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HRI Food Service Sector

Annual

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

Includes PSD Changes: No
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Section I. Market Summary

- The Chilean foodservice industry is highly fragmented and composed of many small, independent family businesses, although this is changing over time.
- Domestic production and European imports present the greatest challenge to U.S. processed foods.
- The majority of importers have their main office in Santiago or the surrounding Metropolitan Region, and many act as local distributors for foreign products. A good local distributor will have an aggressive sales force with national coverage.
- A growing middle class, higher disposable income, and healthier eating habits are increasing and changing Chilean consumption of foods and beverages.
- Eighty percent of Chilean companies provide their employees with in-house food services or vouchers to eat at local restaurants.
- With more couples working outside of the home, restaurants are welcoming more patrons now than in previous years.
- Competitive pricing is very important in the Chilean food market.
- The national tourism industry grew by 13.7 percent in 2004, with fewer Chileans traveling outside the country and more foreigners visiting hotels.
- Less than two percent of beverages in Chile are imported.
- Ethnic foods are gaining popularity, and Tex-Mex-style food should be a particularly attractive market for U.S. exports.
- Chile's healthy export-oriented economy is helping to fuel the country's growth rate, and its expanding per-capita income should continue to increase local demand for food and beverages.

| Advantages | Challenges |
|--|---|
| The domestic farm sector produces a wide variety of crops, but Chile is still a net importer of most bulk and intermediate commodities | With land stretching from the extreme south to north, Chile has an extended growing and harvesting season |
| The percentage of GDP growth has increased at a faster rate than population growth, reflecting the country's strong economy | The domestic food processing sector is highly competitive and growing |
| Chile's population of 15 million is very centralized, with over 40 percent living within 100 miles of the capital's metropolitan region | Chile's high food safety standards have helped it become a leader in South American food manufacturing and processing exports |
| Second-highest GDP per capita in Latin America, after Mexico | Most Chileans prefer fresh foods, which they perceive as higher quality |
| Packaging design and quality makes US products very attractive. | Most U.S. products are more expensive than the local equivalent when available. |
| Consistent quality products result in better looking food servings. | Imports need to be more price competitive with local products without losing their 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 U.S. products do not enjoy as much of a gourmet image as European products do. The image should be strengthened. |
| Maintenance of cold chain, warehouses and on-time delivery are appreciated. | Sometimes, US products are perceived to be too unnatural (long lists of ingredients and additives, cholesterol and sugar contents, etc.). |
| The value added of U.S. products may compensate for the higher price, especially for large volume products. | Portions are not always according to local usage, both at home and in HRI establishments. |
| Imported products compensate for seasonal drops in local production and ensuing price hikes. | Finding a good, reliable distributor is not easy. To gain an advantage, ensure that the distributor complies with your quality, customer service and delivery standards. |
| The Economist Intelligence Unit predicts almost six percent economic growth for 2005, as domestic demand was strong the previous year | Chile has Free Trade Agreements with the NAFTA countries, Mercosur, the European Union, many Latin American countries, and South Korea; as such, U.S. products face stiff price competition |

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 U.S.-Chile Free Trade Agreement is only one factor and in many cases may not be enough to revert a strong price disadvantage of U.S.-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 U.S. 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 U.S. 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

Chileans are generally conservative and traditional, tending to frequent their favorite restaurants and order their favorite dishes. They place importance on local taste, and thus restaurants will typically offer fresh vegetables, seafood, meat, and poultry which were purchased locally.

The average Chilean is becoming more educated on culinary options, and his or her taste is more globalized than in the past. Increased demand for new and distinct food products has partly been sparked by international travel, both with Chileans traveling abroad and foreigners requesting non-traditional dishes.

Brand name recognition has become an important aspect in HRI sector purchases. However, brand recognition does not imply that popular food products are necessarily more expensive or of higher quality, but rather that those working in food preparation tend to develop loyalties to their favorite products.

A recent report by AC Nielsen claims that 55 percent of Chilean consumers value innovation when determining food purchases. U.S. products typically have a comparative advantage in this area, as many new functions and market segments (e.g., light or diet items) originate in North America. Breakfast cereals were among the top ten brand groups in 2004 with a growth of 19.2 percent, and the vast majority of these were imported. Domestic companies are more concerned with volume sales to the mass market, rather than niche and more selective segments. Chilean tastes are becoming more sophisticated, so unique and gourmet foods have been gaining popularity. Opportunities exist for U.S. companies interested in supplying small but valuable market segments.

Asian countries have a strong presence with exports of rice and spices to the Chilean HRI sector, and liquor imports from Europe are popular. Meat, grains, and potatoes are primarily imported from Argentina and Uruguay. Products from the U.S. do not currently have a strong presence in any of the HRI sub-sectors or in the general food industry as a whole. Interviews with local hotels, restaurants, institutions, and distributors revealed that many Chileans are unaware of any U.S. products that they currently purchase. Although U.S. food processing equipment shows moderate popularity, only a minimal slice of imported food purchases currently comes from the United States.

Given that many end-users are unfamiliar with foreign products, promotion of U.S. products is key for successful market entry and development. There is a perceived prestige for European products, thus Chilean buyers must be courted with an image of U.S. products that compares favorably with their European competitors which already have higher visibility. Suppliers should highlight the traditional strengths for which the United States is recognized, emphasizing quality control, uniformity, reliability, and innovation. Organic products serve as a particularly attractive import from the United States, given that local production is minimal and the market is growing as Chileans become more health-conscious.

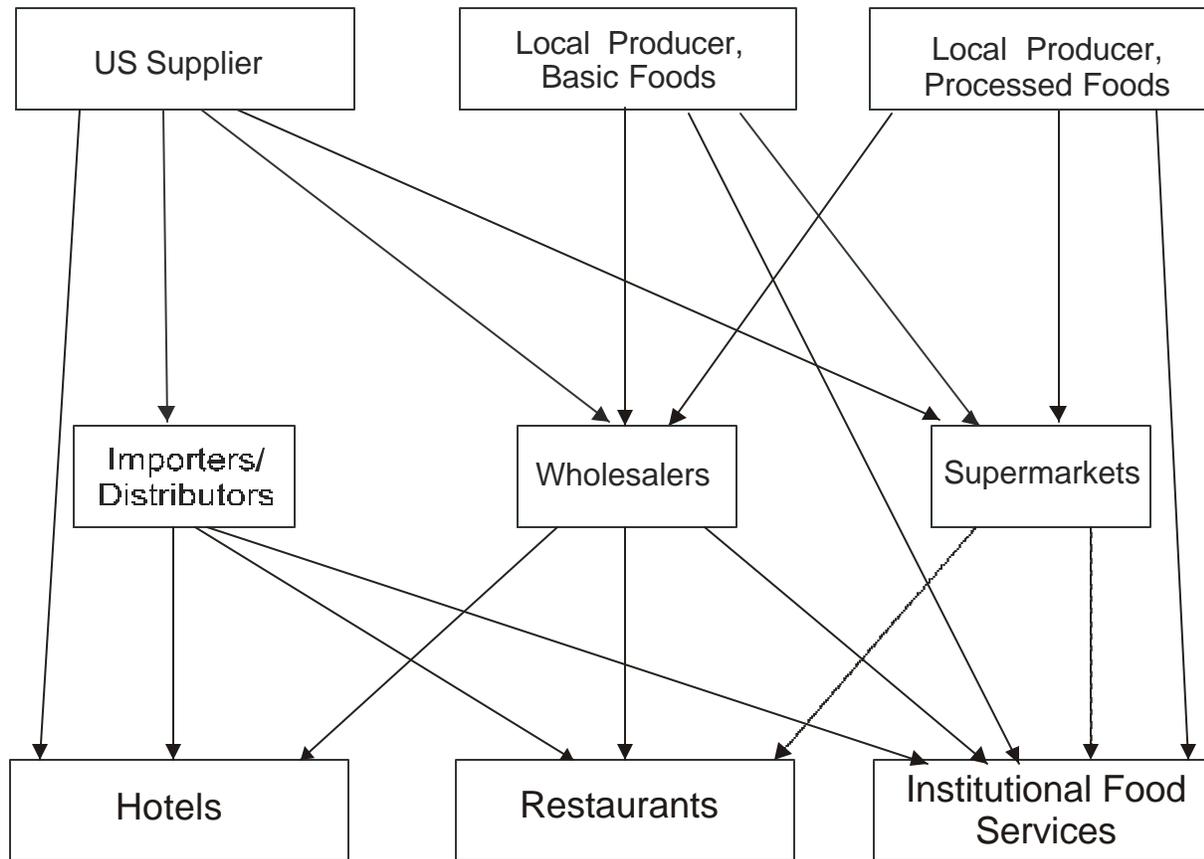
B. Market Structure

The HRI sector typically does not import products directly, but contracts with local distributors; almost all foreign companies wishing to sell food products in Chile must take this route. However, international hotels and restaurants may have their own distribution networks arranged by company headquarters. There are a number of large food distributors in Chile which deliver products to clients in the HRI sector, as well as supermarkets and other food outlets. Distributors will usually ask the end client to pay for transportation costs outside of Santiago or will already have these additional costs worked into their prices for distribution outside of the metropolitan region.

All HRI sub-sectors procure most of their dry goods from large distributors that also supply supermarkets and other stores. Specialty products are often purchased at supermarkets, and fresh products are obtained under delivery contracts with specialized suppliers for each of these, such as beef, fish, produce and fruit (from distributors), and dairy and poultry (usually from the producers). The Institutional market buys more products directly from local producers or imports because the companies have their own purchasing center and storage facilities. Restaurants depend 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

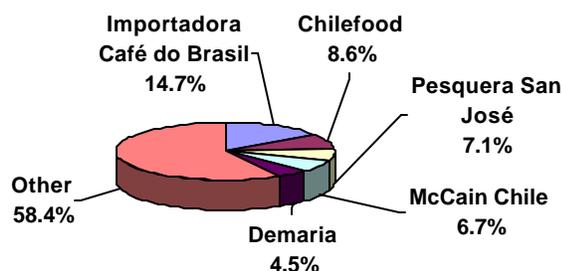
The HRI purchasing patterns are heavily price-dependent. This motivates a broad diversification of suppliers for any one food service institution. Restaurants use the widest range of food product sources, depending on their product quality, price and delivery requirements. They complement wholesaler and producer sources with spot purchases in supermarkets to replenish supplies in limited quantities given their limited warehousing capabilities.



Major Distributors

Given the market structure for food exports to the Chilean HRI sector, the vast majority of U.S. suppliers must sell their products through local importers/distributors. The charts on the following pages display the major importers in some attractive markets for U.S. products.

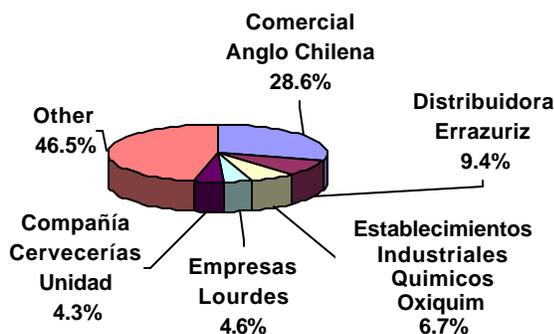
Prepared Foods Importers



Source: Chilean Customs Service

Prepared foods saw imports of U.S.\$42.5 million in 2004, with U.S. products contributing 3.6 percent to the total. Importadora Café do Brasil imports mainly tuna, pineapples, and mushrooms. A leading seafood producer and supplier, Chilefood is a subsidiary of Pesquera Yadrán. Pesquera San José specializes in canned fish, frozen fish, and ready-made meals. Demaria is a supplier of canned vegetables, sauces, fruit, seafood, spices, and tea among other products.

Beverages & Spirits Importers

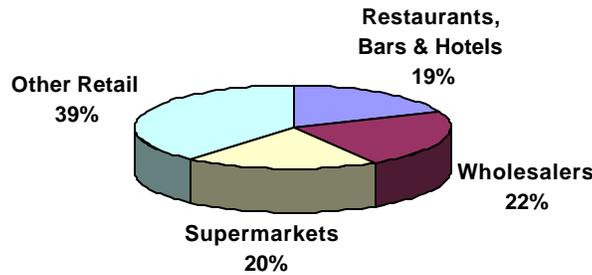


Source: Chilean Customs Service

U.S. beverages and spirits command 3.5 percent of the import market, which was U.S.\$66.4 million in 2004. Compañía Cervecerías Unidad (CCU) is the largest beverage distributor in Chile, but currently only imports a few select products; other foreign brands are manufactured locally. Distribuidora Errazuriz is the second-largest beer importer in the country; Empresas Lourdes is a major wine supplier.

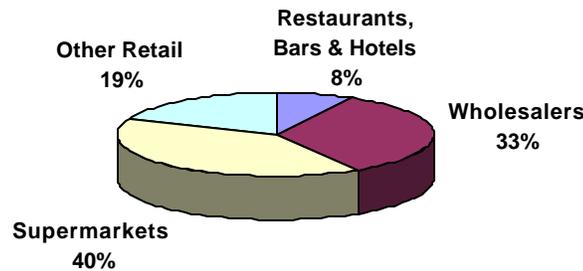
Compañía Cervecerías Unidas (CCU) is the overwhelmingly dominant beverage distributor in Chile, supplying establishments from major hotels, restaurants, and bars to supermarkets and “mom and pop” convenience stores. The following charts display CCU’s customer share per beverage category, which is representative of the sector as a whole.

Beer Distribution Channels (2005)



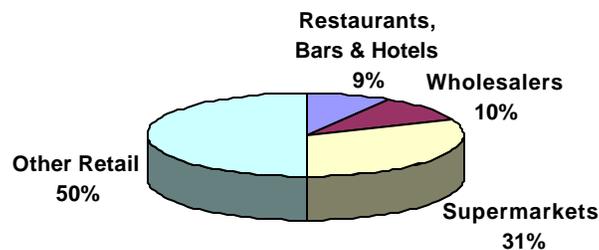
Source: Company interviews

Wine Distribution Channels (2005)



Source: Company interviews

Soft Drink & Mineral Water Distribution Channels (2004)



Source: Company interviews

Carbonated beverages are gaining popularity in Chile, as per capita consumption was 105 liters in 2005, while fruit nectars and natural fruit juices claimed only eight liters per capita. Discount brand producers entered the market a little over five years ago, and along with private label brands they represent more than 12 percent of the soft drink market. Beer and wine commanded consumption rates of 27 and 19 liters per capita, respectively.

Market value per beverage sector in 2004:

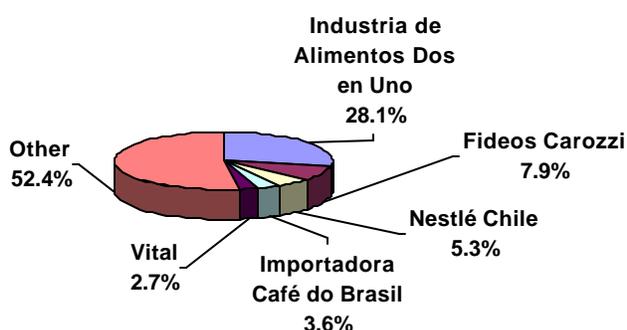
- Wine: U.S.\$147 million
- Beer: U.S.\$293 million

- Soft drinks, nectar, and mineral water: U.S.\$216 million

Beverage imports into Chile are growing but are still very small, commanding less than two percent of the market. A number of foreign brands are popular, but they have manufacturing facilities in Chile. Of the small imported portion, the majority of the products come from suppliers in Argentina.

Healthy packaged foods continue to gain popularity with the Chilean consumer. Light and diet products are increasingly visible, and 2004 saw the introduction of healthier oils and a healthier positioning of products like cereal and granola bars. A rising obesity rate has caught the attention of the government and media, and Chilean consumers are progressively more concerned about what they eat.

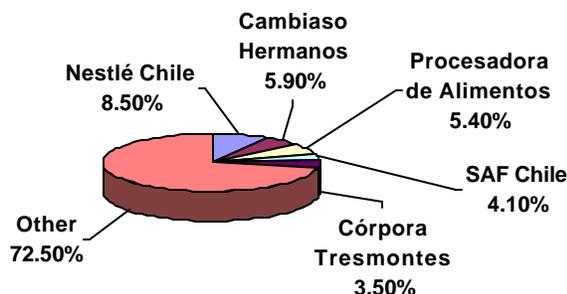
Confectionary Importers



Source: Chilean Customs Service

Imports of confectionary products were almost U.S.\$60 million in 2004, and U.S. products represented 3.4 percent of the import market. Industria de Alimentos Dos en Uno is a Chilean candy manufacturer; Fideos Carozzi produces pasta, sauces, juice, and candy among a number of other food products. Nestlé imports a number of raw materials for local production, as well as some end-products (e.g., cereal produced in Mexico).

Sauces & Condiments Importers



Source: Chilean Customs Service

U.S. products command 4.6 percent of the sauces and condiments import category, which totaled a little more than U.S.\$60 million in 2004. Cambiaso Hermanos is a dominant tea

supplier, and Procesadora de Alimentos imports vegetable oils, mayonnaise, and pasta. SAF Chile supplies local companies with the ingredients for bread and pastries, such as yeast and cream. C rpora Tresmontes distributes marmalade, cream, and gelatin.

The FTA includes an agreement on red meat grading standards, which now allows U.S. products to be sold in the Chilean market according to U.S. standards. Annual beef imports totaled US\$48 million in 2005, which was more than a 37 percent increase over the same period in the previous year. According to analysts, this is a significant increase and could result in a total of 140,000 tons of imported beef in 2005, satisfying 60 percent of national consumption. However, the dominant suppliers continue to be Brazil and Argentina.

The vast majority of Chileans consume cured meats, but consumption has stagnated and there is not much room for growth. The following products dominate meat sales, followed by their respective percentage share of the category:

- Viennese: 29.8%
- Ham: 19.4%
- Bologna: 14.5%

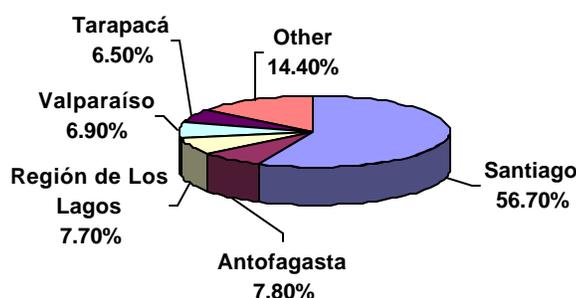
Demand from restaurants and hotels is increasingly more sophisticated, as chefs are becoming more selective about ingredients. Hotels tend to have the most restrictive budgets in this sector, and price is often a determining factor; approximately 95 percent of their purchases come from local suppliers.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

Interviews with managers in the HRI sector reveal that many Chilean consumers are not willing to spend more money to try a new food product. However, if two items are the same price, a typical consumer may opt for the imported product which often is deemed as higher quality. Almost all five-star hotels, high-end restaurants, and institutional food service companies are located in Santiago.

C. Sub-Sector Profiles

1. Hotels and Resorts

The latest report by INE (National Statistics Institute) claims that there were almost five million hotels, motels, apart-hotels, and other places to sleep by the end of 2003, which had grown 13.3 percent over the previous year. The vast majority of hotels are located in the capital city. Food and beverage sales are made through on-site bars, restaurants, and room service.

Concentration of "Places to Sleep"

Source: INE

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

| <i>Type of food</i> | <i>Purchasing Agent</i> |
|--|-----------------------------------|
| Dry goods | 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 |

On average, less than five percent of hotels' gastronomic budgets go toward imports. Quality is very important in this sector, as many hotel restaurants only provide the "best" food to their guests. Given their patrons' refined taste, typical imports include caviar, special spices from Asia, and top-quality meat (mainly from Argentina).

2. Restaurants

Middle- and upper-income Chileans dine outside the home with friends and family approximately once a week; Santiago alone has almost 4,000 restaurants which cater to social dining. Almost three-quarters of Santiago residents eat one or two meals outside the home every day.

The proliferation of fast food restaurants has grown as Chileans adopt a faster-paced lifestyle, particularly among the younger generation. In 2005 fast food represented 30 percent of the consumer foodservice sector, with McDonald's and the Chilean Lomitón chain leading the market. Three-quarters of Chile's fast food restaurants are located in Santiago, offering hamburgers, pizza, sandwiches, or chicken; most chains plan to expand outside the Metropolitan Region. Chain operations represent a significant presence in the fast food category, accounting for 53 percent of sales. Additionally, chain operations have a 39 percent share of the home delivery/takeaway market.

| Selected Restaurants | | | | |
|------------------------|--|---|------------|-------------------------|
| Company Name | Sales Range (U.S.\$) | Country of Origin, Type & Number of Outlets | Location | Purchasing Agents |
| Bennigan's | 79%: \$100,000 – \$500,000 21%: \$500,000 – \$1,000,000 | USA, Restaurant, 1 | Santiago | Third-party distributor |
| Burger King | | USA, Fast Food, 15 | Nationwide | |
| Churromanía | | Venezuela, Fast Food, unavailable | Santiago | |
| Doggi's | | Chile, Fast Food, 82 | Nationwide | |
| Domino's Pizza | | USA, Pizzeria, 18 | | |
| Dunkin Donuts | | USA, Fast Food, 11 | | |
| Friday's | | USA, Restaurant, 2 | Santiago | |
| Haagen-Dazs | | USA, Café, unavailable | | |
| Havanna | | Argentina, Café, unavailable | | |
| Kentucky Fried Chicken | | USA, Fast Food, 38 | Nationwide | |
| Lomitón | | Chile, Fast Food, 60 | | |
| McDonald's | | USA, Fast Food, 70 | | |
| Mr. Beef & More | | Chile, Fast Food, unavailable | Santiago | |
| Mr. Pretzels | | USA, Fast Food, unavailable | Nationwide | |
| Pizza Hut | | USA, Pizzeria, 30 | | |
| Platón | | Chile, Fast Food, unavailable | Santiago | |
| Ruby Tuesday | | USA, Fast Food, 1 | Nationwide | |
| Schopdog | | Chile, Fast Food, 31 | | |
| Subway | | USA, Fast Food, unavailable | | |
| Taco Bell | | USA, Fast Food, 30 | | |
| Tavelli | | Chile, Café, unavailable | | |
| Telepizza | | Spain, Pizzeria, 38 | Santiago | |
| The Crepe Café | | USA, Fast Food, unavailable | | |
| Yogen Fruz | Canada, Ice Cream, 13 | Nationwide | | |

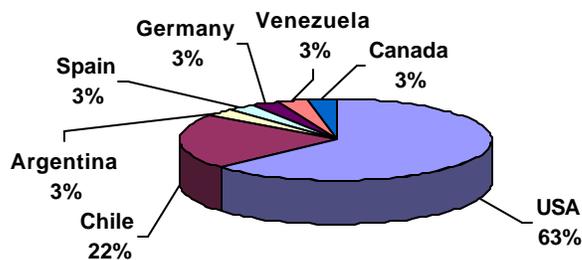
Sources: Euromonitor, Universidad de Chile

Franchise restaurants experienced tremendous growth in Chile in the 1990s, and fast food establishments have been particularly successful. There are no laws in the country specifically targeted at franchises. On average, it takes these restaurants 44 months to recover their investment in the country.

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 |
| 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 Fruz | USA | Ice Cream Parlor | 11 | 2 |
| Dunkin Donuts | USA | Fast Food | 11 | None |
| Ruby Tuesday | USA | Restaurant | 1 | None |
| Bennigans & Applebees | USA | Restaurant | 2 | None |
| Haagen-Dazs | USA | Café | 1 | None |
| Starbucks | USA | Café | 5 | None |

Franchise Restaurant Country of Origin



Source: Universidad de Chile

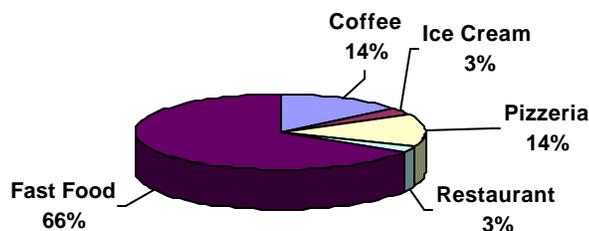
Percentage of All Franchise Restaurants Operating in Each Region

All franchise restaurants in Chile have a presence in Santiago.

| | | | |
|-----------|-----|------------|------|
| Region 1: | 26% | Region 8: | 47% |
| Region 2: | 32% | Region 9: | 42% |
| Region 3: | 16% | Region 10: | 37% |
| Region 4: | 32% | Region 11: | 0% |
| Region 5: | 68% | Region 12: | 5% |
| Region 6: | 42% | Santiago: | 100% |
| Region 7: | 21% | | |

Source: Universidad de Chile

Types of Franchise Restaurants



Source: Universidad de Chile

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 |
| Pinpilnpausha | 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, 2004 (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. The trend is for 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.

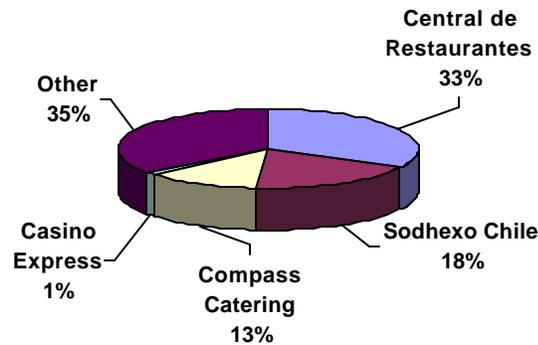
Any restaurant selling about 30 thousand dollars (20 million pesos) or more per month is economically viable. They all can, and many are, buying imported foods to differentiate themselves from others in their menu features as a competitive strategy.

3. Main Institutional Food Service Firms

The institutional food service market reported sales of US\$600 million for 2005, and the top three companies control 64 percent of the market. Central de Restaurantes (CdR), serving 300,000 meals per day throughout the country, recently stole market share from Sodhexo after winning a large five-year catering contract with Chile's state-owned mining company, overtaking it to be the largest player in the market. CdR is Chile's fourth largest employer (17,000 employees) and is 50% owned by U.S. giant, Aramark, which is due to control 80% of the company by March, 2006. Mines and educational institutions dominate demand for institutional food services; this industry is currently covering almost all of its potential customer base. Sodexho 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. Sodexho, for example, just won the 20-year concession for food service to five new jails.

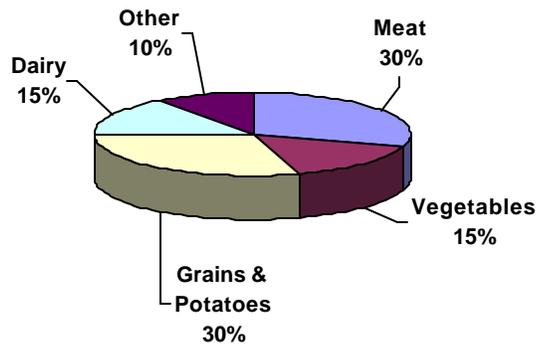
This market seems to be reaching maturity conditions, meaning that much of the potential client base already contracts these services. However, the market is growing every year making it a very active, competitive and innovative one. There are still potential clients in defense (Armed Forces) and the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

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



Source: Company interviews

***Approximate Distribution
of Food Purchases***



Source: Company interviews

| Selected Institutional Food Service Firms | | | | |
|---|---------------------|--|------------------------------|-------------------------|
| Company Name | 2005 Sales (U.S.\$) | Clients | Location | Purchasing Agents |
| Casino Express | \$15 million | Schools, health institutions, industries, agriculture | Santiago Metropolitan Region | Third-party distributor |
| Central de Restaurantes | \$200 million | Schools, universities, health institutions, mining companies, industries | Nationwide | |
| Compass Catering (Eurest) | \$80 million | Schools, health institutions, mining companies, industries | Regions 1 through 10 | |
| Sodexho Chile | \$110 million | | Nationwide | |

4. Airlines & Cruise Ships

Growth in international tourist arrivals is likely to remain strong over the forecast period as world economic growth picks up and the Argentinian peso recovers. Chile will continue to focus on attracting long-haul tourists, and this effort will receive more resources as the government seeks to honour its pledge to double tourism's share of GDP to 10% by 2010.

Chile's natural beauty and its good infrastructure is attracting a growing number of international conventions. The country is already the second-largest organizer of such events in South America, after Brazil, but its world share is still small. The number of international conventions to be held in Chile will have risen in 2004, boosted by the 22 preparatory meetings and the summit of the Asia-Pacific Economic Co-operation Forum (APEC), which brought the leaders of APEC's 21 member countries to the capital, Santiago, and to Viña del Mar in November. These meetings put Chile and its infrastructure and organizational capabilities on display globally.

Business travel will also expand as a result of Santiago's growing importance as a South American business centre. Over 40 multinational companies have established their regional headquarters in Chile since the country launched its investment platform program, which includes mechanisms to avoid double taxation, in early 2003. With international flight occupancy rates recovering to around 70%, the airlines serving Chile will continue to increase frequencies and destinations. Lan in particular is planning to expand its operations in Asia to reflect increasing commercial links between Chile and China, Japan and South Korea.

The tourist sector shows a growth rate of 8% since 2002 and it is believed it will get to 17% by 2006.

Foreign tourist arrivals rose by 10.6% to 1.79 millions in 2004. Dollar revenue from international tourism rose even more rapidly, owing to the appreciation of the Chilean peso and a rise in arrivals of higher-spending long-haul tourists in the period. The result was a record-high US\$1.25 billions in revenue, according to Sernatur. The overall rise in earnings and arrivals reflects the increasing importance of long-haul tourism, which has been aggressively promoted in recent years in order to offset low tourism demand from within the region. Between 2000 and 2004, arrivals from South America fell from 73% of total arrivals

to 62%. This reflects the collapse of the Argentinian peso in 2001, which led to a drop in the number of visitors from Argentina from 49% of the total in 2000 to just 32% in 2004. Although arrivals began to recover in 2005, they remain one-third below previous highs.

In contrast, long-haul arrivals have risen strongly since 2002. From 23% of the total in 2000, the number of visitors from Europe and North America rose to 31% of the total in 2004. Growth has been particularly strong in the UK (76% over 2000-04), Mexico (75%), Germany (34%), Spain (39%) and the US (24%).

Large numbers of foreign visitors arrive in the southern hemisphere winter months (June-July) to visit the ski resorts around the capital, Santiago. With the exception of the skiing season, most international visitors arrive in the summer months (December-February). Viña del Mar, located about 100 km west of Santiago, and its surrounding smaller beach resorts. Ecotourism is centered on the extensive network of nature reserves and national parks, from the northern deserts up to San Pedro de Atacama, to the extensive lake districts south of Victoria, and further south to the dramatic landscapes of Chilean Patagonia and the Torres del Paine national park.

Chilean tourist attractions as the Antartica, have become the favorite destination of international cruise lines. In only six years the number of passengers has increased 500%.

Even if Argentina, Brazil and Chile do not represent more than 1.3% of the worlds' cruise lines profit, profits could reach US\$ 325 millions for the 2005-2006 season. Of that amount, at least US\$ 100 million will stay in the country.

Iquique , Arica, Antofagasta, Coquimbo, Valparaiso and Puerto Montt are the Chilean ports that receive the cruise ships. According to the Regional Chamber of Commerce of Valparaiso, about 73,000 passengers will visit the 5th Region this season. Approximately 82% these visitors are from the U.S. and the U.K. The average age for 58% of these visitors is 58 and they spend approximately US\$100 daily on transportation, food, and entertainment. This amount is expected to grow this year by 20%. 78% of cruise ships passengers are Americans.

In Chile, the most preferred destinations are Patagonia, the Lake Region, Atacama desert, Valparaiso, Easter Island and Santiago.

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

Section III. Competition

Most of the vegetables, fruit and processed foods, poultry, pork and seafood consumed by the HRI sector are of local origin. Imported food accounts for about 10 percent of total purchases. 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, for storage convenience and year-round availability. However, most of the frozen also produced domestically. Typical imported products are legumes, a good proportion of red meats, baked goods, breakfast cereals, bakery and confectionery ingredients, some fruits and fruit juices, and edible oils.

Top level hotels consume up to 20-30 percent of their food budget on imported foods, and most spirits are also imported. 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.

Comparative Chilean Food and Agricultural Product Imports, 2004 vs. 2005, Total Imports vs. US Imports, by Harmonized Tariff System chapters

| Chapter | Description (from HSC) | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
|---------|--|---------------------------|---------------------------|-------------------------|-------------------------|-------------------------------------|-----------|
| | | Total, US\$ CIF x 1000 | Total, US\$ CIF x 1000 | U.S. US\$ CIF x 1000 | U.S. US\$ CIF x 1000 | U.S. market share of total | US\$ % |
| 1 | Live Animals | 4,386 | 4,068 | 1,479 | 2,198 | 33.7% | 54% |
| 2 | Meat and edible meta offal | 271,426 | 322,417 | 183 | 416 | 0.07% | 0.1% |
| 3 | Fish, crustaceans & aquatic invertebrates | 13,731 | 15,475 | 179 | 188 | 1.3% | 1.2% |
| 4 | Dairy prods; birds eggs; honey; ed. Animal pr. Nesoi | 46,137 | 72,047 | 4,362 | 4,139 | 9.4% | 5.7% |
| 5 | Products of animal origin, nesoi | 25,685 | 28,918 | 1,543 | 2,122 | 6.0% | 7.3% |
| 6 | Live trees, plants, bulbs etc.: cut flowers, etc. | 7,416 | 7,872 | 634 | 379 | 8.5% | 4.8% |
| 7 | Edible vegetables & certain rotos & tubers | 17,842 | 21,944 | 143 | 2,181 | 8% | 10% |
| 8 | Edible fruits & nuts; citrus fruti and melon peel | 45,332 | 50,782 | 6,777 | 7,709 | 15% | 15.1% |
| 9 | Coffee, tea, mate & spices | 42,676 | 51,684 | 880 | 502 | 2.0% | 1.0% |
| 10 | Cereals | 234,246 | 217,302 | 11,489 | 11,502 | 5.0% | 5.3% |
| 11 | Milling products; malt; starch; inulin; wheat gluten | 12,594 | 19,347 | 247 | 109 | 2.0% | 0.6% |
| 12 | Oliz sedes, etc.; misc. Grains, sedes, fruit, plant, etc. | 83,411 | 8,129 | 386 | 3,584 | 4.6% | 4.4% |
| 13 | Lac; gums, resins & other vegetable sap & extract | 11,472 | 12,719 | 3,203 | 3,612 | 28.0% | 28.4% |
| 14 | Vegetables | 188 | 245 | 65 | 12 | 0.03% | 5.1% |

| | | | | | | | |
|--------|---|-----------|-----------|--------|--------|------|-------|
| | planting materials & products nesoi | | | | | | |
| 15 | Animal or vegetable fats, Oliz etc. & waxes | 245,127 | 21,579 | 10,628 | 652 | 4.3% | 0.3% |
| 16 | Edible preparations of meta, fish, crustaceans, etc. | 29,119 | 31,299 | 341 | 347 | 1.2% | 1.1% |
| 17 | Sugars and sugar confectionary | 983 | 97,592 | 1,493 | 2,135 | 1.5% | 2.2% |
| 18 | Cocoa and cocoa preparations | 46,969 | 44,942 | 1,015 | 759 | 2.2% | 1.7% |
| 19 | Prep. Cereals, flour, starch or milk; bakers wares | 39,927 | 44,042 | 2,967 | 2,325 | 7.4% | 5.3% |
| 20 | Prep. Vegetables, fruit and nuts or other plant parts | 41,485 | 40,373 | 1,947 | 248 | 4.7% | 6.1% |
| 21 | Miscellaneous edible preparations | 54,761 | 632 | 14,764 | 18,349 | 27% | 29.0% |
| Total: | | 1,274,913 | 1,113,408 | 64,725 | 63,468 | | |
| 22 | Beverages, spirits and vinegars | 55.170 | 53.919 | 2.468 | 1.885 | 4.5% | 3.5% |

Principal Competing Countries of Origin for Selected Chapters, 2004

| Chapter | Main Competitors - Percent of Total Imports |
|---------|--|
| 2 | Brazil – 76.3%, Argentina – 14.3%, Uruguay – 4.4%, Paraguay – 3.4% |
| 4 | Argentina – 44.8%, Uruguay – 14.5%, U.S.A. – 9.4%, Brazil – 9.3% |
| 7 | Canada – 53.0%, China – 17.2%, Argentina – 8.1%, USA – 8.0% |
| 8 | Ecuador – 69.6%, USA – 14.9%, Argentina – 3.2%, Mexico – 3.2% |
| 9 | Brazil – 26.7%, Sri Lanka – 23.4%, Argentina – 21.7%, Peru – 5.4% |
| 10 | Argentina – 66.1%, Canada – 13.0%, Thailand – 7.9%, USA – 4.9% |
| 11 | Argentina – 52.0%, Holland – 19.6%, Germany – 5.8%, Uruguay – 4.8% |
| 12 | Argentina – 57.8%, Brazil – 6.8%, Paraguay – 4.7%, USA – 4.6% |
| 15 | Argentina – 65.8%, Peru – 16.2%, USA – 4.3%, Brazil – 2.7% |
| 16 | Ecuador – 46.1%, Colombia – 13.6%, Thailand – 12.4%, Brazil – 7.5% |
| 17 | Argentina – 42.4%, Colombia – 29.6%, Brazil – 7.8%, Guatemala – 7.3% |
| 18 | Brazil – 33.0%, Argentina – 24.7%, Ecuador – 14.4%, Colombia – 4.0% |
| 19 | Argentina – 38.7%, Brazil – 15.6%, Peru – 10.9%, Mexico – 7.8% |
| 20 | Argentina – 37.0%, Brazil – 10.2%, Thailand – 9.9%, Ecuador – 9.0% |
| 21 | USA – 26.9%, Argentina – 15.8%, Brazil – 11.7%, Colombia – 7.3% |
| 22 | UK – 30.0%, Argentina – 22.0%, Ireland – 7.9%, Mexico – 5.8% |

Free Trade Agreement & Free Trade Zones

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

- The FTA immediately eliminated tariffs on almost 90 percent of U.S. products imported into Chile and more than 95 percent of Chilean exports to the United States. Tariffs on all products will be eliminated within 12 years.
- Bilateral trade in all goods grew by 33 percent in 2004, reaching almost \$8 million, while U.S. exports of consumer-oriented food products grew by 54 percent.
- Elimination of Chile's six percent general tariff has made U.S. products significantly more competitive, as they had been losing ground to other countries with which Chile already had preferential trade agreements (mainly Argentina, Brazil, Canada, and Mexico).

Benefits of the FTA for the agricultural sector:

- Approximately 75 percent of both U.S. and Chilean farm goods will be tariff-free within four years, with all tariffs and quotas phased out within 12 years.
- U.S. access to this market is competitive with Canada and the European Union, both of which already had FTAs with Chile.
- Within four years, farmers will gain duty-free access for these important U.S. products:
 - Pork & pork products
 - Beef & beef products
 - Soybeans & soybean meal
 - Durum wheat
 - Feed grains
 - Potatoes
 - Processed food (e.g., French fries, pasta, distilled spirits & breakfast cereals)

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

| Product Category | Import Supply Sources | Strengths of Key Supply Countries | Advantages & Disadvantages of Local Suppliers |
|---------------------------------|---|---|--|
| Beverages & Spirits | <ol style="list-style-type: none"> 1. Argentina: 28.4% 2. England: 24.7% 3. Brazil: 9.3% 4. Ireland: 6.6% 5. Mexico: 4.8% 6. Venezuela: 4.1% 7. USA: 3.5% | Whiskies from England and Ireland boast brand name recognition and are traditionally perceived as high quality | Chilean wine competes on the world market with a good price/quality ratio; major international beverages have established bottling facilities in Chile |
| Confectionary | <ol style="list-style-type: none"> 1. Argentina: 38.7% 2. Brazil: 11.7% 3. Colombia: 9.3% 4. Ecuador: 6.9% 5. Thailand: 5.8% 6. USA: 3.4% 7. Bolivia: 2.5% | Nestlé's presence is so strong it is almost viewed as a Chilean product; neighboring supply countries share Chile's sweet tooth (generally sweeter than in the United States) | Many Chileans value fresh ingredients and artisanal products baked locally |
| Dairy | <ol style="list-style-type: none"> 1. Argentina: 44.9% 2. Uruguay: 14.5% 3. Brazil: 9.4% 4. USA: 9.4% 5. New Zealand: 5% 6. Australia: 3.5% | Argentina is very price-competitive with its weak currency and geographical proximity; opportunities for licensing agreements (e.g., Yoplait with local producer, Quillayes) | After the FTA, dairy products are the category most exported from Chile to the United States, but American cheese and ice cream exports to Chile have increased 120% and 200% respectively, though still have very small market shares; the local industry is dominant |
| Fish & Seafood | <ol style="list-style-type: none"> 1. Ecuador: 20.8% 2. Spain: 19.8% 3. Uruguay: 13.8% 4. Argentina: 13.8% 5. Morocco: 6.8% 6. South Korea: 6.6% 7. Peru: 5.6% | Ecuador is recognized as a premium supplier in certain seafood categories | Chile is one of the largest fish exporters in the world (1 st for trout, 2 nd for salmon), and its local supply is abundant |
| Fruits & Nuts | <ol style="list-style-type: none"> 1. Ecuador: 69.5% 2. USA: 14.4% 3. Mexico: 3.2% 4. Argentina: 2.5% | Opportunities for foreign suppliers in Chile's off-season | Local fruit and nut production is strong, but as much of the country experiences all four seasons there is insufficient supply in the winter months |
| Grain Mill Products & Dry Goods | <ol style="list-style-type: none"> 1. Argentina: 64.8% 2. Canada: 9.0% 3. Thailand: 5.4% 4. Brazil: 4.8% 5. USA: 4.2% | Argentina has an established production base and is extremely competitive in terms of proximity and price | Low local production; imports are necessary to meet demand |

| Product Category | Import Supply Sources | Strengths of Key Supply Countries | Advantages & Disadvantages of Local Suppliers |
|--|---|---|---|
| Pet Food | <ol style="list-style-type: none"> 1. Argentina: 80% 2. USA: 8.2% | Argentina is competitive with high product quality and packaging | Demand in niche markets like super premium brands and special diet supplements is not currently satisfied |
| Prepared Foods | <ol style="list-style-type: none"> 1. Ecuador: 31.7% 2. Argentina: 15.5% 3. Colombia: 9.4% 4. Thailand: 9.0% 5. Brazil: 4.3% 6. Spain: 4.2% 7. Uruguay: 4.2% 8. USA: 3.6% | Opportunities to introduce new innovations in this category | Local suppliers reacting well to increased demand in frozen and other prepared food categories |
| Red Meat & Poultry | <ol style="list-style-type: none"> 1. Brazil: 76.4% 2. Argentina: 14.3% 3. Uruguay: 4.4% 4. Paraguay: 3.5% | Transportation costs for Brazilian and Argentine shipments are relatively low, and Chilean consumers are accustomed to meat from these countries, but sanitary issues may affect supply | Challenging for US grain-fed beef to compete against local and neighboring grass fed beef, which is completely priced |
| Sauces & Condiments (including coffee & tea) | <ol style="list-style-type: none"> 1. Brazil: 23.0% 2. Argentina: 22.9% 3. Sri Lanka: 16.6% 4. USA: 4.6% 5. Peru: 4.4% 6. Colombia: 3.3% 7. Mexico: 2.9% 8. Vietnam: 2.8% | Opportunities for establishing and growing branded products | Chilean tastes are fairly restrictive and are well-catered to by local brands |
| Vegetables | <ol style="list-style-type: none"> 1. Canada: 53.1% 2. China: 17.3% 3. Argentina: 8.1% 4. USA: 4.5% 5. Peru: 3.6% | Opportunities for foreign suppliers in Chile's off-season | Local supply is strong, with significant distribution through informal channels (street markets, etc.) |

Alcoholic Beverages

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

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

Labeling and Marking Requirements

All processed food must be tested and found in compliance with government health regulations, and the Chilean Health Services officer at the port of entry approves the import of processed food products on a case-by-case basis. There is no blanket approval process for

permitting identical products into the country. Meeting the labeling and fortification standards can be cumbersome, which raises the overhead cost of introducing new products into the Chilean market.

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

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

- Chilean Ministry of Health
www.sesma.cl/sitio/pag/alimentos/indexjs3alimentosnorm001.asp
- U.S. Embassy, Santiago (Food & Agriculture section)
www.usembassy.cl

Section IV. Best Product Prospects

Societal changes in Chile are fueling changes in the food service industry. More Chileans are eating outside of the home, and restaurant sales are booming with many women in the workforce and employees working longer hours.

Although products from the United States do not presently command recognition in the HRI market, the FTA and evolving local tastes should create an attractive environment for U.S. companies wishing to export.

Products with Good Sales Potential

| Products Present in the Market | | | | | |
|---------------------------------|-----------------------|----------------------------------|--------------------------------------|---|--|
| Product Category | Imports 2004 (U.S.\$) | Estimated Import Growth for 2005 | Import Tariff Rate | Key Constraints Over Market Development | Market Attractiveness for U.S. |
| Grain Mill Products & Dry Goods | \$346.8 million | 18.8% | 0% after full implementation of FTA* | Strong competition from Canada and Argentina | Very low local production; United States is an established supplier |
| Red Meat & Poultry | \$271.3 million | 20.5% | | Brazil and Argentina grass-fed beef dominates the market, while the United States exports mainly grain-fed beef | Value-added U.S. pork products are very competitive; Chile imports 30% of its meat |

| | | | | | |
|--|----------------|-------|--|---|--|
| Beverages & Spirits | \$66.4 million | 4.3% | | Require strong national distribution, which restricts U.S. companies to working with a small number of partners | Chilean companies with national distribution have an established track record for adhering to licensing agreements, etc. |
| Sauces & Condiments (including coffee & tea) | \$60.2 million | 38.6% | | A broad range of brands already exists in the market, diluting the impact of new participants | Opportunities for offering a complete line exist in association with specific retailers |
| Dairy | \$46.1 million | 6.6% | | Strong presence of local suppliers | Opportunities for introducing innovative products via licensing agreements |
| Fruits & Nuts | \$45.3 million | 9.4% | | Strong local production | Demand for imports rises in Chile's off-season, which is opposite to that of the United States |

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

| Products Not Present in Significant Quantities | | | | | |
|--|-----------------------|----------------------------------|--------------------------------------|--|---|
| Product Category | Imports 2004 (U.S.\$) | Estimated Import Growth for 2005 | Import Tariff Rate | Key Constraints Over Market Development | Market Attractiveness for U.S. |
| Health Food Products | unavailable | unavailable | 0% after full implementation of FTA* | Significant investment in marketing/promotion compared to size of market | Good opportunities in small but growing health food segment; U.S. products have potential because of perceived innovation |
| Prepared Foods | \$42.5 million | 17.9% | | | Opportunities to introduce new innovations in this category |

| | | | | | |
|------------------|----------------|-------------|--|-------------------|--|
| Breakfast Cereal | \$10.1 million | 40% | | | Opportunities to expand category reach; however, breakfast is not a big meal in Chile |
| Ethnic Foods | unavailable | unavailable | | Small market size | Growing interest in alternative foods because the product offering traditionally has been restricted |

Products Not Present Because They Face Significant Barriers

Although Chile has a general policy of free-market prices, there are some exceptions. Major agricultural products such as wheat, sugar, and sugar containing products fall under a price band system which encourages local production. These price bands change with fluctuations in international market prices and are typically announced mid-year to help the local agricultural industry determine what to sow. Processed poultry must be inspected by the Chilean Ministry of Agriculture, and imports of fresh/chilled poultry are prohibited. However, the U.S. and Chile are working on an equivalency agreement to access for poultry products in general should open up in the coming year or so.

Section V. Post Contact and Further Information

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<http://www.usembassy.cl>: U.S. Embassy Santiago homepage. First click on "Food & Agriculture", then click on "Marketing Reports" for research reports, and other pages for trade leads, contacts in Chile and more.

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