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Chile 2018

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Chile: a glimpse into the near future

Somewhere on the planet there is a country that produces almost every sort of agro-industrial products – fresh, dried, canned and frozen fruits and vegetables, berries, grains, nuts, dairy products, wines, seafood, poultry, meat, wines, all kinds of purées... the list goes on and on. Only tropical fruits are scarce because this country, while it stretches from the Tropic of Capricorn to the edge of the Antarctic, does not have a tropical climate.

The products that flow from this country to others all over the world are, without exception, top quality, certified to the highest standards, completely traceable, processed under clean production rules using sustainable energy sources such as solar and hydro-electric power, are fully sustainable themselves because this country ensures that it does not deplete its resources and, where packaged, are in packs that are themselves recyclable and sustainable.

Products intended for retail sale carry information that consumers can quickly access. The internet will direct them to the plants that produced them, the fields where they were grown, the farmers who worked those fields, and the social programmes that have been put in place to ensure a good living for those farmers and their families.

A large percentage of these products will also be available in organic form, for those who desire it. And everything will be duty-free to the buyer, because this country has signed free trade agreements with half the world (and is working on the other half).

Is this Chile today? Not *quite*. But this will be Chile in a few years' time, because about 90% of the above is already in place and the country's food industry plans, no, promises that the final building blocks (sustainability, clean production, recyclability) will be in place in a few years.

Chile, generally, has an endearing tendency to underplay its hand: to think that the rest of the world does not consider it a particularly important player on the world stage. The rest of the world thinks very differently and considers Chile as a genuine global food power. If you side with the Chilean *weltanschauung*, we hope this supplement will change your mind.

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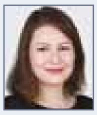
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Chile's food industry is now as lucrative as copper

Alberto Montanari, president of Chilealimentos, is interviewed by IEG Vu editor and analyst Neil Murray.

NM: Is the Chilean processed food and beverages industry meeting its targets (formal or informal)? By 'targets' I mean volume and value in US dollars.

AM: The trend that the food industry has followed in Chile is within the parameters that Chilealimentos has long projected. In the first half of 2018, the value of exports grew by 14% compared with the same period of the previous year. The growth trend that in 2015 and 2016 was misaligned due to supply problems has recovered. The contraction was due to the climate behaviour that affected much of the production of fruits, vegetables and seafood, which are the main items that make up the Chilean food industry.

If the growth rate of food exports for the first half of 2018 is maintained for the rest of the year, Chile's exports will reach around USD19 billion.

From the point of view of processed fruits and vegetables, sectors represented by Chilealimentos, the figures for the first half of 2018 show a decrease of 4% in volume and 1% in value. This is attributable to price fluctuations of some products, that resulted in prices lower than previous averages, and international commercial disputes, especially evident in what is happening with nuts. The reactions of US buyers have cut prices, even though there is a smaller supply of this product due to a smaller US harvest.

Despite the relatively stable global behaviour shown by the figures for the first half, some items enjoyed significant growth: juices increased by 24% in value, frozen by 23% and fruit pulp by 10%.

NM: Last year, it was predicted that Chile's food industry would surpass copper as the country's biggest export

If the growth rate of food exports for the first half of 2018 is maintained for the rest of the year, Chile's exports will reach around USD19 billion

Alberto Montanari, president, Chilealimentos

earner. Does this still look likely, and will this be a permanent shift?

AM: The projections we have made have been made in the long term for exports and sales in the domestic market as a whole. Our estimates for 2017 were that the food industry had sales of USD37 bln (approximately USD17 bln of exports and USD20 bln of domestic sales). That year, copper exports were only approximately USD35 bln, so food and beverage sales, if not exports, effectively exceeded copper exports.

NM: We have talked before about the skilled and unskilled workers. Chile imports both types of labour, of course. Do you consider that the current labour force is adequate for the demands of the present and the future?

AM: From the point of view of the number of workers, I think that today there is a more limited balance between supply and demand of workers. But Chile, which is always innovating and adding value to its products, is going to have a growing demand for new jobs and qualified personnel. That is why we have a human resources sector in Chilealimentos, which is concerned with the training requirements of our partner companies. Under this scheme, Chilealimentos has trained more than 30,000 workers and recently formed a Labour Competency Assessment and Certification Centre that plans to certify 10,000 more workers in the next five years.

NM: What progress is being made lately in Chilealimentos's programmes on the environment (water waste, recycling, alternative energy, etc). Is Chilealimentos the entity that leads these policies in the country?

AM: We are executing a third Clean Production Agreement (see page 8), whose main subjects are: the determination of sustainability indicators, water efficiency, energy efficiency, use of non-conventional renewable energies, determination of carbon footprint and water footprint, training of workers, valorisation of organic waste and the conversion of high-impact greenhouse gas refrigerants.

As you can see, all these are matters of high impact and appreciation by the national and international community. This has allowed us to position ourselves as one of the economic sectors that is at the forefront of environmental issues, which is one of the policies promoted by the country's authorities, together with the private sector.

NM: We have noticed Peru becoming increasingly active in global trade. Does Chilealimentos consider Peru as a serious rival?

AM: The food market is global and involves many players. Peru is one of those players and our vision of Peru is that it is more our ally in international markets, rather than a competitor.

In fact, a significant number of Chilean food and raw material producers have settled in that country. Peru has a more subtropical climate, so it complements the food supply of Chile very well, which is characterised by its temperate climate. Chile and Peru are, because of their geographical location, countries that supply buyers from the northern hemisphere. Our supply volumes are relatively lower compared with global demand, which tends to come from the north of the globe. Therefore, rather than having a situation of competition between nations, it is advisable for both countries to see how they come to structure business as a whole.

NM: What is ChileAlimentos's stand on Brexit? Chile may have to negotiate a separate trade deal with the UK.

AM: The position of the food industry has always been to support international openness. With the EU, we have a trade agreement that has involved wide-ranging mutual benefits. I have no doubt that with the departure of the UK from the EU, we will sign a bilateral agreement very soon. In fact, we maintain close contact with the Ministry of Foreign Affairs regarding the deepening of the agreements in force and the signing of new treaties. We look forward to the news that comes from the governments to analyse the proposals that are made. Our offer of products, in the area of food, is complementary to that of the UK, so we do not see that there will be problems in reaching an agreement quickly.

NM: Are there opportunities for Chilealimentos members in Canada, the US and Mexico, now that the future of NAFTA looks uncertain?

AM: It must be taken into account that Chile does not have an agreement with NAFTA but a bilateral agreement with each of its member countries. Therefore, the future that exists with the nations that make up NAFTA will depend on the particular situation that each country follows.

For virtually all processed fruit and vegetables products, Chile has a reciprocal tariff-free agreement with Canada, Mexico and the US, and the commercial relationship is of mutual benefit, so we do not see that there is an interest in those nations to limit trade.

In contrast, Chile, Mexico, Peru and Colombia have signed an agreement called the Pacific Alliance, which Canada is interested in joining. This would expand the economic area we have today, through what is called the accumulation of origin. On the other hand, with the US, which is our main destination market, there is a natural relationship with the food industry that produces against the season. This has made it possible to permanently grow the exchange of goods over the years.

NM: What is Chilealimentos doing to encourage and increase the production of organic foods and beverages?

AM: We have a Committee of Organic Products that is responsible for this. This committee works in conjunction with the Ministry of Agriculture and Foreign Affairs. Chile already has an Equivalence Agreement with the EU that began operations in June 2018. Chile is in different stages of official talks to establish bilateral or multilateral agreements with Brazil, the US, Switzerland, Japan, South Korea, and others.

In 2017, the organic area in Chile exceeded 170,000 hectares and exports were more than USD240 mln, with sales of about 50 different products to approximately 30 countries in the Americas, Europe, Asia and Oceania.

NM: What sectors, governed by Chilealimentos, are expanding fastest? And are any contracting?

AM: The value of exports of dried fruit and nuts has grown by 71% in the last 10 years, with 2017 being the peak year. Allowing for price cycles in processed fruits and vegetables, the comparisons, taking 2008 as the base year, are the following: canned goods went from USD440 mln to USD504 mln in 2014 (+15%); frozen USD379 mln to USD452 mln in 2016 (+19%); and juices from USD230 mln to USD250 mln in 2012 (+18% increase). To these are added growth in the first half of 2018 of 24% in juices, 23% in frozen products and 10% in fruit pulps.

NM: Finally, does Chilealimentos collaborate with any other trade associations, and if so, how?

AM: Collaborative work among food associations in Chile is a permanent activity. We have a group of Food Exporters Associations that meets periodically and that analyses all trade policy and development issues with government authorities.

EXPORTS OF FOOD AND THE REST OF THE SECTORS OF THE CHILEAN ECONOMY. MILLIONS OF DOLLARS

	2017	January-July			Estimate
		2017	2018	Change	2018
Food and Beverages	16.77	9.133	10.374	14%	19.048
Agricultural and fishery products	**5.569**	**3.669**	**4.358**	**19%**	**6.615**
Fruit	4.891	3.239	3.889	20%	5.872
Cherry	514	298	799	168%	1.377
Blueberry	462	349	508	46%	672
Grapes	1.231	1.203	1.274	6%	1.303
Apple	665	414	425	3%	684
Other fruit	2.685	975	882	-9%	2.43
Others	678	430	469	9%	740
Processed Products	**11.201**	**5.464**	**6.016**	**10%**	**12.332**
Food	**8.943**	**4.429**	**4.976**	**12%**	**10.049**
Salmon and trout	4.627	2.393	2.599	9%	5.027
Molluscs and crustaceans	634	302	351	16%	737
Pig meat	433	222	242	9%	472
Poultry meat	274	126	176	40%	383
Dehydrated fruit	323	139	134	-4%	311
Frozen fruit	329	183	226	23%	405
Fruit juice	179	72	94	31%	235
Canned fruit	153	63	59	-6%	144
Others	1.99	928	1.094	18%	2.336
Beverages	**2.257**	**1.036**	**1.04**	**0%**	**2.267**
Wine	2.023	915	950	4%	2.1
Others	234	121	91	-25%	176
Copper	**34.868**	**14.723**	**18.897**	**28%**	**44.753**
Forestry	**5.438**	**2.627**	**3.203**	**22%**	**6.63**
Others	**12.153**	**5.763**	**6.736**	**17%**	**13.748**
Total	**69.23**	**32.247**	**39.21**	**22%**	**84.179**

Source: Chilealimentos based on statistics from the Central Bank of Chile.

Chilealimentos leads the way in clean production

Food and drink exports now account for a quarter of all Chilean exports and are second only to copper, which is still the country's top earner of foreign exchange. Because this industry is so vital to the country, Chile has to be keenly attuned to market developments, industry needs and consumer preferences in its main markets which are almost all a very, very long way away.

By Neil Murray

It follows that companies which embrace clean production therefore meet consumers' needs better than those that do not

With consumers worldwide demanding more information about where their food and drink is coming from, and how it is made, companies have to change. Chile, one of the most ecologically aware countries in Latin America, if not the world, is taking steps to put a programme in place.

This is a huge undertaking. It involves cooperation between state and industry but, ultimately, the onus is on food and beverage companies to put clean production systems in place with the help of the state, not coercion. Nor does the government provide funding: the industry itself is responsible for this.

It follows that companies which embrace clean production therefore meet consumers' needs better than those that do not. Simply put, they are more

CHILEAN FOOD/BEVERAGE EXPORTS VS. OTHER SECTORS (USD BILLION)

	1980	1990	2000	2010	2012	2013	2014	2015	2016	2017
Copper	2.125	3.81	7.285	40.257	41.987	40.158	37.872	30.253	28.091	34.868
Food	735	2.16	4.868	12.157	14.943	16.437	17.245	15.382	16.132	16.770
Forestry	583	870	2.391	4.982	5.428	5.879	6.152	5.484	5.261	5.438
Others	1.262	1.533	4.667	13.633	15.607	14.21	14.406	11.113	11.113	12.153
Total	4.705	8.373	19.21	71.029	77.965	76.684	75.675	62.232	60.597	69.230
Food share	16%	26%	25%	17%	19%	21%	23%	25%	27%	24%

Source: Chilealimentos based on statistics from the Central Bank of Chile competitive, and it is this competitiveness that is the general objective of Chilealimentos's clean production agreement (now in its third stage) with its members.

"We are certain that this is a very important thing," Carlos Descourvières, Chilealimentos's business development manager, told IEG Vu.

Companies that have signed up for Chilealimentos's third Clean Production agreement. Between them, they own 25 food/beverage factories.

Aconcagua Foods
Agro Entre Ríos
Alifrut (5)
Agrofoods Central Valley
Comfrut
Conservera Pentzke (3)
Friofort
Frutícola Olmué (2)
Ideal
Jugos Chile
Patagoniafresh (2)
San Clemente Foods
Sugal Chile (2)
Surfrut
Vilkun
Watt´s

(Note: more companies may have signed up since this was written, and more can be expected to)

Fundamentally, companies signing up to the agreement agree to perform the following steps:-

- **Incorporate sustainability practices in processed food producers, developing a set of indicators for the sector.**
- **To encourage companies to communicate their sustainability matters in an objective manner.**
- **Improve their energy performance indicator.**
- **Advance the implementation of solar energy.**
- **Promote the calculation of water footprints and the reduction of greenhouse gas emissions.**
- **Advance in the elimination of ozone-depleting refrigerant gases with a high global warming potential [1]**
- **Reduce the use of pesticides.**
- **Improve their workers' competences in clean production.**
- **Modify the regulation of sludge for use as a soil improver.**
- **Add value to solid organic waste.**

[1] (It should be noted here that when the programme started in the 1990s to phase out CFCs and replace them with HFCs, or the HCFC 'interim refrigerants', more time was given to countries less advanced in refrigeration use. Chile is not late here. There are also two refrigerant gas conversion projects, and one project to improve the efficiency of ammonia systems, under way.

Chile is already fairly advanced in some energy-saving aspects. Solar farms are established in the north, where the Atacama guarantees sunshine, and most of the country's electricity is generated by hydro-electric power stations in the Andes.

It must be stressed that these initiatives and clean production agreements generally do not, if correctly introduced, impose a financial burden on companies. Quite the reverse. Calculations on the payback time for solar energy installations vary between six and 10 years, with most being between six and seven years. Chilealimentos has calculated that it would be possible to install solar-generated energy capacity of 10 megawatts among its members, for a total cost of USD10 million. In addition to the cash saving, this would also remove 5,200 tonnes of CO_2 annually from the atmosphere.

Sustainability reports from industry are sent by Chile's government to the commercial offices in its embassies worldwide. Chile, famously, has signed Free Trade Agreements with many, many countries and these countries, if they are interested in doing business with Chile, now have access to the country's clean production progress and performance. Many socially- and ecologically-mined companies, customers of Chile's food and beverage industry, make their own checks on improvements made in environmental and social programmes and these are fed back into the clean production agreements.

The intention is to incorporate into the clean production agreements, in the near future, all the packaging companies used by Chilealimentos members. New laws are being promulgated in Chile, which extends responsibility for products beyond the producer. Eight product sectors have been initially selected, including batteries, tyres, some electronic items and packaging. The laws themselves and rules for their implementation are being drafted right now, and should be ready in a year or two.

And, in the future, comes Corporate Social Responsibility (CSR). But that is a story for the future.

The government's view

Daniela Acuña Reyes is an analyst for sustainable agriculture at Chile's Oficina de Estudios y Politicas Agrarias (ODEPA), a department within the country's agriculture ministry. She is responsible for liaison relating to sustainability, clean production and corporate social responsibility.

She points out that it is essential to understand that all three relate only to exports. Chile's domestic market is relatively small: far smaller than the export market. She explains the decision-making process, and future plans, as follows:

"Chilealimentos came up with some ideas and consulted with ODEPA and the Clean Production Council. Between them, they came up with the clean production agreement. We have a very strong relationship with Chilealimentos: they are very proactive.

"In three years, we want to make this mainstream. In 10 years, every company in the agro-food industry will have these systems in place. We will have complete sustainability and CSR.

"The wine industry has its own sustainability programme. They are very advanced and can do it themselves: it is an example to other industries. It will be completely integrated from the top down.

"I like what Chilealimentos has been doing. I think that they are very clear about everything that they want to do with their members They are all committing to this goal."

Shift from commoditisation to added value juice types

Chile started earning a name on the international stage with quality commodity products. Now the country is depending much less on these bulk items and is finding ways to add value.

By Neil Murray

Exports of Chilean grape juice have dropped in the last five years: the half-year data shows that in January-June this year, Chile exported just over 6,900 tonnes compared with closer to 12,000 tonnes in the same period of 2014. Since then, exports have declined, although there was a spike in H1 2015.

However, the country is earning more from its grape juice exports, per tonne. The average fob price this year has been around USD2,570 per tonne, whereas in 2014 it was USD2,420/tonne. Part of this increase in value has been due to generally rising global prices, but Chile is also trying to concentrate more on lucrative red juice exports as well as single varietals. These are more specialist markets, but less commoditised.

Falling apple juice exports can be attributed, in one instance, to the severe price competition from China last season and Poland in the season before that. There is also the fact that Chile's orchards are ageing and less productive.

However, IEG Vu sources point out that Chile is also moving into more lucrative apple derivative products, such as baby food grade (in other words, produced to exceptionally high standards) apple puree, and especially organic apple juice.

CHILEAN GRAPE AND APPLE JUICE CONCENTRATE EXPORTS (H1, TONNES)					
Grape juice HS200969	**2014**	**2015**	**2016**	**2017**	**2018**
Japan	2,047	1,670	2,409	3,233	3,192
South Korea	2,153	880	2,207	1,418	1,014
China	115	884	754	305	704
Spain	3,249	1,619	1,309	147	580
US	673	1,109	2,410	952	463
Mexico	1,266	2,269	2,390	574	352
Canada	1,241	980	1,397	1,057	202
Taiwan	296	147	193	192	98
Others	884	1,960	2,501	694	417
Total	11,628	11,371	15,377	8,380	6,924
Apple juice HS200979					
US	19,278	22,185	13,565	16,007	5,086
Germany	241	-	-	-	4,822
Mexico	1,996	2,101	3,825	3,681	2,953
Netherlands	989	885	-	408	2,157
UK	5,244	1,953	1,896	403	1,934
Japan	657	929	776	2,767	1,348
South Korea	1,184	1,004	2,052	2,288	1,064
Spain	-	-	196	-	667
Others	2,155	1,093	1,095	1,855	1,091
Total	31,744	30,150	23,405	27,409	21,122
Source: GTT					

Organic processed fruits: supply matches demand

Larger growing areas and huge improvements in managing the orchards and the agricultural supplies mean that Chile's organic processed products are now mainstream.

By Neil Murray

Jaime Crispi and Joyce Abrahams

Conventional products (dehydrated apples and S.S. apple & berry purees) continue to be the core business at Surfrut, but organics are the next "big thing". This company, for example, grows part of its own organic fruit (all its apple production is organic, as part of its cherries) and about 25% of its processed apple products are organic. The target is that an important part will be organic by 2021.

The growing organic sectors are, perhaps unsurprisingly, baby food and (more surprisingly) breakfast cereal manufacturers who are as aware as anyone of the benefits of adding value to a fairly basic product.

Chilean organic apple production has doubled in the last four years. It is inevitable that the supply of other fruits for processing into juice and frozen will increase their organic component as well. "Our next big move will be to keep growing and diversifying our offer to berries and other fruits in our bulk aseptic fruit purées," commented Jaime Crispi, president of Surfrut.

Juan Emilio Azolas

"We have been also focusing on our purées and dehydrated apple ingredients and in increasing our offer of organic apples and other organic fruits."

What comes as a surprise is the news that organic yields are increasing, in some cases substantially. Some years ago, as a rough rule of thumb, organic yields were perhaps 40-50% of what could be achieved by conventional farming and the quality of the harvested fruits and vegetables was inconsistent.

Now, according to Crispi and general manager Juan Emilio Azolas, yields can be at least 60% "and in some cases we are getting over 65%". How? Because the giant companies that distribute agricultural supplies have gone into organic products. This explains why prices for organic processed fruit products have not soared as demand has increased: yields have increased to match demand. And, adds Surfrut, this raw material management and agricultural supply 'revolution" means that quality and size are more consistent, which helps immensely in processing, where consistency is so important.

"Quality is the same as in conventional orchards," stresses the eminent Joyce Abrahams, commercial manager of Surfrut. "We have been also focusing in our purées and dehydrated apple ingredients in increasing our offer of organic apples and other organic fruits."

Surfrut continues to integrate vertically: it grows part of its own cherries and apples, is adding inclusions and other ingredients to its purées, and, in short, has reinvented itself as a supplier hi-tech organic processed fruits in a variety of formats. It's a long way from dehydrated apple – but that, of course, is still a core business.


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Frozen fruit processor establishes total control in the name of quality

If you are a frozen fruit and vegetable processor in Chile, you are unlikely to be completely vertically integrated. You will source your raw material from independent growers, and Chile has a very, very large number of small-scale farmers.

By Neil Murray

Comfrut can open a web page with a satellite map of Chile, and identify every single grower

Comfrut is one of the country's major processors, producing almost entirely for export and leaving the domestic market to other players. Its present strategy, established four years ago, is dictated by a carefully planned move into more retail markets and away from simple bulk shipments.

Comfrut is supplied by no fewer than 900 growers and, obviously, with that sort of supply base there will be a wide variation in production volumes, the farmers' needs for water, fertiliser and pesticides will differ vastly, and export customers will demand total traceability and full quality assurance.

That is not an easy task with so many farmers. For raspberries alone, Comfrut is supplied by around 400 growers, with an average farm size of between 1.2 and 1.3 hectares.

So, also in 2014, Comfrut decided to make a record of every single farmer that supplied it, and put it on the web, and integrate its field books for every single farm as well. The problem was that in 2014, only 54% of its farmers actually had internet access (and that tended to be monopolised by their children!) but the job had to be done. "It meant a lot of work for the farmers," acknowledges managing director Rodrigo Villa.

But the job was completed, and now Comfrut can open a web page with a satellite map of Chile, and identify every single grower, their locations, when they were last inspected, call up analyses of their production, water use, and everything else. It is a staggering piece of work, and Chilealimentos, the processed food industry trade association, is mightily impressed by it, not least because it is another brick in its construction of complete traceability and sustainability for its members.

It even allows Comfrut to measure, precisely, the time it takes for the raw material to get from the fields to its freezing plant. "The government does not even have this level of control," says Villa, proudly.

Why go to all this trouble? Because if you want to export, this is what is demanded by customers, not least in the US, where it is demanded by FSMA (the system that demands complete traceability for imported food and beverages, and which lays total responsibility on the supplier).

At the same time, Comfrut is switching from the Heritage variety of raspberry to the Dolomia Plus, which it has brought over from Europe. It is a darker coloured fruit, with a more consistent colour, is about 30-40% larger than the Heritage, has a higher brix (12.4 compared with 10.8) and, crucially, is more suited to mechanical harvesting. In short, it raises the game. It has taken eight years to bring into production, including the necessary quarantines of the imported plants.

The government does not even have this level of control

Completing the picture is a move into nanotech. Villa is being quite close-mouthed about this, and all he will say is that it is a project to develop new detergents, undertaken with Santiago's Catolica university and "a private company".

Moreover, Comfrut is now exporting raspberry plants back to Europe. These are about 1.5-2.0 metres tall, and have been designed for the warmer Chilean weather, so can be planted in Europe between September and November. This year, Comfrut will send 2.0 million such plants to Spain and Italy.

Granotec enriches Chilean daily nutrition through grains

Granotec, a specialist in biotechnological and highly nutritional products, started work in the functional food sector in 1981, at a time when 'functional food' was still a barely-known expression even where it was born: the US and Europe.

Jose Gutierrez and Neil Murray

"The founder, Miguel González, is from a family with a long tradition in the Chilean milling industry. He did his postgraduate studies in the US and he wanted to transfer the most advanced technological developments to Chilean cereal and milling industries, not only to modernise them but also to enrich cereals and, consequently, the national nutrition," the technical manager of Granotec, Ximena López, told IEG Vu.

"Chile enjoys high social development indicators but unfortunately also shares with the US and the EU a common negative factor: a high incidence of childhood obesity. However, in the 1980s its indicators were similar to other emerging countries, with a deep gap between a social minority with medium or high purchasing power and consumption habits like those of American or European middle classes, and the

L-R: Miguel González, president and founder of Granotec: Ximena López, technical manager ,Carlos Troncoso, general manager

majority of the population with poor nutrition indicators, despite the fact that the market for basic grocery items such as bread was extremely regulated."

Granotec managed to become a successful technological provider, "by adapting advanced milling and bakery equipment to the Chilean market," Lopez added.

Many domestic companies and subsidiaries of multinationals started to incorporate Granotec's product proposals, to enrich cereals and flours with enzymes and vitamins.

Granotec's milestone year was 2000, when it opened a laboratory to develop its own equipment and research and to be proactive in the Chilean market by developing new nutritional and biotechnological offerings, not only in Chile but also in all Latin America.

Granotec is leading a new R&D consortium called IFAN, with renowned Chilean companies and universities

"We have replicated our growth model in other Latin American countries, with subsidiaries in Argentina, Peru, Ecuador, Mexico and Brazil and commercial activity in all the subcontinent," Lopez added.

This long-term and hard work obtained international recognition, with the creation of the Functional Cereal Consortium (FCC) with the Manitoba Agri-Health Research Network (MARHN), in Canada, in 2008. Granotec's activity increased exponentially, developing new applications for products derived from oats, such as Betaglucans, to be used in functional grocery.

Finally, Granotec became a well-known player in the domestic market after being recognised with the Chilean Innovation Awards due to its Pannivita product, a combination of herbal extracts to substitute salt in bread making. "We reduced average sodium use by around 50%, weakening the hypertension risk, while preserving the same flavour of regular bread," Lopez explained.

It was a pioneer in 'wellness grocery', reaching well-deserved recognition from

L-R: Rodrigo Jeria, technical supervisor of Granotec's laboratories; Carol Frutos, manager of Granotec's laboratories

Granotec provides bespoke mixes for many bakery products, tested in its own R&D centre

then on, and deepening its cereal research, especially in oats, Chile being one of the world's biggest growers of this cereal.

In addition, Granotec is leading a new R&D consortium called IFAN, with renowned Chilean companies and universities. Its main objective is developing new functional ingredients and natural additives, not only from common cereals, but also from quinoa, legumes and seaweeds, and cheese by-products. The consortium received government funding through an innovation grant awarded by CORFO, the national corporation for productive development in Chile.

It has extended its work to other national industries, such as berries, dairy products or seaweeds. Its scope of activities is huge: R&D outsourcing for SMEs, applied research with academic institutions, quality control for cereal seed and crops such as oats or corn, processing of native plants such as quinoa, new flavours, special yeasts, utilisation of waste products rich in vitamins and proteins such as whey milk.

It has around 100 employees, 30 of whom are focused on R&D: "We recruit our staff from Chilean graduates and postgraduates who have obtained their qualifications in US and national universities," Lopez concluded.

Oats as an ingredient, for export only

In Chile too, oats are grown in the south of the country, but are almost entirely used as animal feed.

By Neil Murray

Northern European countries are familiar with oats, but they tend to grow their own. US consumers have discovered oatmeal in a big way

This is a shame because much of the world is aware of the health benefits of oats: high in fibre and healthier than wheat flour. Oatcakes are a familiar sight on British supermarket shelves, oats are an essential component of many cereal and granola bars and in Scotland, an entire cuisine has been built up around the grain, including haggis, a dessert known as cream crowdie and Atholl Brose, a drink comprising oatmeal, cream, honey and whisky.

Northern European countries are familiar with oats, but they tend to grow their own. We are

mainly talking about the developed major markets here: US consumers have discovered oatmeal in a big way, and the fibre content means that oatmeal delivers a powerful health message.

Javiera de Ugarte, export manager of grower Agropel, is a flag-bearer for oats

Oats are also consumed in Colombia and in Peru a Vaso de Leche (a glass of milk) containing oatmeal is an absolute staple, given daily to Peruvian schoolchildren. Oatmeal is also finding its way into beverages elsewhere. But Chileans do not consume oats, which means almost all the country's production goes for export.

And exports are rising. Javiera de Ugarte, export manager of grower Agropel, which started exporting in 2000, is a flag-bearer for oats. She loves them, and says: "People are concerned about their health and what they eat: there is a huge opportunity for us overseas." She is well aware that consumers in Europe and the US now buy ready-packed oatmeal as a breakfast item to be eaten on the go or at a desk. Just add hot water and consume straight from the tub. This sort of product does not exist in Chile.

The family that owns Agropel recognised this opportunity at a very early stage and built the plant to produce milled oats of different grades. The plant has a capacity of 1,100 tonnes of finished product per month. A new

facility is due to be completed in September, which will double production. Installation of more machinery will bring production to 30,000 tonnes annually, and the plant has a maximum annual capacity of 54,000 tonnes.

Agropel is integrated: it grows its own oats. Its main export markets tend to be countries that do not grow oats themselves, so there is little price competition on the raw material. Asia is a prime market. "It is a huge new market," affirms de Ugarte. "You see oats there in granola and breakfast cereals."

ProChile is the power behind Chile's exports of food, beverages and more

Neil Murray interviews Jorge O'Ryan Schütz, director of ProChile, who identifies the country's key trading and promotional strategies.

"China is the third-largest destination for our food exports, while South Korea is the ninth"

NM: How are the Free Trade Agreement expansions with China and South Korea progressing? What Chilean products do you think will be particularly in demand in these countries? I understand wine and cherries are popular.

JS: In November last year, in the framework of the APEC Summit, we saw the deepening of the bilateral free trade agreement between Chile and China, in force since 2006. This included topics such as preferential access for products that were not considered in the first agreement, regulation of trade in services and electronic commerce, rules of origin, customs procedures and trade facilitation, and technical cooperation among others. Currently, the document signed is in the first constitutional process in the Chamber of Deputies.

We have had an FTA in force with South Korea since 2004: the first free trade agreement signed between an Asian and a Latin American country. Currently, Chile is in talks with the authorities of the Ministry of Commerce of South Korea to modernise the agreement, and establish a new cooperation framework of both countries, which will strengthen trade integration.

China and Korea are both important buyers of food. China is the third-largest destination for our food exports, while South Korea is the ninth. The main shipments to China are cherries, salmon and trout, grapes, red wine, pork, while, to Korea, pork, grapes, salmon and trout, cuttlefish and red wine.

NM: How successful is the wine tourism initiative?

JS: The Chilean wine industry is one of the most important in the world and Chile has much to show for it. Wine tourism is focused on promoting the wine experience in one of the four largest producing and exporting countries of wine worldwide; an industry immersed in majestic, natural landscapes, with professionals and workers who love the countryside.

In addition, great work is being done to strengthen the denominations of origin of the valleys, where tourism is very popular. Today, one of the aims of Chilean wine is to promote those grape rootstocks known as patrimonial, which are the ones that arrived in the country along with the Spaniards at the time of their conquest. ProChile is working closely in this mission. These strains are mainly in the valleys of Itata, Maule and Biobío, and in addition to the history they bring with them, there is a whole development of the gastronomy of the area and tourism to discover in these valleys.

NM: Is ProChile concentrating more on promoting Chile to countries outside Latin America? What aspects of a 'target country' make it important for ProChile's activity?

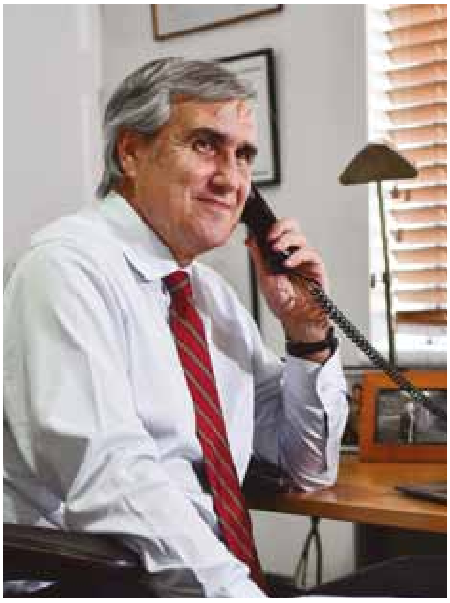
JS: Today, part of our vision is set in the countries of Asia Pacific, because it is the most dynamic region of the 21st century, holding 40% of the world population. In addition, 70% of our exports go to APEC economies. We have 16 trade agreements with 21 economies belonging to APEC. It is a growing region, with an increasing middle class, open to new products and experiences. Today our commercial expectations are in this area.

But we also value Latin America. Today, the Pacific Alliance is a great market for Chile, as it is made up of more than 225 million people. The PA has an average GDP per capita of USD17,266 and represents the eighth-largest economy in the world..

NM: Chile is gaining a reputation as a country that is 'environmentally aware'. Is this a useful promotion aid? And if so, with which countries?

JS: Chile has been working for many years to generate a business sector that is concerned and active in respecting and caring for the environment. Our companies are always in search of the different certifications that allow them to be first class in this sense and, in addition, make them more competitive in the world.

Chile has a network of 26 agreements with 64 markets and each of these agreements requires specific certifications, so the industries are in constant process of validation. Thus we see, for example, the certified fruit industry in Good Agricultural



Jorge O'Ryan Schütz, director, ProChile

Practices (GAP), which is the sustainability programme of this sector, developed for better compliance by the producers and exporters of national fruits and vegetables, for different international markets. Likewise, the wine industry has a vitivinicultural sustainability code to reduce potential environmental and social risks, and other export sectors are implementing codes and regulations to certify their sustainability processes and compete better in increasingly competitive international markets.

NM: In terms of return on investment, what is the single most productive activity that ProChile performs?

JS: In 2017, Chilean merchandise exports totalled USD69,230 mln, an increase of 13% compared with 2016. Of this, 50.9% of the shipments were of non-copper shipments, worth USD34,236 mln.

Of non-copper exports, food exports are the most important, since they account for 49% of these. And here those of fresh fruit, seafood, agroindustry and wines are ahead. Much of the promotional work carried out by ProChile is focused on food, which today is a great ambassador for our country. For example, of the 34 international fairs we have in our calendar this year, 16 are from the agri-food sector.

NM: What Chilean products do foreigners instantly associate with Chile?

JS: Wine is one of our main ambassadors. It is the only one that comes to the table with a label that says Chile, which makes it a great representative of our country. But we have also been positioning ourselves with others. For example, after almost three years of cherry promotion campaigns in China, today consumers in that country associate this product directly with Chile.

Another example is the one that occurred with salmon in Brazil. Today, 99% of the consumption of this fish is of Chilean origin. This is also due to the intense promotional activity that is done with the sectorial brand Salmon from Chile, and that reaches not only the importers and HORECA channels, but also directly to consumers, through campaigns in supermarkets, social networks and media communication.

NM: Is there a definite intention by ProChile to target affluent consumers, tourists, buyers of Chilean products?

JS: Our strategy is to communicate through the attributes of our goods and services, and how they can satisfy consumer demand. In that sense, our strategies are directed to niches with a higher purchasing power because they are precisely the ones most willing to try new and imported things.

NM: How does ProChile measure its success in promotion?

JS: In the 44 years of Prochile's existence, exports have multiplied 32 times, which accounts for the coordinated work and the impact of international negotiations.

One way to measure our results is by looking at the increase in the country's total exports. But we can not take all the credit for that, given that this work is in the hands of Chilean businessmen. Another way to measure the impact of ProChile is to see how the number of exporters has increased. Currently in Chile there are 8,140 export companies of non-copper goods and services, and in 2003 there were 6,419. In this regard, we must consider that Prochile has approximately 6,200 'clients' who rely on the different tools of our institution.

It can also be measured in the increase of tourists and investments in the country, since the promotion work that ProChile does is integral: we look for the country to do more business in general, not just exports.

Chile's tomato industry largely driven by exports

The Chilean tomato industry is largely export-oriented, as the domestic market stand at only around 15,000 tonnes – half processed into sauces or ketchup and the other half used by the canned fish industry.

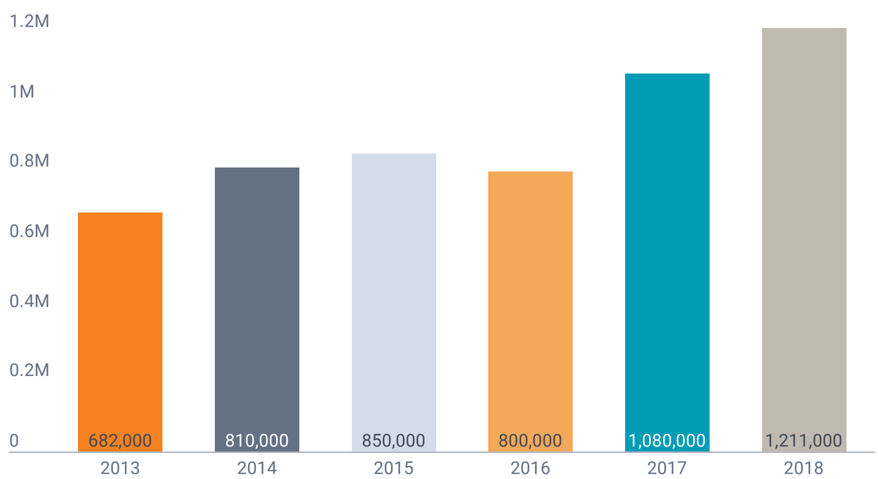
By Jana Sutenko

As of August 17 Chile is expected to produce 1.211 million tonnes of tomatoes for processing, up by 12% from the 2017 total of 1.080 mln tonnes

The main benefit of Chile in the tomato market is its counter-seasonal production: while the rest of the world starts planting, harvesting and processing, Chile is still in winter. This way, Chile manages to capture markets with fresh product at a time when the rest of the world falls into a lull.

According to the World Processing Tomato Council's ever-changing production estimate, as of August 17 Chile is expected to produce 1.211 million tonnes of tomatoes for processing, up by 12% from the 2017 total of 1.080 mln tonnes.

Chilean production estimate of tomatoes for processing (tonnes)



Source: WPTC

With these encouraging numbers at hand, Chile can expect increased tomato paste exports in 2018, weather permitting.

Last year, Chile exported a total of 125,658 tonnes of tomato paste, 7.6% more than in the previous year. The country's main markets in the period, as in the last few years, were Argentina (20% share), Brazil (12%) and Japan (10%).

Argentina, a weighty tomato paste producer itself, received 25,012 tonnes of Chilean tomato paste last year – 28% less than in the previous year. This is potentially because Argentina had a tomato production upsurge in 2017 which, according to the WPTC, increased to 488,000 tonnes from 2016's 405,000 tonnes. This resulted in a 28% drop in the country's import volumes.

Brazil shipped 15,309 tonnes of Chilean paste, almost double the previous year's exports. Brazil's forecast of tomato for processing this year is down 9% on last year's results and IEG Vu believes that it will need more Chilean product to satisfy the shortfall, shipping it from Chile rather than from Argentina.

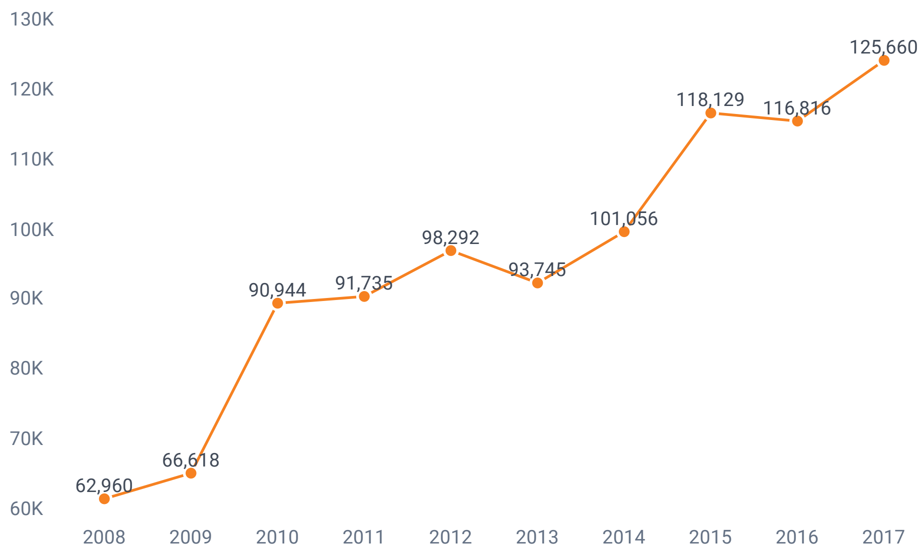
Japan seems to be falling in love with Chilean paste more every year

Japan seems to be falling in love with Chilean paste more every year, as exports to the Asian market are growing annually. Last year's shipments rocketed to 12,698 tonnes from just a little over 7,000 tonnes in 2016. This might be connected to a recent escalation in tomato juice consumption in the country, following a successful marketing campaign highlighting health benefits of lycopene antioxidant contained in processed tomato.

As well as increasing supplies to traditionally-established markets, Chile has seen diversification efforts. There has been a surge in deliveries to Thailand, Korea, Oman, Panama, as well as start of shipments to new markets Australia, New Zealand, Canada, Latvia.

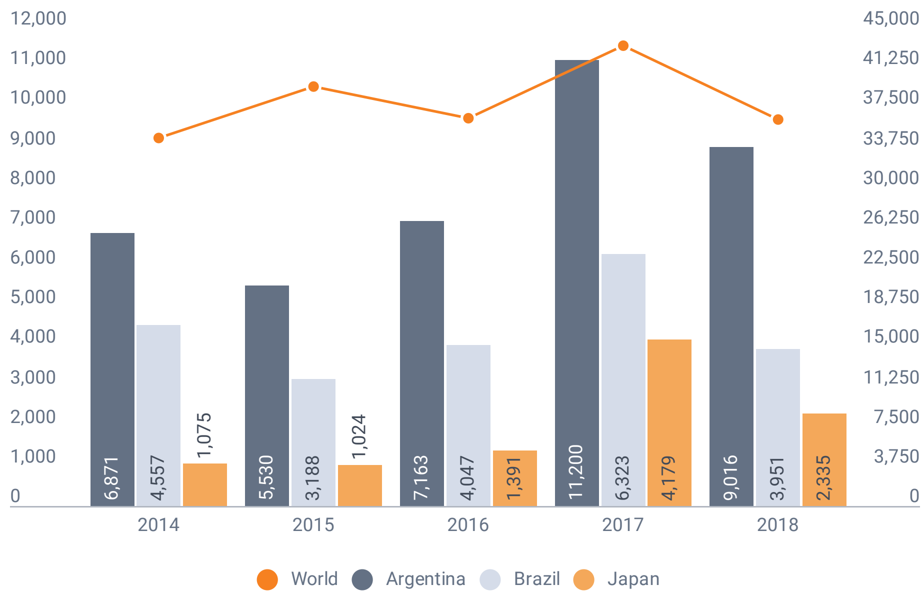
In the first five months of this year, exports levelled out and returned to the previous years' average of 36,383 tonnes, which is 16.2% less than in the first five months of 2017 – Chile's best year in terms of exports to date.

Chilean tomato paste exports by year (tonnes)



Source: GTT/IEG Vu

Chilean tomato paste exports Jan-May, 2014-18 (tonnes)



Source: GTT/IEG Vu

Canned peach: Chile has its loyal buyers

Roberto Murphy of Aconcagua Foods, is optimistic for Chile's prospects

Neil Murray/Estela Cuesta

Aconcagua has increased its own peach growing area from 500 hectares a couple of years ago to 800 hectares and is planning to add more peach orchards. This vertical integration will obviously make Aconcagua more cost efficient in the future. There has been a shift back to canned production, and less purée last season, because there is a lot of low quality cheap peach purée being offered. Chile has a good reputation on good quality peach puree and canned fruits.

Murphy is rightly incensed by the EU's continued support of its peach industry, saying: "We just disaprove the European subsidies. Any kind of subdsidy, as it is a very unfair competition to the world competitors." This automatically puts producers such as Chile (South Africa and Argentina) at a disadvantage.

However, recently there has been some possibility of things turning Chile's way, with the threatened US tariffs on Chinese good, which would make Chilean canned peaches more attractive into the US. At present, Chile exports roughly 6,000 tonnes to the US and China exports around 55,000 tonnes.

The question (which may be answered by the time this appears) is this: if Chinese exports are cut because of the tariffs, where will the markets open to Chile?

Murphy is rightly incensed by the EU's continued support of its peach industry

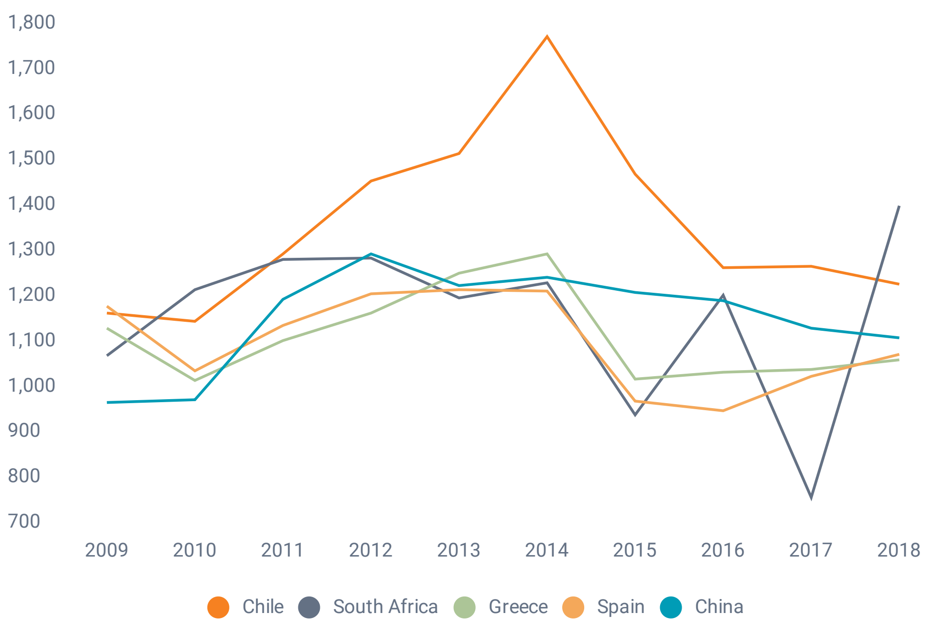
Will it be for foodservice canned peaches, retail packs, or plastic cups? Aconcagua has already bought its tinplate requirements for the coming season, so this is an important issue for them. Time will tell. "For the moment, we will be going to our historical buyers, who have been loyal for many years," commented Murphy

Chile's traditional peach varieties (Carson, Andross, Dr. Davis, Loadel and Ross) represent 65% of the total peach raw material processed by the Chilean canning industry. The main quality indicator is an average of six fruit per kilo and a firmness of the flesh between 8-9 psi of pressure. Chilean canned peach exports last year increased to 72,139 tonnes, up from 66,499 tonnes in 2016, mainly to Mexico (44.6%), Peru (23.2%) and the US (9.4%).

If Chinese exports to the US are cut because of the tariffs, where will the markets open to Chile?

Finally, Aconcagua Foods has entered the walnut business. "It is not big sales – less than a million dollars," said Murphy. "It is a small start, but a good one."

Global canned peach fob price per tonne (USD/tonne)



Source: IEG Vu customs data

Development of a new organic power

More and more Chilean food and beverage companies are producing organic variants of their products. Chilealimentos's Organic Committee, under the watchful eye of Germán Sims, is coordinating and honing this move into higher value products.

By Neil Murray

The top organic products are fresh fruits, followed by IQF fruit, then fruit juices, then fruit purée and then fresh and frozen vegetables

Neil Murray of IEG Vu asks what progress has been made and what can be expected in the future.

Background data

According to estimates from Odepa, Chile has a certified organic surface (including wild recollection) of 79,622 hectares in 2014, rising to 174,667 ha in 2017.

Exports of all organic foods generated USD203 million in 2014 and this had increased to USD241 mln in 2017.

NM: What are the most important import markets for Chilean organic products?

GS: The US, Germany, Canada, UK, Holland, and New Zealand.

NM: What are the most popular organic production sectors? Fruit and fresh vegetables? Dry products? Fruit juices? Tomato processed?

GS: Fresh fruits, followed by IQF fruit, then fruit juices, then fruit purée and then fresh and frozen vegetables.

NM: How relevant is Peruvian competition in the organic sector?

GS: Practically nothing so far. They compete in areas where we are not a player, such as in coffee, cocoa and quinoa.

NM: It is faster to work with land not yet put under cultivation than to do the conversion of a conventional plantation

to organic production. Are Chilean companies putting new agricultural areas under cultivation?

GS: Yes, they are doing it, more and more. However, we in our company (Quihua Farms) do not convert conventional crops into organic, but start being organic from the very first moment.

NM: If the answer to the previous question is affirmative, this would mean that companies may be relocating their processing centres. Is it really happening?

GS: Many processing plants (especially in fresh and frozen berries) that were formerly conventional have been converted to organic just because of this process of change in the certification of Chilean fruit.

NM: Are Chilean companies establishing joint ventures with foreign companies (for example, in the US or Europe?

GS: There are a couple of companies that within their corporate participation have been aligned mainly European companies, sharing their experiences in the field.

There are also instances of European investment funds actively participating with Chilean companies and funding ventures in the organic sector.

NM: Is the Organic Committee of Chilealimentos coordinated with national agricultural associations or those of other countries?

GS: The organic committee of Chilealimentos is in an early growth stage, in which the focus is on the collection of data and sufficient studies that allow us to take the appropriate action plans to promote and promote organic products both in Chile and in the rest of the world, positioning Chile as an example of competitive, bold and high-ranking projection organic production.

Once the medium and long-term strategies have been aligned, we will continue to seek partnerships and develop education, promotion and development policies and programs with other international state entities, as well as trade associations around the globe, with the main purpose of promoting our concepts, from the vision of experience and success.

The organic committee of Chilealimentos is in an early growth stage

NM: What is the premium average of the value of organic production compared to conventional?

GS: From 30% and up to 100% more.

From exotic superfruit to soft drinks inclusions

As maqui makes the transition from wild to cultivated fruit, so too is it finding its way into more and more mainstream products.

By Neil Murray

Studies show that in the entire country we should have more than 30,000 tonnes of fruit available

Trials of cultivated maqui berries are progressing well, reports Miguel Montes of Bayas del Sur, a processor of berries and other fruits in the south of Chile.

Bayas del Sur handles berries or red fruits, including maqui, blackberries, raspberries, blueberries, boysenberries, strawberries, elderberry, etc in two forms (juice and powders).

The problem is how to manage the trees to accommodate future mechanical harvesting. "Maqui is a very small berry and needs a lot of manual labour, which is becoming shorter day by day, to harvest," Montes told IEG Vu.

Trials of cultivated maqui are under way in Chile's Central Valley, where the weather is good (but not equal to areas further south where this fruit grows wild in plently) and where labour costs are higher, as the fruit has to compete with cherries, blueberries, raspberries, hazelnuts, apples, grapes and more.

Montes added, "In my opinion, wild maqui fruit is much better in active ingredients, easy to certify as organic and more appreciated by customers."

There are no official statistics about maqui production volumes, as the fruit is still gathered in the wild. "Studies show that in the entire country we should have more than 30,000 tonnes of fruit available," said Montes. Maqui products are in growing demand as people now know more about this unique Chilean native wild superfruit and its health benefits, including its massive antioxidants content.

Consumers are taking a greater interest in clean production, product origin, Fairtrade, organic, etc

Maqui is available from Bayas del Sur as a 65 brix juice concentrate, 16-18 brix purée, freeze-dried powders and pieces and spray-dried powders.

What are the fastest-growing markets for superfruit products? Two years ago, Montes said that Japan, Taiwan, South Korea and Malaysia were growing fast. Now the superfruit markets are growing more in developed countries such as the US and the EU as well as Asia and Oceania: countries whose populations generally enjoy higher income and education levels. In such markets, superfruit products are filtering down to the big fast food chains.

"EU countries are demanding more natural, organic and healthy foods and ingredients," continued Montes. "In Germany, there are several 100% organic supermarkets and shops. People want to live better and for longer: a hundred years ago, people were living to ages of 30-50. Now scientists are saying that in coming decades we may live for up to 140 years, with better food, better medicine, more exercise…."

Consumers are taking a greater interest in clean production, product origin, Fairtrade, organic, etc and Chile is tapping into this, with more and more certified organic products.

But what is the potential of superfruits being used in soft drinks? Is his happening already?

"We know that nowadays demand for carbonated soft drinks is falling every year, because of the content of so many ingredients, artificial colours and preservatives," pointed out Montes.

"Mothers are more aware of this and want to protect their children.

"The global population continues to grow. Today, we are 7.5 billion and in 2045 we will have 9.5 bln people on the planet. Superfruits have enough space to be part of new beverage or blended juice formulations."

Maqui: an incredible opportunity

Sebastian Monckeberg, who heads Chilealimentos's Maqui Committee, is in no doubt about the earning potential of maqui as well as an appreciation of the difficulties in making it viable.

By Neil Murray

"It is an opportunity that has to be built up by the industry. It will be bigger than acai, but it needs the private sector to turn it into a reality" he says.

Guaranteeing supply is the key issue. Monckeberg has seen at least five cultivation efforts, including Vilkun, and they look very promising. Hence the importance placed on cultivated fruit and mechanical harvesting.

Chile used to sell some 200 tonnes of maqui annually to South Korea, but that market has dried up and volumes have fallen to maybe 50 tonnes. In any case, the industry has its eyes on the huge markets of the US and Europe.

Maqui has received novel food approval as a supplement in the EU, but Chile (rightly) sees it as more than that. It needs to become a widespread ingredient, as Miguel Montes of Bayas del Sur has been repeatedly championing. Powders, frozen fruit, concentrate and dried fruit are all very well but Monckeberg reckons the future lies in pulp, which is easier to use in processing and has no off-taste, like açaí does.

Interestingly, the UK's withdrawal from the EU may make this happen. "The European Food Safety Authority (EFSA) restrictions make it harder to be innovative in ingredients," says Monckeberg. "This could turn into an opportunity for the UK."

It is vital for the industry to unite and formulate a quality assurance pathway for maqui. Once that is done, it can be incorporated into all manner of products by food processors worldwide.

"You cannot look at this in the short term," concludes Monckeberg. "Sure, you can pay a high price for small quantities, and sell them at high prices, but that is not the way to go."

Seven tonnes of walnuts per hectare, and bigger fields to follow

Chile has a knack for growing crops that are not native to the country, and then turning their products into quality export items. These days, the newcomer is walnuts.

By Neil Murray

"The industry has gone crazy in the last 10 years. It is growing so fast," says Andrés Carvallo, general manager of San José Farms, parent company of dried fruit and nut businesses Vilkun, Baika and Andres Secret. "Fifteen years ago, there were just a few farms, but people realised that Chile has perfect conditions for growing walnuts."

Carvallo admits that the country does not have great experience in walnuts but points out that Chile has carved out markets in sectors in which it previously had no presence at all, such as avocados and hazelnuts. "We are always looking for something new: always looking for niches."

Chile's yields are around seven tonnes (in shell) per hectare. San José Farms' trees still relatively young and delivering four tonnes/ha: they will be in full bearing in "a few years". Global demand for walnuts is increasing. Chile's main markets are Europe, Brazil and Middle East: Chile's nut industry had a very large presence at Gulfood earlier this year. It has also opened a new market in India.

It is tempting to speculate that Chile might extend its nut portfolio by growing other varieties. Carvallo is doubtful about the prospects for macadamia, pecans and pistachios that are not presently grown in the country. Walnuts and hazelnuts grow well in relatively temperate climates, whereas these other varieties require hotter conditions and, more importantly, more water. The land is ideal in northern Chile, but water there is scarce.

Nothing can be ruled out, though, and if far-reaching Chilean plans to improve the water supply in the north materialise, Chile could well start growing these (and maybe other) nut varieties.

San José Farms is also active in the infused fruits market. This started with Vilkun, developing infused blueberries, strawberries and cherries for export and the company has now moved into the lucrative maqui business, freeze drying the superfruit for powders. Marketing maqui is something of a challenge: "The wine industry has the experience but the dried fruit industry is still learning," observes Carvallo. "We are presently talking with pharmaceutical companies. But maqui needs to be promoted globally."

carozzi

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