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Chile

RETAIL FOOD SECTOR

2009

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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.

Post:
Santiago

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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 2008, retail sales remained stable representing 22% of Chile's GDP. In total, retail sales reached US$ 38 billion, with 38% of this, or US$14.6 billion, comprised of retail food.

- Due to free trade agreements and other commercial treaties, Chile has beneficial trade agreements with 60.2% of the World's population and with countries representing 86% of global GDP.

- In 2009, Chilean GDP is expected to contract by 1%. However, growth is expected to resume in 2010 and the outlook for the retail sector during the period 2008-2013 is positive. Higher consumer spending power, well developed physical infrastructure and a business-friendly regulatory environment are key factors behind the forecast growth in Chilean retail sales.

- Average annual GDP growth of 2.4% is now predicted by Business Monitor between 2008 and 2013. With the population increasing from 16.9 million in 2008 to an estimated 17.9 million by 2013, GDP per capita is forecast to rise 41.3% by the end of the forecast period, reaching US$14,157. Consumer spending per capita is set for an increase from US$ 7,821 in 2008 to US$ 10,702 by 2013.

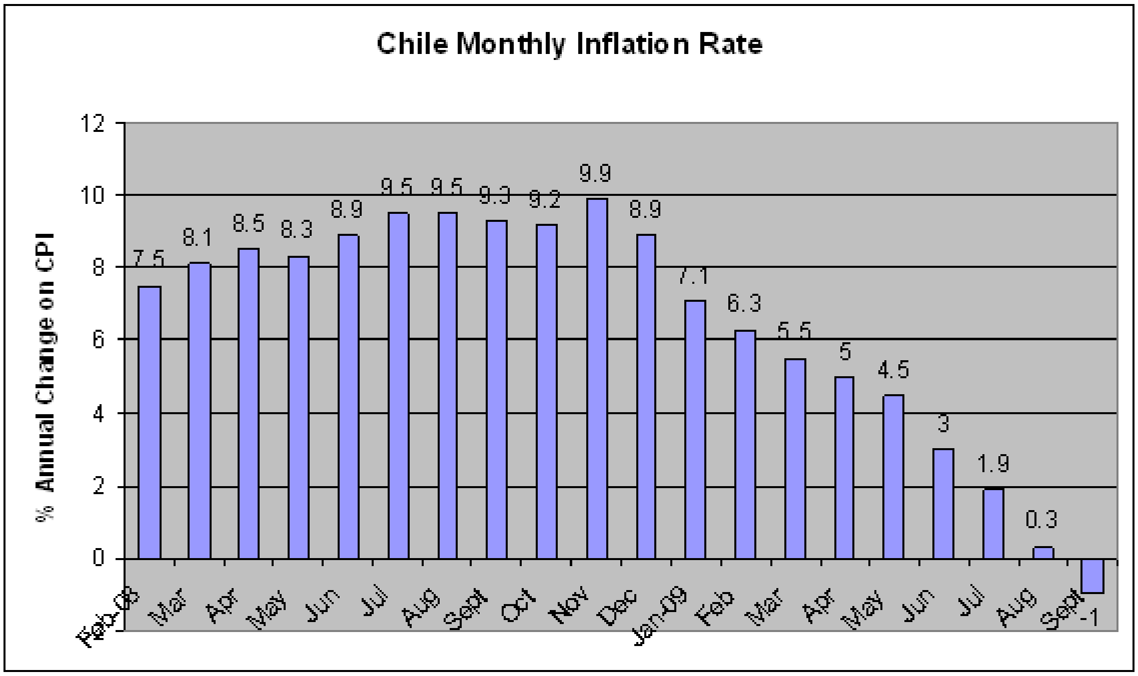
- Just over a third of Chileans surveyed in 2008 stated they would cut down on groceries in order to adapt to the global economic crisis, whilst 51% of people surveyed stated that they would switch to cheaper food brands.

- Chileans are considered to have a "Mediterranean diet", with staple foods such as bread, rice, pasta, pork, chicken, legumes, fruit and vegetables, seafood and dairy products. According to the website, www.fitnessspotlight.com, the Chilean diet is about 68% carbohydrates, most of which is consumed in grain form representing 41% of total caloric intake. Animal foods contribute only 19% of the daily calories, one third of that being dairy products. Therefore up to 20% of the diet could be fat, assuming that possibly half of those animal foods are composed of fat while the rest is protein. In the last 40 years, grain intake has nearly doubled, which has obvious health implications compared to a whole foods-based diet.

- Chile is the 17th ranked exporter of foods in the world, and recently President Michelle Bachelet reaffirmed the country's ambition to enter the top 10. In the last eight years Chile has increased its agricultural exports by 149%. Chile's unique and diverse climatic conditions allow the country to produce a wide variety of agricultural products with a high level of food purity, and Chile has become a very important player in certain agricultural sectors:

    - Chile ranks as the no.1 southern hemisphere exporter of apples, peaches, nectarines, blueberries, raisins, nuts, prunes, and almonds.
    - Chile is the 1st world exporter of plums
    - Chile is the 2nd world exporter of kiwis and salmon
    - Chile is the 5th world exporter of wine

- Arguably, Chile's greatest economic challenge of recent years – one that it has met for the most part except in 2008 -- has been to maintain inflation under control. The food sector has been one of the industries most affected in this area. The main reasons for inflation in the food sector in 2008 were petroleum, natural gas and electricity prices, growing demand for bio-fuel and the components to produce it, and increased demand in Asia for agricultural products which has raised the cost of agricultural inputs to produce food.



Source: National Statistics Institute

- Favorable credit conditions and the easy access to store credit cards have contributed to an improved retail demand in recent years. However, 2008 inflation and government policies to curb it plus a tightening of credit resulted in a contraction in consumption.

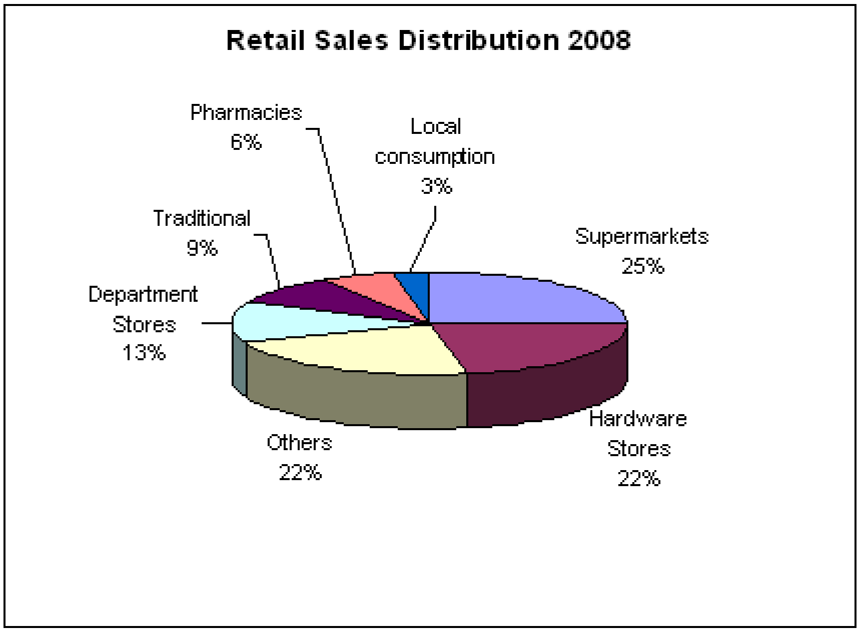
- A comparatively weak dollar compared to the Chilean peso should maintain import demand.

- 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.

- 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 after Germany, the 3rd biggest consumer of tea (800 grs), and an important per capita consumer of pasta, rice, seafood, carbonated beverages and beer.

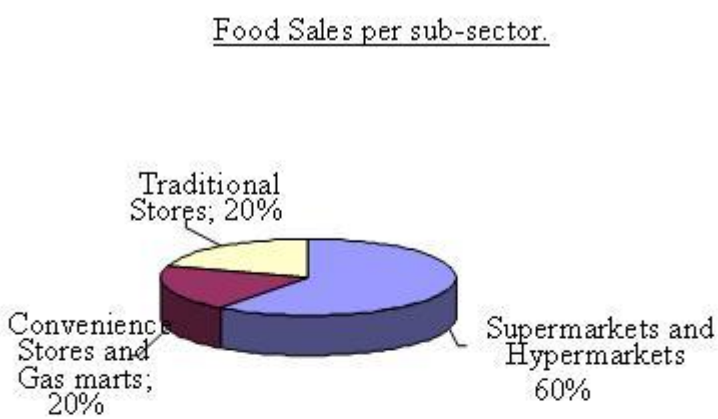
Retail Food Sales

- The supermarket industry represents 25% of the total sales of the retail market.



Source: AC Nielsen 2008

- The retail food sector reached US$ 18.8 billion in 2008.



urce: Fitch ratings Retail Sector Report 2007

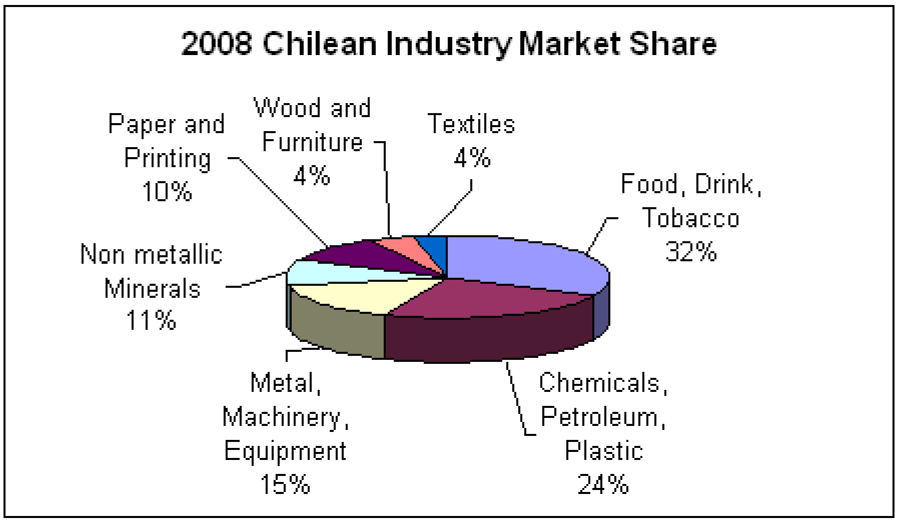
Imports and Local Production

- In 2008 Chile exported US$ 13 billion of agricultural produce, and the agricultural industry accounted for 17% of employment in the country.

- For the first quarter of 2009 Chile had imported US$ 1.2 billion of food, drink and tobacco. This represents a 20% decrease compared to the same period of 2008.

- For the same period Chile exported US$ 3.8 billion of food, drinks, and tobacco. This is a slight decrease of 0.9% compared to the same period in 2008.

Chilean Industry Market Share



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

Agricultural GDP Growth %

2005	2006	2007	2008	2009 est.
9.3	5.9	4	3	1-2
Source: National Statistics Institute (INE)				

Chilean Agricultural and Meat Exports (US$ billions)

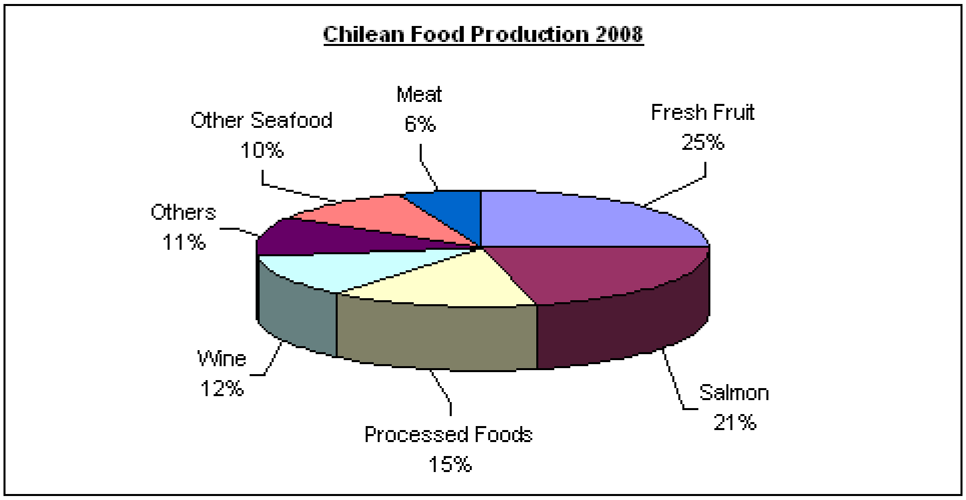
2005	2006	2007	2008	2009 est.
8.1	9.3	10.5	12	13.5
Source: INDAP (Institute of Agricultural and Meat Development)				

Chilean Agricultural and Meat Imports (US$ billions)

2005	2006	2007	2008	2009 (until Sept)
1.1	1.9	3	3.8	2
Source: INDAP (Institute of Agricultural and Meat Development)				

Chilean Agricultural and Meat Imports Originating from the US (US$ millions)

2005	2006	2007	2008	2009 (until Sept)
147	271	453	495	138
Source: INDAP (Institute of Agricultural and Meat Development)				



Source: Chile Alimentos (www.chilealimentos.com)

Growth

- According to research by the Catholic University of Chile, it is estimated that by 2015 Chile's food exports will reach US$ 17 billion and imports US$ 3 billion.

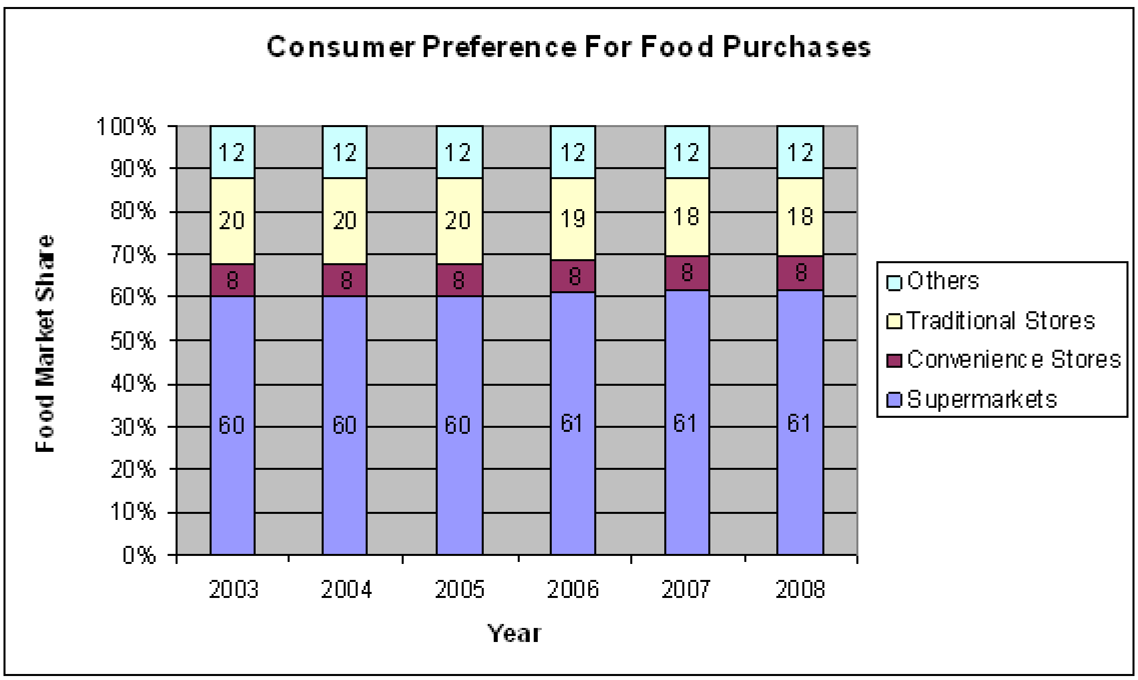
- Future growth is expected in the agriculture industry resulting from Chile's economic and political stability, and a series of President Michelle Bachelet's initiatives in this sector. The President's "New Policy for Family Farming", announced in August, 2006, includes a series of projects that will 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.

- Chile recognizes its potential to become a major producer of functional foods and the ability to develop other sectors, and has carried out a study called "Constructing a technological platform for emerging themes in the food industry". The report, released in October 2009, provides advice about the challenges that Chile faces to set up a center of excellence for the food industry in concert with the University of Wageningen, Holland.

The report highlights the need for investigation to determine which parts of the country produce the most nutritious crops. Investigation will also be carried out into new packaging. Arguably, the most important declaration of the report regards investment in technology especially in food separation, nanotechnology, water control, and conservation.

The technological needs and knowledge requirements of Chile in this sector represent a significant opportunity for US firms to enter the market.

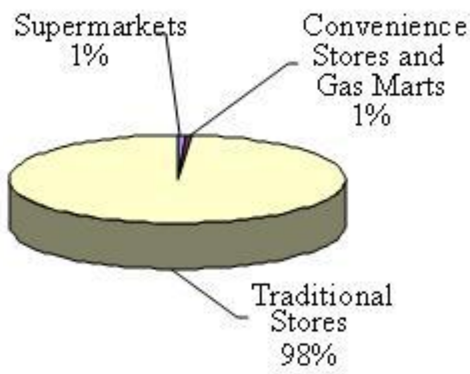
- Another area where Chile has identified the need for investment is in the area of radio frequency identification technology (RFID) in order to meet the international requirements of traceability and food safety. Again, US companies that work with this technology or provide other IT and communication solutions for the agricultural industry could find promising opportunities in the Chilean market.



Source: AC Nielsen 2008

Main Sub Sectors

Percentage of Number of Stores by Channel.



Source: AC Nielsen 2008

Number and type of food and beverages retail outlets

Arica to Puerto Montt and Punta Arenas.	2007	2008	% Variation.
Supermarkets Total (Hyper+Supermarkets)	706	812	15
Hypermarkets	56	58	3.5
Supermarkets	650	754	16
Gas Marts and Convenience Stores	595	663	18
Traditional; Liquor Stores; Kiosks	97,001	98,308	1.3
Restaurants; Bars, Soda Fountains (small restaurants)	15,714	15,848	0.9
Pharmacies	1,810	1,964	8.5
Total	**115,853**	**117,595**	**1.5**
Source: A.C. Nielsen 2008.			

Supermarkets & Hypermarkets

The supermarket sector showed the second highest rate of growth in 2008 in terms of number of outlets out of all the distribution channels. In total, the number of supermarkets and hypermarkets increased by 15% (from 706 to 812) in 2008. Traditional stores increased by 1.3% (from 97,001 to 98,308), whereas convenience stores grew by 18% (from 369 stores to 436).

According to AC Nielsen, the most significant development over the last two years has been the kind of supermarket which has been opening. The latest trend is to open small to medium-size supermarkets of between 400 m2 to 1,000 m2.

Supermarkets are clearly the most important channel representing 65% of retail food sales, despite only representing 1% of sales outlets. In 2008, supermarket sales reached US$ 9.5

billion, of which 43.6% were registered in the Santiago Metropolitan Region. The Bio-Bio Region in the south registered the next highest volume of 10%, and Valparaiso, just west of Santiago on the coast, was third with 9.9%.

Another highly significant development in the market in 2008 was the announcement that Wal Mart had acquired Chile's most important supermarket group, D & S (Lider) (www.dys.cl). Wal-Mart is expected to introduce private label brands which will increase competition in the market.

The supermarket industry still has high hopes for 2009, despite the crisis. The Chilean Association of Supermarkets (ASACH) (www.asach.com) predicts 4% growth for 2009, citing the fact that the industry is still not as developed as in Europe or the U.S. and therefore there is still growth potential. Supermarkets in Chile have around a 65% level of market penetration compared to 85-90% for supermarkets in more developed markets.

Annual Supermarket and Retail Sales

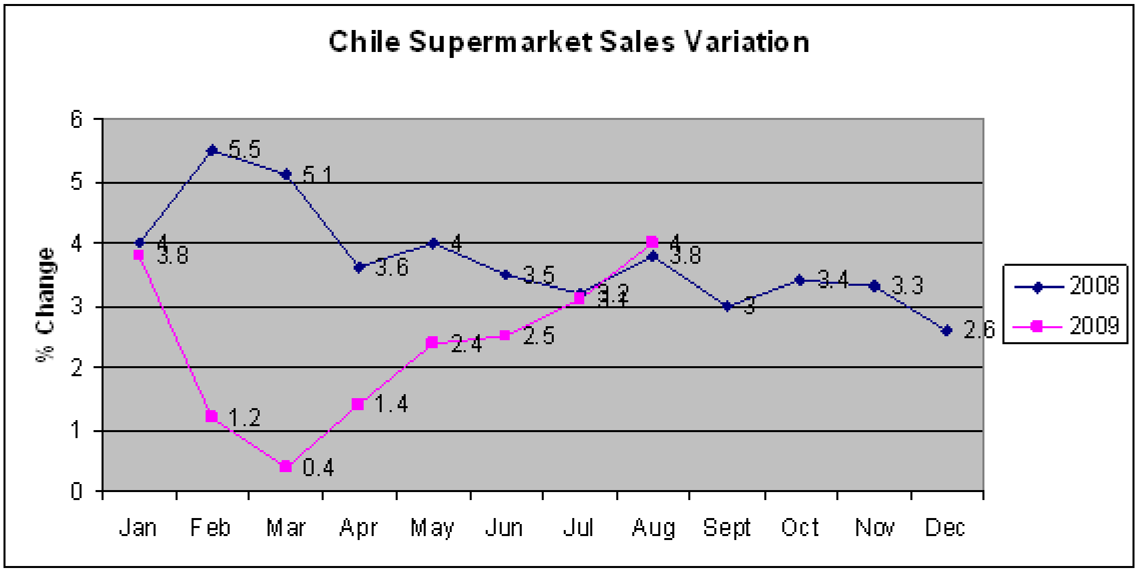
	2004	2005	2006	2007	2008
Annual Sales Retail (US$ billion)	**22.9**	**27.1**	**33.9**	**34.0**	38.0
Supermarkets Sales (US$ billion)	**5.7**	**6.8**	**8.1**	**8.3**	**9.5**
Supermarkets: Number of sales points	**682**	**696**	**731**	**780**	**812**
Source: INE (National Statistics Institute – www.ine.cl)					

Regional Supermarket Sales Index July 2009

Average base 2005=100

Region	Index	Variation %		
		Monthly	12 months	Acum
General Index	115,3	1,8	7,2	3,2
Arica y Parinacota	116,8	3,1	13,0	9,6
Tarapacá	103,1	5,9	-2,6	-7,3
Antofagasta	127,5	3,5	8,7	4,7
Atacama	138,0	3,9	0,4	-1,1
Coquimbo	121,5	4,3	4,0	1,4
Valparaíso	110,2	3,1	7,7	4,1
Metropolitana	112,1	-0,4	8,7	3,3
O'Higgins	108,0	1,6	6,0	2,2
Maule	122,7	5,4	8,8	13,0
Biobío	119,2	2,8	6,4	4,5
La Araucanía	117,0	7,4	3,0	-5,0
Los Lagos	124,8	3,7	4,0	-0,5
Los Ríos	124,2	0,8	19,9	17,0
Aisén	110,7	4,2	-6,6	-10,6
Magallanes y Antártica	112,2	5,0	2,1	2,6
Source: INE (National Statistics Institute)				

The following graph shows the monthly supermarket sales variation for 2008 and 2009:



Source: INE

Convenience Stores

The number of convenience stores and gas marts has grown consistently over the past decade, representing in 2008 almost 20% of the retail food sector sales. The convenience stores recorded the highest rate of growth in terms of number of stores, showing an 18% increase in 2008.

Convenience stores are small (3,300-10,700 sq. ft), 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 (www.df.cl), 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.

Gas Marts

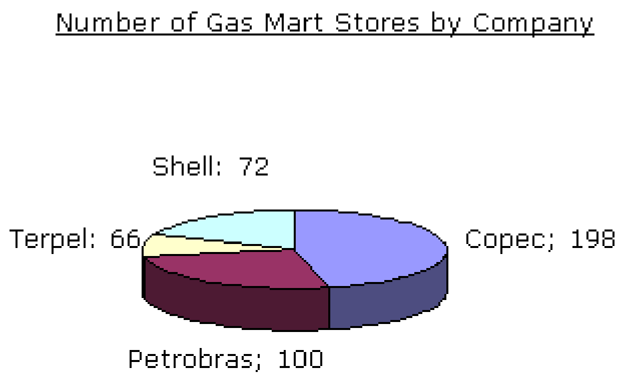
The gas station convenience store concept is an ever growing market in Chile. At the end of 2008 there were 436 minimarkets of this type -- this figure representing a 16.6% growth in the market in four years.

Copec (www.copec.cl) is the market leader with 198 stores (45%of the market) followed by the Brazilian state-run Petrobras (www.petrobras.com) with 100 (22.9%). Petrobras finally entered the market after eight years of trying in 2008, by acquiring ExxonMobil's stations in Chile. Shell (www.shell.com) is third with 72 stores (16.5%), and the Colombian company, Terpel (www.terpel-web.com), has 66 stores (15.1%) after buying Repsol YPF stations in Chile in 2007. The market could reach US$1.6 billion within five years.

The most popular products in these gas marts are soft drinks, juices, and ice creams.

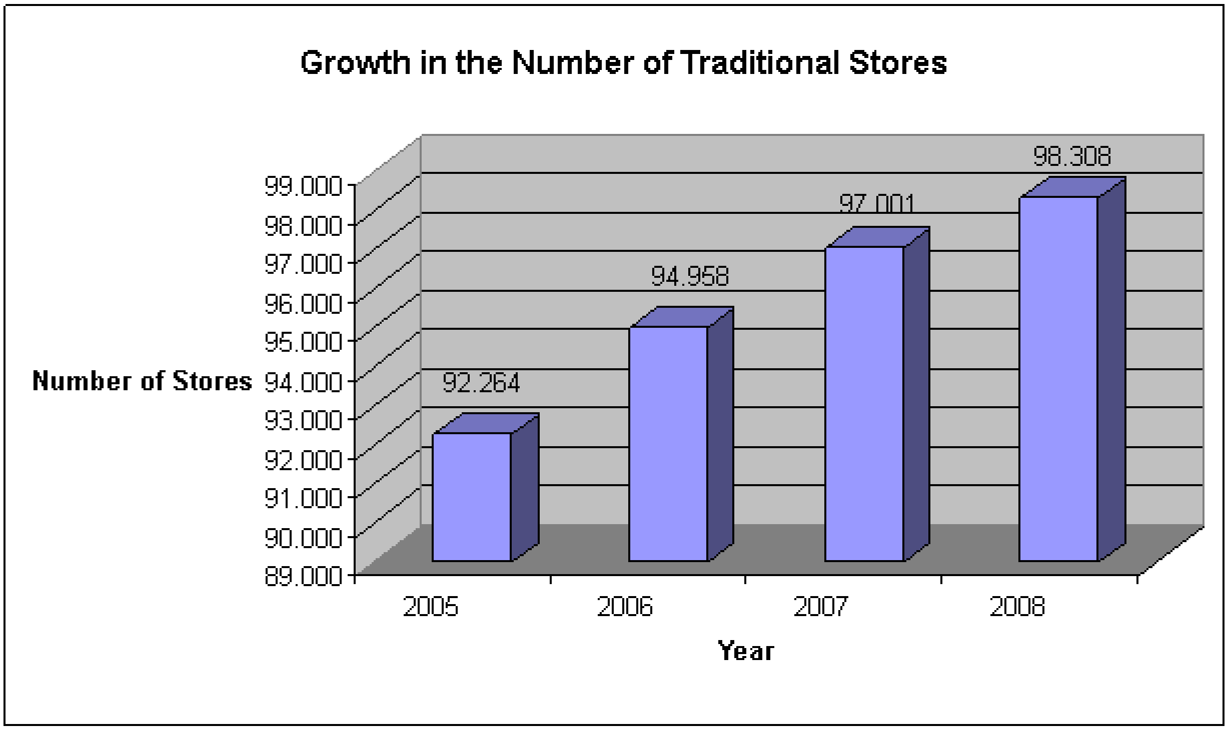
Shell and Farmacias Ahumada (www.fasa.cl), one of the country's largest pharmacy chains, also have a cooperation agreement, with Farmacias Ahumada having a pharmacy in many of the shell gas stations.

Gas marts have been present in Chile since the mid-1990s, when some of the larger multinational chains introduced them to the market.



Traditional Markets

Although this category represents 98% of all retail food channel stores, its share of sales is less than 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.



Source: AC Nielsen

Trends in Distribution Channels

The market continues to consolidate through mergers (see Wal-Mart below), 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.

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 malls 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 (www.salcobrand.cl); and D&S is developing its new Ekono (www.ekono.cl) format.

Other Trends

- Chile has a GDP per capita of US$ 8,500+ per annum, and a strong middle-class of 40% of the population. The upper class (with an average estimated family yearly income of US$ 50,000), of which 60% are concentrated in Santiago, represents the most valuable consumer target for high-end food products.

- About 10-15% of products sold in supermarkets are imported, but this segment has grown by 85% over the last five years. The US-Chile FTA signed in 2004 prompted new interest in U.S. products and opened new opportunities for previously prohibited products, such as red meat, certain fresh fruits, and dairy products.

- Chilean consumer habits have changed due to the global recession and high inflation in 2008, with the retail food sector being one of the main sectors of the economy where consumers have altered their habits in order to save money. According to various studies 67% of consumers are purchasing less red meat, 41% fewer dairy products, and 41% less bread. Two thirds of people also decreased their consumption of imported beer, whilst 65% of shoppers stopped buying prepared deserts.

- Vegetable and fruit consumption has remained the same and according to some statistics may have even increased slightly.

- The change in purchasing habits is also reflected in the place of purchase. Due to price concerns wholesale supermarkets such as Alvi (www.alvi.cl) are becoming more popular, and people are returning to local markets to purchase their fruit and vegetables.

- Where possible people have been turning to cheaper brands. According to the consultancy company BBDO research (www.bbdo.com), in 2008, private label brands increased by 6.7%, especially in mayonnaise, cooking oils, tomato sauce, and rice. In fact, 29.1% of surveyed people claim to have substituted their normal brand for a cheaper brand. People are looking for alternatives to rice which has increased in price by 85% during the last 12 months and pasta which has increased in price by 30% since 2007.

- Activity in 2009 has increased again, stimulated by increased demand since Mothers' day (May).

- Chile is a country which in general gives importance to brand names and therefore it is possible to build brand loyalty in a normal (non crisis) economic environment.

- In per capita terms, Chile is the most important consumer of ice cream in South America.

- Obesity is a major concern among Chilean politicians with the government having set a target to reduce obesity from 16% to 12% by 2010. However, currently 19.6% of the Chilean population is considered to be obese. In order to fight obesity the government wants to introduce measures under the "Valparaiso declaration" to regulate the food industry. The controversial measures, largely rejected by the food industry, include:
    - Maximum sugar levels
    - Maximum levels of fats and salt
    - Clearer labeling
    - Restricted advertising of certain products

- 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.

- Generally spicy food is not popular in Chile especially among the upper classes.

- Artisanal food products are showing signs of decline, mainly due to the decline in sales of bread. As consumer lifestyles change, Chileans are seeking more convenient alternatives, such as pre-packaged bread which is more durable, etc.

Sector Strengths and Weaknesses

Advantages	Challenges
Rising consumer spending and adoption of foreign food types favor new types of inputs as consumers become more sophisticated and demanding in their tastes.	Price sensitivity is becoming stronger because of the rise in local prices in food and other products (see above).
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 to 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 producers sometimes are not as aggressive in following up on 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, or at least allows them to compete on a more even playing field.	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.
Shipping from the U.S. is cheaper and quicker than from Europe.	U.S. retail food products are often more expensive than local equivalents.
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.	Artisanal products have a significant share of the market; Chileans tend to prefer fresh foods, which are perceived as higher quality.
Population of 16.7 million is very centralized, with over 40 percent living within 100 miles of the Santiago Metropolitan Region.	Many local consumers seek out brand names they recognize as capable of supporting their needs. This represents a barrier to new products entering the market but once this has been overcome this brand loyalty/recognition could also represent an opportunity for U.S. companies.
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.

- Large corporations increasingly prefer to import directly from foreign suppliers, while smaller retailers 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 –- which Chile has in place with the vast majority of its trading partners -- 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. food products are sought after and respected for their dependable 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, value-added products have a better chance of success than more basic products, 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 are hard pressed to pass those margins on to the final consumer 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 U.S. 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.

- In order to enter the market products must meet certain criteria:
    - Food must be labeled
    - Information must be in Spanish
    - Information must include country of origin, name, ingredients, additives, weight/volume, packaging/manufacture date, expiration date, details of the person responsible for the sale.
    - Livestock and vegetation require food certificates from the country of origin.

Keys to Successfully Enter and Develop the Chilean Market

The key market success drivers are a strong proactive attitude including long-term commitment to the market and 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 retail food products 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.

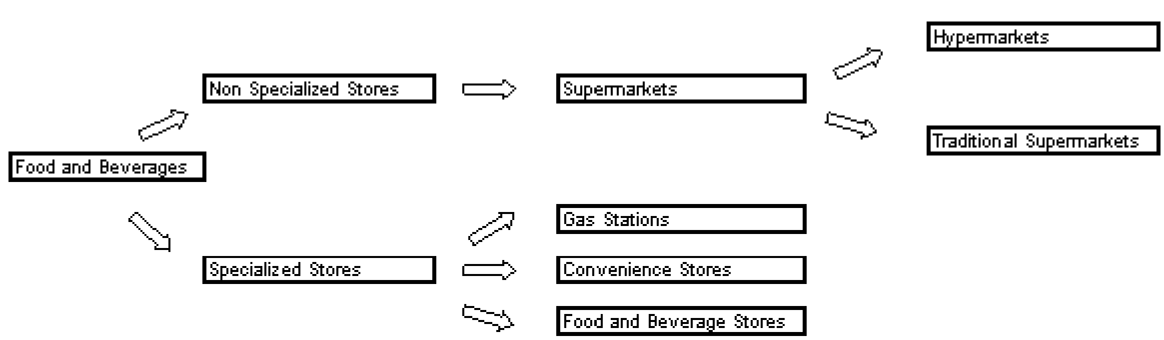
The strongest recommendation would be to be as aggressive or committed as European competitors in their marketing, to make an effort to develop and nurture strong relationships with good distributors and large retailers so that the U.S. supplier becomes a trusted business partner, and then to be willing 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 end retailers 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.

Small neighborhood food stores continue to grow in number but nevertheless they struggle to compete with the large supermarket chains which are constantly gaining a higher market share as smaller independent stores 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, marketing and promotion, selling, and stocking.

<u>Jumbo & Santa Isabel Distribution Channels (Cencosud)</u>

Main Suppliers
Nestle
Unilever
Agrosuper
Comercial Santa Elena
Watts
CMPC Tissue
Carozzi
Procter and Gamble
Embotelladora Andina

Communication Channel B2B

Distribution Centers
Noviciado
Maipú
C.D. Economax

Transport

Small Suppliers
Directly to supermarkets

Supermarkets
Jumbo
Santa Isabel

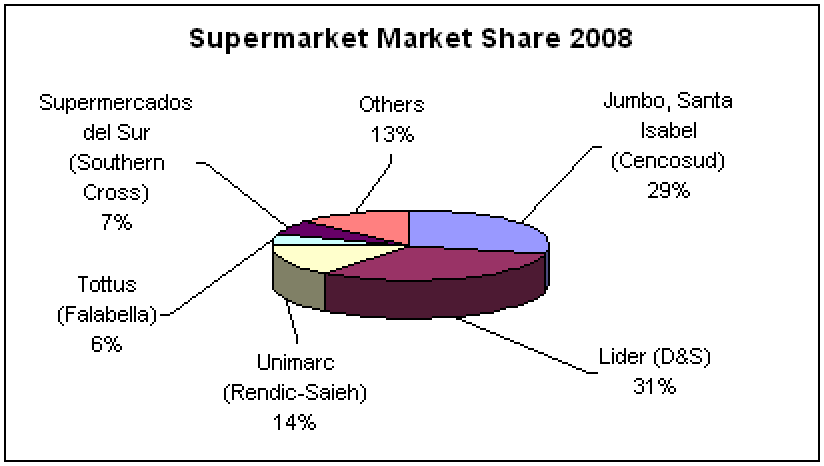
Clients visit supermarkets

Phone sales

Clients

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

A. Supermarkets and Hypermarkets.



Source: D&S supermarkets

Company Profiles

Retailer & Type	Ownership	2008 Sales (US$)	Number of Outlets	Location	Purchasing Agent Type	Average store surface area (m2)
Cencosud Supermarkets (Jumbo and Santa Isabel)	All Local (Except D & S which was taken over by Wal Mart)	N/A	160	Nationwide	Direct, Third-Party Distributor, Agent	See Jumbo and Santa Isabel
Jumbo		$1.5 billion	26			8,250
Santa Isabel		N/A	134	Nationwide		1,500
D&S: Lider stores (+Wal Mart, Ekono)		$2.7 billion	197	Nationwide		7,000
Tottus Supermarkets.		N/A	23	Nationwide		2,000

Source: Companies' websites.

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 control 60% of the supermarket share.

Wal Mart/ D&S (www.dys.cl)

Chile's largest supermarket chain has 31% (in Chilean peso terms) of the market. The company operates approximately 60 hypermarkets and 53 supermarkets.

Over recent years, 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 interest revenue 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.

Wal Mart acquired D & S stock in 2008. This will have a significant impact on the market as Wal Mart is expected to introduce several private label brands which will make the market even more price competitive.

The chain recorded an increase in sales of 2.7% in 2008.

Cencosud (www.cencosud.cl)

Cencosud is one of the most important Chilean retail holdings, and in fact among the most important in Latin America, with hypermarkets, supermarkets, home improvement stores, shopping centers, department stores, credit cards, and insurances businesses.

Cencosud has two supermarket/hypermarket brands, Jumbo and Santa Isabel, and together they have a 29% market share.

Jumbo, Chile's third largest supermarket chain in number of locations (second in sales) has 26 stores in Chile.

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

Cencosud is actively expanding into other South American countries including Brazil, Peru, Argentina, and Colombia.

Santa Isabel (www.santaisabel.cl)

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.

Tottus (www.falabella.cl)

This supermarket is owned by the Falabella group, another dominant Chilean-owned retailing conglomerate that ranks among the largest in Latin America, and has a 6% market share in Chile.

Tottus has been present in the supermarket sector since 2004, and has grown with Falabella's purchase of the San Francisco supermarket chain. Falabella is also expanding its operations to other Latin American countries including Argentina, Peru, and Colombia.

B. Convenience Stores and Gas Marts.

Company Profiles

Retailer Name & Market Type	Ownership	Sales (US$)/year 2008	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Big John	Local	N/A	N/A	Santiago	Direct, Third-Party Distributor, Agent.
OK Market	Local	N/A	25	Santiago and Regions V and X	Direct, Third-Party Distributor, Agent.
Ekono	Local	N/A	32	Santiago	Direct, Third-Party Distributor, Agent.
Shell (select store)	Foreign	N/A	72	Nationwide	Direct, Third-Party Distributor, Agent.
Copec (punto store)	Local	N/A	140	Nationwide	Direct, Third-Party Distributor, Agent.
Petrobras	Foreign	N/A	100	Nationwide	Direct, Third-Party Distributor, Agent.
Terpel	Foreign	N/A	66	Nationwide	Direct, Third-Party Distributor, Agent.
Source: Stores' websites.					

- The biggest convenience stores chains are Big John and Ok Market.
- 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.

- OK Market is owned by Salcobrand. They have long hours and an important variety of products (bread, sodas, dairy, meet, vegetables, fruits, cheese, confectionaries, cookies, wine, liquors, cleaning products, etc.). Liquor sales represent 19% of total revenue.

- OK market has recently announced that it has decided to focus on the ABC1 consumer group. In order to achieve this, the stores are being remodeled and a new line of higher end quality products is being introduced. The company is aiming to consolidate its position in the Lo Barnachea, Las Condes, Providencia, Nuñoa areas of the Santiago Metropolitan Region as well as increasing its presence in the regions. The aim is to have 50 stores within the next two to three years.

C. Traditional Markets – "Mom and Pops" Small Independent Grocery Stores and Wet Markets.

Redmarket (www.redmarket.cl) is the association of independent mini markets in Chile. The network was set up to help small businesses compete with large supermarket chains. Currently, they represent 300 businesses but the aim is to reach 2,400 small businesses with an estimated market of US$ 80 million.

Redmarket has invested in construction, maintenance and in the installation of cashier machines and computer systems in order to increase the competitiveness of the network.

Although this category represents 98 % of all retail food channel stores, its share of sales is only 20 %. 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 % of U.S. products imported into Chile and more than 95 % 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 % the same year, reaching almost $8 billion, while U.S. exports of consumer-oriented food products to Chile grew by 54 %.
- Elimination of Chile's 6 % 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:

- At present approximately 75 % of both U.S. and Chilean farm goods are tariff-free, with all tariffs and quotas phased out within 12 years (since the implementation of the agreement).
- U.S. access to this market is competitive with Canada and the European Union, which both already had FTAs with Chile.
- In 2008, farmers gained 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)

- According to the Californian Chamber of Commerce, bi-lateral trade between Chile and the U.S. has doubled since the treaty came into force. In 2008 total trade between the two countries rose to US$ 20.3 billion, with U.S. exports to Chile increasing by over 300%.

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 2008	**Major Supply Sources**	**Strengths of Key Supply Countries**	**Advantages and Disadvantages of Local Suppliers**
Dairy Net imports: 30 million kg	1. Argentina – 43% 2. New Zealand – 10% 3. Uruguay –	Argentina is price competitive, geographically close and has developed a long-standing reputation in the market. New Zealand is strong in	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.

US$ 84.9 million (CIF)	4% USA – 26%	milk powder (infant and non infant) and butter. Uruguay is strong in milk powders and butter. Its price is competitive and it is geographically close.	
Beverages Net imports: 48.6 million liters US$ 62.6 million (CIF)	1. Argentina – 25% 2. Mexico- 9% 3. UK and Venezuela– 8% U.S. – Minor supplier (4% share)	Argentina dominates the market with its pure alcohol, beer, and wine products. The UK is the main supplier of whisky and main foreign tea supplier, products very important in the Chilean market. Mexico supplies beer, tequila and rum. Rum is growing at a fast rate in the Chilean retail stores.	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.
Meat, seafood and poultry Net imports: 121.3 million kg US$ 494 million (CIF)	1. Paraguay - 45% 2. Argentina - 30 % 3. Uruguay- 7% USA- 1%	Trade Agreements and geographic closeness make these three countries strong competition with the U.S., especially in the red meat market.	

Section IV. Best Product Prospects.

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

Categories with the biggest growth (2004-2008)

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

- Sponge Cake
- Health food and Energy supplements
- Cookies
- Tuna
- Candy
- Baking food and Mixes

Source: AC Nielsen Homescan of 87 products; industry experts' opinions.

- Functional foods are showing good growth potential as increasingly health-conscious consumers seek new products. The dairy sector is one of the most important players in this respect with pro-biotic products becoming more popular, for example. The emergence of products such as whole-grain cereals and other such products also demonstrate the increased demand in this sector. It is primarily women and the upper classes that purchase these products; brand is considered to be important in this sector.

- Organic products are also slowly showing growth potential. Due to the extra cost Chilean consumers do not always see the benefit of these products. At the moment organic products tend to be imported but in certain sectors, such as wine for example, local production is shifting to organic methods. The organic market is expected to be worth US$ 53 million by 2013. Also, Chile is considered to have strong potential in this sector due to its natural conditions which provide safe, quality food, coupled with fairly well developed agricultural practices.

- Convenience food is increasing in popularity due to changing lifestyles as women work more.

- It is widely recognized that to continue its development Chile needs to start exporting more value-added goods, which is opening up more niche sectors in the market. For example, baby food is a rapidly growing sector for Chilean exporters. In 2004 the country exported US$ 1.3 million of baby food, which increased to US$ 22 million by 2008.

- According to Apa/Asprocer (association of chicken and pork producers) (www.asprocer.cl) in the last 18 years, per capita meat consumption has more than doubled. Today, on average Chileans eat 81.3kg of meat per year, in line with other developing countries. For the first time, in 2008 pork overtook beef to become the country's second preferred meat after chicken. Chicken represented over 25kg, pork 20kg, beef 19.9kg.

- According to the Chilean Office of Studies and Agrarian Policy (ODEPA) (www.odepa.cl), overall meat consumption in the country has increased by 26% over the last 10 years. The increase can be attributed to a higher level of purchasing power and government nutritional initiatives.

- However, establishing a foothold as a meat exporter to Chile is a challenge for U.S. producers as local production in certain sub categories is sufficient for domestic demand and U.S. products face very stiff competition from Chile's South American partners in Argentina, Paraguay, Uruguay, and Brazil. In fact, Chile is even hoping to increase its own exports in this sector. For instance, domestic pork production has increased by 114% during the last 10 years, with 522,434 tons produced in 2008 and 64% of that destined for the local market. Poultry production also rose significantly, with 503,906 tons of chicken and 101,909 of duck produced in 2008 - 83 % consumed in Chile.

- Agriculture Minister, Marigen Hornkohl, has also stated that the country is taking steps to increase its beef production including a cattle production plan for the entire country, a program to support small producers, and genetic research (specifically genetic improvement and artificial insemination)

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 2008 US$	Estimated Import Growth for 2009	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	$2.6 million	N/A		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.usdachile.cl)

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

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Foreign Agricultural Service

Web Page: http://www.fas.usda.gov