

## Country Market Profile: Chile

Euromonitor reports that the economy in Chile expanded in real terms in 2021, driven by increasing domestic consumption, public investment and external demand. The country witnessed solid recovery in international trade, yet reliance on Chinese imports might pose some short- to medium-term risks, given supply chain disruptions. Despite overall positive projected growth, the persisting pandemic-related risks and global inflationary pressures raise uncertainty and weigh on the country's long-term economic outlook.

- Following real growth of 11.6% in 2021, Chile's economy is expected to expand at an average annual real rate of 2.3% over the medium term.
- Inflation in Chile is forecast to increase to 5.5% in 2022 from 4.5% in 2021, given solid consumption and booming global oil and energy prices.
- As Chile's merchandise exports increased by 29.9% and imports rose by 52.4% during 2021, the country remained a net exporter of goods.
- As foreign direct investment (FDI) inflows into Chile rebounded over 2021, FDI intensity reached 3.4% of GDP placing the country among leading regional peers in terms of FDI intensity.
- Public debt in Chile rose to 34.2% of GDP in 2021 from 32.5% in 2020, yet remains significantly lower compared to regional and global averages.

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). 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, Mexico and Peru merged their three security exchanges into one. The Mercado Integrado Latinoamericano, more commonly 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 2022, the population reached 18.4 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 2022, 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 reports that 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.

U.S. agricultural exports to Chile topped a billion for the first time and totaled US\$1.2 billion in 2021. With growth of 30% Chile is also now the 2<sup>nd</sup> largest market for U.S. agricultural products in South America after Colombia. Chile is also the latest consumer-oriented products in South America. This category of products represented nearly 70% of all U.S. agricultural exports to Chile in 2021 reaching US\$886.3 million, and a strong increase of 34% over that of 2020. That represented a 14% market share of total consumer food products in the country. Chile is also the largest market in South America for U.S. processed food product exports, totaling US\$653.6 million, up and astounding 52% in 2021 and an all-time record high. Top processed food exports to Chile in 2021 included:

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

#### Market Opportunities and Key Issues in the Chilean Food Market

##### Market Opportunities

- 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
- U.S. 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

##### Key Issues

- 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
- Relatively small-size market compared to neighboring countries

##### Retail Food Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Chile are estimated to reach US\$17.2 billion in 2022. That represents a growth rate of 3% or US\$501.6 million since 2018. The forecast for growth in this market is also promising. By the year 2026, the retail sales in the packaged food market in Chile is expected to reach US\$20 billion, a growth rate of 16.5%, or nearly US\$2.8 billion from 2022. High growth products in the forecast include:

- Baked goods
- Sweet Biscuits, Snack Bars and Fruit Snacks
- Savory Snacks
- Confectionery
- Baby food
- Cheese
- Dairy (EX. Cheese)

FAS Santiago reports that 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. 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. Chile is becoming increasingly urbanized, not only in the Metropolitan region (Santiago), but also in other major cities like Valparaiso or Concepcion. The retail food industry has adapted to this trend through the increase of convenience store chains, gas station markets, and smaller supermarkets.

Retail food sales reached US\$25.6 billion in 2021, a 7.6% increase over 2020. Supermarket food sales totaled US\$14.4 billion and represented 56.3% of total retail food sales in 2021. In 2021, with fewer COVID-19 restrictions and a successful vaccination campaign, GDP grew by 11.5% pushing consumer spending. For 2022, the Chilean Central Bank projects retail food sales will increase by 2.3% per year.

Chile's main supermarket groups are: Walmart Chile operating around 254 stores under Hyper de Líder and Express de Líder brands. Walmart Chile is the largest supermarket chain in Chile in terms of revenue with a market share of approximately 13.1% of total retail value in 2021. Walmart Chile continues to dominate the market with its hypermarket format Hiper de Líder brand.

Cencosud is the second largest player in Chile operating around 249 hypermarkets and supermarkets under Jumbo and Santa Isabel brands. Cencosud had 12.8% of total retail value in 2021. Cencosud is a Chilean multinational business that also operates in Brazil, Peru, Colombia, and Argentina. Jumbo stands out for having the largest variety of imported products in their supermarket chain. The development of private labels as well as imported brands gives Jumbo a great differentiation in the supermarket industry.

SMU is the third largest supermarket chain operating 379 stores under Unimarc brand. SMU had a market share of 5.7% of the retail value in 2021. Tottus, owned by Falabella,

is the fourth largest supermarket chain, operating 70 hypermarkets and supermarkets. Tottus had 2.2% of the retail value in 2021.

Convenience stores are placed in convenient locations and offer a variety of foods and snacks. The assortment of products is approximately 1,100 SKUs on average, and includes a wide variety of prepared dishes, chocolates, beverages, bakery products and tobacco. There are two large convenience store chains in Chile: OK Market (Chile); Oxxo (Mexico), formerly Big John. In 2021, after many months of negotiation, the FISCALIA NACIONAL ECONOMICA (FNE) has allowed the acquisition of the convenience store OK Market owned by modern grocery retailer SMU by the Mexican company Fomento Económico Mexicano SAB de CV (global owner of the OXXO banner).

This allows the purchase of 126 OK Market stores mainly located in the Metropolitan, Valparaíso and Biobío Region. In order to maintain free competition, the FNE has proposed a structural measure where both brands need to find a buyer for 16 of their convenience stores, each in geographic areas that are considered risky to monopolies. The agreement was settled for US\$55 million and will allow OXXO to gain important national coverage that adds to its current 120 stores. Since 2015, OXXO has rapidly expanded to become a leader in convenience stores by previously acquiring the Big John banner.

#### Best Product Prospects:

FAS Santiago reports that U.S. consumer food products with good potential in the Chilean retail food market include bakery goods, cereals, and pasta; pulses; beef and beef products; dairy products (premium cheeses and ice creams); tree nuts; pork and pork products; sweeteners; poultry and poultry products beer/craft beer and spirits; sauces, mixed condiments, and seasonings; pet food; fruit juices; prepared and frozen meals; snack foods and tree nuts.

#### Food Service Sector Highlights:

Euromonitor reports that Chilean “Virtual kitchens” became a new trend in the consumer foodservice industry in 2021, with both large and small players making efforts to stand out in the strong competition developing over the year. This business model allows them to expand in terms of geographical reach, as well as trying out new cuisines and innovating without the danger of investing in a large kitchen. Well-established brands, particularly in chained limited-service restaurants, were quick to use this format not only in the Metropolitan Region, but also as a way of expanding to secondary cities such as Concepción and Valparaíso, which have much lower population densities, and where investing in opening a restaurant can be delayed until consumers have become more aware of the brand proposition via online ordering.

As industry costs continue to rise, the concept of virtual kitchens should continue to expand and do well amongst operators and consumers, who in many cases are more

interested in getting quality products at convenient prices than being able to see the restaurants around their city.

Brands in all channels looked to respond to the new reality with innovations and product launches, or by taking advantage of knowing their consumers and their needs to both dive deeper into their existing models and incorporate new avenues for growth. Arcos Dorados Restaurantes de Chile, the operator of McDonald's, PJ Chile, the operator of Papa John's, and Dist. Y Comercializadora De Alimentos Oji Ltda, the operator of Niu Sushi, led the consumer foodservice brand landscape in the country in 2021.

The first two have long led in conquering consumer preferences, with Chileans identifying their brands as offering them value for money, and outlets in their preferred retail and standalone locations, making it easier for them to not only eat-in, but also order online. McDonald's, for example, maintained its lead in consumer foodservice in Chile not only by launching product solutions in its online menu, but by quickly looking to correct problems that could happen with delivery and product packaging.

#### Best Product Prospects:

FAS Santiago reports that the three largest consumer oriented agricultural product exports to Chile are: pork, beer, and dairy. The U.S. has a clear comparative advantage in these three categories, and all three are consumed by the HRI sector. Craft beer is popular in Chile and its consumption is increasing. Chile is the largest U.S. export market for beer. Imported cheeses and quality pork cuts are also heavily used by the HRI sector and readily available wholesale or in retail shops. The Chilean market is well positioned to import more of these three products from the United States.

#### Food Processing Sector Highlights:

FAS Santiago reports that Chile has a modern and developed food processing and beverage industry. Food and beverage processing accounts for 3.5% of all Chile's exports, which totaled US\$12.8 billion in 2021. The food processing industry is the second most important economic sector after mining, contributing 4.5% to the national GDP in 2020.

According to the Chilean Export Promotion Agency (ProChile), the sector employs over 368,316 workers. The main export markets for Chilean food products are China, the United States, European Union, Japan, and the Southern Common Market (MERCOSUR) countries. Chilean food processors sell their products nationally or internationally. The Foreign Investment Agency of Chile (InvestChile) reports that 54% of Chile's total food production is destined for the domestic market, and 46% is exported to more than 190 countries worldwide.

The Chilean food and beverage processing industry consist of more than 98,890 food processing companies. Some large international companies use their production plants in Chile to serve other markets in Latin America. Chilean food processing companies sell 60% of all processed food products to supermarkets and hypermarkets. A smaller share, 38%, of packaged food is sold through traditional grocery retailers such as independent small grocers or food/drink specialists. Seven food processing companies sell more than one hundred products available throughout the country. Agrosuper, Nestlé, Carozzi, and Coca-Cola are among the one hundred largest Chilean companies, according to AmericaEconomía ranking.

According to Chilean Food Processing Companies Association (Chilealimentos A.G.), the Chilean food industry mainly produces processed fruit and vegetables; chocolates and confectionary products; wine, beer, and drinks; beef, pork, and poultry products; potato chips and similar snacks; dairy products; frozen meals; pasta and noodles; oils; sugar and sweeteners; pet food; breakfast cereals, and seafood.

Chilean processed foods have solid and well-positioned brands (Carozzi, Watt´s, Tresmontes Lucchetti, etc.) with high level of consumer loyalty. While Chilean consumers have increasing concerns about health-related issues, the food processing industry still adapts to the nutritional labeling law, opening the market to products and ingredients marketed as natural.

In addition to healthy products, many Chilean consumers can afford to buy high-end U.S. products like beef, pork, dairy products, and distilled spirits. There is intense competition among food importers seeking to maintain or enlarge their market share. U.S. food ingredients exporters need to consider the longer freight time and higher transport costs to Chile than regional competitors. Nearby Latin American countries operate with relatively low shipping costs.

In 2021, the United States remained Chile's third-leading supplier of food ingredients, after Argentina and Brazil. The United States is followed by other competitors like Paraguay, Canada, China, and Peru. Chile's top U.S. food ingredients imports were pork products, dairy, beef products, condiments and sauces, food preparations, corn, poultry products, wheat, distilled spirits, tree nuts, bakery goods, cereals and pasta, fresh fruits, and chocolate and cocoa products.

#### Best Product Prospects:

FAS Santiago 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.