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USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.08

Required Report - public distribution

Date: 11/7/2003

GAIN Report Number: CI3030

Chile

Retail Food Sector

Report

2003

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Report Highlights: In Chile there is no of food warehouse outlets or wholesale clubs. Most of the products sold through US-style mass merchandisers are sold in the larger supermarkets and hypermarkets in Chile.

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 condiments, snack foods, sports bars, sports drinks, diet and health foods, prepared frozen foods, edible nuts, and tropical fruits and juices.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Santiago [C1]
[C1]

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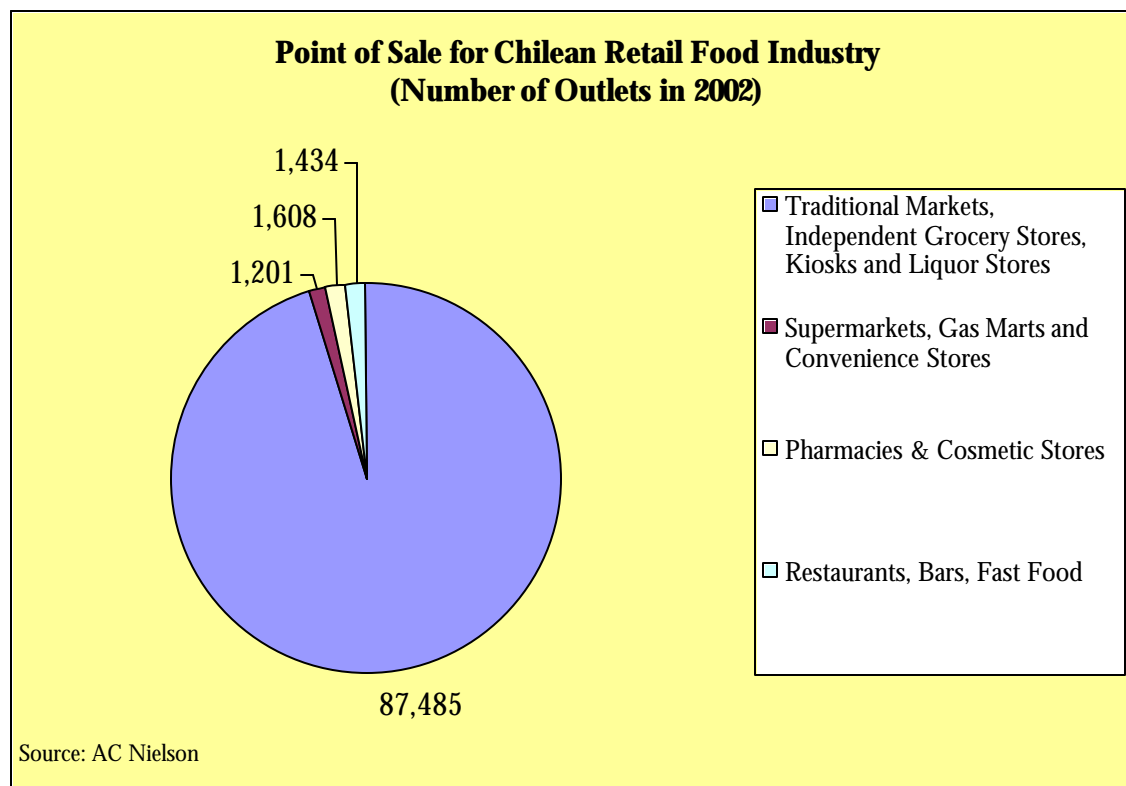
I. Market Summary

- In 2001, Chile imported US\$ 484 million of consumer-oriented food products, with US\$ 33.9 million (approximately 7%) imported from the United States. In 2002, imports from the U.S. were US\$ 25.2 million.
- Total consumer-oriented retail food sales in 2002 exceeded US\$ 5 billion (47% of this sold in the capital, Santiago), representing over 30% of total commercial sales in Chile.
- Chile's consumer-oriented retail food sector continues to have significant growth potential given the relatively low penetration of supermarkets, which is currently 60%, compared to 80% in more developed countries. Supermarkets are classified as stores with three or more check-outs.
- In 2002, fifty new supermarkets opened, bringing the total number of supermarkets and hypermarkets in Chile to 671, amounting to over one million square meters (over ten million square feet) of retail space.
- There are 34 supermarket chains, with over 90% of the sector dominated by 10 principal chains.
- 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 condiments, snack foods, sports bars, sports drinks, diet and health foods, prepared frozen foods, edible nuts, and tropical fruits and juices.
- Consumer prices (inflation) during 2002 increased 3.2%, slightly higher than forecasted, but acceptable considering the struggling economies of neighboring countries such as Argentina and Brazil. The economic decline and the resulting currency devaluation in these two countries against the Chilean peso has made Argentina and Brazil imports more attractive to Chilean distributors.
- Due to a weaker Chilean peso against the dollar, growth in Chilean wholesale prices increased dramatically, from 3.1% in 2001 to 10.4% in 2002.
- For U.S. exporters the target population is concentrated in the capital city of Santiago, and the port cities of Concepción and Valparaiso-Viña del Mar.
- In Chile there is no of food warehouse outlets or wholesale clubs. Most of the products sold through US-style mass merchandisers are sold in the larger supermarkets and hypermarkets in Chile.

Advantages	Challenges
The U.S.-Chile Free Trade Agreement has set the stage for elimination of import duties on most consumer-oriented food products from the United States.	Until the FTA is adopted (possibly by January, 2004) Chile's flat import tariff rate is currently 6% makes U.S. imports less competitive with local production and other countries with which Chile has free trade agreements.
Recent studies have shown that per household total food purchases average US\$330 dollars per month.	The average Chilean consumers is very price sensitive.
Chile is considered to have the highest per capita GDP (US\$14,000), adjusted for purchasing power, in South America.	In 2002, the Chilean peso suffered an 8.6% devaluation against the dollar, decreasing consumer buying power for products imported from the U.S.
Workers in Santiago create a steady demand for consumer-oriented retail food products, since 70% of them eat out for lunch, often buying ready-to-eat items in supermarkets and convenience stores.	Chile enforces very strict animal and plant quarantine regulations that in some cases create non-tariff barriers to imports of consumer-oriented retail foods.
The Consumer is well acquainted with imported food products, many of which are considered high quality, luxury goods. The nation's growing retail industry, supported by a culture eager to try new, higher quality products, has proven a successful market for imports.	The market for imported, consumer-oriented food products is fairly small. Only the upper and upper middle class population segments in Chile are considered to have the sufficient disposable income to purchase these products.
The nation's capital, Santiago, accounts for 47% of total grocery sales.	The market for imports of most consumer-oriented food products is too small to support full container shipments
Technological infrastructure, domestic transportation and communication systems in Chile are efficient.	A common concern of both consumers and buyers of U.S. consumer-oriented food products is food spoilage. Currently, the leading retail chain do not import directly and the importers of consumer-oriented retail foods tend to be small and fragmented.

Major Cities	Population
Santiago Metro	6.2 million
Concepcion-Talcahuano	966,000
Viña del Mar-Valparaiso	911,000
Antofagasta	260,000
Temuco	250,000
Source: INE 2002	

II. Road Map for Market Entry



A. Supermarkets and Hypermarkets

a) Market Structure

In little more than a decade, the Chilean supermarket sector has rapidly taken over food retailing in Chile. According to AC Nielson, in 2002 supermarkets represented roughly 60% of all retail food sales, and are fast becoming the main retail buyers in the supply chain of retail foods, maximizing their economies of scale. Supermarkets have moved far beyond their original niches (upper-income, highly populated areas) and have spread to the middle and working-class market segments, both in the capital and in medium-sized cities and towns throughout Chile. The chains are managed professionally, and the selection of food is as varied in scope to the choice of products found in the US. All stores have incorporated cutting-edge technology such as electronic price marking devices and specialized weighing systems. Generally, hypermarkets and supermarkets maintain a relatively high standard of hygiene with cold counters for meat, fish, produce and dairy products.

The hypermarket sector in Chile, representing 37.8% of supermarket industry sales and growing, is arguably among the most developed in the world, with the Chilean companies D&S (Lider), Cencosud (Jumbo), and Carrefour from France, dominating the market. There are currently 37 Chilean hypermarket format stores averaging over 10,000 square meters (107,600 square feet) of floor space and more than 25,000 products. The growing trend for Chilean consumers is their preference to shop at the larger hypermarkets, versus smaller grocery stores, due to the wide variety, product diversification and lower prices. The

leading hypermarket chains have incorporated different product lines to reinforce the marketing strategy "one-stop shop," where customers are able to find almost everything they need in one store. In addition to traditional food items, hypermarkets carry non food items such as home appliances, electronics, hardware, sports equipment, toys, textiles and articles for the home. In general, the hypermarket stores devote 50% of the total selling space to food items (groceries 25% and perishables 25%) and the remaining 50% devoted to non food items. Most of them also have family style cafeterias and deli's. Hypermarkets and supermarkets still have underdeveloped "health-food" sections. The extent of most supermarket health-food sections does not reach much further than such products as whole grain cookies, adult cereals (with less sugar), sugar free cookies, and in some cases diet mayonnaise.

While the industry has experienced great success with the hypermarket format, the majority of the retail food stores in the country remain in the traditional supermarket format, averaging between 3,000 and 6,000 square meters (32,280 and 64,560 square feet) of floor space and carrying 1,500 to 10,000 products. There are currently 634 supermarkets throughout Chile, of which 205 are located in the Metropolitan Region/capital city of Santiago. The major supermarket chains are Ekono, Almac (D&S); Santa Isabel (formerly Dutch Ahold, currently being bought by Cencosud); Unimarc (Supermercados Unimarc S.A.); and Montserrat (Supermercados Montserrat S.A.C.). The supermarket stores place an emphasis on the food products offered, which include a broad assortment of quality perishables and groceries. They are marketed as a convenient alternative to small, family-owned grocers and informal markets with a price/quality ratio that appeals to the middle and lower-middle classes. Therefore, in the face of a recovering economy, the supermarkets are well positioned to benefit from the increasing purchasing power of Chile's lower socioeconomic classes.

There are important differences between the products carried by both hypermarkets and supermarkets in the low versus mid to high socio-economic segments. The stores located in low-income areas normally carry a limited number of specialty items (usually higher-priced imported goods), apart from the items destined for massive consumption. Hypermarkets and supermarkets in the mid to high-income areas carry a varied assortment of specialty items with a relatively high degree of imported products. A rise in consumer sophistication in the mid to high socio-economic areas, in terms of products, brands and price, has resulted in increased demand for imported food products. Nevertheless, despite the increasing selection of products and advances made in the super and hypermarket sector as a whole, compared to the US, the selection of specialty imported products is still limited.

b) Entry Strategy

To achieve success in the Chilean market, a supplier must offer world-class products, aimed at satisfying the needs of a small, price conscious consumer base. Chilean importers of retail foods focus on acquiring low cost goods that offer a high profit/price ratio, from serious manufacturers who compete globally, or are capable of doing so.

Many foreign companies have found that Chile, with its small population, relatively low per capita income, and borders so open to foreign trade, is an undesirable market. Others see success here as a stepping stone toward achieving growth and market share in the rest of Latin America.

Because supermarkets and hypermarkets are such an overwhelmingly major force in the Chilean retail food sector they present the best opportunity for U.S. retail food exports. They are a means for exposing the consumer market to imported goods in all socio-economic segments, in both the large cities and urban areas. If the current consolidation trend

continues one can expect that in the near future three to four chains will command up to 60% or more of all retail food sales in Chile. The local market niches are slowly disappearing under the pressure of this wave, and the distinction between imported retail foods and traditional, domestic foods is following suit.

For U.S. companies wanting to sell consumer-oriented retail food products to the large supermarket chains they should contact them directly to identify the distribution channel the dealer prefers (i.e. direct import, from a commissioned agent, or a local importer/distributor). (See Distribution Channels below) Personal relationships and a high level of communication are key, as Chilean business people are accustomed to -- and frustrated by -- foreigners who arrive on a whirlwind tour and promise things they then do not deliver. Generally speaking, higher priced, specialty retail foods are imported through a third party. It is more likely that supermarkets would have a greater interest in directly importing retail foods with a broader appeal and higher volume.

For suppliers, supermarkets and hypermarkets are a challenging client, often times requesting payment for shelf space and extensive merchandising support. The supermarkets' procurement practices - quality and safety standards, packing and packaging requirements, costs, volumes, level of consistency, and payment practices - have all made a significant impact on the retail food import sector. While these standards and requirements tend to differ by company, their procurement systems are always aimed at facilitating the growth of key food markets.

Pricing Products

In 2003, a 6% tariff is levied on the CIF value of all imported food products. This tariff and a value-added tax of 18% (moving to 19% on October 1, 2003) are paid by the importer and not by the supplier. Imports from countries with which Chile has bilateral trade agreements are covered by different, preferential tariff schedules. Despite the fact that imports from Argentina and Brazil are cheaper because of the exchange rate advantage, the final price for mass-distributed U.S. retail food products should be competitive with imports from these countries, especially after the FTA goes into effect (possibly by January, 2004). Gross margins for consumer-oriented retail food products are generally 30-50 percent or more for direct sales to consumers, or 20-30 percent each for the importer/distributor and the retailer when a third-party distribution chain is in place. As most of these products are higher-priced items they must identify niche market segments to prosper.

Private Labels

Hypermarkets and supermarkets are increasingly focused on private label brands. In total private label brands (both grocery and non-grocery) are currently estimated to represent 5% of supermarket sales (US\$ 200 million). The development of private label brands has been a success in the supermarkets and this segment of the market is expected to grow to represent an estimated 10-15% of supermarket sales by 2005. Supermarkets D&S were among the first to focus significant resources on private labels in the late 1990's and the other chains are following. In several cases third party companies will manufacture under the chain's own label while in other cases, the chain will vertically integrate to incorporate its own manufacturing arm. The impact of the private label brands and the trend towards lower prices is expected more in the mature grain mills and dry goods subsectors rather than in subsectors such as health foods and children-oriented items where brand recognition is extremely important. Examples of private label goods include tea, sugar, spices, rice, frozen vegetables and canned foods.

c) Company Profiles

A good example of the fierce competition between the hypermarkets can be seen with the entrance of Carrefour in Chile in 1998. Carrefour, extremely experienced in overseas expansion and with a firm foothold in Latin America, now has five stores in Santiago and another two planned for opening by the end of 2003, each to cost US\$ 15 million. Their success, however, has further exacerbated competition within the industry.

Distribution and Services S.A. (D&S) currently has 35 Lider hypermarkets throughout Chile in the Lider, Lider Vecino and Lider Mercado formats. In addition, the group owns 23 Ekono and 4 Almac supermarkets (in some cases the Ekonos are big enough to be hypermarkets). With 62 stores and control of over 30% of the market, D&S currently dominates the other chains in both size and reach and continues with its own aggressive expansion plans. The three distinctly branded, demographically targeted store formats plan on capitalizing on the rising purchasing power of Chile's middle and lower middle classes by marketing many of its private labels to communicate an enhanced image based on a new "fresh and clean" look. Private labels currently contribute to about 10% of sales, but D&S is intending to increase its share of private labels to 20% as early as the end of 2003.

The company has also reported plans to merge its Lider, Ekono and Almac grocery chains (which currently operate independently) into one unit, Lider, in an attempt to cut costs as competition among the market players grows. The move is to be completed by mid 2004. In 2003 the group will invest US\$50 million by opening two more Lider hypermarkets and adding pharmacies to its current stores in its alliance with Farmacia Ahumada. By the end of 2002, 19 D&S stores had added pharmacies to their formats (Farma-Lider). D&S reported profits of US\$ 34 million in 2002, down 41.3% from 2001, and a 10% increase in revenue. The decrease in profits was attributed to additional costs incurred with the opening of eight new stores (US\$90 million), greater competition driving down prices, a slow economy and sluggish consumer spending. However, company officials are forecasting that 2003 profits will rise by more than 50% on the back of new store openings and an increase in consumer spending. In 2002, D&S direct imports totaled US\$ 98 million (57% from China, 23% from Brazil, and only 0.03% from the U.S.).

Jumbo, the hypermarket "sister" chain to the Easy Homecenter stores, both owned by the Paulmann Group (Cencosud), is beginning to reap the benefits of its aggressive investment plan, with profits increasing 17% in 2002 to US\$60.6 million (for both Jumbo and Easy). According to Jumbo's Country Manager in Chile, Claudio Haase, around 90% of this increase is a result of the Jumbo/Easy strategic alliance with the Ripley department store chain involving the use of Ripley's credit card. The remainder of the increase came from the two new Jumbos that were opened in 2002, bringing the total to seven in Santiago and another two in the surrounding regions. Jumbo's physical presence with Easy as the anchors of several malls is a big part of its success. In 2002, Jumbo's direct imports were US\$ 19 million (33% from Paraguay, 17% from China, 13% from Brazil and only 3.2% from the U.S.).

In addition to its current expansion plans, Jumbo is also looking to move more into the traditional supermarket sector. Parent company Cencosud is currently in the process of buying the Chilean operations of the supermarket chain Santa Isabel from embattled Disco Ahold (Dutch/Argentine supermarket conglomerate). Santa Isabel is the third largest food retailer in Chile controlling 9.6% of the market between its Santa Isabel and Tops supermarkets. The purchase of the chain's Chilean operations would be significant, giving Cencosud control of close to 20% of the supermarket industry. In 2002, Santa Isabel directly imported US\$ 3.6 million in goods (57% from China, 9.1% from Spain and only 2.6% from the U.S.)

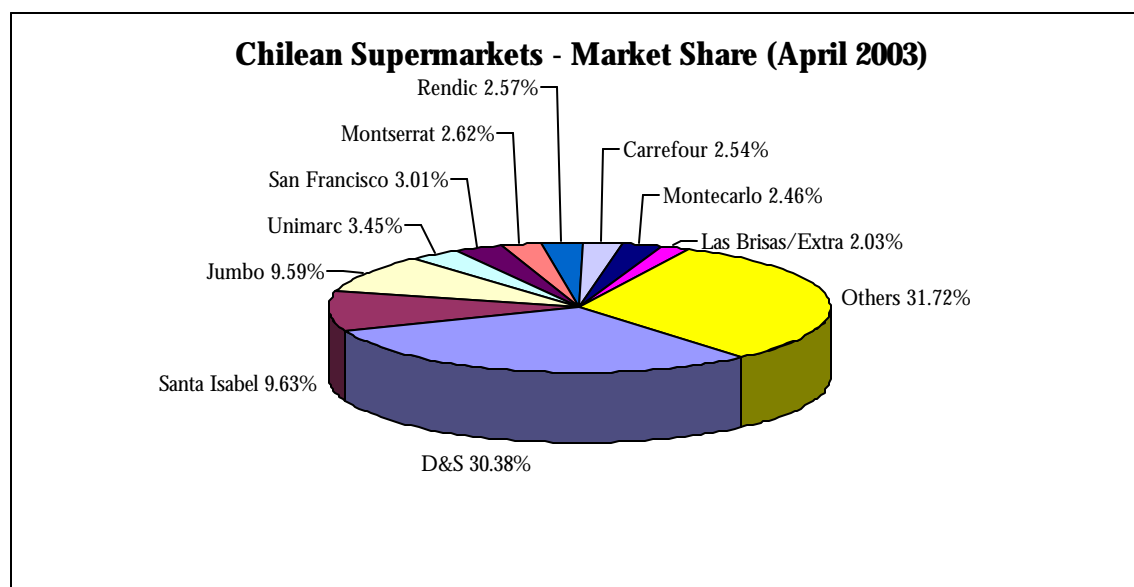
It is important to point out that China's strength as an exporter to the Chilean supermarkets and hypermarkets is not in the food sector but rather in the clothing and other non-food lines.

Chilean grocery operation Unimarc, with 3.5% market share, reported losses of US\$ 441,000 for 2002. Although the company made public last year that it had abandoned its efforts to sell the supermarket chain, Unimarc is still in a difficult position. Unimarc has around 30 stores throughout Chile and directly imports nothing from the United States. For 2003, the company plans to regain market share by improving its pricing scheme. Both Unimarc and Santa Isabel saw their market shares decrease significantly in 2002 due to strong price competition from rival hypermarkets.

Chilean owned supermarket chain Montserrat has 21 stores, all located in Santiago. The company emphasizes its market niche as serving the middle and lower income neighborhoods in the capital city. The chain controls 2.6% of the Chilean supermarket industry and has maintained its hold as one of the top five supermarket chains for the past decade. Company financial information is not available. Montserrat imports nothing directly from the US.

According to reports in the local press, Chilean department store chain Falabella, with 32 department stores in Chile, is planning to expand its interest into the domestic supermarket sector by the end of 2003 or the beginning of 2004. In addition to the successful department stores, Falabella has branched out into the pharmacy business through a stake in Farmacias Ahumada and continues to expand on its financial services business (banking and insurance). If Falabella were to enter into the retail food sector the company would have the local market experience and financial resources to become a major player.

Retailer and Type	Ownership	Number of Outlets	Purchasing Agent Type
D&S: "Lider" hypermarkets, "Ekono" and "Almac" supermarkets	Local	62	Direct, Third-Party Distributor, Agent
Cencosud: "Jumbo" hypermarkets	Local	9	Direct, Third-Party Distributor, Agent
Royal Ahold: "Santa Isabel" and "Tops"	*Dutch/Argentine	77	Direct, Third-Party Distributor, Agent
Carrefour: "Carrefour" hypermarkets	French	5	Direct, Third-Party Distributor, Agent
Montserrat: "Montserrat" supermarkets	Local	21	Third-Party, Agent
Unimarc: "Unimarc" supermarkets	Local	30	Direct, Third-Party Distributor, Agent
* As of July 2003 Cencosud was still in negotiations to buy Santa Isabel chain from Royal Ahold.			
Source: ASACH (Chilean Supermarket Association) and Store Chains.			



d) Distribution Channels

Currently, over 3,000 importers operate in Chile in the consumer-oriented food sector; some of them also act as export agents. Most are small-to-medium size firms. Several large firms handle different lines of products and are large wholesalers. Almost all the firms have their main offices in Santiago. The larger ones have branch offices throughout the country, including in the free-trade zones. Other firms employ specialized traveling salespeople.

The traditional method of entering the large chains through third-party distributors or commissioned agents is still recommended in most cases. The advantages of third-party distributors and commissioned agents are many. Most have established relationships with product buyers throughout the industry, from supermarket chains to local distributors to restaurants and hotels. Third-party distributors will assist U.S. exporters with all aspects of importation, distribution, sales and marketing of their products. This includes receiving, transportation, storage, distributing, pricing, packaging and labeling, and advertising (often times subcontracted to an advertising agency). Commissioned agents will assist with the importation and distribution logistics, but will not be as "hands on" as a third-party distributor will be. Depending on the product, the standard mark-up on imported consumer-oriented food products is 30-50%. The mark-up covers some of the costs incurred in the process and includes the 5-10% earned by the distributor or agent. Labeling, advertising and other unforeseen cost are not usually included in the mark-up. In addition, suppliers are providing more and more "promotoras" or specialized sales people to stand in the aisle to hand out samples and promote the product.

Third-party distributors emphasize the need for exporters to be financially committed to their products and the market they are entering. It has been said by many within the industry that U.S. companies like to sell but do not like to export. The financial resources dedicated to an exported product are often the difference between success and failure.

Chilean supermarket industry e-marketplace has become very popular in the industry because it allows distribution centers to better manage the arrival of merchandise. The online dispatch notification service integrates supermarket suppliers in a community where they can exchange all the documentation involved in procurement - purchase orders, dispatch orders, receipt orders, payments, catalogues, and sales reports - for greater efficiency and

transparency. In 2002, the e-marketplace saw a greater use of the service by supermarkets, a larger number of suppliers becoming affiliated with the site, and an increase in the use of electronic documents in the industry. It has about 910 suppliers and is currently working with 12 supermarket chains that represent 63% of the industry. The company calculates they are moving US\$ 2.8 billion a year in the form of purchases from their suppliers. The supermarket chains participating in the e-marketplace are: D&S, Jumbo, Santa Isabel, Montecarlo, Economax, Montserrat, Rabie, Bryc de Curico, Alvi, Rendic, Carrefour and Unimarc.

B. Convenience Stores, Gas Marts and Pharmacies

The convenience stores, gas marts and pharmacy chains have been steadily expanding their presence in the upper and middle class neighborhoods of Santiago. They are, on average, around 1,000 square meters (10,760 square feet) in floor space and offer between 400 to 1,500 products. Impulse buys make up a high percentage of these stores' sales. Their marketing strategy is to project the store's image as a high quality, personable and convenient outlet.

a) Entry Strategy

Independent distributors are best suited to ensure that imported products are available in the market. Most of these stores sell limited quantities of imported candies and snacks, with little presence of U.S. products. In general, they purchase from local distributors.

b) Company Profiles

Convenience Stores

These small stores in high-traffic residential zones have emerged as an alternative to the supermarkets, carrying smaller quantities of a selected variety of items. The target market is clientele with little time and looking for "necessary" purchases. Food products sold at the convenience stores include snacks, candy, and alcoholic and non-alcoholic beverages, as well as ready to eat prepared food, and some necessity items such as breads and milk. Chains such as Big John, Almac Express, Castaño and Fuchs are the most prevalent in the capital city of Santiago.

Gas Marts

The "gas mart" concept is fairly new to Chile, introduced to the country by the larger multinational gas chains in the mid-1990s. In Chile there are 1,506 gas stations with four chains being the major distributors: Esso, Copec, Shell, and Repsol YPF. In 2002, there were over 260 gas stations with gas marts, or around 18%. Prices are usually higher at these stores, but hours are extended to serve late-night clientele. The product mix of consumer-oriented food items at these gas marts consists mostly of a varied assortment of snacks, drinks, alcohol, confectionaries and pre-made foods. Many of these chains have incorporated deli's and restaurants in their formats; hooking-up with fast food chains such as McDonalds to provide clientele with food alternatives. The gas marts and food offerings often generate as much or more income as the sale of fuel with profit margins between 8-10 percent.

Retailer	Ownership	Number of Outlets
Pronto	Copec	80
Select Mart	Shell	74
On the Run & Tiger Mart	Esso	105
AM/PM	Repsol YPF	N/A

Pharmacies

Chilean pharmacy chains have undergone significant growth and consolidation in the last five years, resulting in Farmacias Ahumada, Salco Brand, and Cruz Verde as the three most dominant, controlling 90% of the market. At the end of 2002 there were a total of 1,608 pharmacies in Chile, with the three leading chains combining to open 170 new outlets. This rapid expansion has quickly brought the sector to maturity and created a price war between the chains. These chains are not big importers but rather source the majority of their products through their own drug companies (which focus on the production of both branded and generic drugs) and purchase name-brand toiletries, cosmetics, and foods through an importer or the local representatives of the international brands (e.g., Johnson & Johnson, Clairol, etc.).

Pharmacy chains have realized double-digit growth and their aggregate turnover rose by 12% year-over-year in 2002, despite reduced overall domestic demand. Drugstores have expanded by widening their product range to include the most common groceries as well as healthcare, cosmetic and personal hygiene products. In effect, these stores are becoming more like convenience stores, competing with supermarkets and kiosks.

C. Traditional Markets, Small Independent Stores, Kiosks and Liquor Stores

In terms of presence, traditional markets, small independent stores, kiosks and liquor stores ("botellerias") constitute a large share of the retail food sector, but only a nominal share in terms of sales volume, and they import minimal food products. According to AC Nielson, in Chile there are 87,485 stores that fall under the category of traditional markets, kiosks and liquor stores, representing 84% of the total points of sale for consumer foods in Chile but only 22% of total sales. Most of these stores carry a smorgasbord of goods, but very little stock with minimal imports.

In the past decade Santiago has seen the birth of specialty wine stores that specialize in mostly Chilean wines, but do offer a varied selection of imported wines from around the world. The Wine House (first of this kind, 1993), El Mundo del Vino, Vinoteca and Vinópolis are the principal chains.

a) Entry Strategy

The traditional markets and small independent stores have been affected most by the burgeoning hyper and supermarket industry. Many of the traditional markets and independent stores have joined associations in order to negotiate lower prices from suppliers. As a means of survival, many of the small stores have moved away from selling groceries, fruits and vegetables and concentrate on niche-markets such as prepared lunches, snacks and alcohol. Local distributors supply these venues.

III. Competition

Because price is often the determining purchase factor for most Chileans, this can present a problem for U.S. exports as the domestic market is very capable of producing many products and offering them at a lower cost to the consumer. The following are some of the primary import categories for Chilean consumer-oriented foods. Under a U.S.-Chile Free Trade Agreement scenario many U.S. exports of these goods will be better able to compete with products from other countries.

A. Sectors

a) Health Foods, Grain Mill Products and Dry Goods

The size of the "health and natural consumer products" market in Chile is estimated at US\$ 80 million at the beginning of 2002, having grown 30% over the last five years. The majority of this market (approximately 80%) is comprised of vitamin and dietary supplement sales, with the remainder including other natural health products. Although the number of health-food products is limited and these items are generally considered more expensive, the selection is growing and the purchase of these products, which carry the labels "light", "diet" or "whole grains", etc., constitute around 6% of the average Chilean household food budget.

"Power Bars" (acquired by Nestle in 2001) or just "sports bars" vitamin protein enriched snacks are sold in many gyms but distribution and brand recognition is limited, and the time seems right to enter with a small assortment of health supplement, diet, or sport/energy consumer products to be distributed in pharmacies, supermarkets, and gyms (note restrictions on amount of supplements before considered pharmaceutical).

The domestic production of milled grain products for human consumption is a growing industry in Chile. As consumers become more health conscious the demand for grain milled products will increase.

The Chilean market for breakfast cereals, though still targeting primarily children, is rapidly expanding with many multinational companies leading the charge. The primary breakfast cereal suppliers are Nestle, Kellogs and Quaker Oats. The U.S. is the third largest supplier of breakfast cereals to Chile and its share of Chile's US\$7.7 million import market averaged 20% from 1999-2002. U.S. exports of breakfast cereals were US\$1.3 million in 2002. With the U.S.-Chile Free Trade Agreement breakfast cereals imported from the United States will gain preferential access as tariffs will be immediately eliminated, thus allowing U.S. products to expand and compete against Chile's largest suppliers (note information on restrictions on "fortified" cereals).

Chile is about 35% self-sufficient in rice. In 2002 the U.S. share of rice imports was 85%, or US\$ 208,314.

Top domestic producers of pastas are Luchetti, Carozzi, Taliany and Don Vittorio.

b) Snack Foods and Confectionary Goods

The Chilean snack foods and confectionary goods market has been very accepting of imported labels, with many of the gums and candies being imported from Spain and Brazil. The sale of ice cream, candy and baked goods, items generally viewed as "not so healthy" continue to find consumer demand.

The Chilean snack foods market is primarily controlled by three multinational companies: Nestlé, Unilever and Evercrisp. These companies have processing plants in Chile and manufacture and distribute chips, nuts, popsicles, cookies and crackers under many of the same name brands that are found in the U.S. such as Lays and Tostitos.

There are four primary manufactures of confectionary products in Chile: Nestlé, Costa (Carozzi), Industrias Ambrosoli and Arcor. These companies dominate the confectionary market in Chile, manufacturing and distributing the whole gamut of confectionary goods and

some snack foods. Chile's developing confectionary market has traditionally preferred sugar confectionery, for their ease of manufacture, transportation and shelf-stability. However, new product categories like snack bars are becoming increasingly popular. The Chilean chocolate confectionery category is fairly small, which is typical of most Latin American countries. Boxed chocolates and candy bars have enjoyed the greatest growth. Gum makes up only a small part of the Chilean confectionery market but has significant potential due to low per capita consumption, with sugar-free varieties and whitening properties being the latest trend. Hard-boiled sweets, medicated confectionery and mints attract the greatest revenue.

The U.S. share of Chile's US\$ 2.1 million tree nut import market, which includes almonds, hazelnuts, pistachios and walnuts, averaged 90% from 1999-2001. Competitors include Iran, with 5% of the import market, and Brazil.

c) Prepared Meals, Canned and Frozen Foods

Sociodemographic changes involving an increase in the number of working women, new active lifestyles, and a growing segment of young professionals have been the catalyst behind an increasing trend towards consumption of ready made or prepared foods. The market for pre-prepared food is growing at an exceptional pace as an estimated 70% of all workers in Santiago eat out at least once a day, mostly at lunchtime. Many of the convenience stores and minimarkets, as well as the supermarkets and hypermarkets, now offer ready-to-serve meals (precooked) to their customers.

There are an estimated 10 local manufactures of prepared foods in Chile. Many of the locally owned chicken, beef, pork and seafood processing companies manufacture prepared foods in the related categories. These items include sandwiches, frozen pizzas, Chilean-style frozen casseroles, meat and chicken dishes, and Italian dishes. Additionally, most of the supermarkets and hypermarkets have "gourmet" food sections and deli's in their stores that prepare "take-out" food under their own private label. All of these prepared foods have to be tuned to local tastes and, in general, Chileans do not like spicy foods. There is significant potential for microwavable items as an increasing number of Chileans have microwaves in their homes.

d) Sauces and Condiments

In 2002, Chile imported US\$ 2 million in sauces and condiments including ketchup, mayonnaise, mustard, soy sauce, salad dressings and tomato sauce. Argentina is Chile's largest supplier of sauces and condiments. The U.S. share of Chile's sauces and condiments market was an estimated 40% in 2002. However, with the Free Trade Agreement, import tariffs will be eliminated on sauces and condiments from the U.S. The only exception is tomato sauce in which the 6% tariff will be phased out over four years.

e) Dairy Industry

The Chilean dairy industry is controlled by two major international companies, Soprole (New Zealand) and Nestle (Switzerland), controlling 24% and 21% of the dairy market, respectively. Other major dairy producers are Colun 16.7%; Loncoleche 14.4%; and Parmalat 6.7%. The industry includes the production of milk (condensed, pasteurized and evaporated), cheese, yogurt, margarine and butter. Many of the larger dairy companies, specifically Nestle, manufacture a wide range of dessert lines such as ice cream and manjar (a caramel-like sweet).

Due to the preponderance of local manufactures, domestic prices for dairy goods have been depressed and imports reduced. Currently all U.S. dairy products face a 6% tariff and are at

a disadvantage to those products from Argentina and Uruguay due to lower transportation costs and existing trade agreements with Chile. The major dairy products Chile has imported in recent years are nonfat dry milk, whole milk powder, cheese, and whey powder. Argentina and Uruguay generally supply half to two-thirds of Chile's dairy product imports. In 2001, Chile's imports of these products from all countries totaled just over 20,000 metric tons valued at US\$ 36 million. A major supplier of cheese and whey, the U.S. share of Chile's total dairy product import market averaged just under 5% from 1999-2001. To date U.S. dairy products have been restricted due to differences in inspection regulations and grading standards. However, these recent issues have been resolved and market opportunities should increase.

With the U.S.-Chile Free Trade Agreement the current 6% tariff on U.S. dairy products will be eliminated in 4-8 years depending on the product. Chile will phase-out its tariffs over four years on cheese, butter and butterfat, whey products, and yogurts, and over eight years on liquid milk and cream, and condensed and evaporated milk, which include both whole milk powder and nonfat dry milk. Chile now recognizes the authority of the Food and Drug Administration (FDA) to approve plants eligible to export to Chile.

f) Carbonated Beverages, Fruit Juices and Bottled Water

Chile has one of the highest per capita of cola consumption rates in Latin America, particularly in terms of the Coca-Cola brand itself, which remains the longstanding favorite of the Chilean beverage consumer. In an attempt to gain market share in the carbonated beverage category many of the larger supermarket chains have increased the number and variety of carbonated drinks under private label and secondary brands, with new flavors such as grapefruit and apple being introduced. Private label and secondary brands have had moderate success as cheaper alternatives to the international brands. For example, in 1998, there were practically no secondary products available in Chilean supermarkets, and private labels accounted for just over 1% of volume sales. In 2002, practically all of the major supermarkets sold their own private label carbonates, and there are more than 20 different B-brands active in the market. This trend is expected to continue as retailers offer special promotions in order to keep up sales volume

Other products, such as fruit juices, bottled water and sports drinks, have slowly increased their share of the market. It is likely that more expensive products, such as fruit juices, will have a more significant presence. In the last few years, manufacturers such as Watts and Coca-Cola have invested heavily in promoting the image and availability of fruit juices, thereby placing them in more direct competition with carbonates. Nectars are projected to eventually become more important as trends continue towards healthier consumption patterns. Similarly, bottled water also is forecast to benefit from these trends, and experience stronger growth over the longer-term.

g) Alcoholic Beverages

The Chilean import market for alcoholic beverages is estimated to be approximately US\$ 25 million per year. The distilled spirits market in Chile is well developed with over 30 brands present. The national liquor, Pisco, is the most widely consumed alcohol. The top five imported brands to Chile are: Johnny Walker, Bacardi, 100 Pipers, Ballantines and Chivas Regal.

Increasing consumer sophistication and diversity of products in both hyper and supermarkets has led to a steady increase in the import market for alcoholic beverages, amounting to around 16% growth over the past four years. England (56%), Mexico (10%) and the U.S. (8.5%) are the top three suppliers of distilled spirits to Chile.

Differentiated Taxes on Alcohol	
Non-alcoholic drinks, natural or artificial	13%
Wine, Champaign, chicha, cider, or beer	15%
Grape Pisco and similar beverages	27%
Liquours, including cognac, gin and liqueur wines similar to vermouth	28%
Whiskey	30%

h) Seafood

With 4,200 kms of exposed coastline and 30,000 kms of canals, archipelagos and fjords, Chile is situated in one of the five most productive marine areas in the world. The fisheries and aquaculture industry plays a major role in Chile's export-led, resource-based economy. By year-end 2002 aquaculture was the country's fourth largest exporter, representing approximately 5.5% of the total value of Chilean exports. Although domestic consumption of seafood has been increasing during the past few years, there is still not a significant demand for imports. This is due to the fact that fish in general is less popular than red meat and poultry, and because domestic production is able to supply almost every species of seafood in demand.

i) Red Meat

U.S. Chile's major beef suppliers are Brazil, Argentina, Uruguay and Paraguay. To date, these countries have had a comparative advantage over U.S. beef imports due to inspection regulations, transportation costs and existing free trade agreements. Chile imported 102,000 tons of beef in 2002 totaling US\$ 174 million. The U.S. share of Chile's beef import market averaged close to 1% in 2002. There were an estimated 350,000 tons of beef consumed in Chile in 2002, of which 80% (280,000 tons) was sold through supermarkets or "carnecerías" (specialty meat stores). However, changes in the entry requirements and preferably market access under the FTA should improve the competitive situation for U.S. imports. U.S. fresh and frozen beef products tariffs will be reduced over four years and then eliminated.

Also, with the U.S.-Chile Free Trade Agreement both governments will immediately recognize each others' grading systems. It is expected that U.S. beef exports will find their niche in the high-end Chilean beef market.

j) Poultry

Imports of unprocessed poultry from the United States are currently prohibited. Domestic production supplies most of the demand for poultry products in Chile; Super Pollo and Ariztia are the largest domestic poultry producers. With the U.S.-Chile Free Trade Agreement tariffs on poultry imports will be completely liberalized over 10 years, beginning in year two with an 8,000-metric-ton tariff-rate quota, a 5% annual growth factor, and a linear phase-out of the out-of-quota tariff rate. U.S. and Chilean technical experts currently are discussing the appropriate sanitary requirements for market access in their respective countries.

k) Fruits and Vegetables

The agriculture industry is one of the staples of the Chilean economy, with roughly US\$ 4 billion in agriculture exports annually. Imports are only around US\$ 1 billion annually. Imports face tough competition from domestic producers. However, until recently market access was seriously restricted. Successful technical discussions have lead to new access for

stone fruit, apples, pears, cherries, kiwis, grapes, raspberries, strawberries and citrus. Frozen and concentrated tropical fruits and vegetables currently are Chile's main imports, mostly coming from Brazil and the U.S.

B. Labeling and Marketing Requirements

a) Labeling

All canned or packaged food products imported into Chile must be labeled in Spanish. The label must display the country of origin, ingredients (including additives), manufacturing and expiration dates, and the name of the producer or importer. All weights and sizes must be converted into the metric system. Labeling and fortification standards often differ from U.S. standards and some U.S. processed foods must be labeled and/or formulated especially for Chile. For more information about general labeling provisions review the main food law at the Chilean Ministry of Health website <http://www.sesma.cl/sitio/pag/alimentos/indexjs3alimentosnorm001.asp> in Spanish or the unofficial translation at the U.S. Embassy, Santiago website www.usembassy.cl (under Food and Agriculture).

b) Marketing Requirements: Processed Foods

All products categorized as "processed food" must be tested and found in compliance with government health regulations. The Chilean Health Services officer at the port of entry will approve the import of processed food products on a case-by-case basis. There is no blanket approval process for permitting identical products into the country until they have been approved by the authorities. Meeting the labeling and marketing requirements to enter a product into Chile can be cumbersome. The overhead cost incurred during the approval process of new products, unless otherwise prearranged, is paid for by the exporter.

IV. Best Prospects

Opportunities in Chile's retail food sector exist for the smallest supplier to the largest food manufactures. Consumer demographics play an important role in the potential success of imported consumer-oriented food products. The nation's capital, Santiago, accounts for nearly 40% of the population and 70% of supermarket sales. The upper and upper middle class population segments in Santiago, representing around 9.5% of the population, have the sufficient disposable income/purchasing power to buy imported retail foods. AC Nielson reports that 86% of this segment purchases their goods at supermarket chains Lider, Jumbo, Ekono, Carrefour, and Montserrat.

Therefore, the target markets for U.S. exports of consumer-oriented foods are high-end, value added products (see list below) at the five aforementioned supermarket chains. However, as living standards and per capita income (purchasing power) continue to rise in Chile, imports of retail food products from the U.S. will have better sales prospects as they will become more accessible and affordable to other demographic segments. Consumption patterns will likely be impacted by economic conditions. Many consumers will probably continue seeking special promotions or less expensive products, particularly those in the middle and lower income segments.

Consumer Demographics in Santiago, 2002

Socio-economic Class	% of Homes in Santiago	% of Expenses on Groceries
Upper & Middle Class	9.5%	13.80%
Emerging Middle Class	44.50%	49.00%
Poor	46.00%	37.20%

A. Imported Products in the Market with Good Sales Potential

- Snack Foods: salted nuts, popcorn, granola bars, chocolates
- Sauces, salad dressings, marinades, mustard, peanut butter, cranberry sauce, jams and jellies, spices and other condiments
- Canned Foods: soups, tomatoes, beans, peppers, canned meals, tuna and sardines
- Breakfast cereals (currently the market is directed towards children)
- Mixes: cake, muffin, pancake, waffle, cookie, puddings, jello
- Health and diet foods, organic products (i.e. specialty products in line with wellness trends. Examples would include organic and sugar-free items.)
- Sports and energy drinks
- Dried and smoked meats
- Dairy Products: nonfat dry milk, whole milk powder, cheese, and whey powder
- Tropical fruit juices; frozen and concentrated (the minimal supply of tropical fruits will provide a good platform for exporters of these juices and concentrates)
- Liquors: beer and whiskey
- Frozen French fries
- Legumes (off season)
- Cooking and Olive oils

The following products offer particularly good prospect for U.S. exporters under a free trade scenario.

- Red Meat
- Pork
- Off season fruits and vegetables (Chile has a fairly sophisticated local market for agri-food production and has access to good quality products).

The U.S. is well respected in Chile for the quality of its products. In this context, given the variety and quality of their products, many U.S. agriculture and agri-food sector exports are well situated to benefit from the U.S.-Chile Free Trade Agreement.

B. Products Inhibited by Market/Trade Barriers

Fresh poultry, red meat based "wet", pet food, and "fortified" cereals or snack bars remain restricted.

V. Post Contact and Other Information**American Embassy Santiago, Office of Agricultural Affairs**

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For further information, check the "Agricultural Affairs" home page on the U.S. Embassy Santiago web site (www.usembassy.cl).

Chile's Food Sanitation Regulations.

Decree #977 of August 6, 1996: Covers labeling, packaging, additives, contaminants, microbiological criteria, irradiated, dietetic, infant, and frozen foods and specific product requirements, including those pertaining to non-alcoholic beverages. (Spanish <http://www.sesma.cl/sitio/pag/alimentos/indexjs3alimentosnorm001.asp> and unofficial English versions of Decree # 977 are on the U.S. Embassy website www.usembassy.cl).

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