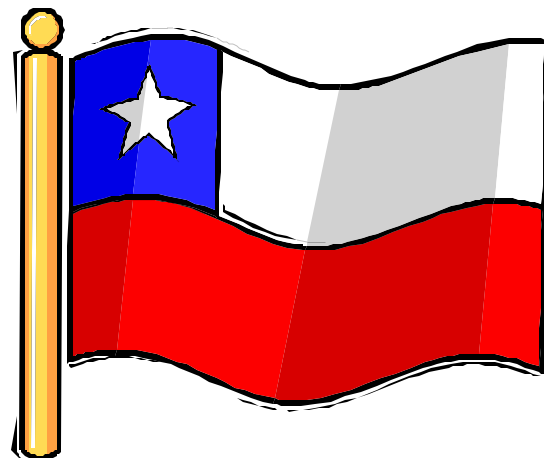
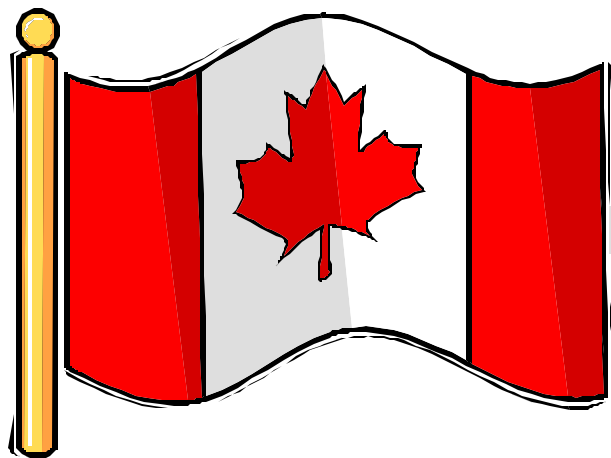




Briefing Session: Agriculture and Agri-food



**Canadian Embassy
Santiago de Chile**

Chile: The Latin American Jaguar?

- ✓ Economic success amid political stability seen as model for region
- ✓ Strong economic growth:
 - 1990's average Gross Domestic Product (GDP) growth was over 6% annual; highest in hemisphere
 - 2000: 5% growth, 2001 est 3.3% amid regional economic uncertainty and world recession
 - Widely predicted to continue to lead the region with a growth rate of approx 3-4% in 2002, 5% in 2003
- ✓ Political Stability:
 - Peaceful return to democracy in 1990
 - Stable coalition governments with effective opposition: consensus on core values
 - Lowest level of Corruption in Latin America (Transparency International)
- ✓ Reduction in Poverty:
 - Estimated decrease in poverty levels in 1990's: from 33% to 19% (World Bank.)
 - GDP per Capita: \$US 5,000 approx. (2000); GDP per Capita on purchasing power basis is considered highest in South America =\$US 14,000 (2000 est)

The Chilean Economic Model

- ✓ Based on liberal market economy
- ✓ Pioneered during Pinochet dictatorship by US-trained Chilean economists: so-called “Chicago boys”
- ✓ Continued through centre-left governments; general consensus on maintaining across society
- ✓ Main principles:
 - Open Economy: International Trade, Foreign Investment, Competition
 - Low Debt: Balanced budgets and Privatization; Mandatory savings schemes spur High domestic savings rate: 20% of income
 - High Investment levels: (both foreign and domestic) as % of GDP: 27% in 1999
 - Stable monetary policy: floating currency, low interest rates, inflation has remained lowest in region (est. 3.5% in 2001)
 - Transparency and low corruption
 - Diversification of Exports both in markets and sectors

The Chilean Political Model

- ✓ Type of Government: Republic
- ✓ Head of State: President Ricardo Lagos Escobar (2000-2006) from Centre-Left “Concertacion”
- ✓ Bicameral congress (Chamber of Deputies: 120 members elected for 4 years; Senate: 49 members for 8 years)
- ✓ Constitutional reforms proposed – expected to consider removing 9 “appointed” senators, and former presidents as “Senators for life” (Pinochet and Frei)
- ✓ Highly Centralized, 13 Regions but with limited constitutional power

Key Developments

- ✓ Stability following return to democracy, maturing liberal democracy
- ✓ Center Left Coalitions: Aylwin (1990) - Frei (1994) - Lagos (2000).
- ✓ However right coalition is both counterweight in Congress and credible opposition: 48% vote in last presidential election (Lavin)
- ✓ Confronting human rights problems from past: Pinochet/army charges; Mesa de Dialogo
- ✓ Strong agenda to balance economic growth with social activism
- ✓ Greatest challenge is still large income gap between rich and poor
- ✓ Key Reforms: Improving Education and Health Care; Income Security for Workers and Labour reform; Increased Rights of Women who make up 1/3 of the workforce and increasing; Aboriginal Issues; Regional Development

The Chilean Economy

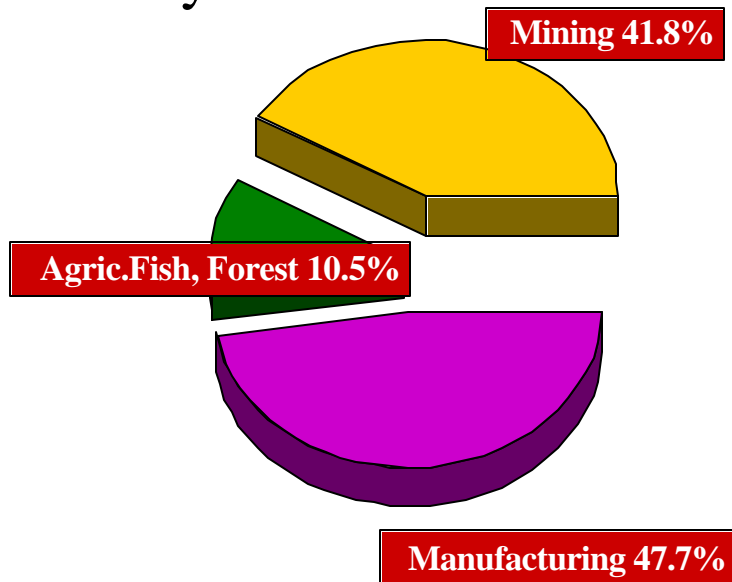
- ✓ Based on significant natural resources
- ✓ Regional: large discrepancies in rates of growth and unemployment
- ✓ Mining: copper contributes around 40% of export earnings
- ✓ Forestry: significant resources (9.1 million hectares - 22% of total area)
- ✓ Fishing industry essential to the economy: traditionally fishmeal; now aquaculture: salmon production second only to Norway
- ✓ Agriculture: key for employment. Successful exporter of fruits, vegetables, seeds, wine, some agro-industrial products.
- ✓ Southern areas are traditional crops (wheat, corn, oilseeds, sugarbeet) and livestock (cattle, sheep, dairy).
- ✓ Industry mostly concentrated in Greater Santiago
- ✓ Services growing influence in economy: attempts to bring greater value-added from technology

Chile: Opening Up to the World

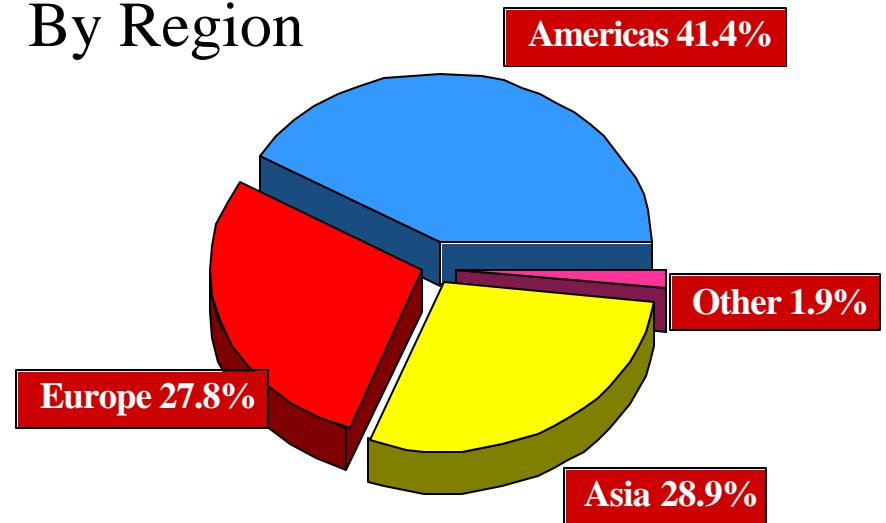
- ✓ Since 1990 most dominant feature of Chilean policy
- ✓ Improved relations with Latin American neighbours (Argentina, Peru)
- ✓ Member of Major International Organizations (UN; OAS, APEC)
- ✓ Increased Involvement in the Hemisphere
- ✓ Economic Growth Driven by Exports
- ✓ Exports shared amongst North America, Europe and Asia
- ✓ Foreign Investment also key: United States, Canada, Spain, UK
- ✓ Also important regional investor: Estimated at Cdn\$ 37 billion, in Argentina, Peru, Brazil and Bolivia (energy, supermarkets, financial services and manufacturing.)
- ✓ Chile striving to diversify exports and attract investment to expand manufacturing and services base
- ✓ Unilateral trade liberalization: unique common tariff policy
- ✓ Pursuing Trade agreements: WTO, FTAA, Mercosur
- ✓ Free trade agreements with Canada, Mexico and associate membership in MERCOSUR. Negotiating with USA and EU.

Chilean Exports 2000

By Sector

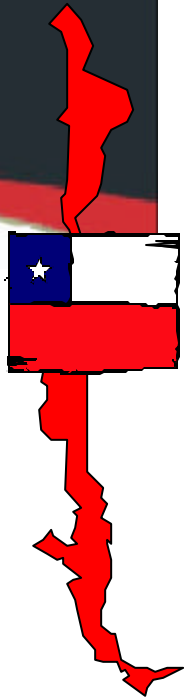


By Region





Canada-Chile Relations



- ☞ The “Like-Minded” country of Latin America with similar values to Canada’s
 - ☞ Both small open economies dependent on trade
 - ☞ Both have similar business cultures: transparent, fair and stable
 - ☞ Both rely on stable, rules-based international system
 - ☞ Both active members of OAS, WTO, APEC;
 - ☞ Both hosts of the Hemispheric Summit of the Americas
- ☞ Close commonality of views (capacity-building; human security agenda; regional policy; enhanced trade liberalisation through WTO and FTAA; engagement with civil society).
- ☞ **Canada-Chile Free Trade Agreement in 1997 was major step in bilateral relations**





The Chile-Canada Free Trade Agreement

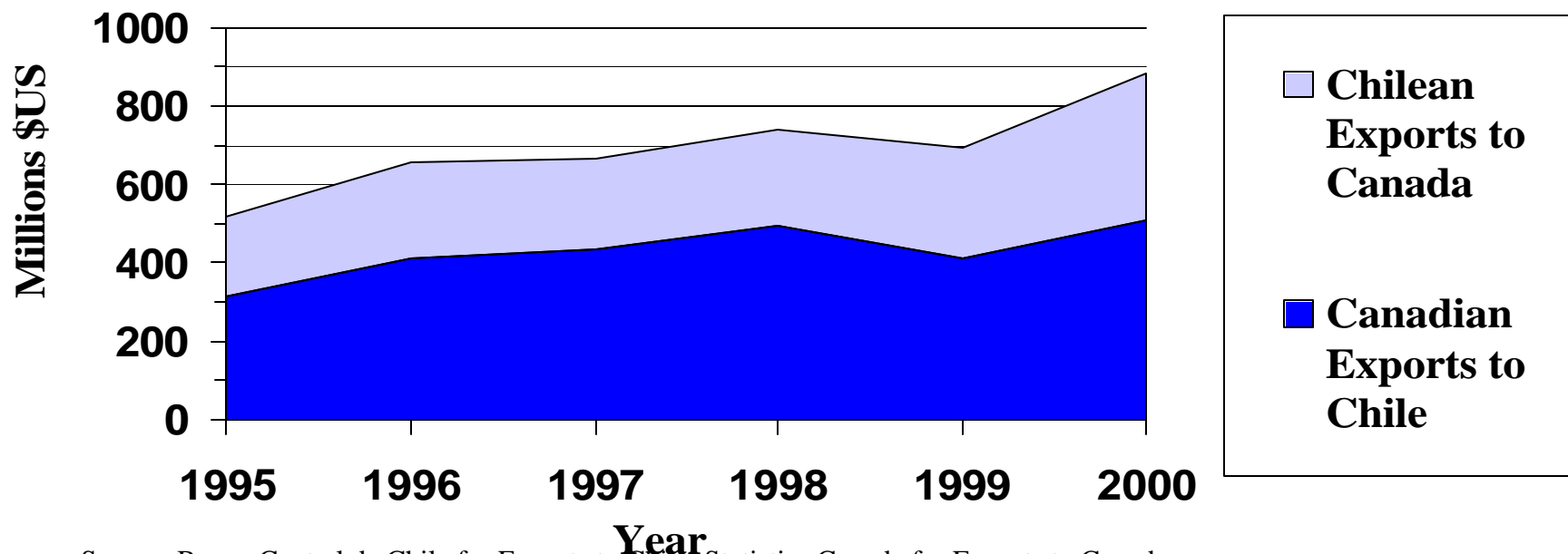
- Since 1997
- Based on NAFTA
- Only G-7 country with FTA with Chile
- Removed barriers for trade in goods, services, investment, movement of personnel
- 90% of goods trade now duty-free
- Beyond trade: labour and environment cooperation agreements
- It is now the basis for Chile's negotiations with other countries



Presidentes Eduardo Frei y Jean Chretien

How the CCFTA is working

Bilateral Trade 1996-2000

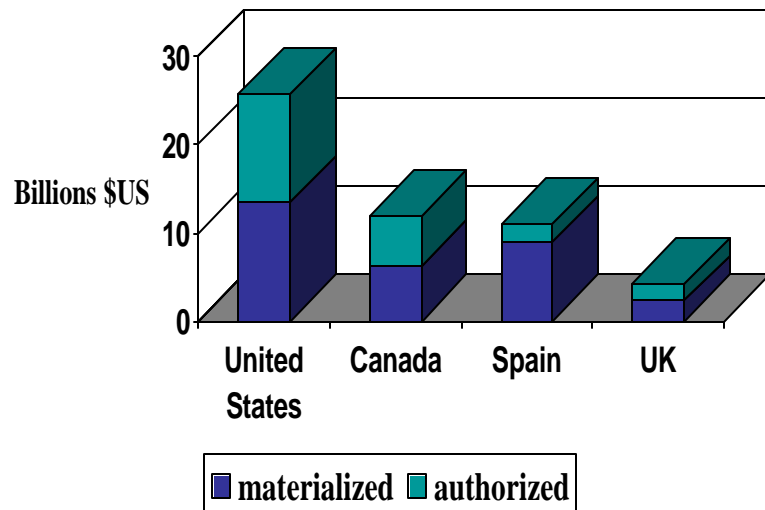


Source: Banco Central de Chile for Exports to Chile; Statistics Canada for Exports to Canada

How the CCFTA is working

Investment

Accumulated Investment in Chile 1974-2000

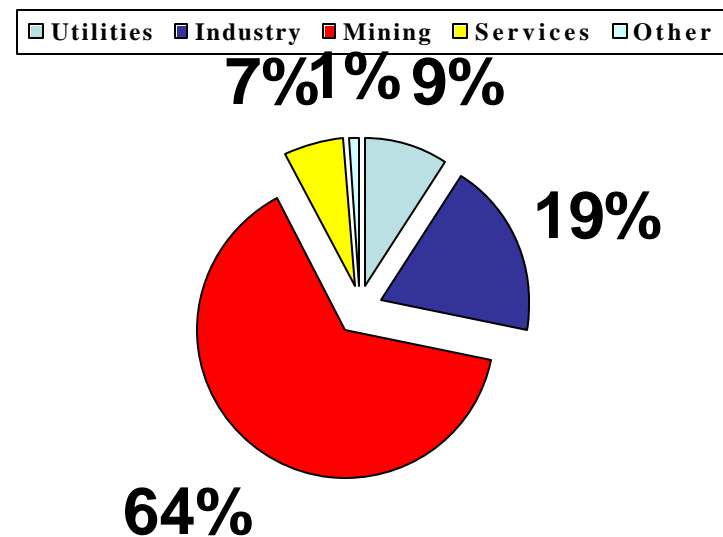


Source: Comité des Inversions Extranjeras

- Chile is now largest destination for Canadian investors in Latin America and 7th overall

- 57% increase in Canadian direct investments since beginning of CCFTA in 1997

Canadian materialized investment in Chile 2000



What is being traded? *Traditional exports*

Chile:

- Copper \$136 million increase of 139% since 1997
- Fruits: 2nd largest supplier now to Canada; Grapes \$66 million; Stone fruit
- Wine: \$45 million an increase of 31%; 5th largest supplier; 4th biggest market for Chile
- Lumber: \$19 million, 820% increase

Canada:

- Kraft Paper and Paperboard \$23.8 million increase of 2455% since 1997
- Lentils \$6.6 million increase of 65%
- Fertilizers: \$15.5 million
- Wheat: Chile's Number 1 supplier

sources: Statistics Canada; Banco Central de Chile 2000 figures

What is being traded? *New generation exports*

Chile:

- Salmon \$19 million (increase of 120% since 1997), 2nd largest supplier
 - fresh fillets, alone increased 1037% to \$5 million
- Car tires \$1.5 million, 195% increase
- Vegetable Seeds: almost \$1 million, 169% increase
- Denim fabric \$2.3 million, 499% increase

Canada:

- Telecommunications Equipment \$80.3 million increased 221% since 1997
- Plastics \$15 million increase of 58%
- Tools \$4.8 million increase of 106%
- Machinery: \$72 million
 - Forestry, Construction Mining, Aquaculture, Industrial
- Vehicles: Trucks, Cranes, Vans

What is being traded?

Expertise

- Across wide range of industries (mining, forestry, aquaculture, agriculture, health)
- Engineering and consulting services
- Environmental solutions
- Building technology
- Information technology Solutions
- Financial Services
- Educational services
- Health Care
- Biotechnology and R&D



What is being traded?

Joint ventures and Investments

Examples:

- **Mining** - Aur Resources, SM Pudahuel
- **Forestry** - Foraction Chili sawmill and plant
- **Energy** - TransCanada Pipelines;
- **Manufacturing** - Quebecor; Diachem chemicals
- **Fisheries** - Heritage Aquaculture
- **Telecommunications** - SR Telecom
- **Financial services** - Scotiabank Sudamericano



Enhancing Bilateral Relations:

- Cooperation in Labour and Environment: Detailed Workplans
 - CIDA Southern Cone Technology and Public Sector Reform Funds
 - Memoranda of Understanding (MOU) in agriculture, environment, transportation, labour, SMEs, connectivity
 - Association-to-association arrangements (Royal Architectural Institute of Canada with Chilean counterpart)
- 
- Education: Canadian Education Centre promoting programs and training; Establishment of Centre of Mining Technology (Copiapó)
 - Double Taxation Agreement: first modern tax agreement Chile has signed, is in force since 01 January, 2000
 - Seminars: wide-ranging from aboriginal rights, peacekeeping, mine closure, biotechnology, public consultations.

Looking to the Future: *Some Challenges for Chile*

- Regional Stability: Argentine Crisis; Brazilian Influence; Relations with Peru and Bolivia
- New Partnerships: Trade Agreements: USA, European Union, FTAA
- Widening Prosperity: lowering poverty, income gap and regional disparities
- Capacity Building and the Digital Divide: Investment in Education and Technology
- Increasing Links with Asia

Agriculture in Chile: Some Background Info

- ✓ In 2000, Agriculture and forestry accounted for 5.9% of Chilean GDP. As a result of the emergence of new sectors (fisheries, manufacturing etc.), the contribution of agriculture to Chilean GDP has declined from a peak of 8.03% in 1990.
- ✓ Over a 15 year period (1985 – 2000), Chilean agriculture GDP grew at an average of 5.2% per annum. For 2001, it is +6.3% through Q3.

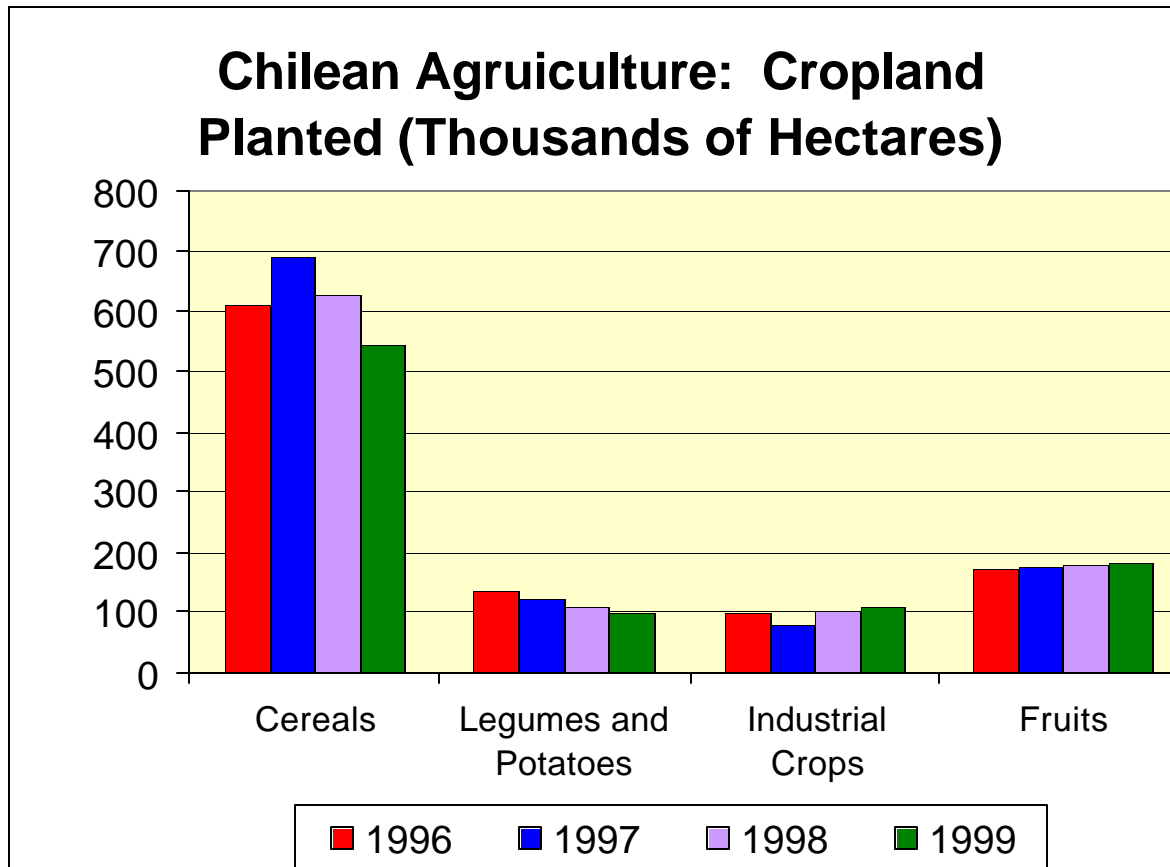
Chilean Agricultural Statistics

	Sq Km	% of Total
Chilean Land Mass	756,626	100.00%
Cropland	16,560	2.19%
Forest Land	84,200	11.13%
Non-Productive Land	526,566	69.59%
Grazing Land	129,300	17.09%

Chilean Agriculture: Top 10 Planted Crops *(Thousands of Hectares)*

	PLANTED ACERAGE			
	1996	1997	1998	1999
Wheat	368.8	417.4	383.6	338.6
Oats	80.9	110.6	74.9	79.4
Corn	98.6	106.9	100.3	73.3
Potatoes	59.6	67.8	56.4	60.5
Sugar Beets	50	42.3	52	49.7
Table Grapes	45.9	45	44.4	44.5
Apple	34.8	36.4	37.6	37.8
Rapeseed	17.9	11.3	20.2	32
Beans	49.4	34.7	38.7	29.1
Rye	23.3	22	26.6	26.5

Agriculture in Chile: Major Crops



Agriculture in Chile: Major Crops and Acreage

Planted Acreages:

✓ Wheat largest planted crop in 1999 (338.8 thousands of hectares), oats and corn are the next largest planted crops

✓ Trend towards a decrease in planted acreage. Between 1996 and 1999, the total agricultural acreage fell by 10.8%

- **Cereals:** -11.1%,
- **Legumes:** - 27.1%,
- **Industrial Crops:** +15.1%,
- **Fruits:** +5.6%

Yields per Hectare:

✓ Fairly consistent trends in yields between 1996 and 1999 with the exception of legumes where yields have fallen considerably (-22%)

✓ Some successes: Potatoes +18% yields, Plums +15% yields, pears +13%

Agriculture in Chile: The Effects of Globalisation

- Specialisation:

T Due to economies of scale and comparative advantages

- Regionalisation:

T From north to south, strong examples of how globalisation has both positively and negatively effected Chilean agriculture:

- Succeeding: Scallops, Fruit, Wine, Pork/Poultry, Forestry, Salmon,
- Struggling: Wheat, Legumes, Beef (export basis), Dairy, Traditional Rural Farming

- Competitiveness:

T Due to openness of economy, flat tariff structure and strong business model/approach towards industrial development.

Agriculture in Chile: Global Exports from Chile

- ✓ In 2000, Chilean agricultural exports (HS 01-24) totaled \$US 4.6 billion. This was an increase of 3.2% from 1999.
- ✓ The top three agricultural exports in 2000 were as follows:
 - **Fish and Seafood:** \$US 1.3 billion (of which \$US 973 million were salmon). The major markets were Japan (\$US 567 million) and the U.S (\$US 440 million). Canada ranked as the 15th market for Chilean Fish and Seafood exports.
 - **Edible Fruit and Nuts:** \$US 1.25 billion (of which \$US 523 million were grapes and \$US 181 million were apples). The major markets were the U.S. (\$US 519 million), the Netherlands (\$US 80 million) and Mexico (\$US 78 million). Canada ranked as the 23rd market for Chilean Fruit and Nuts
 - **Beverages:** \$US 594 million (of which wine was \$US 580 million). The major markets were the U.S. (\$125 million), and the U.K. (\$US 109 million).

Agriculture in Chile: Exports from Chile to Canada

- ✓ Between 1998 and 2000, Chilean agricultural exports to Canada have been consistently around \$US 75 million and account for approximately 30% of all Chilean exports to Canada, making it and copper ores the most important exported products to Canada.
- ✓ Fruit and nuts (principally grapes) is the #1 exported agricultural product to Canada. Other important exports as follows:
 - **Beverages:** \$US 45 million (principally wine)
 - **Wood:** \$US 19.3 million (principally coniferous boards and fiberboard)
 - **Fish and Seafood:** \$US 19.1 million (principally salmon)
 - **Animal Feed:** \$US 6 million (all fishmeal)
 - **Preserved Foods:** \$US 6.4 million (principally juice)
- ✓ The major provincial importers of Chilean products (total trade) in Canada are Quebec (\$US 219 million), Ontario (\$US 98 million) and British Columbia (\$US 39 million)

A Snapshot of the Chilean Import Market

☞ **Chilean Import Market for Agriculture and Agrifood (HS 01-24):**

- ✓ \$US 1.05 Billion (2000)
- ✓ Imports From Canada: \$US 67.9 million (2000)
- ✓ Canadian Market Share: 6.76%; United States 12% (2000)

☞ **Supermarkets:**

- ✓ Total Sales in Chile: \$US 5 Billion (2001 est)
- ✓ Monthly Household Expenditure on Food and Beverages = \$US 285 or 26.8% of total expenditure (1997 Santiago)

☞ **Institutional Sales in Chile:**

- ✓ \$US 300 million (2000 est) - 80% of Institutions offer meal benefits / vouchers to employees.

☞ **Fast Food Chain Sales in Chile:**

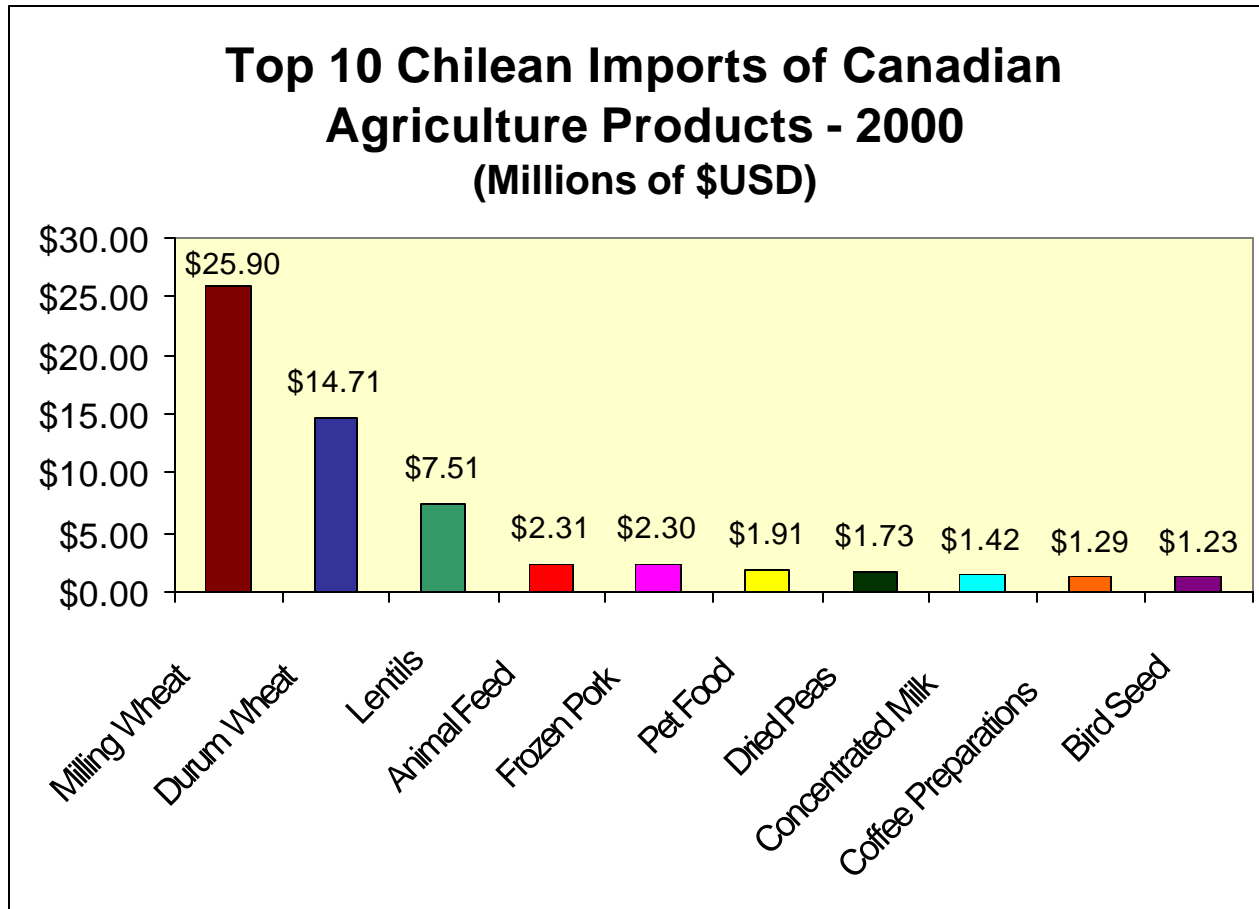
- ✓ \$US 135 million (2000 est) - 70% of Santiaguinos eat one meal outside per day.

The Chilean Agricultural Import Market (2000)

HS CODE	Product	Import Value (Millions \$US)	Top Suppliers
0201.30.00	Boneless Beef	\$ 144.00	Mercosur
1005.90.00	Corn	\$ 127.00	Argentina, USA
2304.00.00	Soyabean Residues	\$ 79.00	Mercosur
1517.90.00	Other Mixed Oils	\$ 62.00	Argentina, Bolivia
1001.90.00	Milling Wheat	\$ 54.00	Canada , Argentina, USA
1701.99.00	Refined Sugar	\$ 52.00	Argentina, Colombia, Brazil, Guatemala
0803.00.00	Bananas	\$ 39.00	Ecuador
0202.30.00	Frozen Beef	\$ 28.00	Mercosur
2309.10.00	Dog and Cat Food	\$ 25.00	Argentina, USA , Brazil, Canada
1504.20.00	Fish Oils, Fats, Meal	\$ 22.00	Peru

Source: Banco Central de Chile (2000)

Agricultural Imports From Canada (2000)



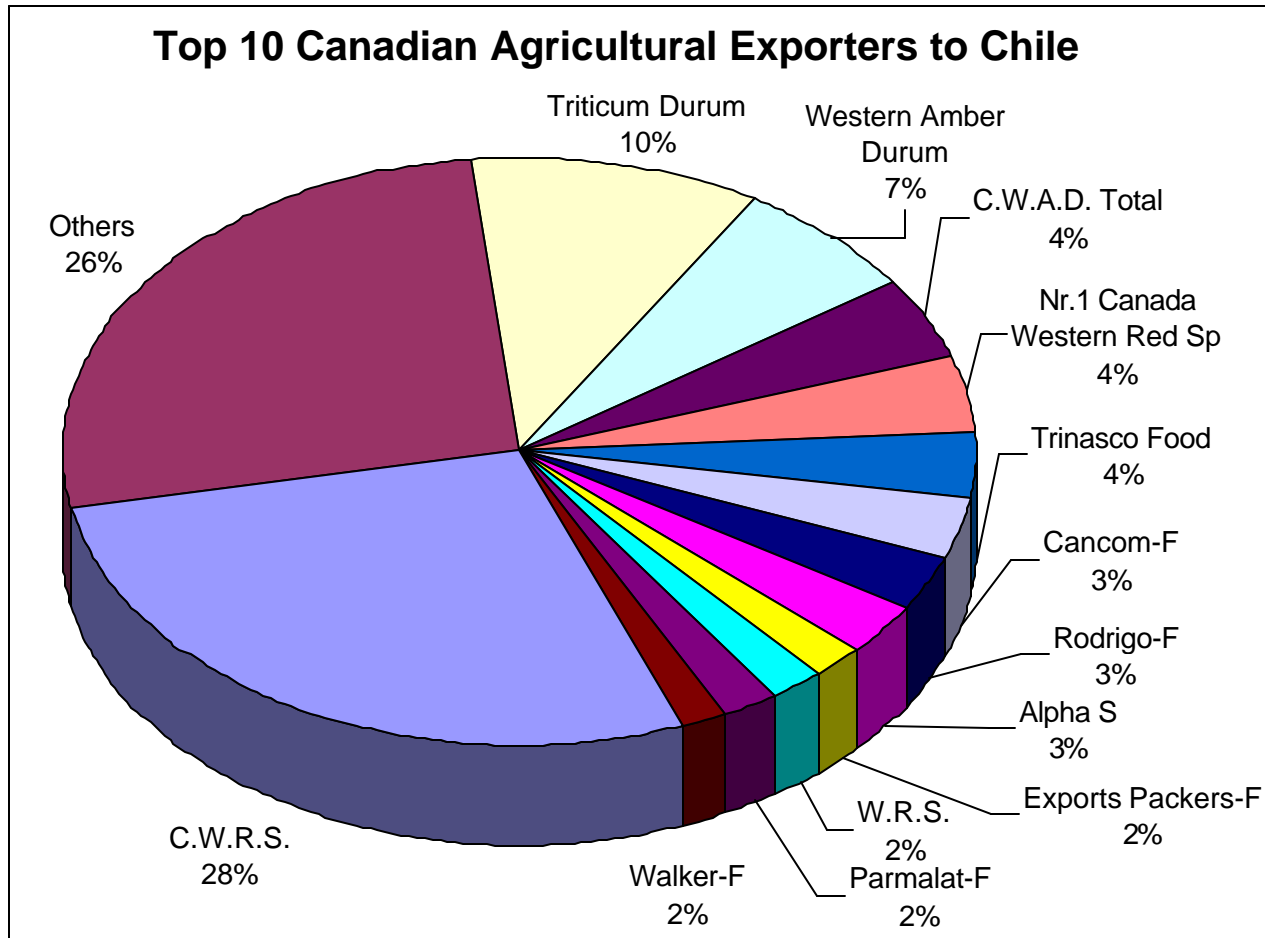
Source: Banco Central de Chile (2000)

Chilean Agricultural Imports: *Where Canada is Ranked #1 (2000)*

HS CODE	Product	Import Value <i>(Millions \$US)</i>	Top Suppliers
1001.90.00	Milling Wheat	\$ 54.00	Canada (\$US 25.9 million), Argentina, USA
1001.10.00	Durum Wheat	\$ 15.00	Canada (\$US 14.7 million)
0713.40.00	Dried Lentils	\$ 8.00	Canada (\$US 7.5 million)
0203.29.00	Frozen Pork	\$ 2.30	Canada (\$US 2.3 million)
0713.10.00	Dried Peas	\$ 2.00	Canada (\$US 1.7 million)
1008.30.00	Canary Seed	\$ 1.20	Canada (\$US 1.2 million)

Source: Banco Central de Chile (2000)

Canadian Agricultural Exporters to Chile (2000)



Top Chilean Agricultural Importers From Canada (2000)

Company Name	Major Imports	Import Value
Luchetti Chile S.A.	Durum Wheat	\$7.07
Cia.Molinera San Cristobal S.A	Milling Wheat	\$6.86
Empresas Carozzi S.A.	Durum Wheat	\$4.57
Cia. Molinera Del Pacifico Ltda	Milling Wheat	\$2.78
Molino La Estampa S.A.	Milling Wheat	\$2.42
Suazo Gomez S.A	Durum Wheat and Milling Wheat	\$2.33
Ewos Chile S.A.	Durum Wheat and Milling Wheat	\$2.13
Nestle Chile S.A.	Coffee Preparations	\$2.13
Bada Y Cia. Ltda.	Legumes	\$1.86
Molino Linderos S.A.	Milling Wheat	\$1.59

Some Trends in Canadian Agricultural Exports

☞ **The Canada-Chile Free Trade Agreement (CCFTA): The Driving force for Growth in Exports**

✓ Competitors face tariffs of up to 7%, Canada has duty-free access on 95% of all imported goods to Chile.

✓ Some Examples of Success in Agricultural Exports:

HS CODE	DESCRIPTION	Change since 1996 (Millions of \$CDN)	% CHANGE
2309	Animal feed preparations	\$ 4.47	4802%
713	Legumes	\$ 2.51	35%
2101	Coffee extracts	\$ 2.01	Non export in 96
402	Concentrated milk or cream	\$ 0.89	Non export in 96
203	Meat of swine, fresh, chilled or frozen	\$ 0.88	163%
206	Edible offal of bovine animals	\$ 0.49	115%
2106	Food preparations, nes	\$ 0.36	552%
103	Live swine	\$ 0.28	Non export in 96
407	Birds eggs	\$ 0.20	39%
2302	Bran	\$ 0.19	Non export in 96

Some Trends in Canadian Agricultural Exports -2

☞ Growth as Destination Market in South America:

- ✓ The Canadian percentage share of agricultural exports to Chile has grown from 6.64% in 1998 to 10.79% in 2000.
- ✓ 176 Canadian agricultural companies exported to Chile in 2000; 13 had exports greater than \$US 1 million

☞ Increase in Trade Diversification:

- ✓ In 2000 there were 40 agricultural sectors (HS04 level) valued at over \$1 million whereas in 1996 there were 31.

☞ Decrease in the "dependency" on wheat exports:

- ✓ Non-wheat exports now represent 31.6% of agricultural exports to Chile, whereas in 1996, they represented only 9.2%.

☞ Emerging Market?

- ✓ Chile now favourably compares with other “emerging market” status economies such as Columbia, Singapore and Russia.

The Importance of the Chilean Supermarket

☞ **Sales:**

- ✓ \$5 Billion US in total sales in 2001, which represent 30% of total commercial sales in Chile.
- ✓ Forecast growth of 2 - 3% in 2001.

☞ **Numbers:**

- ✓ Close to 700 supermarkets in Chile
- ✓ 21 Megacentres > 10,000 square metres (15 Santiago, 6 Regions)

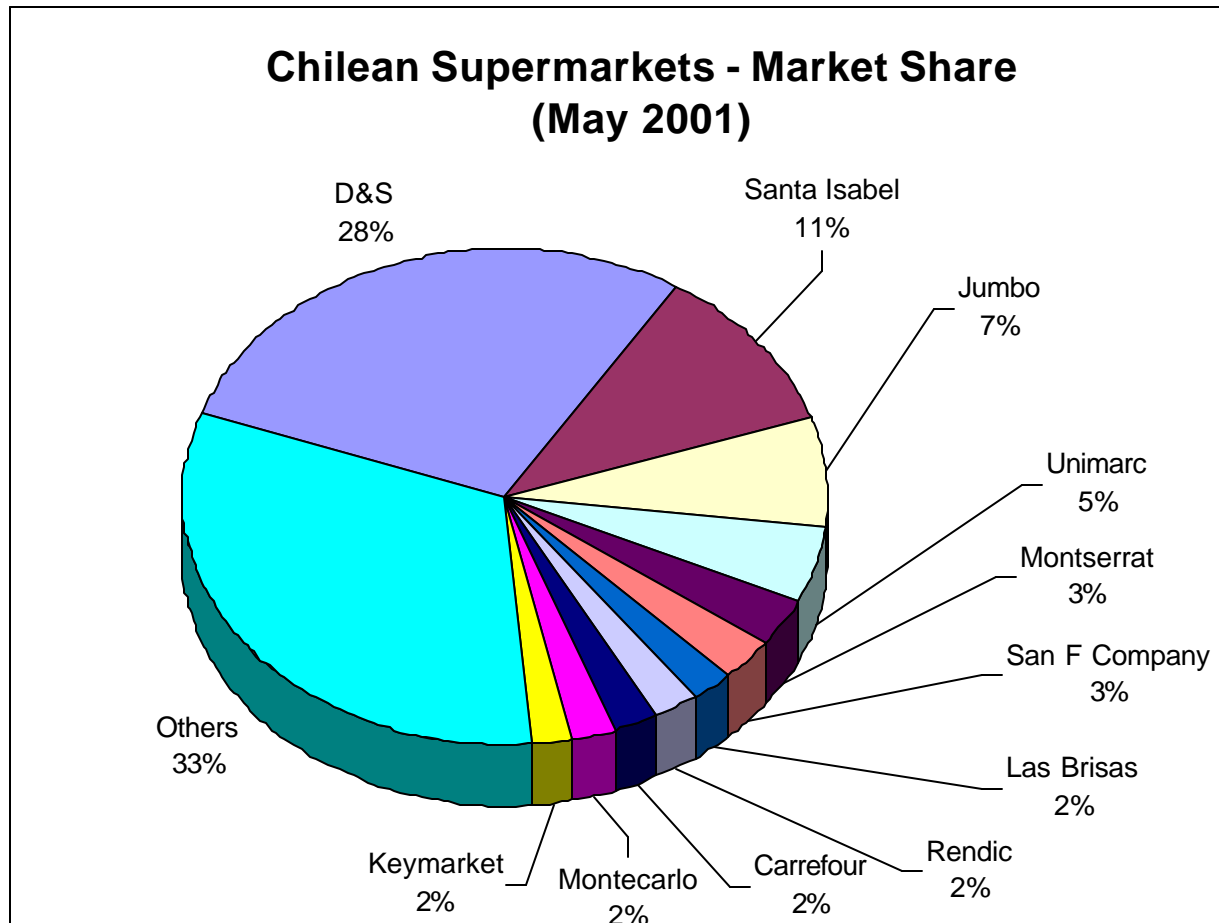
☞ **Loyalty:**

- ✓ 90% people buy at supermarkets - only 3% said they do not at all!

☞ **Trends:**

- ✓ Consolidation in the market and tough battle between D&S and Santa Isabel
- ✓ Importers sales efforts on consumer ready products
- ✓ Increasing investment in technology and Infrastructure
- ✓ Increase in Private Labels
- ✓ Supermarkets buy direct, through distributors or through agents

The Importance of the Chilean Supermarket -2



Other Sub-Markets: Institutions / Fast Food

☞ Institutional Sales in Chile:

✓ \$US 300 million (2000 est) - 80% of Institutions offer meal benefits / vouchers to employees.

Institution	Sales
Sodexo	\$US 140 million
Central de Restaurants	\$US 70 million
P&O Alpin	\$US 45 million
SSA	\$US 15 million

☞ Fast Food Chain Sales in Chile:

✓ \$US 135 million (2000 est) - 70% of Santiaguinos eat one meal outside per day.

✓ Growth from 294 outlets in July 1998 to 417 outlets in May 2000

✓ Lomito'n most popular Chain (95), followed by McDonald's (65) and Doggis (64)

Areas of Co-operation

Trade Policy

- ✓ Creation of SPS Committee under the CCFTA to address growing concerns in this area. Focus would lie in Agricultural products
- ✓ Tariff elimination negotiated at 3rd CCFTA Commission Meeting (French Fries)

Development

- ✓ Crop Insurance Program
- ✓ Pork Council of Canada - Quality Assurance Program

Research and Training

- ✓ Jan 2002: CALL Leadership Seminars
- ✓ Pork Council of Canada - Quality Assurance Program
- ✓ Saskatchewan Ministry of Agriculture MOU with Chile on pulses, oil seeds, cereals etc.

Areas of Co-operation: Crop Insurance

☞ **CIDA: Crop Insurance Program - Timeline**

- ✓ 1996: Bilateral discussions started
- ✓ 1998: AAFC selected to develop crop insurance program (NISA and Insurance Options) \$150,000 contribution by CIDA
- ✓ 2000: AAFC selected again to follow-up and design the program for Chile. \$400,000 contribution; 2 Canadians in Chile.
- ✓ Chilean government will invest \$US 100 million in program over next 10 years.

☞ **Some Facts**

- ✓ 16% of Chilean population depends on agriculture for its annual income and it generates some 700,000 jobs.
- ✓ Rural poverty still high, despite economic growth during the past decade in Chile
- ✓ Total policies as of March 31, 2001: 231 covering 4,380 hectares with premiums valued at \$US \$148,500.

Opportunities / Constraints

Opportunities:

- ✓ Tariff Advantage of Canada and value of \$CDN gives Canadian producers a clear advantage over traditional competitors such as the United States and the EU.
- ✓ Price is a key decision factor for purchase. With the tariff advantage and competitive \$CDN we have an opportunity to undercut competitors. Areas where the US has significant market share should be targeted such as breakfast cereals, pet foods, beer and liquor.

Constraints

- ✗ Appreciation of \$CDN in 2001, is taking a bite out of the competitiveness of Canadian products vis-à-vis domestic alternatives. The Canadian dollar has appreciated some 21% in 2001.
- ✗ Chile has a fairly sophisticated local market for agri-food production and has access to good quality products. Chile could (and is) become a competitor to Canada in some markets.

Opportunities / Constraints -2

Opportunities:

- ✓ There is a stronger admiration to North American products and business models in Chile than other countries in South America.
- ✓ Canada is well respected in Chile for the quality of its products.
- ✓ Import rules are transparent and fair.

Constraints

- ✗ It is hard to differentiate products and establish a "brand image" in Chile. A strong "Brand Canada" is unknown in Chile - market dedication / effort is required.
- ✗ Strict animal and plant regulations prohibit the entry of many products.
- ✗ Chile is succumbing to pressure from its domestic constituents to impose protectionist measures. Of the 28 pending trade policy issues with Chile, 13 are SPS / Agricultural issues.

Opportunities / Constraints -3

Opportunities:

- ✓ Growing middle class and working families in Chile driving new opportunity for pre-prepared foods.
- ✓ There are market opportunities in specific products such as: snack foods, legumes (offseason) diet foods, private labels, canned foods, speciality item, frozen french fries, liquors (beer / whiskey), breakfast cereals
- ✓ Targeted investment in agricultural processing, warehouse distribution / retail stores, and franchises.

Constraints

- ✗ Cultural and language barriers; Spanish is a must as well as cross-cultural awareness.
- ✗ Value Added Tax (18%) faced by all imports
- ✗ Import price bands
- ✗ EU and the US are currently in advanced FTA negotiations with Chile; Canadian window of opportunity could close quickly.

Contact at the Canadian Embassy in Santiago

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We look forward to working with you!