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Retail Food Sector

Annual

2007

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Report Highlights:

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

Includes PSD Changes: No
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Annual Report
Santiago [C11]
[C1]

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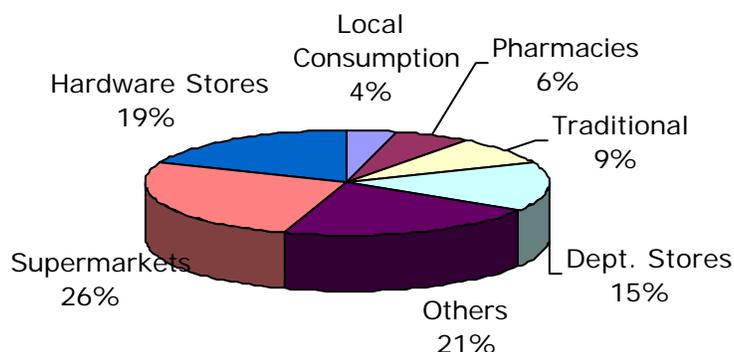
Disclaimer

This report was prepared under the supervision of the Office of Agricultural Affairs of the USDA/Foreign Agricultural Service in Santiago, Chile for U.S. exporters of domestic food and agricultural products. While every possible care was taken in the preparation of this report, information provided may not be completely accurate either because policies have changed since its preparation, or because clear and consistent information about these policies was not available. It is highly recommended that U.S. exporters verify the full set of imports requirements with their foreign customers, who are normally best equipped to research such matters with local authorities, before any goods are shipped. FINAL IMPORT APPROVAL OF ANY PRODUCT IS SUBJECT TO THE IMPORTING COUNTRY'S RULES AND REGULATIONS AS INTERPRETED BY BORDER OFFICIALS AT THE TIME OF PRODUCT ENTRY.

Section I. Market Summary

- During 2006, retail sales represented 21.2% of the national GDP, totaling US\$ 33.9 billion, with 46% of this, or US\$15.6 billion, comprised of retail food.
- In 2007 the overall retail sector is expected to grow 3.2% to US\$ 35.0 billion, following a very strong 18.4% growth in 2006. Growth in the retail food sector in 2007 is expected at 1.9%, reaching US\$15.9 billion.
- The supermarket sector represents 26% of the total sales of the retail market.

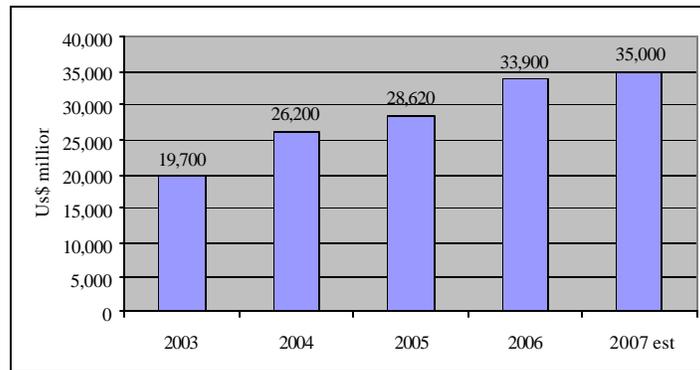
Retail Sales Distribution



Source: Colliers International 2006

- Favorable credit conditions have contributed to an improved retail demand over the last two years.
- In 2006 and 2007 the strong Chilean peso relative to the US dollar has increased demand for imported goods.
- Santiago, the capital city, is home to 40 percent of the population and the great majority of the retail food sector companies that purchase imported food products.

Retail Sales Growth



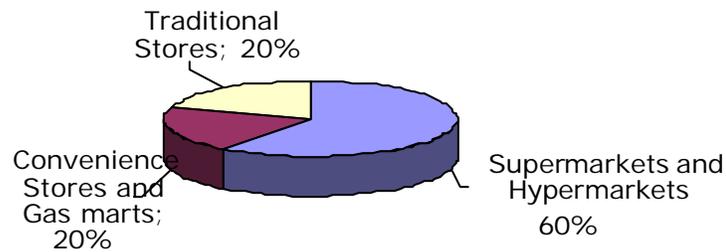
Source: Colliers International Market Report 2006

- Chileans spend on average around 20% of their household income on food, drinks and tobacco. In per capita terms, Chile is the second biggest consumer of bread in the world (98 kilos per year) after Germany, the 3rd consumer of tea (800 grs), and an important consumer of pastas, rice, seafood, carbonated beverages and beer.
- Supermarkets are the leading retail channel for food products.
- 65% of the total retail sector sales were in food and clothing.

Retail Food Sales

- The retail food sector reached US\$15.6 billion during 2006.

Food Sales per sub-sector.



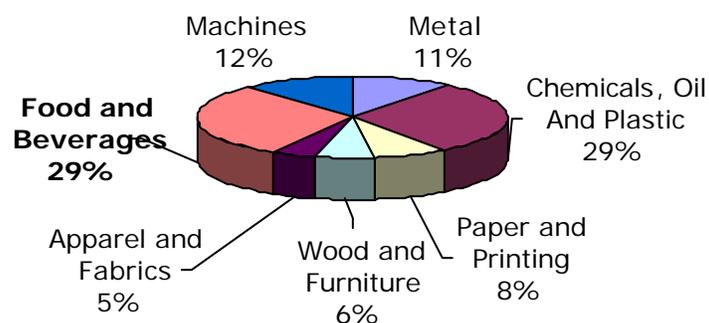
Source: Fetchratings Retail Sector Report 2007

Retail Food Sales (US\$ million)

2003	2004	2005	2006	2007 (est.)
11,160	12,000	13,900	15,656	15,900

Imports and Local Production

- Chilean food production reached US\$16.1 billion during 2006, employing 17% of the country's total labor force.

Chilean Industry Market Share 2006

Source: SOFOFA (Federation of Chilean Industry) and Central Bank

Agriculture GDP Growth %

2003	2004	2005	2006	2007 (est.)
6.0%	8.8%	5.7%	3.9%	2.5%

Source: Central Bank and National Agricultural Society (SNA)

Food Exports US\$ million

2000-2003 (average)	2004	2005	2006	2007 (est.)
4,976	7,500	8,140	9,200	10,300

Source: The Seminarium Letter Magazine

Food Imports US\$ million

2003	2004	2005	2006	2007 (1st half)
1,128	1,500	1,700	1,957	663

Source: Chilealimentos statistics.

Note: Numbers include fruit and vegetable oils for cosmetics and pharmaceutical preparations.

Imports from the US US\$ million

2003	2004	2005	2006	2007 (1st half)
149	150	147	271	91

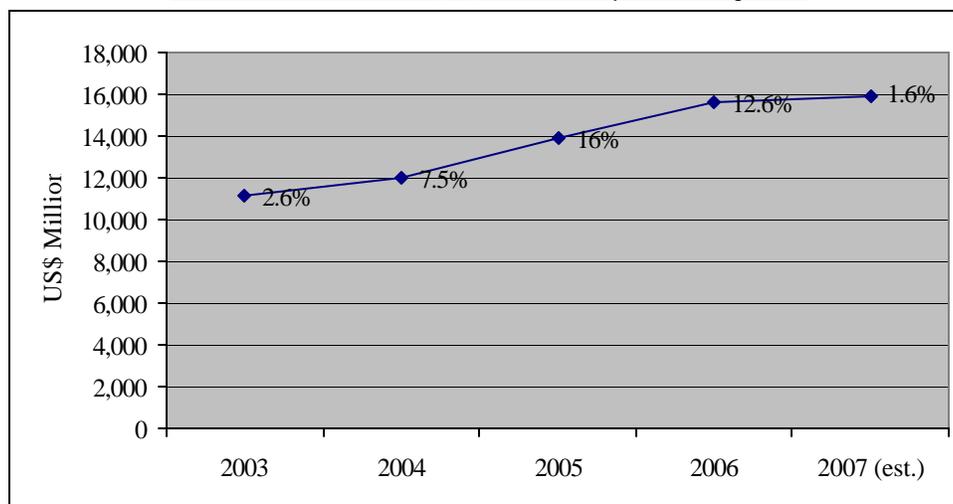
Source: Chilealimentos statistics.

Note: Numbers include fruit and vegetable oils for cosmetics and pharmaceutical preparations.

Growth

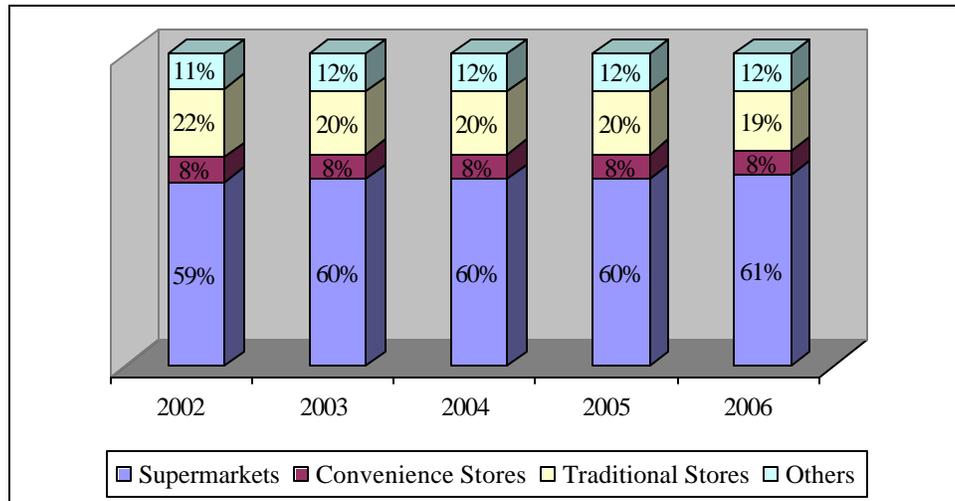
- According to research by the Catholic University of Chile, it is estimated that by 2015 Chile's food exports would reach US\$17 billion and imports US\$3 billion.
- Future growth is expected in the agriculture industry resulting from Chile's economic and political stability, and a series of President Michelle Bachelet's initiatives in this sector. The President's "New Policy for Family Farming", announced in August, 2006, includes a series of projects that will increase the overall level of agricultural production. Additionally, the President announced the formation of the "Chile: World-Class Food Producer by 2010" Advisory Council in October, 2006. One of the Advisory Council's goals is to make Chile into a world-class food exporter, something it has already achieved in several sectors. Both of these initiatives are promising for Chilean food producers.

Food Retail Growth (%) over the past five years



Source: Estimations based on information from Chilealimentos, AC Nielsen and interviews.

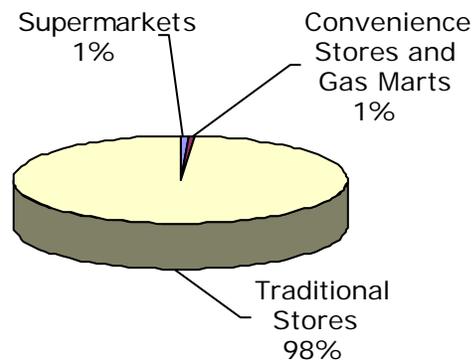
Consumer's Preferred Stores for Purchasing Food



Source: AC Nielsen 2007

Main Sub Sectors

Percentage of Number of Stores by Channel.



Source: AC Nielsen 2007

Supermarkets & Hypermarkets

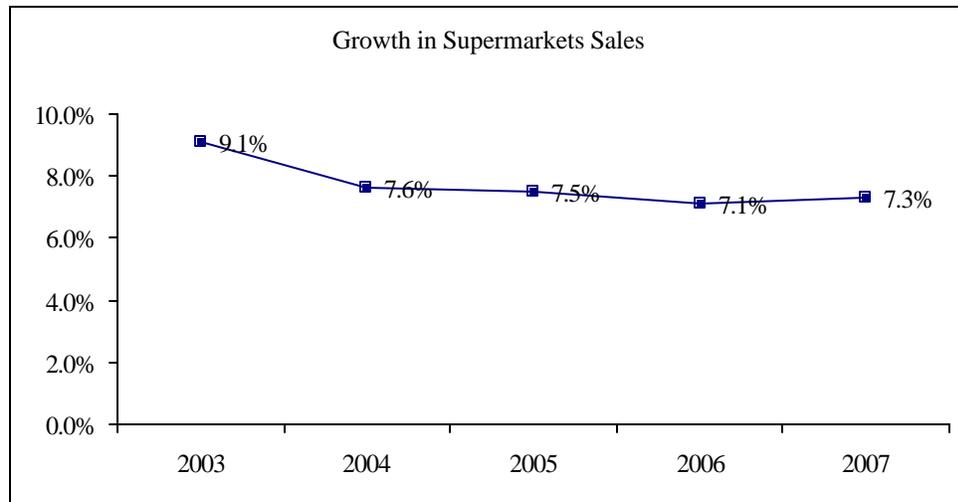
Annual Retail and Supermarkets Sales

	2004	2005	2006	2007 (e)
Annual Sales Retail (US\$ billion)	22.9	27.1	33.9	34.0

Supermarkets Sales (US\$ billion)	5.7	6.8	8.1	8.7
Supermarkets: Number of sales points	682	696	731	780

Source: July 2007, ASACH (Chilean Supermarket Association).

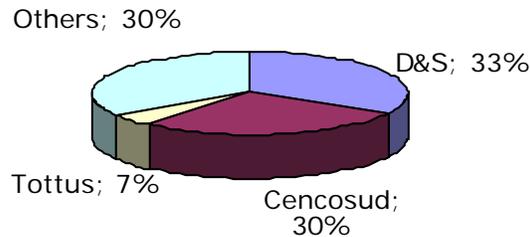
- According to Fetchrating Retail report, the supermarket and hypermarket sector concentrates 1% of all food stores and represent 60% of the sector's sales.
- According to the INE (National Statistics Institute), as of December 2006 there were 731 supermarkets, and this number is expected to reach 780 by the end of 2007.
- Supermarket sales are growing over 7% per year since 2004 and are expected to grow another 7% in 2007.



Source: INE

- Supermarket sales reached US\$8.1 billion in 2006, with 47% in the Santiago Metropolitan Region.

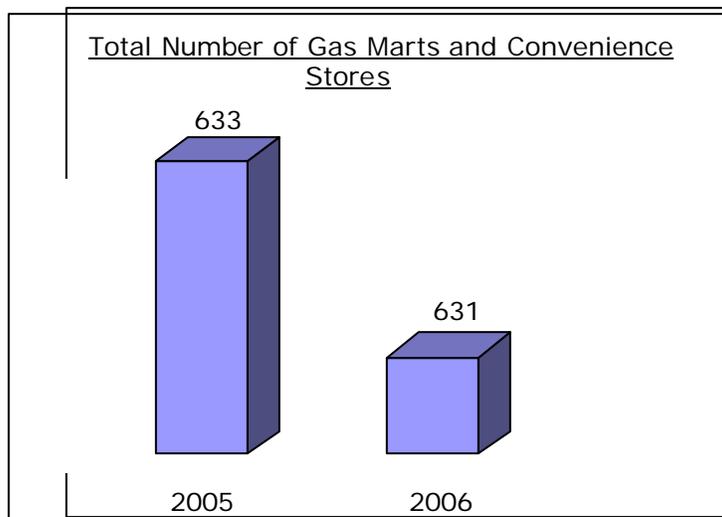
Supermarket Market Share 2006



Source: Fetchratings Retail Report 2006

Convenience Stores

- The number of convenience stores and gas marts has grown consistently over the past decade, representing in 2007 approximately 20% of the retail food sector sales.
- Convenience stores, are small (3,300-10,700 sq. ft), they are typically located in high-traffic residential and commercial zones and have a small quantity of select items, targeting a consumer with little time in need of specific products. Snacks, beverages, candy, milk, bread, and fruit are common items found in stores in this segment.
- According to El Diario Financiero newspaper, while private labels in convenience stores and gas marts in the U.S. and Europe can represent up to 80% of total sales, in Chile private labels in these store formats only represent slightly higher than 10% of sales.

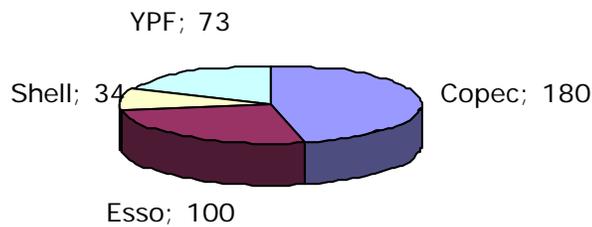


Source: AC Nielsen 2006

Gas Marts

- Gas marts have been present in Chile since the mid-1990s, when some of the larger multinational chains introduced them to the market.
- They tend to offer a similar assortment of products than the more traditional convenience stores, but some have begun to incorporate restaurants into their format. Boasting profit margins of eight to ten percent, the food products often generate as much or more income than the sale of fuel.
- Copec, Esso, Shell, and Repsol YPF are the major gasoline distributors and stations.

Number of Gas Mart Stores by Company

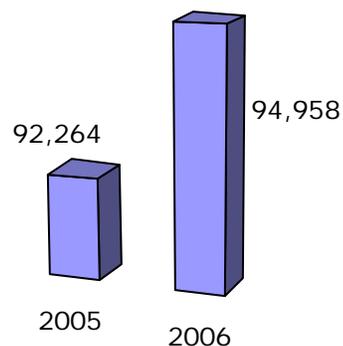


Source: El Diario Financiero newspaper

Traditional Markets

- Although this category represents 83% of all retail food channel stores, its share of sales is only 20 percent.
- These outlets tend to offer an array of items and profit from their convenient locations. The majority of these outlets have minimal imported food stock.

Total Number of Traditional Stores, Kiosks & Liquor stores.



Source: AC Nielsen

Trends in Distribution Channels

- According to a Pyramid Research 2006 Food Report, easy-to-prepare foods, fast foods, snacks, diet and light foods are increasing in importance. Organic foods are being adopted at a much slower rate but their increasing presence in the market is also marking a trend.
- The market continues to consolidate through mergers, leaving a wide gap in size and capacity between the leading food retailers and the universe of small ones.
- Artesian production of bakery products still dominates Chile's packaged food market, with 80% of total bakery sales concentrated in traditional bakeries. Of this 80%, approximately 43% is sold through bakery distribution companies and 37% in stores. The other 20% is sold at supermarket chains.
- According to Colliers International 2006 Retail Market Report, changes in the habits and behavior of consumers have pushed the modernization and transformation of the retail market showing an important capacity to adjust to market demands.
- With the trend over the last three years leaning towards offering as many products and services as possible in the same location, there is an increase in strip centers or power centers and neighborhood commercial centers, located in strategic corners with ample parking and easy street access.
- Convenience stores have experienced a transformation: previously they were based on the minimarket concept, but now most of them are associated with important pharmacy chains to expand their target group. This is the case of Big John, which associated with Farmacias Ahumada, Ok Market with Salcobrand, and D&S is developing its new Ekono format.

Number and type of food and beverages retail outlets

Arica to Puerto Montt and Punta Arenas.	2005	2006	% Variation.
Supermarkets Total (Hyper+Supermarkets)	649	689	6.2
Hypermarkets	47	52	10.6
Supermarkets	602	637	5.8
Gas Marts and Convenience Stores	633	631	-0.3
Traditional; Liquor Stores; Kiosks	92,264	94,958	2.9
Restaurants; Bars, Soda Fountains (small restaurants)	15,132	15,453	2.1
Pharmacies	1,662	1,784	7.3
Total	110,340	113,515	2.9

Source: A.C. Nielsen 2006

Other Trends

- Certain processed foods continue to see strong growth as more people join the work force and eat out of home. Especially promising products are convenience and fast foods, out-of-home foods (snacks, etc., which are consumed more by lower-income households and young consumers), and health and light foods.
- According to Falabella, on-line sales were initially seen as a threat to their standard store formats. However, this did not happen. Looking forward, Andres Belfus, the vice president of Ripley, a department store chain, says that there are many challenges for the sector such as the standardization of clothing sizes to make it possible to be purchased on line, improvement of the logistics process and maintaining customer loyalty.
- According to Adimark's director, Roberto Méndez, in 1995, 35% of the people in Santiago bought in D&S or Cencosud supermarkets, while today 84% do. This has been one of the sector developments together with retail store credit cards, which now reach 23 million in issued cards.

Sector Strengths and Weaknesses

Advantages	Challenges
Rising consumer spending and adoption of foreign food types favor new types of inputs.	Price sensitivity is becoming stronger because of the rise in local prices in food and other products. The Central Bank expects 5.5% inflation for 2007, the highest in 10 years.
Chile has the highest GDP per capita in South America	Domestic fresh fruit and vegetable markets are abundant
U.S. food inputs are known for their quality. They meet respected FDA & USDA standards. Health concerns are low.	Quality of food ingredients is said to have become very similar from the U.S., Europe, Asia, etc., and many European inputs meet U.S., European and Japanese standards.
The U.S. is a strong, traditional trading partner and its products are welcome.	U.S. food input producers sometimes are not as aggressive in following up sales leads as European or other suppliers.
The U.S.-Chile Free Trade Agreement, which went into force on January 1, 2004, is making U.S. products more competitive.	Prices for U.S. products may still be higher than local products or imports from nearby countries. FOB prices for U.S. inputs, even before adding freight, insurance and duties, often are 10-14% higher, or more, than local prices for equivalent quality. This remains true even after the import tariffs for U.S. products have been reduced or eliminated.
The relatively weak dollar compared to the Chilean peso will make imports from the U.S. more competitive.	The Argentine and Brazilian recessions and currency devaluations preceded the U.S. dollar's depreciation, so their products displaced U.S. raw materials, and U.S. products will have a hard time recovering their market position.
Certain companies have corporate requirements to purchase U.S. inputs, for example Nestlé for products re-exported to the U.S.	Purchase decisions are often global and are influenced by headquarters, not just local management.

Shipping from the U.S. is cheaper and quicker than from Europe.	U.S. ingredients are often more expensive than local equivalents. The FOB cost is sometimes 10% or higher.
Annual GDP growth has increased at a faster rate than population growth (6 percent versus 1.2 percent over the past decade), reflecting the country's strong economy; GDP is expected to grow 5.5% in 2007.	Artisanal products have a significant share of the market; Chileans tend to prefer fresh foods, which are perceived as higher quality.
Population of 16 million is very centralized, with over 40 percent living within 100 miles of the capital's metropolitan region.	Many local consumers are becoming more sophisticated, seeking out brand names they recognize as capable of supporting their needs.
Chile has one of the highest percentage of non-traditional (i.e. non "mom & pop") store sales in Latin America, which allows suppliers to target large retail chains for larger volume sales.	The typical Chilean consumer is not immediately attracted to foreign products, as local producers typically provide well-priced quality options.
The Economist Intelligence Unit reports that foreign companies may conduct business in Chile on the same basis as local companies, while they enjoy guaranteed access to foreign exchange for repatriation of capital and profits.	Abundant agricultural resources support exports whose total doubles that of imports, while only 15-20% of products sold in supermarkets are imported.

Section II. Road Map for Market Entry

Entry Strategy

- Fifty five percent of Chilean consumers value innovation when determining what to purchase. 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.
- An interesting example of successful export branding can be seen with the Safeway private label brand recently introduced by Lider supermarkets (D&S). Lider now imports this brand to replace the President's Choice (Canada) line of products. The Safeway branded products range from brownie mix to dishwashing detergent, and the products are clustered together on an island display in many stores. The items command premium prices, and the typical Chilean consumer perceives them to be somewhat exclusive and of high quality.
- Large corporations increasingly prefer to import directly from foreign suppliers, while smaller processors are often not able to purchase whole containers or prefer that a distributor manages logistics and their inventory. Eventually, large sales volumes would justify establishing a local subsidiary to guarantee customer service and quality levels.
- Sales in Chile are made based on a relationship of personal trust, and personally visiting the country and demonstrating products to potential distributors and end-users is fundamental for generating solid, durable business relationships.
- Market access is open to all products from all countries. Except for products covered by a Free Trade Agreement, all products pay a standard, across the board 6% tariff. All edible

products must be approved by the Chilean health authorities and receive a registration number and open sales permit before being put on the market.

- U.S. foods products are sought after and respected for their dependably high quality levels, but prices are generally uncompetitive. To compete in Chile, U.S. producers need to focus on profit margins, which are very often significantly lower in Chile than in other countries that are not as open to trade. Specialty products and chemicals have a better chance of success than more basic inputs, which are often sourced locally.
- Distribution trade is very receptive to U.S. products as they are a guarantee of quality and good packaging and therefore low losses. As soon as possible, buyers will try to buy direct, without a local middleman, because they cannot pass those margins on to the product price and remain competitive.
- U.S. exporters are considered to be less flexible or agile than others in their ability and willingness to meet market requirements. Prices are very important in this aspect as is a more active marketing style than U.S. producers are used to at home, and US minimum order quantities are often too high for Chilean importers, especially during the initial stages of market penetration. Local distributors also expect the manufacturer to share in marketing and promotion efforts and expenses.

What You Must Do to Successfully Enter and Develop the Chilean Market

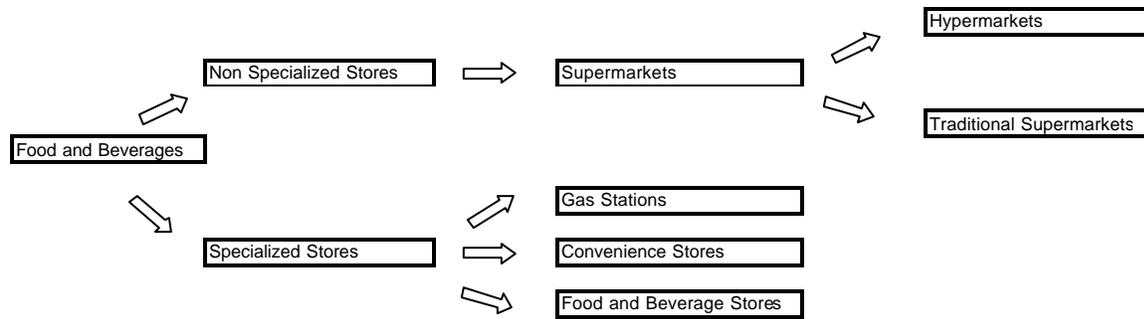
The key market success drivers are a strong proactive attitude, long-term commitment to the market, conscientious follow-through of the exporting effort; marketing and promotion; adapting to competitive local price points and margins; customer service, flexibility with minimum order quantities, and terms of payment. The Chilean market for ingredients imported from the U.S. is small compared to sales in the U.S., even at a State level. High U.S. market shares are linked mainly to a product's uniqueness (e.g. peanut butter, baked beans, etc.) or special characteristics (above-average quality or quality consistency especially with respect to human health, service, international corporate headquarters requirements, quick response and delivery capabilities, etc.). Low U.S. market share is generally due to the high impact of freight costs on commodity products, the acceptably high quality of products offered at much more attractive prices by other regional competitors, or the inability to adapt product and packaging to local standards.

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

The relationships of trust and open communication with potential distributors and especially with clients will be the key to being given the chance to learn about what products are required and which ones present the best market potential opportunities for that particular supplier's ingredients.

Market Structure

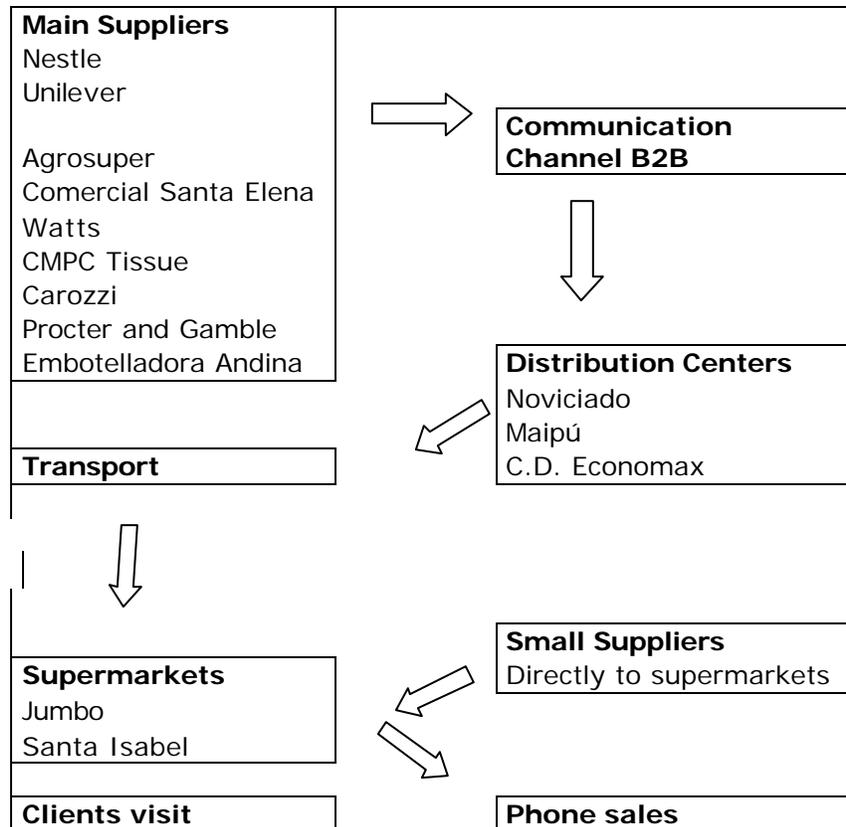
- Food sales generally go mostly to supermarkets, followed by traditional retailers and to a small extent to institutions (HRI food services).
- Institutional sales are often handled as a separate business by the food companies.
- Smaller neighborhood stores have been continuously decreasing in number as they cannot match the efficiencies and location advantages of market-leading hypermarkets. The supermarket sector is dominated by a few chains.

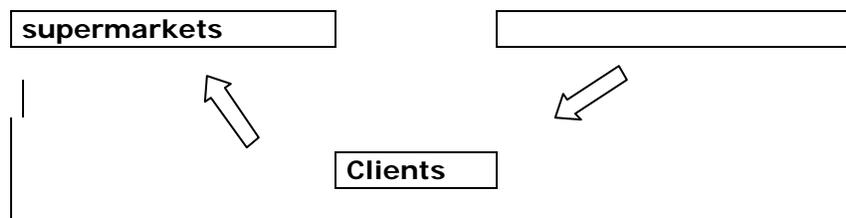


Generally, if sales volumes are not too high, direct imports will not be of interest to Chilean buyers as the costs and effort required to have an edible product approved are disproportionately high. In this case, it is more reasonable to have a local representative/distributor to handle the import process,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

As food processors seek to rationalize their costs, they are leaning more towards direct purchases and away from middlemen with time. As the big processors get bigger, they reach economies of scale by negotiating direct with the supplier, even on a global scale. Logistics companies have become a strong market player in the past five years, but they work with finished products and are not involved in raw materials. Thus, unlike bigger processors, smaller buyers still depend on distributors to manage their stock.

Jumbo & Santa Isabel Distribution Channels (Cencosud)

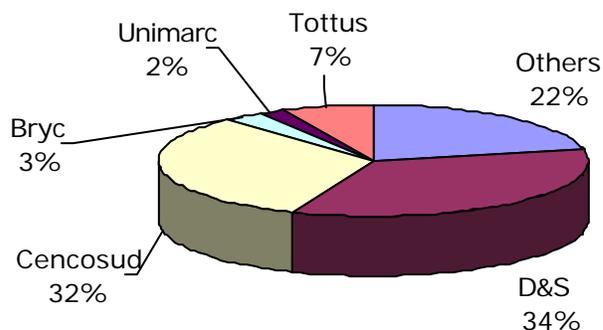




Source: National Federation of Supermarket Workers (Federación Nacional de Trabajadores de Supermercados)

A. SUPERMARKETS & HYPER MARKETS

Supermarket & Hypermarket Market Share 2006



Source: National Federation of Supermarket Workers

Company Profiles

Retailer & Type	Ownership	2006 Sales (in U.S.\$)	Number of Outlets	Location	Purchasing Agent Type
Cencosud Supermarkets	Local	\$2.2 billion	141	Nationwide	Direct, Third-Party Distributor, Agent
Jumbo		\$1.1 billion	21		
Santa Isabel		\$1.1 billion	120	Nationwide	
D&S: Lider stores		\$2.6 billion	103	Nationwide	
Tottus Supermarkets.		\$404.3 million	19	Nationwide	

Source: Estimations with Asach, Cencosud and D&S data.

- The top two mass grocery retailers (MGR) in Chile are D&S and Cencosud. Both remain focused in foreign expansion and strategies to increase profit margins, most of their sales are food and drink items.
- Together they have 66% of the supermarket share.

Distribución y Servicio (D&S)

Chile's largest supermarket chain has 34 %of the market. The company operates approximately 59 hypermarkets and 44 supermarkets.

In 2003 D&S merged Almac and Ekono stores under its flagship Líder banner, and in 2004 bought seven hypermarkets from French retail giant Carrefour, which was the latest foreign retailer to fall casualty to the aggressive Chilean retail environment.

In 2006 and 2007, D&S opened 18 new stores– 3 Lider hypermarkets stores and 15 Lider express stores– which represented a 5.4% expansion of the total sales areas. Additionally, they re-inaugurated Ekono discount stores in January 2007, and 13 stores were operating by March 31st, 2007.

D&S had strong results in the final quarter of 2006, and plans to expand outside Chile. In 2007, D&S merged with the department store and home improvement retailer, Falabella, which would give the expansion program greater cash resources.

To improve upon the low profit margins offered by most food and drink items, D&S is moving further into sales of non-food lines, particularly household goods, and financial services. Its new alliance with the Banco del Estado, Chile's third largest bank in terms of loans, will offer a range of financial services products across its store network. Its Presto credit card already accounts for almost 20% of total sales, and is beginning to make a significant contribution to overall profits.

The trend is in line with the rest of the retail industry in Latin America - with financial services operations accounting for an increasing share of revenues.

During the first quarter of 2007 D&S's profits increased 68%.

Cencosud:

Cencosud is one of the most important Chilean retail holdings, with hypermarkets, supermarkets, home improvement stores, shopping centers, department stores, credit cards, and insurances business.

Cencosud has two supermarket/hypermarket brands, Jumbo and Santa Isabel, together they have 32% market share.

Jumbo, Chile's third largest supermarket chain in number of locations (second in sales) has 21 stores in Chile.

Jumbo's strategy is focused on the quality of its products and services. It is the first supermarket world wide in implementing the international norms (BRC, IFS) and HACCP (Hazard Analysis and Critical Control Points).

In 2006 Jumbo received the Chilean pro-quality prize for the third time, awarded by Adimark (Market Research Company), Adolfo Ibañez University, and the Quality and Productivity National Association.

AMA (American Marketing Association) labeled Jumbo as one of the three most important brands of the year.

Santa Isabel:

Santa Isabel has the second largest number of supermarkets in Chile (ranking third in sales), with 120 stores in the country, offering a wide variety of grocery products as well as its own private-label Cinco Continentes brand.

Santa Isabel’s strategy focuses on offering the lowest prices.

Cencosud’s (already active in Argentina) attempt to enter a third market - Colombia – probably via the purchase of the Olimpica supermarket chain. Additionally, Cencosud is planning to enter Peru and Mexico retail markets.

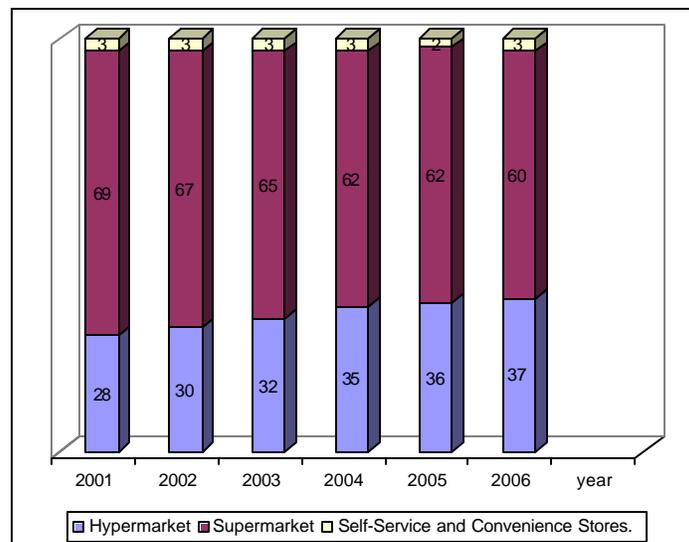
Tottus

This supermarket is owned by Falabella department store, and has a 7% market share.

Tottus has been present in the supermarket sector since 2004, and has grown with Falabella’s purchase of the San Francisco supermarket chain.

D&S and Falabella are in the process of merging both companies, but Falabella is being forced by the government anti-monopoly authority to sell their supermarkets (Tottus and San Francisco) to a third party.

Consumer’s Preferred Stores for Purchasing Food



Source: AC Nielsen.

B. CONVENIENCE STORES & GAS MARTS**Company Profiles**

Retailer Name & Market Type	Ownership	Sales (US\$)/year 2006	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Big John	Local	N/A	23	Santiago	Direct, Third-Party Distributor, Agent.
OK Market	Local	N/A	14	Santiago and regions V and X	Direct, Third-Party Distributor, Agent.
Ekono	Local	N/A	10	Santiago	Direct, Third-Party Distributor, Agent.
Supermercados Puerto Cristo	Local	N/A	16	Santiago and regions v and VI	Direct, Third-Party Distributor, Agent.

- The biggest convenience stores chains are Big John and Ok Market, each one associated with a national pharmacy chain: Big John with Farmacias Ahumada and Ok Market with Salco Brand.
- In 2007, D&S entered the convenience store market with their own store chain, under the Ekono brand, which has an average floor space of 3,700 sq. ft.
- These stores are focused in low prices and stocks of very specific products. This format is low cost, because the company does not spend in marketing, and the displays in the shelves are in boxes. By the end of 2007, D&S estimates to have 30 stores in the Metropolitan Region.
- Supermercados Puerto Cristo's growth strategy is based on the incorporation of their stores in big commercial centers. In 2007 they built their own commercial center in Santiago.
- OK Market is owned by Salcobrand. They have long hours and an important variety of products (bread, sodas, dairy, meat, vegetables, fruits, cheese, confectionaries, cookies, wine, liquors, cleaning products, etc.). Liquors sales represent 19% of total revenue.
- Big John, after they associated with Farmacias Ahumadas, are planning on building four new strip centers.

C. TRADITIONAL MARKETS

Redmarket is the new association of traditional markets in Chile. They represent 2,400 small businesses with an estimated market of US\$10.2 billion.

(<http://www.redmarket.cl/redmarket/imagenes/noticias/financiero.JPG>)

Redmarket indicates that the sector will invest US\$ 6 million by the end of 2007 in construction, maintenance and in the installation of cashier machines and computer systems.

Although this category represents 98 percent of all retail food channel stores, its share of sales is only 20 percent. These outlets tend to carry an array of items and profit from their convenient locations. The majority of these outlets carry minimal imported food stock.

Section III. Competition

Chile has a longstanding commitment to trade liberalization and has signed free trade agreements with the European Union, Mexico, Canada, Korea, EFTA, Central America, Mercosur, Singapore/New Zealand, Ecuador, and the U.S. among others.

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

- The FTA immediately eliminated tariffs on almost 90 percent of U.S. products imported into Chile and more than 95 percent of Chilean exports to the United States. Tariffs on all products will be eliminated within 12 years.
- Bilateral trade in all goods grew by 33 percent the same year, reaching almost \$8 billion, while U.S. exports of consumer-oriented food products to Chile grew by 54 percent.
- Elimination of Chile's 6 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).

The agricultural sector has stood to benefit substantially from the FTA:

- Approximately 75 percent of both U.S. and Chilean farm goods will be tariff-free by 2008, with all tariffs and quotas phased out within 12 years.
- U.S. access to this market is competitive with Canada and the European Union, which both already had FTAs with Chile.
- Next year (2008), farmers will gain duty-free access for these important U.S. products to the Chilean market:
 - 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 only pay value-added tax (VAT) when brought into Chile. The extreme locations of each zone (north and south) diminish their effectiveness as a source of distribution to the capital.

U.S. and Chile Tariff Schedules for all Harmonized Tariff System customs codes can be found at www.ustr.gov/new/fta/Chile/text/, "Section 3. National Treatment and Market Access for Goods".

Product Category 2006	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p>Dairy</p> <p>Net imports: 42,218 tons</p> <p>US\$ 69.1 million (CIF)</p>	<p>1. Argentina – 56%</p> <p>2. New Zealand – 13%</p> <p>3. Uruguay – 9%</p> <p>USA – fourth supplier (7% share)</p>	<p>Argentina is price competitive, geographically close and has developed a long-standing reputation in the market.</p> <p>New Zealand is strong in milk powder (infant and non infant) and butter.</p> <p>Uruguay is strong in milk powders and butter. Its price is competitive and it is geographically close.</p>	<p>Local companies are strong in liquid milk, ice cream, yogurt, cultured milk drinks and sweetened condensed milk. They are all very strong companies although affected by rising production costs.</p>
<p>Beverages</p> <p>Net imports: 69,363 tons</p> <p>US\$ 63.2 million (CIF)</p>	<p>1. Argentina – 30%</p> <p>2. United Kingdom – 13%</p> <p>3. Mexico – 6%</p> <p>USA – Minor supplier (5% share) together with Holland and Venezuela</p>	<p>Argentina dominates the market with its pure alcohol, beer, and wine products.</p> <p>The UK is the main supplier of whisky and main foreign tea supplier, products very important in the Chilean market.</p> <p>Mexico supplies beer, tequila and rum. Rum is growing at a fast rate in the Chilean retail stores.</p>	<p>Rum consumption in Chile is growing. Imports from the U.S. are mostly beer and juice, which have strong competition from local suppliers. Nevertheless, there is a small quantity of rum imported from the U.S. that will probably grow in the following years.</p>
<p>Meet, fish and poultry</p>	<p>1. Paraguay - 33%</p>	<p>Trade Agreements and geographic closeness make these three</p>	

<p>Net imports: 97,129 tons</p> <p>US\$\$ 289,3 million (CIF)</p>	<p>2. Uruguay – 29%</p> <p>3. Argentina - 28%</p>	<p>countries strong competition with the U.S., especially in the red meat market.</p>	
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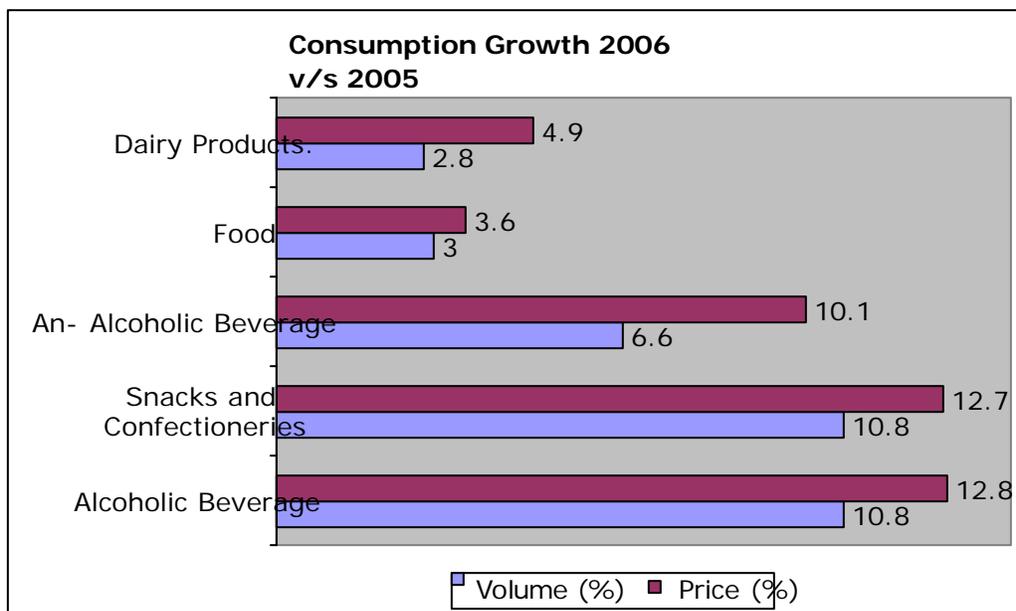
Section IV. Best Product Prospects

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

Categories with the biggest growth. (2004, 2005, 2006)

- Rum
- Vodka
- Cereal
- Alfajor (two biscuits join with chocolates)
- Cat and Dog Food
- Sweeteners
- Mashed Potato Mix
- Snacks
- Water
- Whisky
- Fruit Juice
- Sponge Cake

Source: AC Nielsen Homescan, of 87 products



Source: Nielsen Retail Index. (Homescan of 87 products).

Product Category	2006-Market Size (Volume)	2006 Imports (\$)	5-Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
**Beverages	69,363 tons	US\$63.2 million	10% per year	0% after full implementation of FTA*	Competition from key established suppliers from Argentina, UK and Mexico.	Demand for beverages will continue to rise as the Chilean market is demanding new products and flavors. This will provide opportunities for U.S. suppliers.
Cereals	985,000 tons	US\$142.5 million	50% in average	0% after full implementation of FTA*	Argentina and USA are the main suppliers. This has not changed over the past years.	U.S. imports have tripled in number in the past two years

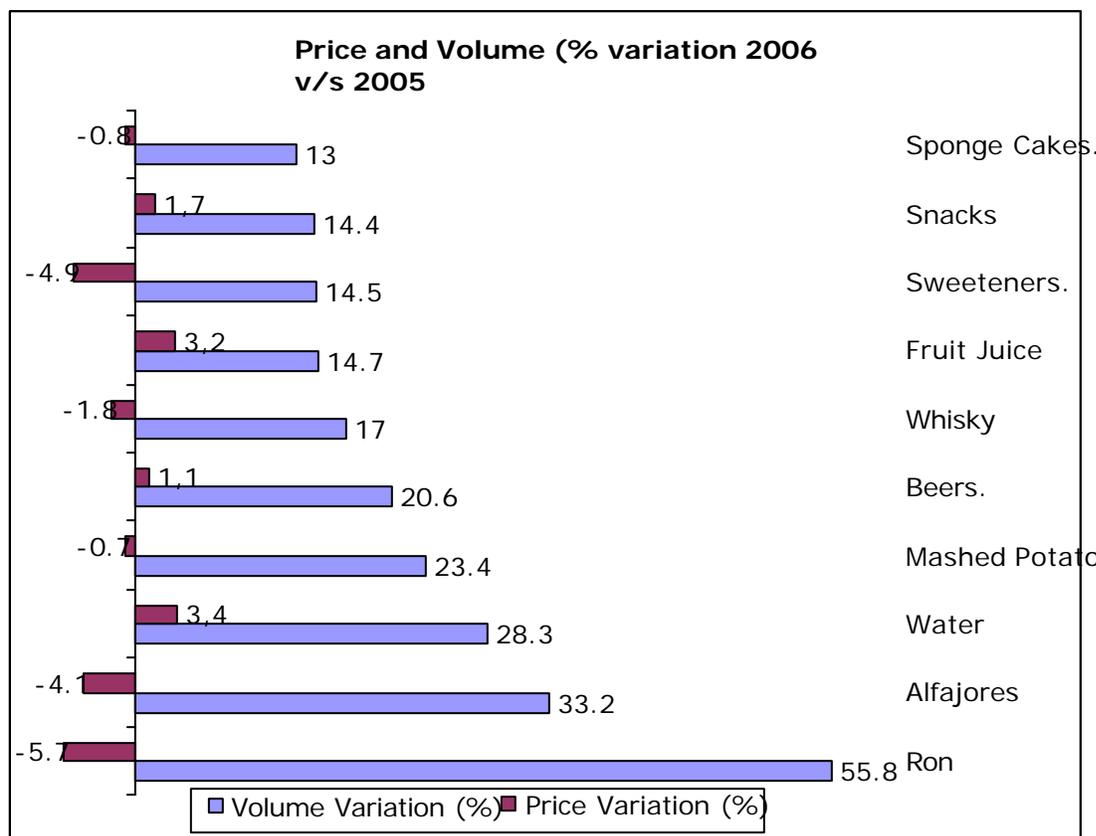
Cat and Dog Food	215.137 tons	US\$98.8 million	12% Avg.	0% after full implementation of FTA*	Retail market for dog and cat food is still a niche. The product demand is growing steadily	This market is likely to become more dynamic as consumers are becoming more aware of the benefits of pet food. Opportunities will exist for development by U.S. pet food suppliers.
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*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.

****Alcoholic Beverages**

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

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



Source: Nielsen Retail Index. (From 87 Category Products)

Category B: Products Not Present in the Market Because They Face Significant Barriers

Although Chile has a general policy of free-market prices, there are some exceptions. Major agricultural products such as wheat, sugar, and certain products containing sugar fall under a price band system which encourages local production. These price bands change with fluctuations in international market prices and are typically announced mid-year to help the local agricultural industry determine what to sow.

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

- Chilean Secretary of Health Ministry: www.asrm.cl/
- U.S. Embassy, Santiago (Food & Agriculture section): www.usembassy.cl

Category C: Products Not Present in Significant Quantities

Products Not Present in Significant Quantities					
Product Category	Imports 2006 \$	Estimated Import Growth for 2007	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Health Food Products	N/A	N/A	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

Spices, sauces and mayonnaise	\$2.0 million	1%		Local production of mayonnaise (including the local manufacturing of foreign brands such as Hellmann's and JB) is sufficient to meet demand. Spices and sauces are not very popular among Chilean consumers.	Opportunities to expand category reach; however, it would need a strong marketing strategy
Ethnic Foods	N/A	N/A		Small market size.	Growing interest in alternative foods because the product offering traditionally has been restricted

Section V. Post Contact and Further Information

American Embassy Santiago, Office of Agricultural Affairs

Address: Office of Agricultural Affairs, Unit 4118, APO AA 34033-4118.

Tel.: (56-2) 330-3704

Fax: (56-2) 330-3203

E-mail: agsantiago@fas.usda.gov

For further information, check the "Food and Agriculture" home page on the U.S. Embassy Santiago web site (www.usembassy.c).

SEREMI de Salud (Chile's Food Sanitation Regulations)

Address: Avenida Bulnes 194, Santiago

Tel: (56-2) 399-2435

Fax: N/A

Web Page: www.seremisaludrm.cl

E-mail: N/A

Chilean Supermarket Association (ASACH)

Address: Av. Vitacura 2771, Las Condes, Santiago

Tel.: (56-2) 236-5150

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Web Page: www.asach.com

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