changes in supply and demand. Major products in this category are:

- Beef
- Cocoa powder
- Ethnic foods
- Organic products
- Processed meat products
- Ready-to eat meals/prepared plates
- Spices, sauces and mayonnaise

Category C: 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.

There are very few products in this category. The U.S. and Chile are engaged in technical discussions regarding several of the products below:

- Honey and honey derived products (American Broth Disease)
- Fresh pork (self-imposed barrier)
- Genetically modified (GMO) products without registered events in Chile
- All poultry except chicken and turkey (i.e. duck)

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

For further information, check the "Food and Agriculture" home page on the U.S. Embassy Santiago web site (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
E-mail: N/A

Chilean Supermarket Association (ASACH)

Address: Av. Vitacura 2771, Las Condes, Santiago
Tel.: (56-2) 236-5150
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Web Page: www.asach.com
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