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Chile

Exporter Guide

Annual

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

Includes PSD Changes: No
Includes Trade Matrix: No
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Executive Summary

Chile's resource-based, export-led economy is now forecast to finish the year with close to a 5% growth rate and the economy is expected to continue strongly in 2005 due to world demand and new impetus from the recently concluded US-Chile and Chile-Korea Free Trade Agreements. Year end inflation is projected to be 3.3%, with unemployment remaining around 9.9%. The tourist sector saw a 5% increase in real estate investment in the first half of 2004. Retail sales also have increase 4.3 % during the first half of 2004 from the same period in 2003. Approximately 4 million people out of Chile's population of 15.1 million have the resources to purchase high value imported, consumer-ready food products.

Consumer Demographics in Santiago, 2003

Socio-economic Class	Percent of homes in Santiago	Percent of expenses on groceries
Upper and Middle Classes	9.5%	13.8%
Emerging Middle Class	44.5 %	49.0%
Poor	46.0%	37.2%

In 2003, total consumer-oriented retail food sales reached close to $4.5 billion. However, imports account for less than 10 percent of sales. The majority of these sales were made in the capital, Santiago, where both population density and higher incomes generated 40% of consumer demand. Chile's growing number of supermarket chains are generally modern and highly competitive. While US products are well respected for their consistant high quality, Chileans remain price conscious.

Like retail sales, the restaurant sector, also is highly vulnerable to economic conditions. With the economic turn around Chileans are returning to dining out. However, the preference for modest outings at fast food restaurants continues. Younger generations also are choosing less traditional restaurants, gravitating toward more trendy less expensive restaurants. With the economic recession, restauranters are trying to attract more business with "happy hours" and special menus. International fast food chains are expected to continue to extend their reach beyond Santiago and its upper-class suburbs.

Food and beverage purchases are the largest single household expenditure.

Average Monthly Expenditures per Household in Santiago, 1997*

Item	Dollars	Percent
Food and beverages	285	26.8
Transport and communications	166	15.6
Housing and utilities	149	14.0
Home maintenance and furnishings	96	9.4
Clothing	94	8.8

Education and school fees	63	5.9
Health care	59	5.5
Recreation	58	5.5
Other goods and services	91	8.5
Total	1,061	100.00

Source: National Institute of Statistics
* The 1997 census remains the most current information

II. Exporter Business Tips

- An importer/agent is becoming a necessity. Most supermarket chains prefer to buy new or less well known products from importer/distributors.
- U.S. products can fill gaps in the local market if supported on the ground. Intensive sampling, in conjunction with prominent shelf space in supermarkets, are key to successfully launching imported products.
- Agent/importers must also have the ability to store imported products until they are tested, and released for sale and distribution by health officials of the region.
- While regulations are relatively transparent, changes are not widely advertised. Therefore the exporter or his/her representative needs to monitor the Diario Oficial, where the Ministry of Health and the Ministry of Agriculture periodically publish changes, and/or consult the Ministry of Agriculture's webpage (www.sag.gob.cl) and Ministry of Health (www.sesma.cl).
- Fresh produce and poultry products may need an import permit and prior plant inspection from the Chilean Ministry of Agriculture.
- Spanish labeling is a must.
- Consumers are very brand oriented, but major supermarket chains are introducing private labels.
- Sampling is usually required to introduce new products successfully.
- Middle and upper class consumers generally steer clear of spicy, "ethnic" foods.
- Consumers are not overly concerned about the health aspects of fat, cholesterol, and extensive processing. At the same time, noting the health benefits of a product can be helpful in marketing a product.
- Consumers relate expired shelf life to spoilage, which is one of their major concerns when shopping.

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

Advantages	Challenges
The U.S. can produce many niche products at low cost due to economies of scale.	The single most important factor influencing purchasing decisions is price.
Domestic transportation and communication systems are efficient in Chile.	Chile produces a wide range of high quality inexpensive inputs, so imports tend to be more expensive vis a vis domestic products.
Regulations are transparent and enforcement is generally free of corruption.	Strict animal and plant quarantine regulations prohibit the import of some products and all products have to be

	approved by SESMA, as Chile's labeling requirements vary from the US.
Middle and upper class shoppers are much more apt to purchase prepared meals at supermarkets.	The most common worry of consumers is food spoilage; in particular, they are concerned about the expiration of shelf life.
25% of the most affluent shoppers look for variety and a wide selection of products.	U.S. products have no special cultural appeal compared to products from other countries.
The market for imported consumer foods is concentrated in Santiago, where 40% of the country's population lives.	Importers seldom have the ability to market full container shipments of consumer food products from the United States.
Supermarket chains are seeking suppliers of well-recognized, high sales volume products to expand their line of private label items.	Retail power is concentrated in three chains and they demand considerable marketing support for branded products.

III. Market Sector Structure and Trends

Chile has a modern, highly competitive retail sector. The industry is dominated by Chilean-owned chains, which are aggressively competing with each other for market share. The two largest player in the market, D&S and Jumbo account for 77% of sales in Chile. The D&S chain, Chile's largest has 31 hypermarkets and 26 supermarkets, while Jumbo has 9 hypermarkets and 77 grocery stores (formerly Santa Isabel) in it's network. However, Chile's consumer-oriented retail food sector continues to have significant growth potential, given the relatively low penetration of supermarkets, which is currently 60%, compared to 80% in more developed countries. Supermarkets, i.e. stores with 3 or more check-outs number about 679. Traditional neighborhood mini-markets, beverage stores, vegetable stands, etc., number about 90,000. Convenience stores, gas marts and kiosks sell limited quantities of imported candy and snack foods. In general, they do not import, but purchase from local wholesalers/distributors. The average gas mart has an area of 100 - 150 m2 and sells around $600,000 annually. Gas mart profit margins are reportedly about 10% on sales, about double that of supermarkets. However, the introduction of hypermarkets and larger supermarkets is reshaping the industry. These large stores now account for 20 percent of total sales, offering customers fresh bakery goods, delicatessen items, fresh seafood, coffee bars, prepared salads, pizzas and meat dishes, in addition to fresh, frozen and dry grocery products. Warehouse outlets and wholesale clubs have not yet made an appearance. 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 Free Trade Agreement (FTA) has prompted new interest in US products and opened new opportunities for previously prohibited products, such as red meat, certain fresh fruits, and dairy products.

The hotel and restaurant sector offers modest opportunities for selling high value processed products. Middle and upper class Chileans dine out at restaurants about twice a month on average. Higher wages for kitchen employees and stricter sanitation standards will encourage the industry to look for more pre-prepared or partially prepared products and products offering greater uniformity. This sector is divided between a small, but growing group of fast food chains and locally owned establishments, such as traditional restaurants. Many of the fast food chains are multinationals which tend to import through buying offices in the United States. The local firms buy exclusively from local distributors. Therefore, to

enter this market, a U.S. exporter must engage a local distributor and work closely with that firm in order to introduce new products to the restaurant industry.

Institutional food service companies, on the other hand, do about $300 million in business annually. Mines and educational institutions are the leaders in offering meal benefits. However, reportedly 80 percent of businesses provide their employees in-house food services or vouchers to eat at local restaurants and sandwich shops. Approximately 50% of the raw materials are imported for these meals, with the bulk of these imports coming from Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay). There are three companies dominating the institutional food service sector: Compass Catering SA has the contract for the military, schools, and state programs, including some hospitals and jails. Therefore they are particularly interested in products that can meet the special price and nutritional requirements of their customers. They do not direct import, but work through a variety of brokers and importers. They serve approximately 260,000 meals a day and have a market share of approximately 20%. Sodexho Chile, SA has operations in 66 countries with a regional director in Brazil. Consequently they have traditional ties to suppliers in Brazil, as well as Argentina. Price competitiveness is essential as well as focussing on niche products not normally sourced from these two countries. Most imports are brought in through brokers. They service a wide range of private industries such as: mining, petroleum, construction, fisheries, forestry, textile, steel, auto, chemical, pharmaceutical, service companies, banks and supermarkets, hospitals, schools and goverment programs. They have a market share of approximately 21%. Central de Restaurantes uses a large quantity of imports, particularly high value food items. However, they do not bring these products in directly, they use brokers and importers. Currently, most of the products they carry are from Latin American suppliers. They service mines, banks, airlines, tv channels/the press, private colleges, and hospitals and clinics. They do more than 200,000 meals a day and have a 30 percent market share.

The intitutional food service sector is a relatively untapped area for US companies, as the above-mentioned companies currently are not importing from the United States. With export pricing designed to offer discounts on the unit sizes intended for institutional use, US products would be more attractive.

Chile has a very competitive food manufacturing/processing sector that supplies a wide range of products, including: poultry and pork products, dairy products, seafood, processed fruits and vegetables, cookies, chocolates, candies, pasta, powdered beverages, soft drinks, bakery products, canned peaches, marmalades, tomato sauces and wine. Chile has worked steadily to improve food safety standards, and has become a leader in this area in the South American region. In addition to the domestic food processors, who dominate the market, there are several well know international food processors who have invested in Chile to make products specifically for sale in Chile and in the region.

The Chilean food processing industry is growing and the latest Free Trade Agreement (FTA) with the European Union and with the United States are expected to provide further impetus to this sector. The principal constraint in the market is that currently most low cost imports for this sector come from other Mercosur countries (Argentina, Uruguay, Paraguay and Brazil). However, we believe there is an opportunity for US high tech food ingredients. Also, the US-Chile FTA has opened up new markets for previously prohibited inputs, such as meat, fresh fruits and dairy products.

IV. Best High-Value Product Prospects

The following are best prospects by import sector:

Retail:
1. Snack foods, including high energy nutritional snacks for sports.
2. Frozen prepared dinner entrees and frozen bread products.
3. Dairy products, fresh and frozen, such as yogurt and specialty drinks
4. Processed meats, sardines, tuna
5. Dietetic snacks and candies
6. Baked goods and mixes
7. Sweets, gum, chocolates
8. Specialty pet foods (other than dry dog food).

Institutional food service:
1. Tuna
2. Rice
3. Oil
4. Canned vegetables
5. Deli meats
6. Cheese and other dairy products
7. Low Carb products
8. Pre-mix sauces

Ingredients for the following food processing sectors:
1. Dairy
2. Bakery products
3. Snacks
4. Processed meats

In the first six months of 2004, the following U.S. products have shown an increase in there exports to Chile:

1. Chocolates (29%)
2. Coffee/Tea (34%)
3. Candy (21%)
4. Mushroom (30%)
5. Prepared meat (49%)
6. Frozen Vegetables (54%)
7. Dairy (125%): like cheese
8. Dried Nuts (20%)
9. Miscellaneous Food (30%): like ice cream and soups
10. Nuts (20%)

V. Key Contacts and Further Information

Mailing Address:
Office of Agricultural Affairs
U.S. Embassy-Santiago
Unit 4118
APO, AA 34033-4118

Street Address:
Office of Agricultural Affairs

Embajada EE.UU.
Andres Bello 2800
Las Condes
Santiago, Chile

Phone: 56-2-330-3704
Fax: 56-2-330-3203
Email: agsantiago@.usda.gov, fas_stgo@rdc.cl
Web Sites: **http://www.usembassy.cl**; or **http://www.fas.usda.gov**
U.S. Embassy Santiago homepage. First look under *"Food and Agricultural Affairs,"* for research reports, statistics, and contacts in Chile.

Technical Reports:

A Food and Agricultural Import Regulations and Standards (FAIRS) Report for Chile is available on both the U.S. Embassy and the FAS websites.

Chile's Food Safety Regulations are available in Spanish (official) and English (unofficial translation) on the U.S. Embassy website.

An Retail Food Sector report, dated October 2003, is available on both the U.S. Embassy and the FAS websites.

An HRI Food Service Sector report, dated October 2003, is available on both the U.S. Embassy and the FAS websites.

An Pet Food Brief, dated June 2004, is available on both the U.S. Embassy and the FAS websites.

Table A. Key Trade & Demographic Information*

Agricultural Imports From All Countries ($Mil)/U.S. Market Share (%)	2003	1,817/9
Consumer Food Imports From All Countries ($Mil)/U.S. Market Share (%)	2003	249/5
Edible Fishery Imports From All Countries ($Mil)/U.S. Market Share(%)	2003	23/8
Total Population (Millions)/Annual Growth Rate (%)	2003	15.1/1.4
Urban Population (Millions)/Annual Growth Rate (%)	2003	12.9/1.6
Number of Major Metropolitan Areas 1/	2003	3
Size of the Middle and Upper Classes (Millions)/Growth Rate (%) 2/	2003	5.0/5
Per Capita Gross Domestic Product (U.S. Dollars)	2003	4,216
Unemployment Rate (%)	2003	9.2
Annual Food Expenditures Per Household in Santiago (U.S.	2003	207

Dollars)		
Percent of Female Population Employed Outside the Home	2003	45
Exchange Rate (US$1= pesos)	2003	689

1/Population in excess of 1,000,000
2/Family income more than US$12,000