

Country Market Profile: Chile

Euromonitor reports that in 2020, the COVID-19 pandemic disrupted Chile's robust economic growth, causing economic contraction. The economy is projected to rebound over the medium term, yet the risks associated with the global economic slowdown, disruptions to international trade, and fluctuations of copper prices will remain. Sustainable monetary and fiscal policies and low public debt are likely to contribute to reaching pre-pandemic levels.

- While's annual real Gross Domestic Product (GDP) declined by 5.7% in 2020, as a result of the COVID-19 pandemic. Over the forecast period of 2021-2025, real annual GDP growth is expected to average 3.5%.
- Inflation increased to 3%, as the unemployment rate rose to 10.5% in 2020.
- Chile's international trade was mostly unaffected by the pandemic, as demand from China continued to surge in 2020.
- Both foreign and domestic investments were negatively affected by the pandemic containment measures in 2020, yet investment intensity is projected to rebound once lockdowns are lifted.
- In 2020, public debt increased to 32.6% of GDP from 28% in 2019, as the government increased spending to support businesses

Key downside risks in Chile stem from the uncertain external environment, mainly related to rising protectionism, a sharp tightening of global financial conditions, and a weaker-than-expected growth in Chile's main trading partners. There is a danger that disruptions in the supply of energy could push up production costs and slow the pace of growth. Officials have launched a string of energy projects, which will be vital to the mining sector but still face environmental and judicial obstacles.

Chile has a number of free trade agreements (FTAs) with countries such as China, Canada, Mexico, South Korea, Australia, the U.S. and the European Union (EU). In 2013, Chile, Colombia, Mexico and Peru signed an agreement (known as the Pacific Alliance) which removes tariffs on 90% of their merchandise trade. Chile is a member of the 11-member Comprehensive and Progressive agreement for Trans-Pacific Partnership (CPTPP) which was formally created in March 2018. The new CPTPP excludes the U.S. In 2011, Chile, Colombia and Peru merged their three security exchanges into one. Known as MILA for its Spanish acronym, the new exchange is the second largest bourse after Brazil's.

The rate of population growth in Chile is slowing. In 2021, the population should reach 18.3 million (CIA World Factbook Est.), up from 15.3 million in 2000. Meanwhile, population is ageing. The median age has risen to 35.5 years in 2020, 6.8 years more than the figure for 2000. Birth rates in Chile are lower than the regional average. In 2030, 16.5% of the population will be over 65 years, up from 11.4% in 2018. Such a demographic change could soon reduce the country's rate of potential growth.

USDA's Office of Agricultural Affairs (OAA) in Santiago hereinafter referred to as "Post" reports that the Chile is considered the most stable, secure, and prosperous country in Latin America and a strategic and like-minded partner that values its privileged relationship with the U.S. based on shared values and mutual interests. Chile is characterized as a free, dynamic, and highly competitive market.

The U.S. and Chile are strategic partners whose agricultural relationship has been guided by collaboration and trade capacity building allowing Chile to become a regional leader with a competitive trade market. Because of the U.S.-Chile FTA, Chile dropped all tariffs on agricultural products to "zero" as of January 2015. The United States is the second-largest supplier of agricultural and related products to Chile, with a 15.4% market share. The first supplier is Argentina with a 24% market share.

Advantages & Challenges in the Chilean Food Market

Advantages

- Clear rules and transparent regulations encourage fair competition.
- The purchasing power of Chile's middle and upper-middle-income consumers continues to rise.
- The U.S.-Chile free trade agreement of 2015 ensures 0% duties for all U.S. agricultural products.
- Chile's largest retailers have operations in other Latin American countries, making it a gateway to other Latin American markets.
- American brands are regarded as high quality. Many well-known brands are already popular in the market.
- Demand for premium processed foods and beverages that provide convenience and health benefits continue to increase.

Challenges

- Chile has Free Trade Agreements with 65 economies worldwide, so they do not depend on imports from a specific region. Imports that offer the best price and quality worldwide are the most attractive.
- Chilean customers are used to competitive prices due to the openness of the economy.
- Lack of awareness of Chilean consumers and importers on the variety and quality of U.S. products, which may require more promotion. Specifically, premium beef cuts, high-quality cheeses, dairy products, and healthy food products that do not exist in Chile and need to be brought to the attention of consumers.
- Chileans value face-to-face meetings and strong personal relationships, which is not always a priority in U.S. business practices.
- Relatively small-size market compared to neighboring countries.
- Chileans are price-sensitive, especially during economic slowdowns.

U.S. agricultural exports to Chile topped US\$1 billion for the first time in 2020. In 2020, Chile imported \$712.6 million of U.S. consumer-oriented products from the United

States, which represents 64% of the total of \$1.1 billion U.S. agricultural & agricultural related products imports. In 2020, the U.S. top agricultural exports to Chile were beer, pork & pork products, wheat, feed & fodders, dairy products, condiments & sauces, poultry & poultry products, and beef & beef products.

Chile is also now the largest market for U.S. consumer-oriented products in South America. Chile is also the 2nd largest market in South America for U.S. processed food product exports, totaling US\$479.1 million, up 4% in 2020 and an all-time record high. Top processed food exports to Chile in 2020 included:

- Alcoholic Beverages
- Processed/Prepared Dairy Products
- Condiments, Sauces, Jams & Jellies
- Food Preparations & Ingredients
- Dog & Cat Food
- Prepared/Preserved Meats
- Chocolate & Confectionery

Retail Food Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Chile had been estimated to reach US\$11.8 billion in 2020. That represents a growth rate of 12.4% or US\$1.3 billion since 2016. The forecast for growth in this market is also promising. By the year 2025, the retail sales in the packaged food market in Chile is expected to reach US\$15.1 billion, a growth rate of 21%, or nearly US\$2.6 billion. High growth products in the forecast include:

- Baked Goods
- Pet Food
- Savory Snacks
- Baby Food
- Breakfast Cereal
- Ice Cream & Frozen Desserts
- Dairy
- Sauces, Dressings & Condiments

Chile has been one of Latin America's fastest-growing economies in the last decade enabling the country to have a modern and dynamic food retail industry. Chile's total food retail sales reached US\$14.3 billion in 2019. The Chilean retail sector is composed of a mix of large supermarkets, mid-sized grocery stores, convenience stores, gas station markets, and thousands of smaller independent neighborhood mom-and-pop shops.

The main food and beverage distribution channels are supermarkets with a market share of about 62%. According to Chile's National Institute of Statistics (INE), there are 1,382 stores, including hypermarkets, supermarkets, and other small food retail stores with a

minimum of three checkouts, comprising the Chilean food retail sector and 34% of them are in the Metropolitan region.

Due to the COVID-19 outbreak, the Chilean retail sector implemented strict sanitary protocols and quickly adapted to meet consumer demands for online delivery services. Local suppliers/distributors to supermarkets and mom-and-pop stores have also increased or developed e-commerce or online platforms to reach consumers directly.

Euromonitor reports that while 2021 is expected to see a rebound in the performance of supermarkets, value sales growth is likely to be limited for most players. This is mainly due to the large share of price-sensitive consumers in the wake of COVID-19 and the constant shift to e-commerce by retailers and consumers alike. The weak presence of supermarkets in e-commerce will hamper attempts to recover from the pandemic. While supermarkets will continue to benefit from their closeness to consumers and the strong focus on essential items, independently-owned outlets are highly exposed to the tough economic conditions in the country. Therefore, smaller independents are expected to close at a faster rate, particularly in regions most affected by the economic recession.

Convenience stores are expected to continue to have a place in the retailing landscape of Chile. Over the forecast period (2025), following the losses incurred during the pandemic in 2020, the category is projected to recover in 2021. The rebound in convenience stores is set to be driven by the gradual reactivation of the economy and easing or end to stay-at-home measures. As consumers resume their normal daily activities, including commuting to the workplace and school, travel and visiting foodservice and leisure venues, foot traffic will rise in retail locations. For example, with office spaces reopening from the end of 2020, convenience stores catering to workers on tight schedules should see benefits in terms of traffic and sales.

Best Product Prospects Categories in the Retail Sector:

- Beer/Craft Beer & Spirits
- Meat Products (Pork, Poultry, & Beef)
- Dairy Products (Cheeses)
- Sauces, Mixed Condiments, & Seasonings
- Fruit Juices
- Prepared & Frozen Meals
- Snack Foods
- Tree Nuts

Food Service Sector Highlights:

In the last decade, Chile's foodservice sector has been growing as a result of several factors: the economy's stability, the increase in the purchasing power of the population, travel, retail outlets/channels, the large migration of women into labor markets, as well as the government investment project for tourism. Unfortunately, the COVID-19 pandemic

negatively impacted the HRI sector. The GOC imposed a national lockdown in early March to mitigate the spread of the virus.

The lockdown, international travel restrictions, and sanitary restrictions forced hotels, restaurants, and numerous hospitality sector businesses such as airlines, tour operators, and tourist attractions to close down operations for over six months. Since October 2020, the HRI sector has gradually started to operate implementing strict sanitary measures. Many importers/distributors of food products, particularly those who were focused on supplying the HRI sector turned to e-commerce and now offer their products to consumers directly as well as providing delivery services to maintain operations.

Despite the general negative economic impact of the COVID-19 pandemic, Chile still offers excellent opportunities for U.S. food and beverage exports. Chilean consumers appreciate U.S. food and beverage products as they are considered to be high quality. Individual serving packaging is becoming the preferred format rather than bulk packages or large portions, and Chilean food importers in the HRI sector are looking for suppliers of this format. Single portions of butter, cheese, seasonings, and dressings, among others, are sought out frequently.

The COVID-19 pandemic had a major impact on the Chilean HRI sector as international travel to Chile and sanitary restrictions forced the temporary and permanent closure of many HRI businesses. While the health crisis increased basic food and gourmet purchases online, there is still room for growth, and Chile still offers excellent opportunities for U.S. food exports in the HRI sector. The best prospects for U.S. food products reside in supplying high-end hotels and restaurants (casual dining and family-style restaurants) along with coffee shops and fast-food restaurant chains.

Best Product Prospects:

Post reports that Chile offers excellent opportunities for U.S. food exports in the HRI sector. The best prospects for U.S. food products reside in supplying high-end hotels and restaurants (casual dining and family-style restaurants) along with coffee shops and fast food restaurant chains. Preferred products include:

- Diet & light soft drinks, ready to drink tea, ready to drink coffee and fruit juices
- Craft beer and distilled spirits
- Beef – portion-controlled cuts, Poultry and poultry products and Pork (chilled/fresh)
- Dairy products
- Sauces, mixed condiments, and seasonings, especially those in retail big format
- Healthier snacks (with dried fruits and seeds like chia and others)
- Convenient food such as pre-prepared, pre-portioned, value-added products (healthier and more premium than fast food)
- Elaborated and pre-processed baked goods and confectionary

Food Processing Sector Highlights:

Post reports that Chile has consolidated its reputation as one of the main players in the global food industry. According to Chilealimentos A.G. (Chile's Food Processors Association) food sales in Chile reached US\$44.4 billion in 2020, which represents a 7.8% decrease of sales compared to 2019, and Chilean domestic food sales reached US\$27 billion in 2020. Chile is among the top fifteen agricultural exporters in the world, and its main agricultural exports are wine, blueberries, cherries, grapes, prunes, dehydrated apples, salmon and mussels.

In 2020, food exports decreased 3.4% over 2019, mainly due to lower volumes of salmon, trout and fresh fruits export shipments. Currently, Chile exports 77% of its food as fresh and semi-processed food products, and the remainder 23% as processed food products. In addition, Chile enjoys a robust commercial network thanks to its 30 trade agreements with 65 countries

Chile has a modern and developed food processing industry that represents 31% of Chile's economy, and is forecast to grow to more than 35% by 2030. According to Chile's Central Bank, the Chilean food processing industry represents 25% of the national GDP. The Chilean food processing industry is constantly innovating their products in order to satisfy consumers' demands for ready-to eat meals, functional foods that boost the immune system, and all types of plant-based food and beverages.

In addition, food-processing companies are always looking for innovative ingredients, such as natural additives, preservatives, thickeners, and sweeteners, to make healthier food products especially for consumers with food intolerances such as lactose and gluten-free products. Furthermore, 54% of Chile's total food production is destined to the domestic market and 46% is exported to more than 190 countries worldwide

Large food processors are able to import directly due to volume and expertise. Small companies that produce processed foods, however, will often depend on an intermediary such as a distributor to receive the necessary foreign ingredients. Larger companies buy directly from producers or distributors. Food processors sell their products nationally or internationally. Some big international companies use their production plants in Chile to serve other markets in Latin America. Chilean food processing companies mainly sell to retailers such as supermarkets and hypermarkets (60% of all processed food). A smaller share of 38% of packaged food is sold through traditional grocery retailers such as independent small grocers or food/drink specialists.

Best Product Prospects:

Post reports that the best prospects for U.S. exporters in the Chilean food processing sector include natural flavors, sweeteners and natural alternatives, pork meat (ex.: for Chilean sausage industry), non-fat dry milk, coconut and oats, protein concentrate, odoriferous substances, alternative grains (ex.: quinoa, lentils, and chickpeas), super foods (chia, flaxseeds, nutritional yeast, etc.), almonds, whey and lactose, others: additives, preservatives, thickeners, oats, vegetable fats and oils, mixed condiments, starches and enzymes.