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Report Highlights:

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

Includes PSD changes: No
Includes Trade Matrix: No
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I. MARKET OVERVIEW

Chile's resource-based, export-led economy is expected to grow 4-5 % in 2003, after a modest downturn in 2002. Inflation stayed below 4% during 2002, but unemployment remains around 9-10%. The value of the peso declined by 15% during January 2002-October 2002, which adversely affected consumer buying power. Unfortunately, retail sales are expected to remain depressed into 2003. Only about 4 million people out of Chile's population of 14 million have sufficient disposable income to be considered potential consumers of imported, consumer-ready food products.

Consumer Demographics in Santiago, 2002

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

Chile's food retailers are expected to continue fighting for market share by offering specials and promotions to shoppers, with the order of preference for food items being discounted prices, additional volumes, or a bonus gift. The retail sector, particularly in the Santiago Metropolitan area where 40% of the Chilean population lives, is quite sophisticated and has become increasingly concentrated with more new and larger stores. Currently, there are 660 supermarkets with more than a million square meters of retail space. Approximately 50% of the retail business is located in the hands of three chains (D&S, Santa Isabel, and Jumbo). While private labeling is successful here, it is not quite as widespread as in the United States. To survive, the independent stores and small chains have been joining associations in order to negotiate lower prices from suppliers.

The restaurant sector, which is highly vulnerable to economic conditions, has been adversely affected by the slump in tourism as a result of the terrorist attack in the United States on September 11, 2001. However, on the whole, Chile has fared better than other countries in the region and business is expected to recover somewhat in 2003, although not to the same level as when the economy enjoyed an average growth rate of 8%. Chileans continue to dine out as frequently as before. However, they are reducing their level of consumption and choosing more fast food restaurants. Younger generations also are choosing less traditional restaurants, gravitating toward more trendy less expensive restaurants. With the economic recession, restaurateurs are trying to attract more business with "happy hours" and special menus. International fast food chains are expected to continue to extend their reach beyond Santiago and its upper-class suburbs.

Food and beverage purchases are the largest single household expenditure.

Average Monthly Expenditures per Household in Santiago, 1997*

Item	Dollars	Percent
Food and beverages	285	26.8
Transport and communications	166	15.6
Housing and utilities	149	14.0
Home maintenance and furnishings	96	9.4
Clothing	94	8.8
Education and school fees	63	5.9
Health care	59	5.5
Recreation	58	5.5
Other goods and services	91	8.5
Total	1,061	100.00

Source: National Institute of Statistics

* The 1997 census remains the most current information

During the 1990's, consumption of processed foods such as breakfast cereal, frozen vegetables, prepared frozen foods, ketchup, pet food, mayonnaise, and chocolate increased rapidly due to changing eating habits resulting from economic growth. This trend has continued with the following categories showing the most growth from 2000 to 2001: alcoholic beverages (33%), refrigerated food preparations (13%), bottled waters (13%), yogurts and liquid dairy products (12%), frozen meats (12%), refrigerated salads (11%), frozen fruits (10%), frozen fish/seafood (10%), sauces (10%).

Products imported from the United States often pay a higher duty than products imported from U.S. competitors, because Chile has negotiated free trade agreements with many of its trading partners in North and South America. However, a Free Trade Agreement with the United States is currently being negotiated, so by 2003, competitors should no longer have a tariff advantage.

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

Advantages	Challenges
The U.S. can produce many niche products at low cost due to economies of scale.	The single most important factor influencing purchasing decisions is price.
Domestic transportation and communication systems are efficient in Chile.	Chile produces a wide range of high quality inexpensive inputs, so imports tend to be more expensive vis a vis domestic products.
Regulations are transparent and enforcement is generally free of corruption.	Strict animal and plant quarantine regulations prohibit the import of numerous products.
Middle and upper class shoppers are much more apt to purchase prepared meals at supermarkets.	The most common worry of consumers is food spoilage; in particular, they are concerned about the expiration of shelf life.
25% of the most affluent shoppers look for variety and a wide selection of products.	U.S. products have no special cultural appeal compared to products from other countries.
The market for imported consumer foods is concentrated in Santiago, where 40% of the country's population lives.	Importers seldom have the ability to market full container shipments of consumer food products from the United States.
Supermarket chains are seeking suppliers of well-recognized, high sales volume products to expand their line of private label items.	Retail power is concentrated in three chains and they demand considerable marketing support for branded products.

II. EXPORTER BUSINESS TIPS

- # An importer/agent is becoming a necessity. Most supermarket chains prefer to buy new or less well known products from importer/distributors.
- # Budweiser beer, Edy's ice cream, Quaker cereals and Pringles chips have shown that U.S. products can fill gaps in the local market if supported on the ground. Budweiser is distributed by Chile's largest brewery; Edy's, Quaker, and Pringles have all used intensive sampling, in conjunction with prominent shelf space in supermarkets, to launch their products.
- # Agent/importers must also store imported products until they are tested, and released for sale and distribution by health officials of the region where the products are being stored.
- # The Ministry of Health periodically publishes changes to the food regulations in the Diario Oficial.
- # For livestock products, including dairy products, importers should check with the Ministry of Agriculture's livestock protection service (SAG) to find out: (1) if the item needs an import permit, and (2) if it must come from a processing plant which the Ministry has previously inspected.

- # Spanish labeling is a must.
- # Consumers are very brand oriented, but major supermarket chains are introducing private labels.
- # Sampling is usually required to introduce new products successfully.
- # Middle and upper class consumers generally steer clear of spicy, "ethnic" foods.
- # Consumers are not overly concerned about the health aspects of fat, cholesterol, and extensive processing. At the same time, noting the health benefits of a product can be helpful in marketing a product.
- # Consumers relate expired shelf life to spoilage, which is one of their major concerns when shopping.

III. MARKET SECTOR STRUCTURE AND TRENDS

Chile has a modern, highly competitive supermarket sector with \$4.8 billion in annual sales in 2001. The industry is dominated by Chilean-owned chains which are aggressively competing with each other for market share primarily by offering consumers low prices. Price remains the number one criteria, but the increase in competition, at least in the Santiago metropolitan area, has also increased the importance of offering a wider selection of products. More than \$300 million were invested in hypermarkets in 2001 and a similar amount (\$320 million) is slated for expanding the square footage in 2002. With the increase in the number of hyper markets and mega supermarkets, more import items are showing up in the capital.

Market Share of Major Supermarket Chains, 2002

Chain	% Share
D&S (Econo, Lider, Almac)	30.2
Santa Isabel	9.7
Jumbo	8.5
Unimarc	3.7
Montserrat	3.0
San Fco.	2.7
Carrefour	2.5
Rendic	2.4
Montecarlo	2.4
Las Brisas	2.3
Keymarket	2.1
Others	30.5

The hotel, restaurant and institutional sector offers growing opportunities for selling processed products. In Chile, the main meal of the day is lunch. Reportedly, 80 percent of businesses provide their employees in-house food service or vouchers to eat at local restaurants. Mines and educational institutions are the leaders in offering meal benefits. As the economy grows and urban traffic becomes more congested, even fewer people will be able to go home for lunch. Middle and upper class Chileans dine out at restaurants about twice a month on average. Higher wages for kitchen employees and stricter sanitation standards will encourage the industry to look for more pre-prepared or partially prepared products and products offering greater uniformity.

Currently, the HRI sector is divided between a small, but growing group of fast food chains and locally owned establishments, such as traditional restaurants, sandwich shops and cafeteria-style food service providers. Many of the fast food chains are multinationals which tend to import through buying offices in the United States. The local firms buy exclusively from local distributors. Therefore, to enter this market, a U.S. exporter must engage a local distributor and work closely with that firm in order to introduce new products to the restaurant industry.

Chile's food processing sector offers some opportunity as a market for ingredients, especially products used by processed meat and confectionery manufacturers. With the large number of free trade agreements to which Chile is a signator, more investment is being devoted to increasing processing capacity to take advantage of the new export markets. However, generally the processors use the widely available high-quality domestic inputs, such as fruits, vegetables, meats and dairy products. Some multinationals, like Nestle, buy through their international purchasing offices.

Currently, Chile's tourist industry offers limited market opportunities for U.S. products. Approximately 65% of the visitors are Argentines who enjoy vacationing at Chile's many summer beach resorts, where restaurants specialize in local seafood. Visitors from North America, on the other hand, are primarily attracted to Chile for its ecotourism. In keeping with this theme, hotels and lodges in the national parks tend to serve seasonal locally grown foods. Some opportunities may exist for US ingredients in Santiago's large hotel chains, as these tend to cater to an international business clientele. While U.S. wines cannot compete on price with local wines, a niche market exists for high quality internationally recognized labels.

IV. BEST HIGH-VALUE PRODUCT PROSPECTS

With the signing of a US-Chilean Free Trade Agreement the following products are expected to offer the best prospects:

1. Snack foods, including high energy nutritional snacks for sports.
2. Frozen prepared dinner entrees and frozen bread products.
3. Dairy products, fresh and frozen, such as yogurt and specialty drinks
4. Processed meats
5. Edible nuts (almonds, pistachios, and mixed nuts).

6. Specialty pet foods (other than dry dog food).

V. KEY CONTACTS AND FURTHER INFORMATION

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Web Sites:

<http://www.usembassy.cl>; U.S. Embassy Santiago homepage. First look under "*Food and Agricultural Affairs*," then click on "*Chile's Market*" for research reports, statistics, and contacts in Chile.

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

Technical Reports:

A Food and Agricultural Import Regulations and Standards (FAIRS) Report for Chile is available [CI2004] on both the U.S. Embassy web site and the FAS web site.

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

APPENDIX:**Table A: Key Trade & Demographic Information**

Agricultural Imports From All Countries (\$Mil)/U.S. Market Share (%)	2001	1,214/8
Consumer Food Imports From All Countries (\$Mil)/U.S. Market Share (%)	2001	484/7
Edible Fishery Imports From All Countries (\$Mil)/U.S. Market Share(%)	2001	25/1
Total Population (Millions)/Annual Growth Rate (%)	2001	15.4/1.4
Urban Population (Millions)/Annual Growth Rate (%)	2001	12.9/1.6
Number of Major Metropolitan Areas 1/	2001	3
Size of the Middle and Upper Classes (Millions)/Growth Rate (%) 2/	2001	5.0/5
Per Capita Gross Domestic Product (U.S. Dollars)	2001	4,320
Unemployment Rate (%)	2001	7.9
Annual Food Expenditures Per Household in Santiago (U.S. Dollars)	2001	207
Percent of Female Population Employed Outside the Home	2000	45
Exchange Rate (US\$1= pesos)	2001	635

1/ Population in excess of 1,000,000.

2/ Family income more than US\$ 12,000.

Table B: Consumer Food & Edible Fishery Product Imports

Chile Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S Market Share		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
CONSUMER-ORIENTED AG TOTAL	458	515	484	38	35	34	8	7	7
Snack Foods (Excl. Nuts)	36	48	58	3	3	3	7	6	5
Breakfast Cereals & Pancake Mix	7	6	8	2	1	1	26	19	19
Red Meats, Fresh/Chilled/Frozen	166	177	167	1	1	0	0	0	0
Red Meats, Prepared/Preserved	8	9	4	1	1	1	12	6	18
Poultry Meat	1	1	1	1	1	1	100	100	3
Dairy Products (Excl. Cheese)	26	42	30	2	1	1	8	2	2
Cheese	9	15	8	2	1	1	18	8	16
Eggs & Products	3	3	2	1	1	1	16	11	27
Fresh Fruit	41	43	37	1	1	1	1	1	1
Fresh Vegetables	1	1	1	1	0	1	2	0	1
Processed Fruit & Vegetables	38	32	31	7	6	5	20	18	15
Fruit & Vegetable Juices	8	6	5	1	1	1	3	3	3
Tree Nuts	2	3	3	1	2	2	25	57	61
Wine & Beer	13	10	7	2	2	1	15	18	1
Nursery Products & Cut Flowers	5	5	5	1	1	1	5	5	2
Pet Foods (Dog & Cat Food)	21	25	31	6	6	6	30	23	21
Other Consumer-Oriented Products	75	89	88	12	12	13	16	13	15
FISH & SEAFOOD PRODUCTS	26	25	25	1	1	1	2	1	1
Salmon	1	1	1	1	1	1	66	5	5
Surimi	1	1	1	1	1	1	33	10	42
Crustaceans	3	4	4	1	1	1	0	2	1
Groundfish & Flatfish	1	1	1	1	1	1	8	24	21
Molluscs	2	3	2	1	1	1	3	1	0
Other Fishery Products	20	18	18	1	1	1	0	0	0
AGRICULTURAL PRODUCTS TOTAL	1,228	1,271	1,214	182	132	95	15	10	8
AG, FISH & FORESTRY TOTAL	1,293	1,352	1,306	192	144	108	15	11	8

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C: Top 15 Supplier of Consumer Foods & Edible Fishery Products**Chile****Consumer-Oriented Agricultural Imports**

(\$1,000)	1999	2000	2001
Brazil	45,269	79,114	127,406
Argentina	157,619	163,296	117,289
Paraguay	35,081	47,073	55,080
Ecuador	43,067	44,720	39,997
United States	38,385	35,070	34,033
Mexico	9,693	10,322	10,082
Uruguay	15,604	19,084	9,984
Netherlands	8,455	8,851	9,587
Spain	10,360	7,507	8,597
Canada	10,958	11,502	7,706
Peru	6,658	9,533	7,053
New Zealand	10,583	20,425	6,993
France	6,204	6,593	6,084
Colombia	5,928	5,765	5,631
Germany	6,402	4,658	4,962
Other	48,124	41,365	33,900
World	458,427	514,929	484,432

Fish & Seafood Product Imports

(\$1,000)	1999	2000	2001
Ecuador	18,283	18,259	18,105
Uruguay	1,751	1,745	1,666
Spain	738	1,378	1,322
Thailand	1,229	1,000	1,073
Peru	1,229	981	743
Argentina	793	596	323
Korea, Republic of	29	47	255
Brazil	189	51	249
Russian Federation	81	343	238
France	18	7	220
United States	483	192	138
Morocco	109	232	67
Germany	60	85	53
Portugal	66	9	38
Venezuela	40	0	33
Other	1,282	516	127
World	26,389	25,450	24,653

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office