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Product Brief

Pet Foods Report

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Report Highlights: Over 95% of pet food sales (US$ 140 million or 120 thousand tons in 2002) are of the dry type (in bags) and most of the rest is wet type (in can).

Chilean pet owners are gradually spending more on their pets. Fifty percent of Chilean homes are believed to own dogs or cats, and these kept pets are thought to total 2.5 to 3 million dogs and 1.5 millions cats (not including street animals).

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Section I. Market Overview

Sales of dog and cat food are a growing business in Chile and almost four fifths of these products are imported from Argentina (where international companies own plants) followed by Brazil and the U.S. It is a profitable market, even though large advertising budgets take a big portion of the 75% gross margins before sales tax. Over 95% of pet food sales (US$ 140 million or 120 thousand tons in 2002) are of the dry type (in bags) and most of the rest is wet type (in can).

Chilean pet owners are gradually spending more on their pets. Fifty percent of Chilean homes are believed to own dogs or cats, and these kept pets are thought to total 2.5 to 3 million dogs and 1.5 millions cats (not including street animals). A poll in early 2001 indicated that 62.9% of homes in the capital city of Santiago (which harbors around 40% of Chile's population) had pets. The total population of 1.47 million pets was composed of 882 thousand dogs, 324 thousand cats, 204 thousand birds, and 12 thousand rodents, in addition to other species.

Surveys show that more than half of these pets are not given balanced diets, and that the penetration of pet food in the Chilean market is no more than 30% of households with pets, which is very low in comparison to the U.S. market with 80%. Only around 25% of pet food is based on processed products. Many if not most homes that own pets mix pet food (pellets) with home-cooked food and many pets, especially in less urbanized areas, are fed exclusively with home-cooked food or leftovers.

Advantages and Challenges for U.S. Exporters of Pet Food in Chile

Advantages	Challenges
U.S. technology is better than the one used by Chilean companies and U.S. companies have more experience manufacturing pet food than Chilean companies.	Most U.S. products are too expensive when a local equivalent is available.
The ingredients of U.S. products are considered of better quality. "Made-in-USA" still makes a positive impact.	The gap is narrowing. International manufacturers supply South America from new, world-class plants in Argentina and Brazil that follow global standards. Their products are considered at least as good as U.S. products and dominate higher-priced market segments.
New free trade agreement between Chile and United States will reduce costs of U.S. products, making them more competitive in the market.	It is usually difficult to compete with costs of pet food manufactured in Argentina because the labor, consumables and shipping are cheaper.
Packaging design and quality makes U.S. products very attractive. U.S. product labeling, especially ingredient list, is considered more reliable and accurate than local products.	South American plant packaging standards are catching up.
U.S. companies have the experience and resources for a strong market penetration strategy. Choose a distributor carefully and ensure that the distributor complies with your quality, customer service and delivery standards.	Finding a good, reliable exclusive distributor is not easy. Manufacturers normally fail when they try to enter the market without a brand development strategy and without investing in advertising or supporting their distributor against the established market leaders.

U.S. pet food manufacturers should aim to cover the currently large price gap between premium foods ($15-23 per 15-Kg bag) and super premium foods (up to $50 per 15-Kg bag).	

Section II. Market Sector Opportunities and Threats

Entry Strategy

There is strong competition among the internationally recognized companies present in the market. Therefore the best way to penetrate the market involves 1) seriously committing to the market, 2) finding a qualified, exclusive distributor, 3) establishing a solid brand strategy including a strong promotional campaign and 4) providing good distributor support. Companies have entered and then left the market (sometimes more than once, like Royal Canin) as a result of adopting a short-term quick-sell or spot market approach and by considering the local partner more as a reseller to be sold to rather than a distributor to be worked with.

Finding a qualified, exclusive distributor for pet food with experience in the business and good contacts is not easy. The manufacturer will only be successful if he is prepared to develop a strong market entry and pricing strategy including good distributor support comparable to that of the current big foreign players (Nestle and Mars).

Successful long-term business partnerships and sales in Chile, as in other Latin countries, are very dependent on establishing good personal relationships. Visiting Chile and meeting with business partners before and after selecting one is important.

The best entry opportunity at this time is to exploit the product niche between super premium and premium pet foods.

Build on the high quality reputation of U.S. products through superior packaging, extolling the “Made in USA” factor, and complete, accurate and informative labeling in Spanish.

Market Size, Structure and Trends

Market Size

Estimated pet food sales in Chile reached US$ 140 million (120 thousand tons) in 2002, 77% of which (US$ 108 million) was dog food (most market statistics generated by studies done for the leading brands are said to be very approximate). Nestlé and MasterFoods Chile Ltda. (formerly EFFEM, subsidiary of the Mars group) only sell imported pet foods. They account for 80% of imports and are said to control 60% of the total market. Therefore, total imports make up 75% of the total market (or US$ 105 million), and the other 25% is of local origin.

Super Premium pet foods have an 8% share of total sales. Premium products follow with 25% and strong growth in supermarket, budget brands have a 40% market share and even lower priced food about 20%. The remaining 7% is accounted for intermediate product niches.

The best growth potential currently is for products in the US$ 30-40 (retail) per 15-Kg bag segment. Dog and cat food sales could triple with stronger acceptance of processed, balanced pet food instead of home-cooked food, but this takes time and is a generational phenomenon.

Total dog and cat food sales have grown at an average annual rate of 20% over the last five years. Growth peaked in 2001 at 30% and dropped to around 10% in 2003, but sales are currently recovering. Super premium sales increased strongly around year 2000 and then froze. Budget brand sales dropped in relation to premium and super premium but are recovering faster than these, triggered in part by price increases for super premium products and price drops in premium and budget products. The better budget products are growing now, and super premium product sales are expected to grow again in the future.

Sales through supermarkets have grown 15-20% per year while sales through traditional channels (pet stores, vet clinics) have grown at 10% annually.

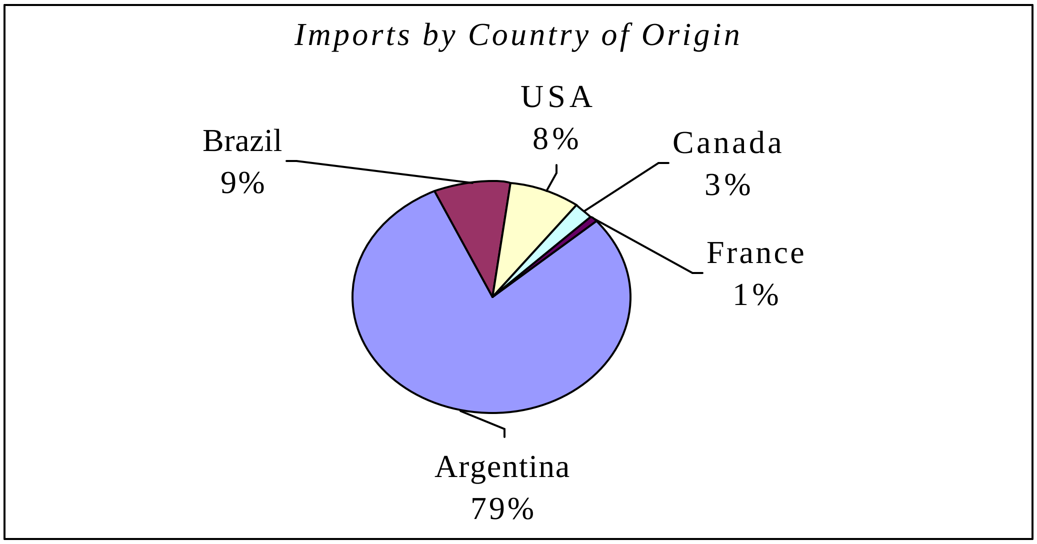
Imports

Total pet food imports rose from 22 million dollars in 1998 to 32.7 million dollars in 2002 and fell back to 31.7 million dollars in 2003. Canned pet food imports dropped from 1.9 million dollars in 2002 to 1.2 million dollars in 2003 and seem to continue dropping.

Chilean Imports, HS 2309.10, dog and cat food, put up for retail sale.

	1998	1999	2000	2001	2002	2003
Total, US$ CIF (%)	22,047,288 (100%)	20,878,819 (100%)	25,153,869 (100%)	30,377,634 (100%)	32,738,681 (100%)	31,683,415 (100%)
Total (Tons)	28,942	312,539	101.333	207,604	57,832	56,489
USA, US$ CIF (%)	9,589,682 (43.5%)	6,342,044 (30.4%)	5,911,587 (23.5%)	6,415,839 (21.1%)	4,639,585 (14.2%)	2,576,090 (8.1%)
USA (Tons)	10,870	22,167	8,435	27,908	5,156	2,851
Argentina, US$ CIF (%)	10,575,449 (47.9%)	11,976,771 (57.3%)	14,252,113 (56.6%)	18,791,998 (61.8%)	23,048,479 (70.4%)	25,030,151 (79%)
Another, US$ CIF (%)	1,091,659 (4.9%) Mexico	1,514,170 (7.2%) Canada	2,809,679 (11.1%) Brazil	3,935,958 (12.9%) Brazil	3,544,720 (10.8%) Brazil	2,826,144 (8.9%) Brazil

Imports by Country of Origin. HS 2309.10, dog and cat food, put up for retail sale, Jan-Dec 2003.



The market is dominated by large international companies whose plants in neighboring South American countries have displaced their own former U.S. imports. U.S. products are not competitive in mass sales items. Even super premium brands like Eukanuba are sourced more in Argentina than in the U.S. As a result, the U.S. share of total imports has gradually dropped from 43.5% in 1998 to 8.1% in 2003. This market share that U.S. products have lost went mostly to imports from Argentina by the same brands, which grew from 47.9% to 79.0% in the same period.

Market potential for U.S. pet food in Chile thus lies in exclusive super premium brands, such as Hill's and Bil-Jac, special diet supplements as pet owners spend more on specialty pet foods and become more sophisticated, and especially the niche price segment between premium and super premium products.

The tables below show the behavior of pet food imports into Chile since 2002, when HS code 2309.10 was subdivided into 2309.1010 - "in bags or sacks", 2309.1020 - "canned", and 2309.1090 - "other" codes in Chile and this is reflected in the tables below. The "other" category, HS Code 2309.1090, is not accurate and is a catchall that also includes some regular food.

HS Code 2309.1010, dog and cat food, put up for retail sale in bag or sacks. US$ CIF, by country of origin

Country of Origin	2002 Full Year	2003 Full Year	2002 Full Year	2003 Jan – Mar	2004 Jan – Mar
Total	30,649,306	30,087,078	6,950,158	6,445,298	6,979,935
Argentina	23,044,037	24,854,207	4,834,395	5,230,056	5,862,356
USA	3,486,736	2,363,276	968,188	544,433	558,725
Brazil	2,680,742	1,657,247	843,797	227,718	440,991
Canada	988,323	826,123	210,846	291,070	76,702
Others	449,468	386,225	92,932	152,021	41,161

HS Code 2309.1020, dog and cat food, put up for sale in cans. US$ CIF, by country of origin

Country of Origin	2002 Full Year	2003 Full Year	2002 Full Year	2003 Jan – Mar	2004 Jan – Mar
Total	1,915,959	1,249,549	345.773	306,658	206,712
Brazil	821,747	1,058,979	121.923	243,786	202,708
USA	1,060,787	156,271	223.794	62,872	4,004
Argentina	4,442	33,555	56	0	0
Thailand	28,946	0	0	0	0
Others	37	744	0	0	0

HS Code 2309.1090, the other dog and cat food, put up for retail sale. US$ CIF, by country of origin

Country of Origin	2002 Full Year	2003 Full Year	2002 Full Year	2003 Jan – Mar	2004 Jan – Mar
Total	173,410	346,786	48,728	30,409	75,671
Argentina	0	142,389	0	146	26,885
Brazil	42,231	109,918	220	14,303	33,488
USA	92,062	56,543	47,568	10,831	15,298
Canada	5,170	11,781	847	5,129	0
Paraguay	27,277	0	0	0	0
Others	6,670	26,155	93	0	0

Market Structure - Distribution Channels

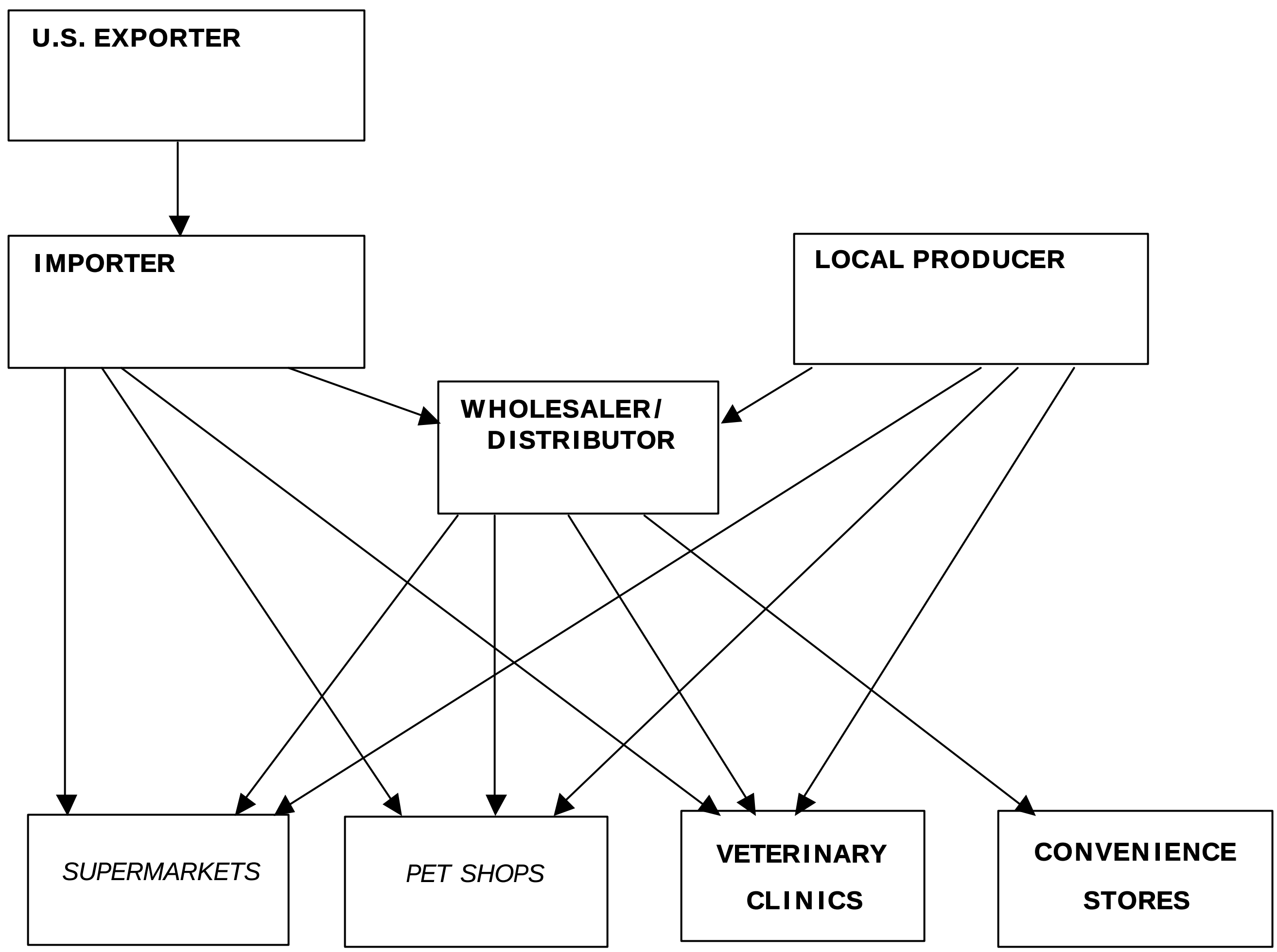
Large companies such as Nestlé and MasterFoods Chile Ltda. sell their pet food through distributors, which mostly sell to pet stores, veterinary clinics, convenience stores and gasoline stations. In general, supermarkets purchase directly from Nestlé and MasterFoods Chile Ltda. Champion S.A. (a local producer) sells 35% of their products to supermarkets, 60% to wholesalers/distributors and 5% to pet stores.

Another distribution method is that of Sociedad Comercializadora Pet Market Ltda., which imports and sells directly to the specialized stores and veterinary clinics. They do not sell through supermarkets because they only handle super premium brands. In general, small importers and manufacturers distribute their products directly.

“Super premium” products are sold only in pet stores and veterinary clinics. This is a common way of retailing brands such as Proplan, Eukanuba, Hill’s, Precise, etc. There are exceptions: although pet stores generally sell only super premium brands, some of them also carry some value or premium brands because people ask for them. Supermarkets only sell premium and value brands such as Pedigree, Master Dog, Champion, Doko, etc. There it is almost impossible to find a super premium brand. Pet food in supermarkets is being used as a traffic builder by placing pet food on special discount at the far side of the store to get shoppers to choose that supermarket based on pet food and then get them to walk the isles for the rest of their purchases. One of the problems in the Chilean pet food market is the sale of bulk, generic brand pet food, mostly at public fairs and lower end stores. It is estimated that around 30% of pet food sales in Santiago (Chilean’s capital city) is in bulk form. However, much of this is branded product taken out of large bags and sold in small quantities.

Traditional stores (vet clinics and pet shops) sell 70-80% by phone, and many of them have implemented databases with customer information (number, type, age and size of pets, customer purchase habits and frequency, etc.) to call them when it's time to reorder. This has proven much more effective than Internet web site-based sales that started 5 years ago.

Distribution channels for pet food in Chile vary widely depending on the company:



Market Trends and Opportunities

Because of the strong competition, pet food companies are introducing products targeting specific niches such as light food and for "Senior Period". These products are not widely sold but their sale is constant thanks to veterinarian recommendations. New generations of customers are more concerned with their pets' health and also like to spoil them with specialty products such as hams and cookies that are being introduced.

Not all experts agree on the Chilean pet food market's growth potential. Some of them say it is saturated or mature (very competitive). This is because distribution trends are changing, with telephone sales and supermarkets making inroads into traditional retail distribution chains.

But others say the market could triple. Though the food market is said to be mature in the short terms until more pet owners switch from home-cooked to special pet food, the overall pet market is growing in non-food areas. Special vitamin supplements, veterinary products developed specifically for small animals (unlike pharmaceuticals for humans that are used now) and pet accessories are other types of products that could have good sales potential in Chile. Growth potential is good because less than 25% of the pet food used in Chile is processed. Also, the economic recovery allows the introduction of new products.

Company Profiles

Under Chilean law, companies are not obligated to release information of any sort unless they are publicly traded companies. Of the key market players, only MasterFoods and Nestlé fall into this category, but their financial statements do not disaggregate results by country. Market share for importers is therefore assumed to be proportional to the value of their imports.

Local Production

Local products supply around thirty percent of the total pet food market. There are two main local manufacturers: Champion S.A. and Nutripro S.A., both of which claim having similar market shares of around 15%. Nutripro is better positioned as a quality brand.

Champion and Nutripro buy most of their raw materials in Chile but many of these also come from suppliers in Argentina and Brazil. Only Nutripro has an alternative imported pet food product, which is a super premium brand called “Nutri Balance” and it is imported from the United States. However, at this moment they stopped importing this product because of the Bovine Spongiform Encephalopathy problem in United States. They did not want to take the risk of bringing a product that could be blocked from entering the country. For this reason and also because pet foods from United States are more expensive, Nutripro is reluctant to distribute another U.S. pet food brand. They could be interested in snacks, canned semi-moist pet food or super premium pet food but from countries such as Argentina or Brazil.

Champion does not reject the idea of distributing an imported product, but at the moment they are not interested. Champion has one producing plant in Malloco (Metropolitan Region, south of Santiago) and Nutripro has one producing plant located in Curicó (southern Chile).

Importers

There are many companies and therefore brands competing in the market. Some seventy percent of pet food sold is imported. Total pet food imports in 2003 were US$ 31.7 million CIF, or 56 thousand tons.

Eighty percent of imports and around sixty percent of the total market are controlled by MasterFoods Chile Ltda. (importer, subsidiary of Mars Group) with its brands Pedigree, Whiskas, Champs, Kitecat, etc., and Nestlé Chile S.A. (Swiss, importer, bought Purina) with brands such as Proplan, Dog Chow, Cat Chow, Alpo, Doko, etc. MasterFoods Chile Ltda. and Nestlé have manufacturing plants in Argentina, therefore more of their imports come from this neighboring country with 0% import duty. U.S. pet food now pays no duty into Chile since the U.S.-Chile FTA became effective on January 1, 2004.

A distributor imported Ralston Purina from the U.S. until 2000 when Purina established their local subsidiary. Later, Purina was bought out by Nestlé in 2002. Nestle has imported one million dollars or more from the U.S. every year. Iams Chile, which imports P&G’s Eukanuba brand, was also a strong U.S. product importer. But all of these and other importers of U.S. pet food, such as EFFEM (now MasterFoods, which sells Pedigree, Whiskas, Champs, etc.) are being supplied from their own plants mostly in Argentina and increasingly from Brazil.

A second group of companies trails distantly with slightly more than three percent each of total imports. Sociedad Comercializadora Pet Market Ltda. is a pet food importer/distributor that carries mostly special and super premium brands such as Bil-Jac, Hill's and ANF. Iams Chile belongs to Proctor & Gamble and imports Eukanuba only, and Importadora y Comercial Starfood Limitada imports the following brands: Alisul, Firulais, Gatulais, Jazz and Supra from Brazil, and Max Pet, Pampa and Raza from Argentina.

27 companies led by Sumitomo (1.25% of imports) which imports DLM Foods and Heinz from Canada and Rolf C. Hagen from the U.S import the remaining 8.7% of pet food.

Dog and Cat Food Manufacturers and Importers. HS 2309.10, dog and cat food, put up for retail sale. January through December 2003.

Company	Quantity. Kg, net	% Imports	US$ CIF	% Imports	% Market
LOCAL PRODUCERS					
Champion				0.0	15.0
Nutripro S.A				0.2	15.0
IMPORTERS					
TOTAL IMPORTS	56,489,253	100	31,683,418	100.0	70.0
Effem Chile Limitada (now MasterFoods Chile)	20,169,538	36	14,130,143	44.6	33.2
Nestle Chile SA	26,613,825	47	11,449,346	36.1	26.9
Sociedad Comercializadora Pet Market Ltda.	1,418,105	2.5	1,198,209	3.8	2.0
Iams Chile Limitada	1,274,108	2.3	1,181,655	3.7	1.9
Importadora y Comercial Starfood Limitada	2,771,749	4.9	979,907	3.1	1.6
Sumitomo Corporation Chile Limitada	680,530	1.2	394,631	1.3	0.6
Nutricare S.A.	273,945	0.5	352,462	1.1	0.6
Comercial Vya Limitada	432,244	0.8	323,283	1.0	0.5
Marcela Wilcken Nogueira	293,572	0.5	321,875	1.0	0.5
Sudamericana De Alimentos S.A.	793,330	1.4	317,255	1.0	0.5
K Red Ginseng S A	249,976	0.4	154,976	0.5	0.3
Laboratorio Drag Pharma Chile Invetec S A	143,459	0.3	131,384	0.4	0.2
Alimentos Tecnicos Limitada	151,478	0.3	117,403	0.4	0.2
Abastecedora Del Comercio Ltda	224,412	0.4	96,731	0.3	0.2
Comercial Cruz Alta Ltda.	216,160	0.4	87,595	0.3	0.1
Coop Agricola Lechera Santiago Ltda	206,678	0.4	84,596	0.3	0.1
International Pets Food Ltda.	170,927	0.3	77,503	0.2	0.1
Nutripro S.A	124,942	0.2	71,142	0.2	0.1
Agro.Comercialterramar Chile L	28,300	0.1	40,259	0.1	0.1
Mauricio Schufferneger Guzman	43,942	0.1	35,452	0.1	0.1
Agrospec S A	42,980	0.1	29,465	0.1	0.0
Comercial Inmunotech Ltda.	45,712	0.1	24,989	0.1	0.0

Agricola Nacional SAC E I	50,001	0.1	23,522	0.1	0.0
Importadora Cafe Do Brasil S A I C	48,995	0.1	23,336	0.1	0.0
Gazmuri Corser Carlos A.y Otro	13,445	0	10,550	0.0	0.0
Veterquimica Limitada	505	0	6,790	0.0	0.0
Productos Veterinarios Old Boy Limitada	2,822	0	6,510	0.0	0.0
Laboratorio Primus S A	861	0	5,211	0.0	0.0
Quince S A	981	0	3,895	0.0	0.0
Drogueria Hofmann SAC	680	0	2,441	0.0	0.0
Camilo Benzi Rosales	1,051	0	842	0.0	0.0
Quimica Industrial Spes S A	1	0	60	0.0	0.0
Note: Market shares were calculated by assuming that local production is 30% of total market and that Masterfoods plus Nestlé control 60% of the market, leaving 10% of the market to be shared by the other for second tier importers in proportion to their respective imports.					

Pet food imports, Classified by Importer and Country of Origin, Jan-Dec 2003

Importer	US$ CIF, Total	Country of Origin	US$ CIF, by Country of Origin	Quantity, Kg Net
Masterfoods Chile	14.130.143	Argentina	13.181.772	19.078.431
Masterfoods Chile	14.130.143	Brazil	862.879	1.034.519
Masterfoods Chile	14.130.143	USA	85.491	56.588
Nestle Chile SA	11.449.344	Argentina	9.811.357	24.272.678
Nestle Chile SA	11.449.344	Brazil	868.599	1.269.645
Nestle Chile SA	11.449.344	USA	769.388	1.071.503
Sociedad Comercializadora Pet Market Ltda.	1.198.212	USA	722.805	560.618
Sociedad Comercializadora Pet Market Ltda.	1.198.212	Brazil	309.037	615.602
Sociedad Comercializadora Pet Market Ltda.	1.198.212	Canada	155.196	239.997
Sociedad Comercializadora Pet Market Ltda.	1.198.212	Paraguay	11.175	1.888
Iams Chile Limitada	1.181.655	Argentina	879.460	983.383
Iams Chile Limitada	1.181.655	USA	302.195	290.724
Importadora Y Comercial Starfood Limitada	979.907	Argentina	809.743	2.256.340
Importadora Y Comercial Starfood Limitada	979.907	Brazil	170.164	515.409
Sumitomo Corporation Chile Limitada	394.629	Canada	294.009	512.816
Sumitomo Corporation Chile Limitada	394.629	USA	100.620	167.714
Nutricare S.A.	352.461	France	256.987	168.713
Nutricare S.A.	352.461	Argentina	95.475	105.232
Comercial Vya Limitada	323.283	USA	323.283	432.244
Marcela Wilcken Nogueira	321.875	Canada	321.875	293.572
Sudamericana De Alimentos S.A.	317.255	Brazil	291.866	715.380
Sudamericana De Alimentos S.A.	317.255	Argentina	25.389	77.950
K Red Ginseng S A	154.976	USA	81.866	74.047
K Red Ginseng S A	154.976	Argentina	55.364	150.000
K Red Ginseng S A	154.976	Brazil	17.746	25.929

Laboratorio Drag Pharma Chile Invetec Sa	131.382	USA	131.382	143.459
Alimentos Tecnicos Limitada	117.403	Spain	117.353	151.328
Alimentos Tecnicos Limitada	117.403	Brazil	49	150
Abastecedora Del Comercio Ltda	96.731	Brazil	96.731	224.412
Comercial Cruz Alta Ltda.	87.595	Argentina	87.595	216.160
Coop Agricola Lechera Santiago Ltda	84.595	Brazil	84.595	206.678
International Pets Food Ltda.	77.504	Brazil	77.504	170.927
Nutripro S.A	71.142	USA	48.531	49.942
Nutripro S.A	71.142	Brazil	22.611	75.000
Agro.Comercialterramar Chile L	40.258	Argentina	40.258	28.300
Mauricio Schufferneger Guzman	35.452	Canada	35.452	43.942
Agrospec S A	29.465	Canada	29.465	42.980
Comercial Inmunotech Ltda.	24.989	Spain	15.136	20.832
Comercial Inmunotech Ltda.	24.989	Argentina	9.853	24.880
Agricola Nacional Sac E I	23.522	Brazil	23.522	50.001
Importadora Cafe Do Brasil S A I C	23.336	Argentina	23.336	48.995
Gazmuri Corser Carlos A.Y Otro	10.550	Argentina	10.550	13.445
Veterquimica Limitada	6.790	Holland	6.790	505
Productos Veterinarios Old Boy Limitada	6.510	USA	6.510	2.822
Laboratorio Primus S A	5.211	Germany	5.211	861
Quince S A	3.895	Canada	1.904	539
Quince S A	3.895	USA	1.520	284
Quince S A	3.895	China	471	158
Drogueria Hofmann Sac	2.441	USA	2.441	680
Camilo Benzi Rosales	842	Brazil	842	1.051
Quimica Industrial Spes S A	60	USA	60	1

Potential Distributors

Pet Market and Importadora y Comercial Starfood Limitada, both importers, could be good potential distributors, as well as importers Nutricare (Royal Canin), Comercial V y A (Nutra Nugget, Diamond) and local manufacturer and small-time importer Nutripro.

Section III. Costs and Prices

Tariff Rates, Quotas, Import Duties

Chilean tariffs are all Ad Valorem taxes (percentage of merchandise value) and not a certain amount per physical unit (box, bag, ton, etc.) There are also no quotas for any product from any country and the normal customs duty rate in Chile is 6% across the board for any product from any country, except for imports from countries with which Chile has established special customs agreements. Tariff rates for pet food from the U.S. dropped from 6% to 0% for imports invoiced after January 1, 2004, when the U.S.-Chile Free Trade Agreement went into effect. This brings U.S. products to the same level as duty-free pet food competitors from Argentina and Brazil (duty free even before 2004). Customs charges a tariff code classification and product valuation fee of maximum 1%.

Inspection Fees and Customs Broker's Fees

Products for animal consumption, only organic ones, are inspected by SGA (Servicio Agrícola y Ganadero, Agricultural and Livestock Service) for a fee of about US$ 50-80 depending on day of week and time. Customs Service physical inspections cost US$ 30-45 per container. Customs brokers charge 0.5% of CIF value with a minimum of US$ 50-100 (can vary).

Cargo Unloading, Transport and Storage Fees

Customs brokers charge a US$ 30 dispatch fee, and unloading, transport and storage fees for break bulk run from 20% to less than 2% as FOB value increases. Containers must be guaranteed in Chile against damages incurred between dock and warehouse for a US$ 70-80 fee. Gate In for empty container handling for a US$ 35-55 fee. Air cargo is not subject to container fees except for storage fees (by weight).

Value-added Tax

This tax, currently fixed at 19%, is the only tax affecting the sales of most products and services in Chile, including pet food. The VAT tax paid for imported goods is 19% of the sum of CIF value plus customs, and all these sums are paid by the consignee, not the U.S. exporter. No additional sales or consumption taxes affect pet food. Special taxes are levied on specific items such as fuels, alcohol and tobacco.

Average Markups

Overall gross markups for imported pet food in Chile (landed cost including VAT vs. retail price including VAT) go from around 150% for budget brands such as Pedigree and Doko to 200% for premium brands (e.g. Dog Chow) and 250-300% or more for super premium brands (e.g. Eukanuba, Pro Plan).

Markups along the distribution chain are around 100% for the manufacturer/importer based on cost-of-goods, 20-25% for the distributor and 20-25% for the retailer. As one distributor explained it, the importer sells a 15 Kg. bag of regular quality product (for which he probably paid US$ 7 equivalent landed cost) to the distributor for US$ 13. The distributor then sells this bag to the retailer for US$ 17, who sells it to the end user for US$ 20. The importer/manufacturer's distributor price for top, established brands is roughly 50% product cost, up to 25% for advertising and the rest for all other costs and for retained earnings.

Other Costs

The most important expense item to consider in this market in is advertising. Pet food advertising investments in 2003 were estimated around US$ 2 million, and are said to be around 10-20% of retail price, with established brands spending more than runner-ups.

Prices

Prices are the foremost purchase decision factor, followed by the cost/benefit ratio or perceived value. Pet food price increases are not generally proportional to the rate of inflation. Super Premium prices have risen faster than the cost of living index and prices in general vary widely depending on the particular type of product. Since four years ago, Super Premium item prices have risen as much as Premium food has dropped. The price difference has increased from almost 100% (US$ 40 vs. US$ 25 per 15 Kg bag) to 200% now (US$ 50 vs. US$ 16).

Dog and Cat Food Prices supplied by "Jumbo" supermarket (Adult dogs and cats):

Dog Food Brand	**Mix**	**Kilos/grams**	**Price, US$**
Dried in sack			
Dog Chow	Meat, lamb and chicken	3	5.40
Pedigree	Meat and vegetables	3	5.39
Master Dog	Meat	3	3.59
Alpo	Meat and vegetables	2.0	3.59
Doko	Meat	3	4.08
Champion	Meat	3	3.09
Cubi Dog	Meat	2.5	1.63
Rubicann	Meat with cereals	2.5	1.55
Mican	Meat and vegetables	3	2.77
Canned semi-moist			
Pedigree	Meat	330 grams	0.81
Alpo	Meat with Vegetables	330 grams	0.96
Doko	Meat and Chicken	340 grams	0.93
Cat Food Brand			
Dried in sack			
Friskies	Meat	1	2.62
Whiskas	"Original", meat	1	2.93
Cat Chow	"Country", chicken, meat and liver	1	3.27
Minninos	Meat, chicken, liver	1.5	1.95
Don Gato	Chicken	400 grams	0.96
My Katt	Chicken	500 grams	1.95
Gati	Meat, cheese and milk	500 grams	1.62
Cuchito	Tuna fish	1	1.62
Master Cat	Meat and chicken	500 grams	1.15
Gatsy	Fish	500 grams	1.39
Kitekat	Meat	1	2.11
Canned semi-moist			
Master Cat	Fish	350 grams	1.04
Gati	Fish	340 grams	0.9
Friskies	Fish	340 grams	1.03
Whiskas	Tuna fish	340 grams	0.9
There were no super premium dog and cat food items offered by this supermarket. Prices include 19% V.A.T. Exchange rate: US$ 1/ Ch$ 610 (Chilean pesos)			

Dog and Cat Food Prices supplied by "Mac Dog" pet store (Adult dogs and cats):

Dog Food Brand (dried in sack)	*Features*	*Kilos*	*Price, US$*
Nutra Nuggets	"Performance"	3	10.44
Nutri Balance	Meat and rice	3	10.55
Dog Chow	lamb, chicken and meat	3	5.49
Pedigree	Meat and Marrowbone	3	6.68
Master Dog	Meat	3	4.37
Hill's	"Maintenance"	3	10.63
Precise	"Precept Foundation"	3	13.36
Bil-Jac	"Select Adulto"	3.17	19.55
Eukanuba	"Original"	3	17.03
Proplan	Meat	3	12.50
Cat Food Brand			

Whiskas	"Original"	1	3.57
Cat Chow	"Country"	1	2.88
Bil Jac	"Cat"	2.04	13.85
Iams	"Ocean fish"	1.8	7.91
Nutra Gold	"Finicky Cat"	1.8	7.91
Prices include 19% V.A.T. Exchange rate: US$ 1/ Ch$ 610 (Chilean pesos)			

Section IV. Market Access

As already mentioned much of the pet food imported into Chile comes from Argentina, the rest comes mostly from Brazil, USA and Canada. In 2004, none of these countries of origin are paying import tax for the introduction of pet food under HS Code 2309.10 (dog and cat food, put up for retail sale) into Chile.

Pet food import regulations

The Chilean regulations affecting pet food are specified in Resolution 53 published on January 8, 1999 by the Ministry of Agriculture's Agricultural and Livestock Service (Servicio Agrícola y Ganadero, SAG), Livestock Protection Department and amended by Resolution 1113EXENTA dated April 15, 2002, with labeling requirements referring to Decree 307 dated October 25, 1979, translated below.

<u>Resolution 53, 1/8/1999 – Sanitary Requirements for the Admission of Pet Food</u>

The sanitary requirements for the admission of imported food and bitable products for pets into Chile shall be the following:

Article 1. The products must come with a free sale certificate issued by the country of origin as well as by an official sanitary certificate granted by the proper sanitary authority in the country of origin, which specifies the manufacturer, the product identification, the processing that it underwent, quantity and net weight, the exporter, the consignee and the mode of shipment.

Pet food must come packaged and sealed with a guarantee label in Spanish (as described by Decree 307, Article 5 translated further on, including protein content, humidity, etc.) and the product expiry date.

Pet food that contains ingredients of animal origin must also state in the sanitary certificate that:

a) The come from countries free of BSE (Bovine Spongiform Encephalopathy) or Scrapie, or that they do not contain ingredients of ruminant origin.
b) The products have undergone a treated that will prevent the development of any pathogenic agent that may affect animal health.
c) Each shipment must be certified as having undergone bacteriological analysis (total count, total coliforms, E. Coli and Salmonella sp), and whose results must be stated in the official sanitary certificate or else be attached in the form of corresponding protocols.
d) The aflatoxin content should not exceed the maximum limit of 10 ppb.
e) The bitable products or animal origin must be certified as having been heated to 90 degrees Centigrade at the center of the product during the production process.

Pet foods that contain only ingredients of plant origin:

a) Seed mixtures: these must have a certificate of free sale and must comply with agricultural requirements.
b) Complete foods: must comply with the certificate of free sale and with the maximum aflatoxin limit of 10 ppb.

Upon arrival into the country, the product may be subjected to controls that will be chargeable to the user or consignee.

<u>Resolution 1113EXENTA, 4/15/2002 – Modifications to Sanitary Requirements for the Admission of Pet Food</u>

Considering:

1. That there must be coherence among the requirements established for animal foods that are produced in the country and those that are imported.
2. That all meat and bone meal, both imported and produced in the country, must in accordance with the legislation currently in force be subjected to a thermal treatment that will assure the destruction of prions that cause the transmissible animal Spongiform Encephalopathies.
3. That the OIE (World Organization for Animal Health) recommends a specific thermal treatment for these purposes.

It is Resolved That:

Resolution No. 53 dated January f8, 1999 is modified so as to say that:

The meat or bone meals of ruminant origin that are included in the formulas of pet foods imported into the country shall have been reduced to a maximum size of 50 mm; that they have then been subjected to thermal treatment in a vapor saturated environment whose temperature reaches at least 133 degrees Celsius for at least 20 minutes with an absolute pressure of three bars.

<u>Decree 307, 10/25/1979, Section II - Production and Marketing of Animal Foods, Supplements, Additives and Ingredients, Article 5, Labeling</u>

The food package label shall state:
a) The name of the product,
b) The species for which it is recommended and the life stage of the animal during which it should be supplied,
c) The precautions and warning necessary to optimize the use and conservation of the product, whenever applicable,
d) The date of manufacture,
e) The name of the manufacturing facility, its address and the name of the importer, whenever applicable,
f) The guarantee expressed in percentages,
g) The list of ingredients,
h) For supplements, an indication that states that that the content "IS NOT A COMPLETE FOOD" ("NO CORRESPONDE A UN ALIMENTO COMPLETO").

   In the case of additives, the guarantee shall be expressed in centesimal (hundredths) or percentage figures.

The label for guaranteed ingredients shall state:

a) The name of the product,
b) The precautions and warning necessary to optimize its use and conservation,
c) Its origin,
d) The date of expiry in the case of perishable ingredients,
e) A guarantee expressed in accordance with the requirements of the Agricultural and Livestock Service.

Section V. Key Contacts and Further Information

Mailing Address:
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U.S. Embassy Santiago
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APO AA 34033-4118

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Fax: 56-2-330-3203
Email: agsantiago@usda.gov
Web Sites:
http://www.usembassy.cl; U.S. Embassy Santiago homepage. First click on "English Version" at top right and look under "Food & Agriculture", then click on "Documents" or "Attaché Reports" for research reports, and other pages for trade leads, contacts in Chile and more.
http://www.fas.usda.gov; Foreign Agricultural Service homepage.

Relevant Public Institutions

SAG - Serv. Agrícola y Ganadero
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Web Site: www.minagri.gob.cl
Contact(s): Mr. Hernán Rojas, Chief of the Livestock Protection Department

Servicio Nacional de Aduanas
Chilean Customs Service, Technical Department
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