

Required Report - public distribution

Date: 1/2/2004

GAIN Report Number: CI4002

Chile

HRI Food Service Sector

Annual

2004

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Report Highlights:

Chile's HRI food service sector offers opportunities for U.S. processed food exports.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Santiago [CI1]
[CI]

Table of Contents

Section I. Market Summary	3
Country Overview	3
HRI Sector Overview	3
HRI Sector Size and Recent Growth	4
Number of Food Service Establishments by Sub-Sector.....	5
Food Imports versus Local Production.....	7
Tourism and the HRI Sector.....	8
Macro-Economic Factors and Key Demand Drivers in HRI Food Service Sector.....	8
Brief SWOT Analysis of the HRI Food Services Sector	9
Section II. Road Map for Market Entry	10
A. Entry Strategy.....	10
B. Market Structure.....	11
C. Sub-Sector Profiles.....	12
1. Hotels and Resorts	12
2. Restaurants.....	14
3. Main Institutional Food Service Firms	16
Section III. Competition	16
Section IV. Best Product Prospects	18

Section I. Market Summary

Country Overview

Chile, with a population of 15.1 million (2002 Census results), is a very centralized country with an estimated 6.1 million living in the Metropolitan Region around the capital city of Santiago. Chile, which has a GDP of nearly \$70 billion and a per-capita GDP of nearly \$5,000 (depending on exchange rate), had been growing dramatically since the 1980's until it suffered the effects of the various economic crises (Asian, Brazilian, Argentine, etc.) starting in 1998. After a 1.1- percent drop in GDP in 1999, it has resumed growing at between 2 and 3 percent and its GDP is expected to expand 3.5 percent in 2003. Santiago, which hosts the seat of government, most of the industrial activity, and business activities in general, concentrates the great majority of the HRI sector companies that would purchase imported food products.

The free trade agreements signed with the European Union, effective February 1, 2003, and the one just signed with the United States on June 6, 2003 and expected to come into force on January 1, 2004, are expected to boost the economy.

The new trade agreements are positive in two ways. First, the restaurant and hotel industry sectors always react well to an increase in disposable income and the consumer confidence index, and secondly the US-Chile Free Trade Agreement will reduce tariffs for US goods. The Chilean tariff for any product except certain luxury products dropped to 6 percent on January 1, 2003 and will stay there for countries with which Chile has no trade or tariff agreements. Three quarters of US farm goods, including processed foods, which currently pay the 6 percent tariff, will be tariff-free within 4 years and the rest within 12 years.

HRI Sector Overview

Because Chile is so centralized, most five star hotels are located in the capital city, as well as most top level restaurants and the head offices and largest customer base of institutional food service companies. Nevertheless, ski centers located in the Metropolitan Region house important numbers of visitors in the wintertime, including foreigners and Chileans, and large resorts located along sunny northern shores and in the southern lakes regions, some of them with time-sharing plans, also house some good hotels and restaurants.

The hotel sector grew strongly during the past 20 years, spurred by increased business travel linked to Chile's strong economic growth, and resorts have also become very popular as disposable income levels have grown in step with strong standard of living increases. The latest hotel to open its doors was the Ritz Carlton in mid-2003, that chain's first South American project. Hotels have some of the most sophisticated restaurants and best chefs, and attract foreign as well as local customers. But they still make up a smaller market in total sales than independent restaurants or institutional food service companies.

The hotel industry is making important investments despite the slow economy during recent years. As an example, close to \$137 millions will have been invested in 2003 for the construction of the new Ritz-Carlton, Radisson Royal, Vespucci Suite (Accor), Talbot and Santa Cruz hotels in Metropolitan Region. In fact, counting similar projects but at a nationwide level, the total investment will exceed \$215 millions. This amount plus the \$1.9 billion that will be invested in resorts adds up to over \$2.1 billion in new tourism projects.

The restaurant sector is still growing at a rate that the stagnant market cannot justify, thus creating extreme competitive pressure on prices and menu offerings. "Tablecloth" restaurants (not including fast food, snack bars, etc.) in Santiago alone grew from 500 in 2002 to 600 in

2003, and are being opened at a rate of 2.5 restaurant per week. Competition is fierce, professionalization of restaurant owners and chefs is on the rise, and those not managed properly close.

The institutional food service market is a very competitive market. As with restaurants, this puts pressure on prices and margins, which are considered less important than market share. Its main players (there are four big ones) are expected by their head offices to meet 15 percent annual sales or customer base growth figures, and they do this at the expense of margins and input prices.

The institutional food service sector generates around \$500 million per year and works with industries, mining, education (public and private) and health institutions. The main imported foods in its purchasing programs are legumes, mostly from Canada, beef, both local and imported from Brazil, Paraguay, Uruguay and Argentina, and pork, mostly local but some from Canada. Institutional food is very basic because it must meet tight budgets. They are based largely on some meat and rice, potatoes or legumes. Fairly high quality food servings including beef or chicken are being quoted to potential clients at US\$ 1.50 to \$2.00 per serving. This is a good market for basic staples as opposed to the specialty foods demanded by the hotel and restaurant sub-sectors.

HRI Sector Size and Recent Growth

Although no official government or industry sales figures exist for any of the HRI sectors, the Institutional market is the largest of the three in terms of food sales, followed closely by the Restaurant sub-sector and fairly distantly by the Hotel sub-sector. Section II C expands on the information below with more details for each sub-sector.

The institutional market is a \$500 million per year market of subcontracted food services that has grown strongly lately (10-15 percent per year), but is by now covering most of its potential customer base.

We estimate annual restaurant sales in Santiago at \$300 million, projecting to maybe \$500 million nationwide. Around 30 percent of this is food and beverage costs, and 10 to 20 percent of this food and beverage cost component, i.e. \$15 million to \$30 million, could be imported foods. The average food/beverage ratio of restaurant sales in Chile is 60 percent food to 40 percent beverages.

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

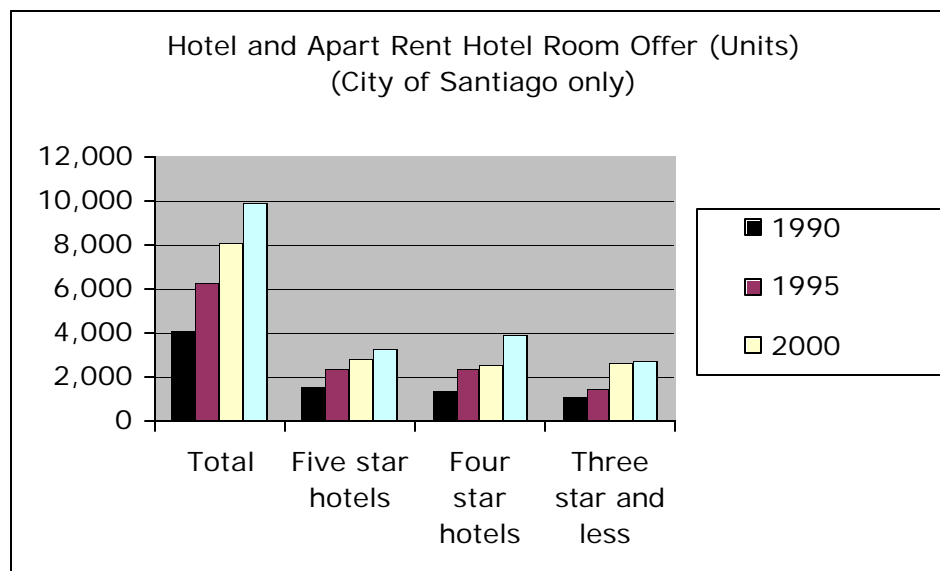
Real Restaurant Sales Indexes, Quarterly Variations

Year	Percent Cumulative Quarterly Variation				Year
	Q1	Q2	Q3	Q4	
1997	-1,6	4,3	-0,7	3,9	1,6
1998	-1,6	-5,6	-8,4	-21,2	-9,8
1999	-18,9	-17,3	-10,1	-0,8	-11,9
2000	3,4	1,1	-3,6	2,7	0,9
2001	-6,1	-11,8	-8,0	-12,2	-9,7
2002	-5,4	-4,0	-5,8	-1,1	-4,0
2003	-4,8	-2,1			

Source: ACHIGA (Asociacion Chilena de Gastronomía, Chilean Gastronomical Association)

Food sales by all Chilean hotel restaurants is estimated to be around \$40 million, with half of that attributed to 4-star and 5-star establishments, those most likely to use imported ingredients and foods.

Hotel restaurant sales have been growing about 5 percent per year. The Hotel and Apart Hotel Room Availability graph below, for the capital city of Santiago, indicates an accommodation or room capacity growth rate of 54.5 percent between 1990 and 1995 and of 29.7 percent between 1995 and 2000. The growth rate from 2000 to 2005 is expected to be 21.8 percent.



Number of Food Service Establishments by Sub-Sector

Hotel Restaurants:

Nationwide, based on SERNATUR (National Tourism Service) statistics, Chile has a total of 2,762 overnight tourist establishments with a capacity of 49,895 rooms and 113,010 beds. These establishments include hotels (37.4 percent of the total), apart rent hotels (4.9 percent), motels (17.7 percent), guesthouses (26.9 percent) and others (13.1 percent). The 1,033 hotels have a total of 31,279 rooms and 61,209 beds. These are located mostly in

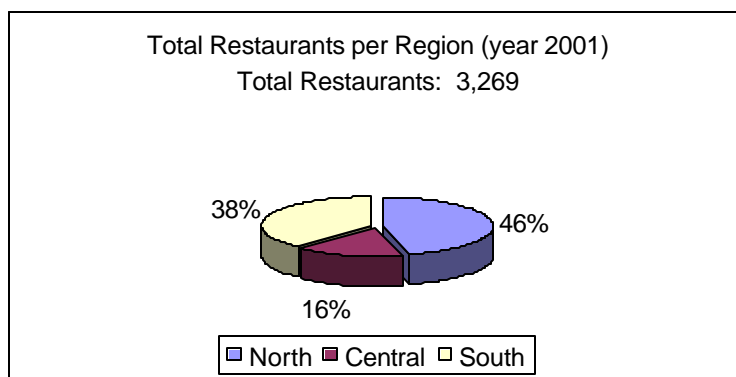
southern Chile (Tenth Region, vacation area), Central Chile (Fifth Region, coastal resorts just west and north of Santiago) and in the Metropolitan Region centered around Santiago.

There were officially 266 star-rated hotels in Chile in 2001 and 767 hotels with no "star" classification. Of the former, 24 hotels were five-star establishments and 60 had a four-star classification. The four- and five-star hotels must have restaurants and are the ones most likely to include imported foods in their menus, so that there were at least 84 significant hotel food service establishments in Chile in 2001. In 2003, the top 10 hotels in Santiago together have 2,650 rooms, some 20 percent of Chile's total four- and five-start room capacity in 2001.

Category (Stars)	Five star	Four star	Three star	Two star	One star	Total*
N° of Hotels	24	60	112	53	17	266
N° Rooms	3419	3976	3770	1330	315	12810
N° of Beds	5706	7440	7526	2749	652	24073

Independent Restaurants:

There were 3,269 restaurants and fast foods establishments in Chile in 2001 according to SERNATUR (National Tourism Service) figures. These were located mostly in the Fifth Region (29.2 percent), Metropolitan Region (15.6 percent), Tenth Region (13.8 percent) and Ninth Region (10.1 percent).



If we include coffee shops and similar establishments, the total number for Chile rises to 9,063 companies with 33,986 employees. The Metropolitan Area around Santiago is home to 32 percent of these establishments and 39 percent of total employees, respectively.

"Lobby", a publication devoted to the Hotel and Restaurant sector, counted slightly more than 500 "tablecloth" restaurants (not including fast food and the like) in Santiago in May 2002 at a time when the sector was undergoing a crisis. It also stated that in the previous three years two hundred and fifty new restaurants had been started: "one closes, two new ones open." Lobby's May 2003 article raised the number to 600 establishments, and another recent article mentioned that restaurants are opening at a rate of 2.5 per week, while the slow-growth crisis continues.

Institutional Food Services:

Four companies dominate the market and are distantly followed by several medium and small sized companies. The four market leaders are Sodexo Chile S.A. (28 percent), Central de Restaurantes Ltda. (25 percent), Compass Catering S.A. (referred to as Eurest, 14 percent) and Casino Express (2 percent). These companies cover around 69 percent of the subcontracted institutional market.

Food Imports versus Local Production

Most vegetables, fruit and processed foods, poultry, pork and seafood consumed by the HRI sector are of local origin. Typical imported products are legumes, a good proportion of red meats, baked goods and breakfast cereals and bakery and confectionery ingredients, some fruit and juices, and edible oils among others.

Top level hotels consume up to 20-30 percent of their food budget on imported foods, and most spirits are also imported. Packaging, presentation and uniform quality are the leading purchase factors. Some chain hotels must also follow corporate instruction on certain foods and amenities, which must be imported. Top restaurants have proportionally less international clientele than hotels, and their use of foreign foods does not exceed 10-15 percent. Institutional food services buy imported foods such as beef, pork, and 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.

The table below shows that food imports are a minor portion of the local market, and consumer type processed foods make up a small portion of imported foods. Local food and beverage productions have grown 10 percent in real terms from 1998 to 2002. The apparent 20 percent dollar value decline in food production and a 25 percent decline in beverage production are due to the exchange rate.

Food and Similar Product Imports vs. Local Production, 1998-2002, million dollars

	1998	1999	2000	2001	2002
Imports, CIF*	871	774	809	816	851
Local Production**	9,774	8,988	8,978	8,413	7,903
Exports, FOB*	2,521	2,589	2,597	2,695	2,844
Local Market***	8,124	7,173	7,190	6,534	5,910
Exchange rate, Ch\$/US\$	460	509	539	635	689

Beverage Imports vs. Local Production, 1998-2002, million dollars

	1998	1999	2000	2001	2002
Imports, CIF*	53	51	50	49	46
Local Production**	2,165	1,900	1,929	1,670	1,641
Exports, FOB*	572	576	610	629	631
Local Market***	1,646	1,375	1,369	1,090	1,056
Exchange rate, Ch\$/US\$	460	509	539	635	689

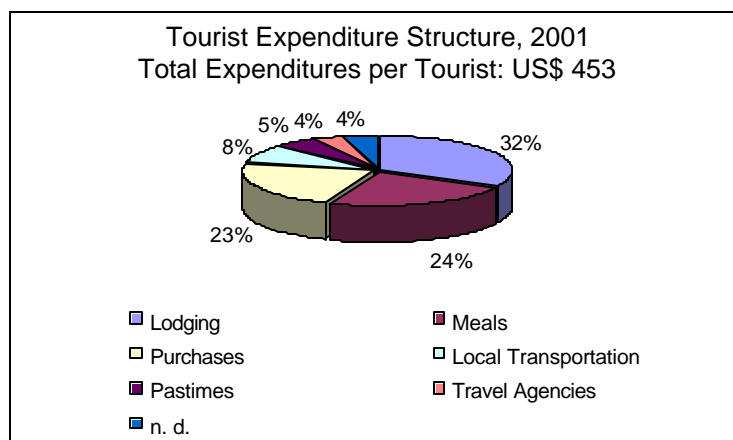
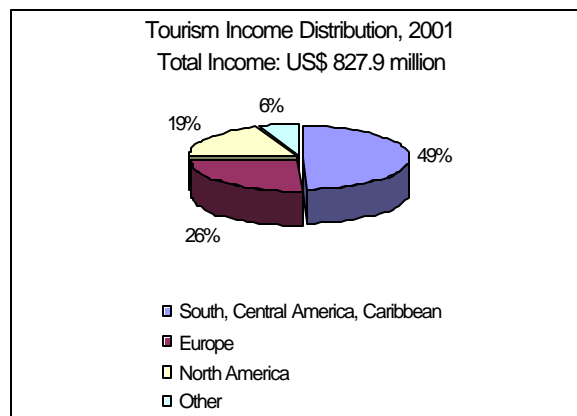
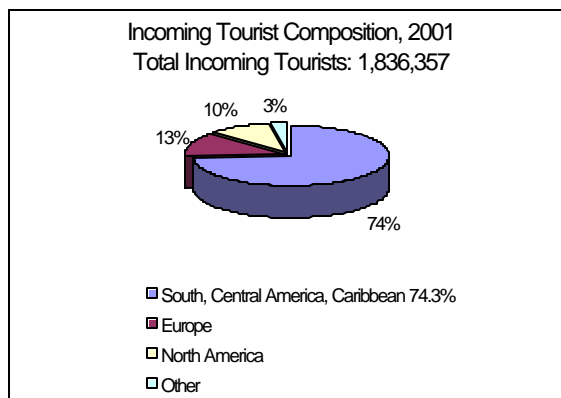
* Chilean Central Bank

** National Institute of Statistics, Chile

*** Local Market = Local Production + Imports – Exports

Tourism and the HRI Sector

The total number of foreign visitors to Chile during 2001 according to the National Tourism Service was 1,364,083, with an average stay of 10.8 days per person and average per capita expenditures of \$41.90 per day. Spending habits by tourists vary significantly, with European and North American tourists spending the most in high-level, established food and lodging establishments. Tourists affect the HRI food services sector more in the type of food and service demands than on the quantity, and thus help introduce new products into the market.



Macro-Economic Factors and Key Demand Drivers in HRI Food Service Sector

The Hotel, Restaurant and Institutional (HRI) food service sectors have responded differently to macroeconomic factors and consumer demand drivers. On the one hand, the state of the economy and the consumer confidence index, which are key factors for hotels and restaurants, have been fairly low since 1999, limiting hotel and restaurant sales, but are now recovering. Also, competition in the hotel and restaurant sectors is fierce, with a growing number of establishments competing for fewer sales. In addition to the economic slump that is just now ending, three events negatively impacted consumer psyches and caused sharp drops in restaurant and hotel sales in Chile: the September 11 attack on the Twin Towers in the U.S. in 2001, floods during a very rainy Chilean winter in June 2002, and the war on Iraq in 2003.

The Institutional sector, on the other hand, is a steadier market but still reacts to price pressures originated by reduced corporate bottom lines, and institutional food service companies are fighting to meet 15 percent annual growth targets imposed by their headquarters.

The increasing labor costs in the food service market, heightened expectations of food service clients and greater use of pre-processed foods to simplify food preparation in commercial establishments, are leading factors behind the increasing sophistication and product variety on supermarket shelves and in distributor and importer inventories. The growing proportion of women in the workforce is another demand factor for ready-to-cook or partially prepared food products. Maids are becoming increasingly difficult to find, the percentage of maids that are not live-in and work days from Monday through Friday is growing, and live-in maids are increasingly taking most of or the whole weekend off. This has spurred rapid growth in weekend eating out by families and is a strong growth factor especially for fast food franchises.

As one example of adopting some foreign eating customs, breakfast is becoming more important compared to lunch than it was, partly because schools are increasingly operating morning through afternoon and students now have less time for lunch. Less time for lunch is changing the type of food service establishment that office employees visit. The trend is away from heavy foods and towards lighter, healthier foods.

Brief SWOT Analysis of the HRI Food Services Sector

Advantages	Challenges
Packaging design and quality makes US products very attractive.	Most US products are too expensive when a local equivalent is available.
High consistent quality of product results in better presentation of food servings to clients.	Need to be more price competitive with local products without losing quality advantage.
Advanced US food processing technology and quality control. Quality variations of local products increase product waste and time spent checking product quality.	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.	The US does not enjoy a gourmet image as European products do. The image should be strengthened.
Maintenance of cold chain, on-time delivery and seriousness are appreciated.	Sometimes, US products are perceived to be too unnatural (long lists of ingredients and additives, cholesterol and sugar contents, etc.).
Value added of US products compensate for 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.

As described in more detail in the Best Prospects section, the opportunities lie with products that guarantee a level of quality control, product uniformity and reliability not available in local products. Part of this is the development of improved distribution service quality levels. Threats are present also, but in the shape of a lower-cost supply of competing products from

neighboring markets much more than non-tariff or other barriers. 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.

In terms of threats, the new US-Chile Free Trade Agreement is only one factor and in many cases may not be enough to revert a strong price disadvantage of US-produced goods in the face of competition from nearby markets or subsidized imported products. One example was the former dominance of Canadian McCain French fries in the market when US fries had to pay the 6% duty and the Canadian ones none. But even McCain started importing fries from Argentina after investing in a large potato production and processing operation there in 1994. If competing with US products is not viable, establishing local or regional operations or joint ventures can be a reasonable way to become a player in South American markets like Chile.

Section II. Road Map for Market Entry

A. Entry Strategy

Quality and presentation are strong factors in entering the Chilean market, but several industry sources stressed that an effective marketing campaign to get customers to buy and use US food products is the most crucial aspect. The fundamental reasons are that many HRI sector end users, even among top restaurants, are not aware of foreign food products and are not good at managing their establishments, so that they are not used to evaluating the benefits and efficiencies of using a more expensive, higher quality product with even quality control and prior preparation for easy and quick utilization.

Local distributors are the other weak link in increasing the market share for relatively expensive imported products from the US and other countries. Because the HRI sector generally is supplied by distributors in Chile and does not import directly, it is important to find a good representative or distributor for US products. Visiting Chile and meeting with potential distributors is important, and establishing a local subsidiary is only justified if volumes are sufficient.

The factors that local buyers consider important in choosing a distributor are seriousness and dependability, good quality products and attractive prices, as well as good customer service and proper stock or inventory control.

All local distributors and importers, large and small, are criticized for not being dependable enough in keeping promised delivery schedules and quantities, maintaining product quality and service standards, and even, in some cases, health standards (fish delivery trucks, for example). In general, food service companies spend too much time resolving delivery and quality problems with suppliers. US products would stand an excellent chance of drawing HRI sector preference if they selected a newly established distributor that observes US-level logistical efficiencies, timely delivery, constant quality and an overall dependable service.

In addition, a strong campaign to associate the US with gourmet food and food preparation must be undertaken. This has to do with local perceptions. US products are known and accepted to have the highest technical and quality standards and do enjoy that reputation, but they do not enjoy the recognition level that the European gourmet sector and food producers have in Chile. Raising the overall gourmet image of US food products would contribute significantly towards increasing the demand for individual US products.

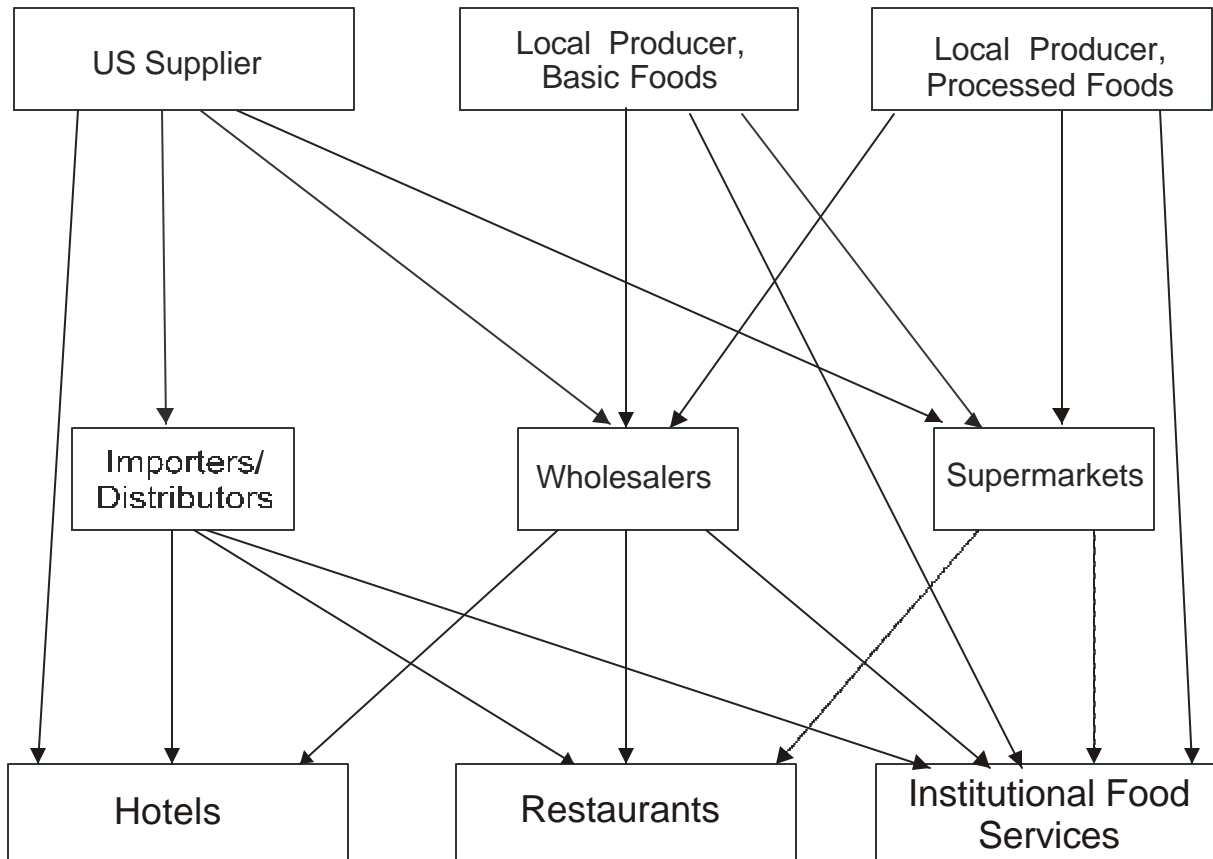
Market presence can be obtained by participating in local trade shows, the most adequate one being the biennial “Expo Retail 2003”, to be held on Oct. 14-17 2003. This show focuses on the complete distribution chain serving hotels, supermarkets, restaurants, convenience stores, etc. Local hotel and restaurant sector trade magazines include “Hotelga” and “Lobby”, which accept advertisements.

B. Market Structure

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 product directly from local producers or imports because the companies have their own purchasing center and storage facilities. Restaurants depend more on large distributors or specialty importers/resellers and buy more often and in smaller quantities to keep an adequate though limited stock.

Distribution Channel Diagram

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.



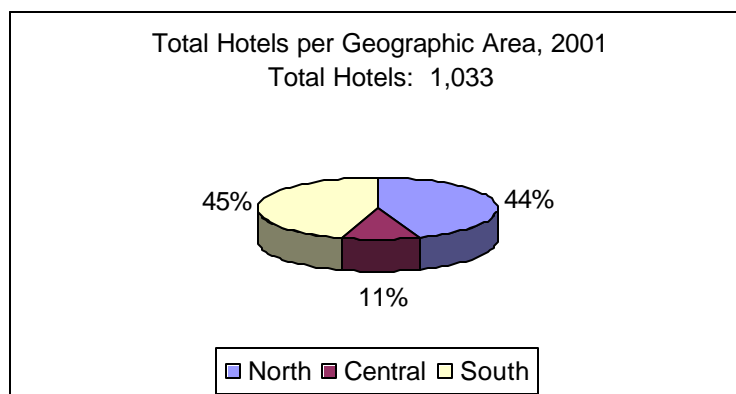
C. Sub-Sector Profiles.

1. Hotels and Resorts

Five Star Hotels in Metropolitan Region and Main Resorts

Company Name	Rooms
Hotels	
Hotel Radisson Royal Santiago	160
Hotel Marriott	280
Hotel Hyatt Regency Santiago	310
Hotel Carrera	323
Hotel Sheraton & San Cristobal Tower	518
Hotel Inter-Continental Santiago	295
Hotel Ritz-Carlton Santiago	205
Hotel Regal Pacific	104
Hotel Santiago Park Plaza	110
Hotel Neruda	112
Hotel Crown Plaza	293
Hotel Galerias	160
Hotel Plaza San Francisco	156
Hotel Kennedy	133
Hotel Tres Puntas *	97
Hotel Puerta del Sol *	127
Hotel Valle Nevado *	53
Resorts	
Complejo Turístico Marbella S.A.	78
Termas de Chillan	154
Hotel Pucón	193

* These are hotels located in ski centers in Metropolitan Region.



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	Distributor
Fresh fruits and vegetables	Markets, wholesaler
Red meat	Meat processing plants
Chicken and pig	Producers
Dairy products	Producers
Seafood	Fresh market, wholesaler.
Specialty foods (including imported processed Foods)	Individual importers/distributors

Number of star-rated Chilean hotels, year 2001:

Category (Stars)	Five star	Four star	Three star	Two star	One star	Total*
N° of Hotels	24	60	112	53	17	266
N° Rooms	3419	3976	3770	1330	315	12810
N° of Beds	5706	7440	7526	2749	652	24073

* There are 767 additional hotels with no "star" classification. These together with those above give a total of 1,033 hotels mentioned in this report.

There are no government or industry figures for total hotel food service sales, but annual sales for "Top 10" hotels is nearly \$5 million each, with 70 percent being lodging and the other 30 percent including beverage and food services. There were around 13,000 four- and five-star rooms in Chile in 2001, and the top 10 hotels in Santiago together have 2,650 of those, some 20 percent of Chile's total four- and five-start room availability.

Each of the top 5-star hotels is said to purchase around 300 thousand dollars or more per year in food and around 80 to 120 thousand dollars per year in beverages. Since most bookings are said to me made with 5-star hotels, we estimate that food & beverage purchases by all 4- and 5-star hotels may total \$20 million annually, and may grow to \$40 million annually when the whole universe of Chilean hotels is included.

According to a proprietary study by the National Statistics Institute, annual sales for 67 hotels (70 percent of the total number of rooms) in the Metropolitan Region including all their services (food, accommodations, etc.) totaled \$93 million in 2002. Since 90 percent of bookings are made in 5-star hotels, smaller hotels may sell on average some \$0.5-1.0 million annually, and total hotel sales in Santiago may be around \$110-120 million.

2. Restaurants

Restaurant Franchises in Chile

Company Name	Country of Origin	Type of Food Service	Own Units	Franchisee Units
Kentucky Fried Chicken	USA	Fast Food	38	None
McDonalds	USA	Fast Food	13	57
Domino's Pizza	USA	Delivery Food	13	8
Burger King	USA	Fast Food	15	No data
Pizza Hut	USA	Pizza	30	None
Taco Bell	USA	Fast Food	30	None
Telepizza	Spain	Pizza	28	None
Au Bon Pain	USA	Coffee Shop	25	None
T.G.I. Friday's	USA	Restaurant	2	None
Shop Dog	Chile	Fast Food	25	1
Lomiton	Chile	Fast Food	30	No data
Doggis	Chile	Fast Food	19	48
Yogen Frusz	USA	Ice Cream Parlor	11	2
Dunkin Donuts	USA	Fast Food	11	None
Ruby Tuesday	USA	Restaurant	1	None
Bennigans & Applebees	USA	Restaurant	1	None

Independent Restaurants

Restaurants are very protective of their sales, but can be classified into categories. The following are some key representative establishments for the top category (category A), which is the one most likely to use imported food products, seasonings and ingredients. Except for a very few cases where one owner has two or, in a couple of cases, three restaurants, restaurant ownership is individual and there are no restaurant chains except for the fast-food franchises.

Name	Type of Food Service	Number of Units	Location
Agua Na Boca	International	1	Santiago
Europeo	International	1	Santiago
Pinpilinpausha	International with Spanish tendency	1	Santiago
Pinch of Pancho	US, creole	1	Santiago
Ibis de Puerto Varas	International, seafood	2, not related	Santiago, Puerto Varas
Aquí Esta Coco	Sea food	1	Santiago
Hereford Grill	Beef	1	Santiago
Sibaritas	Peruvian	2, not related	Santiago
Club Hipico	International	1	Santiago

Estimated Santiago, Chile Restaurant Sales Figures, 2003 (Total "Tablecloth" Restaurants: 600)

Monthly sales range categories, million pesos	Monthly sales range categories, thousand dollars	Ave. monthly sales per restaurant, thousand dollars	Estimated market share of category	Number of Restaurants	Monthly sales per category, \$ million	Annual sales, \$ million
60-80	85-115	100	3%	18	1.8	21.6
45-60	65-85	75	7%	42	3.2	37.8
30-45	45-65	55	10%	60	3.3	39.6
20-30	30-45	38	25%	150	5.7	68.4
10-20	15-30	23	55%	330	7.6	91.1
Total	Total		100%	600	21.6	258.5

Independent restaurants have the same purchasing networks as hotel restaurants (see above). There is more of a tendency, however, to purchase items at supermarkets when their stocking and storage ability is limited and when they need flexibility in buying specialty items.

Since food and beverage costs should be no more than 30 percent of total sales, we can assume that in Santiago alone restaurants purchase around 80 million dollars of food and beverages annually.

Total restaurant sales, which respond to changes in expendable income levels, have responded negatively to the slow economy since 1998 but are poised to start growing again according to industry sources. Growth depends in part on restaurants adapting to consumers' changing tastes and responds to more restaurants and larger total sales volumes but lower, more competitive restaurant meal prices. Projected annual growth is expected to be 3 percent during the next two to three years. Some restaurateurs are expanding sales by providing food service in corporate offices, an executive level counterpart to institutional food services for the plant or office staff.

The ability of restaurants to increase sales and improve service is limited by the lack of professionalism of many owners and purchasing agents. The leading restaurants do manage the establishments as a business, do it well, offer high-quality food service at a competitive price and appreciate pre-processed, portioned or specialty imported foods because these increase the client's quality perception and reduce their own food preparation time and food wastage. At times, pre-processed foods also compensate for insufficient food preparation expertise by staff.

The "Top 40" restaurants in Chile, which are mainly located in Santiago and some of the regional resorts, are the most likely to consume significant quantities of imported food. However, many are featuring "fusion cuisine", which combines traditional ethnic or local ingredients with modern preparation and presentation. In these cases, imported foods are limited to sauces and spices.

Any restaurant selling about 30 thousand dollars (20 million pesos) or more per month is economically viable. They all can, and many are, buying imported foods to differentiate themselves from others in their menu features as a competitive strategy.

3. Main Institutional Food Service Firms

<i>Company Name</i>	<i>Sales per year (dollars)</i>	<i>Clients</i>	<i>Cover</i>
Central de Restaurantes Ltda.	125 million	Schools and universities, health institutions, mining companies, industries, etc.	Nationwide
Sodexo Chile S.A.	140 million	Industries, mining, education, health institutions.	Nationwide
Compass Catering S.A. (Eurest)	70 million	Mining, education, industries and health institutions.	First to Tenth Region
Casino Express	10 million	Industries, education, health, agriculture.	Metropolitan Region only

Sodexo Chile S.A. (28 percent market share), Central de Restaurantes Ltda. (25 percent), Compass Catering S.A. ("Eurest", 14 percent) and Casino Express (2 percent) lead the institutional market and cover around 69 percent of the \$500 million per year subcontracted market. Sodexo and Compass are strong in the mining and institutional (education, health, etc.) sectors, and Central de Restaurantes is stronger in the corporate-industrial cafeteria sector. Sodexo, for example, just won the 20-year concession for food service to five new jails.

This market seems to be reaching maturity conditions, meaning that much of the potential client base already contracts these services. However, the market is growing every year making it a very active, competitive and innovative one. There are still potential clients in defense (Armed Forces) and the public sector in general. The expected growth rate for the leading companies is on average 15 percent per year.

Section III. Competition

The leading local products sold to the HRI sector are produce, poultry and pork, seafood/fish, fruits and wine. Imported food accounts for about 10 percent of the local market. Imported products are mainly beef from Argentina, Brazil and Uruguay, legumes and cereals such as corn and wheat from Argentina and Canada. Chileans still value freshness as much as possible but do consume large amounts of frozen food, mostly local, for storage convenience and year-round availability.

Chilean Food and Agricultural Product Imports, Jan-Dec 2002, Total Imports vs. US Imports, by Harmonized Tariff System chapters

Chapter	Description (from Harmonized System Codes 1997)	Total, \$CIF x 1000	US, \$CIF x 1000	US, %
1	Live animals	3,402	1,330	39.1%
2	Meat and edible meat offal	177,038	180	0.1%
3	Fish, crustaceans & aquatic invertebrates	6,355	87	1.4%
4	Dairy prods; birds eggs; honey; ed. animal pr nesoi	23,870	1,744	7.3%
5	Products of animal origin, nesoi	13,127	1,236	9.4%
6	Live trees, plants, bulbs etc.; Cut flowers etc.	4,018	77	1.9%
7	Edible vegetables & certain roots & tubers	16,648	2,100	12.6%
8	Edible fruit & nuts; citrus fruit or melon peel	38,735	2,011	5.2%
9	Coffee, tea, mate & spices	37,334	150	0.4%

10	Cereals	222,145	29,469	13.3%
11	Milling products; malt; starch; inulin; wheat gluten	15,812	575	3.6%
12	Oil seeds etc.; Misc grain, seed, fruit, plant etc	50,121	3,533	7.0%
13	Lac; gums, resins & other vegetable sap & extract	8,170	2,906	35.6%
14	Vegetable plaiting materials & products nesoi	185	26	14.1%
15	Animal or vegetable fats, oils etc. & waxes	158,418	4,134	2.6%
16	Edible preparations of meat, fish, crustaceans etc	21,202	611	2.9%
17	Sugars and sugar confectionery	88,090	1,555	1.8%
18	Cocoa and cocoa preparations	47,450	1,535	3.2%
19	Prep cereal, flour, starch or milk; bakers wares	30,295	2,857	9.4%
20	Prep vegetables, fruit, nuts or other plant parts	32,755	2,058	6.3%
21	Miscellaneous edible preparations	58,931	11,902	20.2%
	Total Foods	1,050,699	68,746	6.5%
22	Beverages, spirits and vinegar	39,811	3,176	8.0%

Principal Competing Countries of Origin for Selected Chapters

Chapter	Main Competitors - Percent of Total Imports
2	Brazil - 66%, Paraguay - 20%, Uruguay - 11%, Canada - 1%
4	Argentina - 49%, Uruguay - 12%, USA - 7%, New Zealand - 6%
7	Canada - 51%, Argentina - 14%, USA - 13%, China - 11%
8	Ecuador - 84%, USA - 5%, Argentina - 5%, Sri Lanka - 1%
11	Argentina - 27%, Canada - 17%, Poland - 16%, Holland - 15%
15	Argentina - 75%, Peru - 8%, USA - 3%, Brazil - 2%
16	Ecuador - 67%, Thailand - 13%, Brazil - 4%, USA - 3%
17	Argentina - 47%, Colombia - 23%, Brazil - 13%, Guatemala - 8%, USA - 2%
18	Brazil - 36%, Argentina - 29%, Ecuador - 14%, Spain - 4%, USA - 3%
19	Argentina - 26%, Peru - 17%, Brazil - 11%, Mexico - 10%, USA - 9%
20	Argentina - 40%, Brazil - 12%, Thailand - 9%; Ecuador - 7%, USA - 6%
21	USA - 20%, Brazil - 18%, Colombia - 13%, Argentina - 13%
22	UK - 36%, Argentina - 23%, Mexico - 8%, USA - 8%

Beef imports during 2002 were an anomaly. In 2000, Argentina had 35 percent of the beef market (chapter 2), followed by Brazil (30 percent) and Paraguay (26 percent). Meat imports from Argentina were banned during 2001 and most of 2002 due to hoof-and-mouth disease, which explains the less than 1- percent market share for Argentina in Chapter 2 imports. During the first half of 2003, Brazil retained a 67 percent share and Argentina came in second with 20 percent of imports, recovering some ground. However, a renewed outbreak of hoof-and-mouth disease in Argentina in 2003 is likely to adversely affect their market share again for the next couple years.

Principal Competing Countries for Key Products with Potential for US Producers

Heading/Code	Product	Total US\$CIF x1000	US Market Share	Main Competing Countries
0202	Frozen bovine meat	22,923	0%	Brazil - 95%, Paraguay-5%
0203	Frozen, fresh or refrigerated pork meat	820	0%	Canada-99%
0207	Frozen, fresh or refrigerated chicken meat	1	33%	Spain-38%, Brazil-28%
0406	Cheese	7,145	15%	Argentina-48%, Brazil-10%, Uruguay-10%
0713	Legumes, total	9,773	10%	Canada-85%
0713.1000	Peas	2,325	12%	Canada-84%
0713.3190, 0713.3290, 0713.3390	Beans	147	0%	China-75%, Argentina-14%
0713.4000	Lentils	5,809	0%	Canada-100%
0802	Nuts	2,165	83%	Iran-11%, Argentina-5%
1006	Rice	18,747	22%	Argentina-27%, Thailand-25%, Uruguay-15%, Brazil-9%
1104	Milling products	397	26%	Argentina-74%
1509	Olive oil	3,768	0%	Spain-48%, Italy-36%, Argentina-15%
1601	Sausages and similar products	219	89%	Spain-6%
1602.4100	Hams and thereof	157	0%	Spain-32%, Canada-27%, Italy-23%, Brazil-15%
1904	Breakfast cereals	8,009	26%	Brazil-28%, Argentina-22%, Mexico-20%
2004.1000	Prepared frozen potatoes	6,526	1%	Argentina-71%, Holland-19%, Belgium-9%
2009	Fruit juices	7,813	2%	Brazil-41%, Argentina-36%, Thailand-10%
2103	Sauces	6,962	21%	Argentina-46%, Japan-6%, Brazil-5%

Many of the products are procured from Canada because of the 0 percent tariff. US producers should have a much better chance to compete in these products, such as pork and legumes, once the tariffs start being reduced as established in the US-Chile Free Trade Agreement expected to go into force on January 1, 2004.

Section IV. Best Product Prospects

Sauces and spices are the most common US processed food products in the market. Asian foods, especially Japanese style foods, are in growing demand. Specialty rice varieties for sushi and other foods are in demand, as well as the sauces. Restaurants and especially hotels require these Asian products. The Hyatt and Marriott hotels import them directly. Mexican style food is also very popular and US ingredient brands such as El Paso stand out in the market.

Strong potential is developing for US suppliers of frozen pre-processed French fried potatoes and frozen or dry legumes as we approach lower customs tariffs when the US-Chile Free Trade Agreement goes into effect on January 1, 2004. These products are already in the market, but the regular 6 percent tariff for US products makes them uncompetitive against Argentine (formerly Canadian) and Canadian imports which are duty free.

Cheeses, hams and other such foods also have potential due to the limited variety and quality of Chilean products, especially in the dairy product category. They are already imported and consumed, and market share will grow.

Other US products with good potential are frozen fruit and vegetables that simplify cooking and reduce labor costs and food spoilage or waste due to uneven quality as in the case of domestic frozen potatoes. Again, price is important and marketing is a must to avoid the example of US frozen orange juice in cans, which disappeared in favor of Brazilian juice in cartons because the US frozen orange juice was perceived as too expensive and was not promoted. Shipping costs may be an insurmountable obstacle and should be considered when evaluating competitiveness against local products or those imported from neighboring countries.

Beef in special US-style cuts (prime rib, New York strip, etc.) for hotels and some independent restaurants as well as certain pork and chicken cuts, although not in large quantities, can also find a market in Chile because they are hard to source locally. However, two local chicken producers currently control the market and raw chicken meat imports are still restricted.

Imported liquors are of course always in high demand. These include bourbon whisky from the US as well as scotch, vodka, rum and other products.

A growing market is evolving for organic products, which are still in limited supply in Chile.

The tourist sector (hotels and restaurants) requires, in general, products that are attractively packaged and convey an image of quality and healthiness for an optimal presentation to the client. This includes preserves, jams, chocolates, and other products that are placed on tables or in hotel guestrooms.

Imported specialty foods in general have a strong market potential linked to the diversification strategy that restaurants are pursuing in an increasingly competitive market. Special frozen shellfish, fish and crustaceans, special meat cuts, seasonings and other products as yet unknown in Chile are being sought by restaurant owners.

Restaurant owners said that much progress has been made in the level of customer service, in the presentation of hot food and in the decoration of the establishments, but there is a strong need to improve quality of desserts, baked goods and confectionery. Good US confectionery and pastry ingredients and glazes are an example of this type of products with strong growth potential.

Section V. Post Contact and Further Information

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