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Emergence of a first choice

BY NEIL MURRAY

THE way the world looks at Chile was probably changed forever in 2010. The year started with a devastating earthquake, only a few weeks after a quake had hammered Haiti and killed a quarter of a million people. In Chile, the material damage was bad, but the death toll astonishingly low, and most of the casualties were caused by the tidal wave that followed the quake. The world learned that Chile constructed its buildings and infrastructure well.

Then there was the drama, played out on live TV around the globe, of the rescue of the 33 trapped miners. This was unquestionably the news story of the year, and not just because it had a happy ending. The world had caught a glimpse of the Chilean national character, and was impressed.

For the country, the recession is a thing of the past. There has been a steep jump in the national average income, although more than one commentator, Karl Huber of Patagoniafresh, has been careful to point out that some of this growth in personal incomes, as it is calculated and expressed in US dollars, has been due to the fall in value of the dollar. This should also be considered when examining some of the increases in export earnings – a million pesos buy rather more dollars than they used to.

“Also, our population is growing by less than 1%. There has been a big decrease in the birth rate,” Huber adds. “Why? Because of money. In the sixties, the average family was five kids. Now it is less than two. It is part of economic growth.”

Meanwhile, the country's processed food

“The seismic change in the Chilean agro-industrial base is happening faster than one thinks. The country is adapting astonishingly quickly as it turns what had been a commodity industry into a high-tech colossus to serve the world.”

and drinks industry rolls on, almost unseen and un-noticed. One needs to step back to see what has happened in the last decade: change is happening all the time, but it is evolution not revolution and takes place so smoothly it is hard to spot. The best thing, as FOODNEWS has discovered, is to take snapshots of the country every six or 12 months. Nothing highlights change more than coming back to a country, a city, a factory after a year. One can spot the change immediately. I walked into one factory that I'd toured last year, and immediately pointed to a conveyor system and exclaimed: “That wasn't here last year.” Indeed, it hadn't been. It was part of a recent factory upgrade.

This is happening everywhere. Every year, the country's food plants have new, more modern, more efficient machinery, plant, premises.

The change that has been wrought in a decade and a half is astonishing. I first visited Chile in early 1997, as a guest of ProChile. Then, the country was already producing processed fruits and vegetables of very high quality, but it was either for the domestic market, or for other Latin American markets.

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FOODNEWS is published by

Informa Agra

Telephone House,
69-77 Paul Street,
London EC2A 4LQ, UK.

Phone: +44 (0) 20 7017 7500

Fax: +44 (0) 20 7017 7592

E-mail: fneditorial@agra-net.com

www.agra-net.com

Managing Editor: Neil Murray

Deputy Editor: Adam Sharpe

Managing Director: Philip Smith

Advertising Manager: Sunny Patel

Tel: +44 (0) 20 7017 4153

Fax: +44 (0) 20 7017 7594

Email: sunit.patel@informa.com

General Enquiries

Email: Subscriptions@informa.com

Tel: +44 (0)20 7017 5540

or (US) Toll Free: 1 800 997 3892

Online Access

Email: OnlineAccess@informa.com

Tel: +44 (0)20 7017 4161

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Relatively little was for global export, and almost all of that was bulk product. Companies were eager to penetrate the lucrative European market, but seemed unaware that the product itself was not the passport to commercial success. What EU buyers wanted to see first was the paperwork: the certificates relating to hygiene systems, HACCP, traceability and the rest. The next thing they wanted to see were the factories themselves. Plant after plant was turning out marvellous products, but did not have a hope of selling to Europe. Either the fabric of the plants themselves was inadequate, or the paperwork was non-existent. Or both.

The changes wrought in the last decade and a half are extraordinary. Chile's food processing plants are as good as anything else in the world. They are constructed and equipped to the highest standards, and the level of automation just keeps going up.

This is partly because the only way the industry can grow, rather than just survive, is by improving its efficiency. And the need to improve its efficiency stems almost directly from the strength of the peso against other world currencies, especially the US dollar. Ten years ago, the USD dollar was worth about 700 Chilean pesos. Now a dollar buys 460 pesos. Coping with the currency and exchange rates is a nightmare for the industry. The comment of one company was typical: "We are trying not to depend only on the dollar. We are trying to work in as many currencies as possible: Swiss francs, euros, pesos, to avoid dependence on the dollar." Another observed: "With the dollar,



we're suffering. The Central Bank is buying a lot of dollars, but not enough to contain the slide of the dollar."

Chile's reputation is established. When the country first started growing pomegranates, a couple of years ago, a European fruit juice exporter commented: "I recently saw some Ukrainian pomegranate. The problem is that there is only small processing, for domestic or Russian consumption, and the quality is variable. It is not a place I would go to immediately, to buy, but Chile, absolutely." Right now, the nascent pomegranate industry is concentrating on fresh markets, but juice will inevitably follow and it is significant that there are already customers waiting for it who are prepared to trust the origin absolutely.

Nor is Chile no longer a country whose products are purchased when they are out of season in the northern hemisphere, or to top up stocks in mid-season. Chile is a world player now, and an origin of first choice rather than second or third. It is the world's

largest exporter of dried plums, these days.

With the strong economy have come increased costs. "It is difficult to get skilled labour," commented Carlos Correa of Invertec, in a complaint echoed by many other processors. "This will be something that every year will be more difficult to get. Chile is in the process of being a developed economy and a lot of people from countryside areas are moving to the big cities and they are more educated and they know exactly which farm is paying better, because they have the internet and cellphones.

"Fruit picking is getting more expensive every day, so the industry is looking more and more at mechanisation. We need fruits that are more resistant to mechanisation, and therefore we have to lay the orchards out differently, and we are also having problems contracting all the people we need in the factories. There was, recently, a 5.6% increase in minimum wage. It is now 188 000 pesos per month (USD400). Every year, the government raises the minimum wage by 4%: slightly higher than inflation. So we have to reduce our workforce and we have optical sorting machines now."

In another few years, Chile will have one of the leanest, most efficient agro-industries on the planet. There are some who say that this will put people out of work. This simply isn't true. Chileans are gravitating towards all sorts of other jobs: this is why the industry, despite having shed tens of thousands, if not hundreds of thousands, of jobs, is finding it hard to recruit skilled personnel. The industry is moving towards a business run by agronomists and technocrats. The trick is to turn food production into a modern automated industry while retaining the essential product qualities that attracted customers in the first place. Chile will do this.

The next stage is complex finished products: ready meals, convenience foods, recipe dishes. Chile's own population is too small to support a large industry here, and it is too far away from the huge US and European markets to make competing there truly viable. And besides, the US European processed food industries are incredible powerful. But within Latin America, anything is possible. Chile is already years ahead of its nearest South American competition in this regard, and shows every sign of being the supplier to the continent.

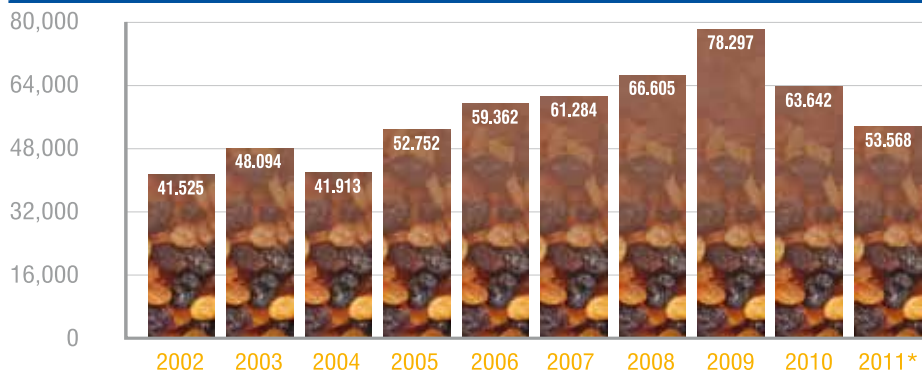
Chile in the global export ranking of processed fruits and vegetables

Dried and Dehydrated	Chile	Canned	Chile	Juice	Chile	Frozen	Chile
Apple	1°	Peach Puree	1°	Grape (concentrated)	4°	Raspberry	3°
Prune	2°	Canned Peach	3°	Apple (concentrated)	8°	Strawberry	8°
Walnut shelled	2°	Cherries for industry	3°	Grape (not concentrated)	10°		
Raisin	3°	Fruits Puree	6°				
Walnut in shell	4°	Canned Cherries	7°				
Almond in shell	5°	Tomato Paste	7°				
Almond shelled	7°						
Bell Pepper	10°						

Source: UN (Comtrade June 2011) and Chilealimentos (2010)

Dried by request

Chilean Dried Grape Exports (tonnes)



Source: Chilealimentos - Odepa | (*) = Projection

BY NEIL MURRAY

CHILEAN industry is moving to new products with added value.

Chilean raisins are used for different products – snacks, trail mix and so forth – because of their large size. Flakes, in general, are core products. The Jumbo market developed in Europe and the medium-sized market in the US, so processors tend to screen and separate the different sized fruits for these customers.

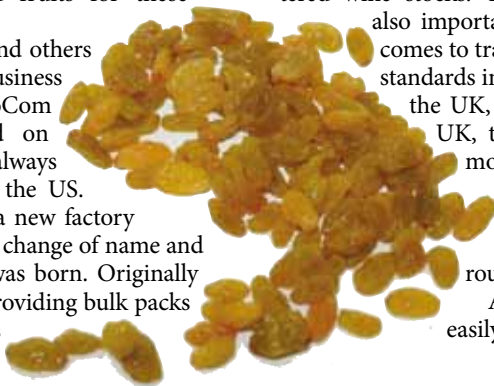
Pedro Mendive and others involved in the business bought the old proCom assets and started on their own, working always with J F Braun in the US. The need to build a new factory in 2009 prompted a change of name and so Andes Quality was born. Originally the company was providing bulk packs only, but now is

looking at making doy packs for German retailers (German consumers like doy packs).

Close relationships with the grape growers are essential in order to maintain a reliable raw material supply, especially recently when so many grapes have been diverted to rebuild earthquake-shattered wine stocks. This is

also important when it comes to traceability – the highest standards in the world are those in the UK, apparently, and of the UK, the Tesco chain is the most discerning. The UK dried fruit market is massive, with strong consumption all year round.

Adding value is most easily done by making one's



own fruit and nut mixes: trail mixes and the like. Chocolate coating is another popular move – in the UK, apparently, the company's smaller size raisins are chocolate coated, and it would not be too hard for a Chilean manufacturer to do the same thing in Chile. After all, Cran Chile is already showing the way with its chocolate coated dried cranberries (see page 11).

David del Curto started its business with raisins, but raisins are still mainly a commodity market, and so the company mused about doing other dried fruits. The company grows its own cherries, and was lucky enough to encounter a potential Spanish customer who was looking for a supplier of dried cherries, for use in the bakery and breakfast cereals sectors. Some test loads have been shipped to Europe and the company is optimistic for the outcome.

As David del Curto has an extensive fresh produce operation, it is seeing the dried fruits business as a means of integrating vertically.







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Snacks made for best retailers

Chilean dehydrated fruit snack products are now being listed by prestigious European labels such as Marks & Spencer and Maitre Prunille.

CHINA is a big producer of fresh apples but not a big producer of dehydrated apple. In contrast, Chile is also a big producer of apple in the southern hemisphere, but not on a global scale. Nevertheless, the country has developed a dehydrated apple industry and is now the main producer and exporter of the products.

Agrocepia is consolidated as a specialist in dehydrated apple and apple is 97% of total volume it produces. "Yes, the dollar is giving problems," agrees Ignacio Rius of Agrocepia. "What can we do to reduce costs? The industry has to continue in business, despite our strong currency against the dollar and the euro through the incorporation of technology in processing, which will improve productivity and reduce costs.

"I think all the industry has made investments in new technology and new management in the last year. In the case of Agrocepia, our strategy has been this year to invest in new equipment, technology and training.

Many farms in Chile are still relatively small size. Can efficiencies be found there? "My opinion about the farmer depends on the product that I produce," says Rius, "because if I am speaking of grain, maize, soya or corn, obviously I need big volumes and large farms to reduce the cost, but if I am speaking of fruit, where the labour component is high, the size of the land is not very big. The size of the land in my opinion is not the important thing – the important thing is the technology. The technology of irrigation, for example. With good irrigation you improve the yield and quality and reduce the cost. After that, the use of the machinery and the use of know-how and we come back to the very important thing, which is the training of the workforce.

"In the world there is more and more technology but it is important to be able to use the technology in the right way. Coming back to fruit processors, the production of raw material is linked to processing and both sides need investment in technology, management and training. Both sides."

Manufacturers are looking to move out of the bulk commodity dehydrated apple sector and into more added-value products – like the Chilean food industry generally.

Surfrut, in addition to expanding into fruit purées (*FOODNEWS 22 July*), has produced a dried apple snack. A single pack contains the equivalent of two whole dried apples. Initially called Popples, the name has had to be changed in some markets because it turned out that someone else had already registered

it, but it is selling very successfully. In the UK, the upmarket chain Marks & Spencer is listing it under its label. Surfrut's 'ordinary' dried apples are now being packed for Maitre Prunille of France. At present the products are being co-packed in Santiago, "But when volume picks up..." said Surfrut's Jaime Crispi (*possibly the most apt name in the dehydrated fruit business*) meaningfully.

"With dried apple, Chile is sometimes cheaper than China," Crispi added. "China is still cheap on some products like dried red peppers. We moved into organics. Organics took a hit in the recession but are now picking up. And we are concentrating on apples. Chilean apples have a place in the world market, as they are recognised as a 'country brand'. And we are moving from ingredients to more elaborate products."

According to Crispi, the three main companies that do dried apples in Chile are moving in the same direction: aiming to get more products into retail. "Agrocepia is doing fresh apple packs. Invertec is doing apple chips."

This is good to hear – though the companies may be commercial rivals, they are all basically moving together for Chile, pursuing lines such as infused dehydrated fruits, and (for Agrocepia) a product called Apple Dream, which is flavoured and coloured (rather than infused) from other fruits, and is aimed at the bakery sector. Entrete (which means 'entertainment' in Spanish) is selling in the Chilean supermarkets. The product comprises dehydrated apple dices with natural colour and sugar and a firm crunchy texture. They are being sold as children's snacks. They are not being exported at the moment,



Jaime Crispi

but it can only be a matter of time.

"We are always trying to find new markets," says Rius, emphatically. "The key factor is the economy level of the country: when food processing industry develops, new markets open up. For example, breakfast cereal is now absolutely part of Chilean consumption, but it did not exist 20 or 30 years ago."

"The growth of our industry depends more on our capacity to sell to new countries than traditional demand. Our product is not a commodity – each customer needs a particular product, tailored to each customer."

"This industry is now very consolidated. Supply and demand is very balanced and the volumes over the world are very low compared with other kinds of products like AJC, or raisins. That is why I say Agrocepia is a specialist. We do not produce commodity products in high volumes. We produced tailored products in low volumes."

Hi-tech producers

Diana Naturals is another example of how Chilean companies are moving into higher-tech products. The company makes fruit and vegetable purées and concentrates and also has a strong line in dehydrates.

From a fairly standard range of dehydrated fruits and vegetables, the company is now offering products specifically aimed at baby food manufacturers and (in an unusual move) has moved into the powdered beverage segment, using the latest spray-dried technology.



Ignacio Rius

"Dried beverages – fruit juice powders – is a huge market," says David Carre of Diana Naturals. It is certainly big in Latin America and India, and even in the US, the iconic Tang brand still exists. Diana Naturals is capitalising on the global demand for more natural products with products that contain as much of a fruit component as possible: anyone can make beverages from artificial ingredients – it's basically a chemical blending operation.

"A lot of products are now made with chemical not natural products, because it keeps the price down. We strongly believe this is a great opportunity," says Carre.

"The only way to compensate for the weak dollar is to innovate. We always look for new

markets, and we are now exporting dried prune juice concentrate to China. We are so pleased to have opened this business. We are also selling powders to India. But there is 40% duty on our products in India. We are working with Chilealimentos and our commercial foreign office in Chile to get this discounted."

Andrés Donoso of San Clemente remains upbeat about the competition from China. "We have two big advantages," he points out. "One is the free trade agreements with other countries and the other is that China has a very stable production. In years like this, when prices are very high, it is an opportunity for Chile."

San Clemente started with a dehydrating facility and works with apples, and some berries such as raspberries and cranberries. It sources 40% of its apples through its own fresh produce division. "We have very good traceability because of that," points out Donoso. "Of course, we have to pay the standard market price if we are buying from our own division." For dehydrated berries, San Clemente is in the heart of berry region and can buy favourably.

The company plans to add a second line in 2012, with a travelling dehydrator, "but we need large volumes for that. We hope to build sales up to match capacity." The target for dehydrated sales alone (San Clemente has a juice operation) is USD10 million in 2013, and then USD40 million from two dehydrated facilities and one juice plant.



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The guiding hand

ProChile is the government-funded agency that promotes Chilean exports of all types. NEIL MURRAY puts the questions

Where does the food and drink industry stand in ProChile's priorities and funding? Is it, for example, bigger or smaller than tourism? Bigger or smaller than wine?

ProChile works to promote all exports of goods and services. As a major player accounting for 17% of export revenues, the food and drink industry - wineries included - remains a ProChile priority. Industry exports are enjoying sustained growth and brought in over USD11 billion in revenues in 2010. Food producer, processor and exporter firms are important growth drivers, especially in areas such as job creation, innovation, and technology development.

What are the most important target countries or geographical regions for ProChile's activities? I believe China is the biggest customer for Chilean goods. How much is this market increasing? What is the balance of trade between China and Chile?

Save for a brief hiatus during the crisis of 2009, Asia remains the fastest-growing destination for Chilean exports. Leading partners are China, Japan, and South Korea.

Chilean exports to China grew 21% in 2007-2010 and as much as 36% in 2009-2010 alone. In 2010, China accounted for over 20% of Chilean exports.

The Chile-China Free Trade Agreement, in effect since October 2006, led to a significant increase in bilateral trade and turned China into Chile's largest trading partner in 2010. This FTA helped Chile access a market 1.3-billion strong whose economy has been growing non-stop for over a decade, making it the largest, fastest-growing nation in Asia-Pacific.

At present, a chapter on trade in services

Chilean Exports to China (USD million)					
	2007	2008	2009	2010	2009 - 10 (%)
CHINA	10,115	9,193	12,245	16,648	36

Source: ProChile, with Central Bank data

is in effect and a chapter on investment is the subject of ongoing negotiations.

Is the Chilean government increasing ProChile's budget?

The ProChile budget is set in the National Budget Act. The government proposes an annual amount to Congress, and the approved amount is published during the first half of December. Importantly, the ProChile budget is complemented by private-sector contributions for specific activities. Our budget has remained constant through the past few years and was even cut in 2010 as part of fiscal rebuilding efforts following the mega-earthquake of February 2010. As such, any government decisions on the ProChile budget will be known in late 2011.

What is the return on investment? How many dollars in export value does ProChile produce in return for every dollar spent?

As the return on public investment is not the only factor shaping increased exports by our private-sector clients, ProChile uses a range of indicators to assess the effectiveness of its support for current and potential exporters. By way of example, 4.2% of potential exporters in 2008-2009 became actual exporters in 2010.

Indicators are complemented by a Results

Assessment System that gathers client data on actual or projected business deals closed as a result of taking part in promotional activities co-financed by ProChile. An Inter-American Development Bank study shows that small and medium-sized clients of ProChile perform 20% better as exporters (i.e. market diversification) than firms that do not avail themselves of ProChile support.

What is the growth rate of Chilean food and drink exports?

Food and drink exports have been growing apace for ten years. Save for a brief hiatus caused by the financial crisis of 2009, the industry growth rate in 2000-2010 stands at 137%, with some USD11.7 billion in revenues in 2010 alone. Significantly, Chile is gearing to become one of the ten largest food exporting nations by 2015.

How much extra export business has been generated since the Free Trade Agreements were signed with Malaysia and China?

The FTA signed with China in 2006 helped non-traditional Chilean exports grow exponentially.

At present, six additional protocols help facilitate exports of Chilean fruit, notably grapes, kiwifruit, apples, plums, cherries, and cranberries. In addition, Chilean firms have made a concerted effort to meet Chinese market requirements for milk and cheese, fruit juice, fresh fruit, wine, and a range of fish and shellfish products. Several are successfully shipping dairy products to China.

In addition, Chilean providers are actively promoting the sale of financial, architectural and engineering services to China. As to Malaysia, a Free Trade Agreement has been concluded but has not yet been ratified.

ProChile helps small and medium-sized businesses. How big does a business have to be before it is ineligible for help?

ProChile supports all current and potential exporters. Our programs and services are

Chilean Exports (USD million)					
Región	2007	2008	2009	2010	2009 - 10 (%)
AFRICA	217	285	210	214	2
AMERICAS	21,090	22,787	16,638	20,057	21
ASIA	27,877	25,131	24,744	34,130	38
EUROPE	16,711	16,795	10,237	12,868	26
OCEANIA	314	541	462	820	77
N/D	877	1,333	653	802	23
TOTAL	67,086	66,870	52,944	68,891	30

Source: ProChile, with Central Bank data

segmented by exporting experience and industry.

Does ProChile have any influence on foreign investment in Chile? If so, what?

ProChile took up foreign investment promotion in 2010. To discharge this mandate, ProChile works closely with government agencies such as the Production Development Corporation (CORFO) and the Foreign Investment Committee. The intent is to leverage ProChile's worldwide network of trade offices to promote foreign investment. One concrete aspect of our work is assisting the business missions travelling with the President during State visits by organising seminars where distinguished experts speak about conditions for investing in Chile.

Where does Chile rank, internationally, in terms of export competitiveness? How does this compare with 2005?

In 2005, the World Economic Forum's Global Competitiveness Report ranked Chile 27 worldwide and first in Latin America. In 2010, the WEF-GCR ranked Chile 30 worldwide and again first in Latin America. Chile earns high marks on most assessed areas.

For example, we rank 28 on openness and liberalisation, which provides proof positive of the competitiveness of both the Chilean economy and its exports. While the education system was our greatest weakness - one that precluded a better ranking - as of this writing the government is negotiating a wide-ranging education reform with all stakeholders.

What, in the opinion of ProChile, makes Chilean products more attractive to export markets than products from rival countries?

Chile's advantages help produce foods whose quality exceeds that of our competitors.

Our comparative advantages include mas-

sive natural barriers to pest and disease, a Mediterranean climate yielding top-notch supplies, and staggered, reverse-season production.

Chief among our competitive advantages are political and economic stability, which encourages entrepreneurship; world-class export infrastructure and logistics; state-of-the-art production and processing technology, and proven ability to meet stringent international standards and certification requirements. All of these factors make Chile a safe, reliable supplier of wholesome, quality foods.

Wine is an obvious Chilean export success. What new products are proving successful these days?

Chile is developing a range of added-value products for niche markets, including gourmet foods such as extra virgin olive oils, seafood delicacies, mineral and flavoured waters, jams, wine jellies, chutney, dried berries and native potatoes, gourmet honey, premium wines, pisco, and boutique beers. Among more traditional export items, Chilean firms are working to add value to salmon, pork, poultry, lamb and beef exports.

How does ProChile measure and benchmark its successes?

ProChile surveys exporters for their views on how their needs are being or could be best fulfilled. This includes collecting data on the timeliness of information provided and the role of promotional activities in providing new business opportunities or helping close business deals. ProChile also examines the practices of similar agencies and compares impact and results.

What Free Trade Agreements will be the next to be concluded, and which will be the most important?

A free trade agreement with Turkey went

"Chile is developing a range of added-value products for niche markets, such as extra virgin olive oils, seafood delicacies, mineral and flavoured waters, dried berries and native potatoes, premium wines, pisco and boutique beers."

into effect in March 2011. In May 2010, negotiations with Malaysia were concluded, and the agreement is now awaiting congressional approval. An additional free trade agreement with Vietnam was recently concluded.

While all FTAs are equally important to Chile, the past few deals reflect a strategy designed to consolidate a presence among emerging Asian nations, especially ASEAN members. As a matter of fact, talks are currently under way for an FTA with Thailand.

Does ProChile have any key target areas within the general food and drink sector?

Diversifying destination markets and the goods and services line-up are among ProChile's key objectives. As such, promoting Chilean foods abroad is key. We attend major international trade shows, we host inspirational trips for trade writers and organise events such as the *A Taste of Chile* food show across various markets, all in order to continue positioning Chile's wide range of food and drink exports. The industry has annual sales of over USD11 billion, accounting for 17% of overall Chilean exports. In 2006-2010 food and drink exports grew 70% and should hit USD20 billion in 2015, effectively placing us among the world's 10 largest food exporting nations. We look forward to achieving that milestone.



Once tried, always trusted

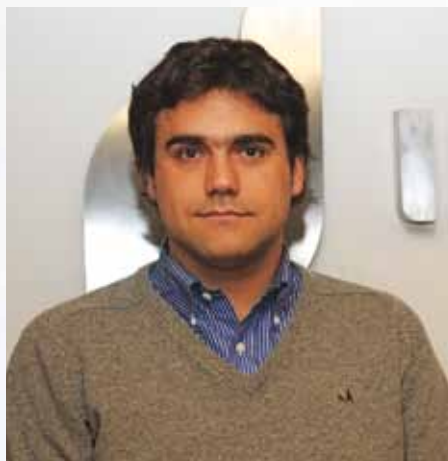
BY NEIL MURRAY

IN the future, in that 2010 may be seen as the year when China started to become a 'buying nation', it will probably be possible to pinpoint 2011 as the year in which Chile's fruit juice industry truly came of age and started meaningful penetration of European markets, as opposed to selling its wares in Latin America and (especially) the US.

Ironically, it was China that helped fuel this highly significant expansion. China's apple juice concentrate (AJC) industry put the fear of god into AJC producers around the world when it started expanding. It increased its production capacity ten-fold, and it was pricing its product at prices that producers in Europe, Latin America and the US could not hope to match.

But China got it wrong. First, it drastically miscalculated the effect of a freeze in Poland in 2007 and what this would mean to prices worldwide. Secondly, it assumed that the growth line on the graphs would continue its 45-degree climb skyward indefinitely. Thirdly, it built too much processing capacity. And fourthly, and crucially, it failed to appreciate the significance of the fresh market's investment in storage and distribution, which helped fuel a boom for fresh fruit the like of which the world had not seen before, and which robbed the industry of cheap raw material.

This introduction is essential, because it needs to be appreciated where the Chilean industry is coming from. The country's governments, with commendable single-mindedness and irrespective



Carlos Correa

of their political leanings, have pursued a policy of signing free trade agreements with as many countries around the world as they could, including the EU trading block. In 2011, Chinese AJC prices hit an all-time record high of around USD2 100 per tonne fob. In the EU, Chinese AJC is subject to 25.5% duty, and so European buyers started looking around for alternatives. They scoured the markets for Polish, German, Turkish and Ukrainian AJC. It was Chile's fortune that it had had a good apple crop, and there was plenty for processing.

"It was an open season with good prices to growers so they decided to manage the crop in a different way," says Carlos Correa of Inverttec. "They tried to send not a huge amount for fresh market and to send good volumes to industry."

Chile was able to price its AJC at a level that offered it a good margin at the same time as significantly undercutting the

European buyers turned to Chilean fruit concentrates in a big way this year, especially AJC. They intend to stay with Chile, and a new market is open.

Chinese price, not least because its product is now duty-free into the EU. Chilean AJC sales to Europe rose sharply.

The US will almost certainly remain Chile's chief export market for the foreseeable future, but the interesting thing is that customers in Europe who have bought from Chile this year have been saying they intend to continue purchasing from Chile. "It is a reliable supplier," said one *FOODNEWS* source, "and the product is good." The key thing to notice here is that reliability was the first factor to be mentioned. Chile has opened up a major new market.

"Other Chilean food industries have been damaged by China, but not apples," adds Correa. "We are one of the most competitive places in the world."

Carozzi is one company that evidently believes that there is a new export dawn for Chilean AJC, as it is presently constructing its first dedicated AJC factory which will be able, next season, to produce up to 25 000 tonnes of AJC annually. This is a big figure for Chile.

"I think that the supply of Chilean production this year was a high one because of the price that we could pay for the apple, given the AJC price. I don't know what is going to happen next year. Higher production next year is unlikely – how much smaller our production will be depends on the price of AJC. Production of apples is not really changing in Chile."

"This year's production of AJC is around 50 000 tonnes," said Karl Huber, general manager of PatagoniaFresh, one of Chile's major juice concentrate manufacturers. Argentina will be about the same."

Patagoniafresh is also ramping up its production capacity. The company has just bought a new evaporator. Last year, it had seven separate evaporators, and changed those for one single new unit. "It has improved efficiency," commented Huber. "We are now using half the steam that we used before." It has also increased the plant's production capacity of plant by 25%.

Early indications for the new (northern hemisphere) apple season suggest that China will once again be dogged by expensive AJC and so while the EU is looking at good harvests and higher AJC production, it will still need to buy some product from outside Europe, and the door still remains open for Chile.

Grape juice production in Chile remains

Chilean GJC Exports (tonnes)



Source: Chilealimentos - Odepa | (*) = Projection



Bucher at Bayas

affected by the demands of the wine industry, which lost a lot of wine in last year's earthquake and which has been trying to rebuild stocks. The wine industry is being given priority for raw material. Also, according to Patagoniafresh, this year's grape harvest was smaller than usual.

This year's total production of white grape juice in Chile will be around 25 000 tonnes, compared with perhaps 165 000 tonnes from Argentina. Chile's highest-ever white grape juice production was in 2009, when 48 000 tonnes were produced. At least one grape juice processor has suggested that a system, as exists in Argentina, to allocate raw material to the industry, as well as to the wine makers, would be beneficial.

Chile is competitive with red juice concentrate, but that is a much more specialist market. Antonio Martinez of Mostos del Pacifico says: "Two markets which remain really strong in buying are Canada and Japan. Where will we be in five years' time? It is difficult to say. Perhaps some players will disappear or move to another market. We will continue being a business. This is the second year of high prices and the market is assuming that this is the price. I think we will wind up with a higher price than in the past but some players will disappear."

"China is quite open as a market and they will probably only produce wines from grape juice concentrate for the low-price market and there will probably be a huge market there in the future. In the medium term rather than the long term we will be competitive in terms of imports."

Correa agrees. "Grape juice has been complicated for the last two years because of the wine industry, and every-

continued on page 8



This is mechanisation! The machine strips surplus growth from the cranberry bogs. Powered by a tractor engine in each 'pod', it was built entirely in Cran Chile's on-site workshops. Seats courtesy of an old Opel Vectra.

THERE is nothing small about cranberry growing. It requires a lot of land, and some very specialised equipment to maintain the bogs. After that, the processing plant itself is practically an afterthought.

When Cran Chile was established in the southern part of the country, cranberry juice concentrate (CJC) prices were firm. Disastrous over-production in the US sent cranberry juice prices down to record lows, from which they are only just starting – slowly – to recover.

A record global crop of 10 million barrels is expected this year. Fortunately, the decline in juice prices has been offset by a huge increase in sales of sweetened dried cranberries (SDCs).

Cran Chile has just commissioned a brand new SDC factory on its farm. The plant has been built and equipped to the highest standards and is still considered so 'sensitive' that *FOODNEWS* was not allowed to photograph its actual processing section.

"Fifty years ago, the cranberry business was a sauce business with almost all of the cranberries grown in the US and consumed on two days: Thanksgiving and Christmas," Fernando Casari of Cran Chile told delegates this year at the *FOODNEWS* Juice Latin America conference in Santiago. "CJC prices are soft today and to some CJC has become almost a secondary product: a by-product from the production of SDCs. Today, cranberries are used in the beverage and snack industry with growth over the past 10 years from practically zero to 240 million pounds per year."

Chile offers an "extremely clean environment" for cranberry growing. "One of the purest in the world," says Casari. There are very few vine diseases and no need for pesticides.

Finally, Cran Chile has been working on a new product: chocolate coated SDCs, shown in public for the first time at the *FOODNEWS* Juice Latin America conference in Santiago. This is a top quality indulgent product and deserves to succeed.



Cranberry bogs need sand. Lots of sand. Cran Chile extracts it from sand beds on the farm. Water comes from a local river



Final packing of SDCs in Cran Chile's new hi-tech facility

continued from page 7

thing changed after the earthquake," he says. "A lot of bulk wine lost and they have tried to recover as much as possible and they have started to push table grapes. Chile mostly producing red grape juice. We are focusing on high colour 4000 and 1000 juice: we blend Tintorera with table grapes."

Chile is also a major producer of vegetable juices – Japan buys heavily and Europe is taking more than an interest. Invertec's Correa approves of the specialist aspect of the sector. "Vegetable juices are less of a commodity – there is a wide range of products," he says. Tomato and carrot are very competitive, but the rest are more niche, there are fewer products in the world, and if you want to buy (for example) spinach juice these days it is not easy." Unless you come to Chile.

In southern Chile, Bayas del Sur is still probably the global market leader with its maqui juice, and associated maqui products. Already, maqui is starting to be seen in Europe and while the supply will always be limited, it makes Chile the only viable source of the product.

Aseptic purées from berries will focus much more prominently next season. "Raspberry, strawberry, red fruits, vegetables: they can be single or double strength," says Correa. "Chile will be one of the first to do this because the big guys' production does not allow them to produce small volumes." The products will be aimed at the dairy, baby food and fruit fillings sectors, and available



in aseptic packs: demanded by the Russian and Middle Eastern markets. How much? It is hard to say at this stage, because the red fruits supply is very volatile. Interestingly, Surfrut is thinking along exactly the same lines with its new Fruty-U single strength purées in mainstream flavours such as apple, pear, grape (red and white), the usual Chilean berries and stone fruits, as well as exotics and native Chilean varieties such as maqui, chirimoya (custard apple), guava and pomegranate. The range of vegetable purées includes carrot, butternut squash, broccoli, tomato, sweet corn, zucchini and red bell pepper.

Apple, white grape, dark sweet cherry, blackberry, blueberry, raspberry, strawberry, kiwi, chiaimoya, guava, butternut squash and

zucchini purées are also available as organics.

"The intention is to offer fruit and vegetable purées that you could make at home," says Jaime Crispi. All are available in different pack formats; mostly 55 gallon aseptic bag-in-drums and five-gallon aseptic bag-in-boxes (some are available in both). Aseptic 300 gallon bag-in-totebin packs are under development.

"The Far East market is also important. Korea is a good market and then you have Thailand, Taiwan and Singapore," says Correa. But the fastest growing market is Europe, basically because of the duty advantage. It is 7% this year, will be 5% next year, and will go to zero very soon."



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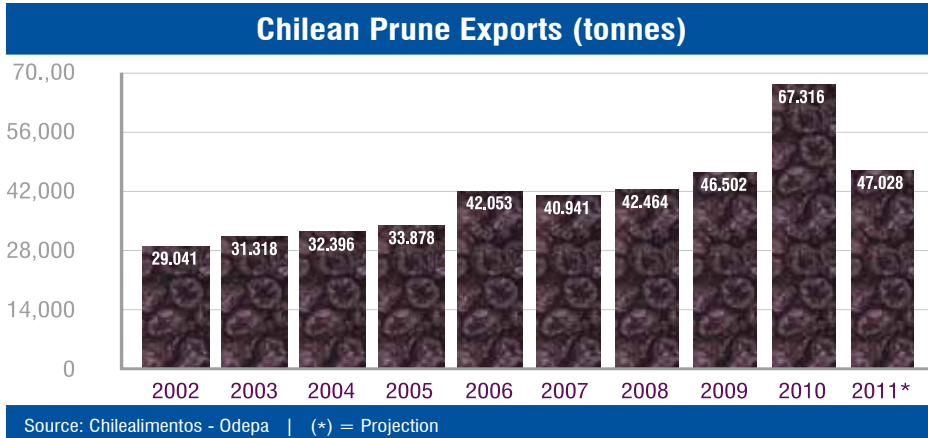
Purchasing harvesting equipment is very expensive. Why not rent it instead? And from the competition....
By Neil Murray

HECTOR Claro of Prunesco smiles. "To be a grower you must be very, very efficient," he says. "We have had a very successful introduction of mechanised harvesting here. This is our second year with the system, and it has been very successful. It has been a very good tool to increase efficiency."

Plum picking machines are complex and not cheap. In the US, it is apparently commonplace to lease them when you need them, and for the rest of the time they sit idle. Or they used to. Someone (FOODNEWS does not know who...) worked out that with the reversed seasons, there was market for the machines in Chile. So they are shipped out for Chile's plum season. The operators are hired as well.

"It is a matter of money," continues Claro. "Shipping costs USD2 500-3 000 and takes 20 days of sea freight. And we can use the same machines to harvest walnuts."

Another processor is seeing new equipment as a means of making an improved product. Sunsweet has bought an entire stainless steel line, to finish products, from Hi Side of the US. The turnkey line includes



boilers for tenderised products, and metal detector. Previously, processed products were finished in a different plant.

"I think this will be the best plant in Chile," says Gustavo Palma of Sunsweet. "All the facilities will be like a clinic. There is an epoxy floor, all the walls are epoxy as well, and the ceiling is easy-clean. It will be ready in August/September and will start processing fruit that was dried in February and March." The point is that the new kit,

coupled with an improved drying machine, will allow Sunsweet to offer products with a lower mould count, which will in turn allow the reduction of the use of potassium sorbate as a preservative – down to 400 parts per million (ppm). The European maximum is 1000ppm and for the even more demanding Japanese, the limit is 500ppm. And Palme is convinced that the permissible content will be reduced as time goes by. He is almost certainly correct.



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Pedro Monti and Hector Claro (right)

“Companies are working pretty hard in the Chinese market. We started visiting potential customers in 2008 and so it was just a matter of starting shipping. We have some big contracts and have shipped some sample containers directly to the supermarkets.”

Frutexsa is obviously thinking the same way, as its recent investments include equipment to manage the moisture content of the product, as well as new pitting machinery.

The new line gives Sunsweet a production capacity of 5 000-6 000 tonnes with two shifts, although the intention is to aim for 3 000-4 000 tonnes next season and work up from there. Palma says that Sunsweet intends to move away from the US market and more towards customers in Europe and Asia. “We think Europe is looking for quality,” he says. “We are looking for tunnel dried product, or maybe we will start with sun dried and then go to tunnel drying.”

Not so very long ago, Chile was suffering from quite serious unemployment. During the recession, it was into double digits. As the country’s economy booms, the food industry is facing the unusual challenge of being faced with labour shortages. Mechanisation is not just a tool to improve efficiency and the bottom line: it is increasingly being seen as a way of overcoming a shortage of staff.

“Labour costs have increased by 30% in one year,” says Claro. “Unemployment is

around 7.5% around here. The retail industry is taking away a lot of people. People do not want to work on farms, so we have to pay more. Things are pretty tough for the growers right now.”

Some companies have experimented with bringing in foreign workers, principally from Peru.

There has been some discontent because of allegations that, in some cases, these

imported labourers have been paid below Chile’s minimum wage (Peruvian wages are much lower than Chilean) and then simply sent back home when the harvests are in.

“There is no need to import labour,” insists Javier Plaza of prune processor Frutexsa. “It is difficult to find labour in Copiapo because copper mining pays better, but here it is not so serious. Some companies are bringing people from the south to the north.”

It seems to have escaped many people that in 2009 Chile became the world’s biggest exporter of dried plums, a position it held in 2010 and looks like holding again this year. It is in second place as a fresh plum grower/producer.

Chilean producers do not seem to consider France as serious competition any more. They pay more attention to Argentina, but do not regard that country as a threat. “Their economy is in pretty big trouble,” says Claro.

“Some 30-40% of their orchards are abandoned. At the recent IPA meeting in Viña del Mar [in May], the Argentine delegation declared that their production potential

is around 30 000 tonnes of raw material and no more. Half of what they expected. Chile produces around 80 000 tonnes.”

Last year, Chile started increasing its exports of all sorts of products to China. In March this year, the governments of Chile and China signed a protocol for importing dried plums into China from Chile.

This followed some years of behind-the-scenes work by Chile’s government and dried plum producers.

“Companies are working pretty hard in that market,” reveals Claro. “We started visiting potential customers in 2008 and so it was just a matter of starting shipping. “We have some big contracts and have shipped some sample containers directly to the supermarkets.”

Other growing markets



Two examples of new retail packaging



Robotised pallet wrapper at Prunesco



This boiler burns prune pits to make steam for processing

include North Africa and the Muslim countries – these customers apparently demand larger sized dried plums, and used to import them, unpitted, from France.

The Chinese, interestingly, look less at the product and more at the packaging. The

Chilean packs bear a specially applied sticker that declares the product to be imported: this apparently carries a huge cachet among status-conscious Chinese consumers.

Work is ongoing into new products that can be made from dried plums. Prunesco

“The Chinese look less at the product and more at the packaging. The Chilean packs bear a specially applied sticker that declares the product to be imported: this carries a huge cachet among status-conscious Chinese.”

has signed a research agreement with the food department of Santiago University to try to develop some industrial products derived from prunes, targeting the bakery industry and the dairy industry (for yogurts).

Co-financed by a government programme, the initiative follows a visit to China where a lot of this sort of activity was observed by the company. “The chief concern is always fragments or pits,” says Claro. “The first target is zero fragments: you have to start from that. We are developing means of assuring this.”

It seems appropriate to conclude with an investment made by Prunesco that finds a use for plum pits. The company has just installed a boiler that is heated by burning precisely this waste material. Energy from plums: now there is something to think about.

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Two leading companies in canned foods

Neil Murray interviews Iván Irarrazaval of Agrofoods Central Valley and Roberto Murphy of Aconcagua Foods

What investments has the company made in the last 12 months?

RM: We have integrated up and down the supply chain stream. Last season we installed a can manufacturing line to source the larger volumes of cans.

Also, at this moment we are building a big state-of-the art automatic warehouse which will reduce costs and expenses to keep our cost advantages over our competitors and to give our local customers Lider, Jumbo, Unimarc, Tottus, etc. a logistic advantage with our products.

In total we are investing USD15 million in this period.

Is the sector showing growth?

RM: Einstein would have replied: "Related to what?" And so do I. We are growing compared to the previous seasons but in general the world trade of canned peaches is steady. When big players withdraw from the world market, there are better opportunities for the remainders which have the opportunity to grow.

Also there is a consolidation of the world market demand for pulps and purées; and lower prices of peach pulp are allowing a steady growth in consumption of nectars more than juices at our target markets.

What ways are there of adding value? Canned products are, after all, hard to move upmarket....

II: Fruit cups and plastic jars could eventually be the means. In Latin America we are not yet exposed to consumption falls as in other developed countries. We have experienced a high increase both in canned food and fruit pulps in Latin American markets, particularly in South America.

What other processed food and snack products are being developed? I remember seeing some interesting innovations in 2009.

RM: We are still making plastic cups and plastic jars in the fruit lines but we quit from fruit in pouches as we feel our customers and the market are not there yet.

The US dollar is making life difficult: what efficiencies can be made to balance the rise of the peso? Canning technology is hard to improve, so I imagine that savings must be made in the supply side. Is there a move to more growing under contract?

II: In Chile, there is still a lot to do in terms of efficiency at the factory floor level and in



Iván Irarrazaval and Roberto Murphy (right)

the fields, but we are working on that. We are moving quickly to reduce costs through productivity and mechanisation. Chile has enough raw materials to keep growing.

RM: The only recipe to tackle the peso-related costs is productivity and fruit quality. Savings are not possible in the supply of fruit at least. The growers need better prices in pesos as their higher production cost is, precisely, labour.

As a company we have a plan to plant 1 000ha of cling peaches in the following four years on our own and/or get good growers interested to grow under contract with us.

Is the area devoted to growing fruit and vegetables for canning static, increasing, or falling?

RM: It is almost static but, the lower yield growers and the old orchards are being pulled out and also some discouraged growers who suffered (as ourselves) the up and downs after the financial crisis which led to low prices paid for the fruit. This is the reason why we are planting and recommending our growers to plant, as I foresee that some important producing countries will start to demand more as their output falls.

What effect has been noticed following the signing of Chile's most recent Free Trade Agreements?

II: The export statistics in all areas show a strong spread, mainly due to the free trade agreements. Our challenge is how to maintain and increase our position in the future.

Chile's minimum wage is increasing. What effect is this having on business?

RM: It affects the growers' costs and the

industry average labour costs a great deal but the larger effect is the rising labour cost because of the exchange rate.

Are customers now coming to Chile as a "first choice" supplier? Historically, Chile has been regarded as an 'alternative' or 'different season' supplier, but my impression is that this has changed.

II: Yes, Chile is becoming a first choice supplier, in many cases due to the FTAs and also because we have been able to maintain high quality standards.

RM: In institutional 6A10 can sizes, we may become sooner than expected a first choice supplier.

Peach purée: Chile is slightly more expensive than Argentina, but has a duty advantage. But this year Chile looks to be competitive against Greece! Why?

RM: I may put that the other way: as we have a duty advantage, Argentina has to sell cheaper.

With Greece is a different story - they are closer to Russia so on an FOB basis we must be cheaper. This is something that depends very much on the Greek total pulp production and the final price they can pay for the fruit.

Finally, what do you think is the European perception of Chile? I have my own impressions, but it would be interesting to see what Chileans think.

RM: When we talk of canned peaches, Europeans do not have Chile on the radar (yet). They can buy cheap products from Greece and Spain, with short distance freight. Pulp is different; at least to eastern Europe we are a well-known quality supplier. They also know Chile is a big player.

Corfo's InvestChile



We are the unit responsible for the promotion and attraction of direct foreign investment to Chile. In order to accomplish this task, we promote and communicate the country's competitive strengths as a destination for foreign investment as well as the investment opportunities that Chile has

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Developing alliances

Chilealimentos ensures that its members work as partners with their customers, says boss Alberto Montanari

FN: How quickly is Chile moving towards more sophisticated added-value products? From products and concepts I saw last year, my guess is very quickly indeed.

The adding of value to food products made by Chile's food industry is constantly pushed for, at least for two fundamental reasons. We supply markets across five continents. This means we have to, at the very least, be up to date with innovations in product development and services associated with food sales that are carried out by the world's biggest competitors. Our domestic market is practically without import duties. Food manufacturers that supply the domestic market are under constant pressure to innovate and add value to that which they sell, with the objective to sustain and prosper from their commercial activities.

What sort of products are we talking about here?

All warm climate fruits, with these being used for preserving, dehydrating, juicing or freezing. As regards canned or preserved foods, Chile has had co-packing agreements for many years. The dehydration sector has been one of those that are quickly developing versions of finished products using dehydrated apple as well as nuts containing walnuts and almonds.

In juices, the possibility of supplying distant markets is very limited by the distance and transport of processed liquids which is very expensive. However, there are big developments in Chile of berry juice and fruit purée, like peach, where our country is the leading producer of this type of concentrate.

How much investment does this require, and in what areas? Research and development and new factory equipment are obvious examples. Packaging: you mentioned this last year.

There is a wide variety, depending on the type of product that we are analysing. If sales are made for retail through a co-packer, investments often include the addition of the plants that we own, finished product bottling lines, and a detailed study into alternative packaging that can be adapted to consumer preferences across the world. If the client is a buyer that wishes to use our products and has not developed their own brand, the task is bigger and normally requires investment in design and logistics.

Sophisticated processed food products are obviously more profitable, but for Chile, the



export potential is probably narrower than with some commodity items. It would be difficult, for example, to penetrate markets in Europe because of the cost of freight and the problems in competing with a very developed European industry. But in Latin America and possibly Asia, there must be potential?

In the developed countries, entering and competing with a brand is tremendously difficult. What we do is develop alliances with the local industry or retailers. Though shipping costs are significant, their relevance shrinks when compared to adding value to products. Many of our clients ask us to deliver finished products, ready bottled for consumers. In Latin America, the impact of shipping costs is obviously reduced because these markets are closer. As a result, we can supply our own brands in these countries, in addition to shipping processed food products or semi-prepared products.

In Asia, geographically the furthest market from Chile, there is still a lot to do. Despite having always shipped semi-prepared food to that part of the world, such as purées and juices, there is a growing interest in finished products or designing specific products in new markets, such as China. In 2005, we shipped some USD250 million in food and agricultural products with an average value of USD366/tonne. In 2010, we exceeded USD392 million, with products with an average value of USD1 700/tonne. From what we can see in 2011, the growth in the value of exports has been 74%, which shows the dynamism of exports from Chile to China, which brings with it a wider range of products every day. A few years ago, exports were concentrated on fishmeal. Conversely, we now ship a greater range of fish and seafood, fruits, wines, milk, canned or preserved food, juices, frozen foods and dehydrates.

Is ChileAlimentos recruiting new members? If so, from which sectors?

Given that this sector contains a lot of companies, there are always new members that subscribe to the association. Our role is not to just consider food production, but also to take into account all the companies that provide services to the food industry. Among our members, in addition to producers of finished products, we have functional food companies, providers of raw material for the industry (such as flour), providers of airline food, providers of school meals, machine manufacturers, laboratory services, quality control companies, engineering firms etc.

Returning to the world of commodities, is there now a balance in the grape industry? Last year, a lot of grapes were diverted to the wine industry to replace stocks lost in the earthquake. Is the wine industry now adequately supplied? Can more fruit now go to the grape and raisin industries?

This year there has been less pressure on grapes, since we do not have the problem of losses caused by last year's earthquake. Jointly, there has been a decline in demand from the raisin and juice industries, which have seen prices fall internationally. However, table grape exports as well as wine exports have risen 9.5% and 9.1%, if you consider the volumes shipped in the first few months of this year. It should be added that, traditionally, demand for table grape has grown in our country.

As regards other fruits and vegetables, is there sufficient raw material to meet the demands of all processors? If not, where is the supply situation still difficult?

There is always a comfortable period or deficit, depending on the product and global demand. In berries, except raspberry where the price is returning to more normal levels, demand for processing fruit is very strong this year. This is exactly the same situation for nuts, especially walnuts. The juice industry, which is more traditional, is at a critical moment as regard apples, due to the increase in price for this product. With grape juice, the situation is the reverse. As regards vegetables,

demand is good, since there are numerous companies trying to increase juice production volumes recently, so they are finding agricultural providers who can supply the quantity and quality needed by export markets.

Peach, for canning and purées, is where Chile has a outstanding place in the international arena, with the industry having reached the development shown in the past few years, thanks to a renovation of orchards that has guaranteed adequate raw material for processing.

I know that contract growing of fruits and vegetables, in order to guarantee a raw material supply for processing, is growing. How well is it established?

Companies are developing raw material supply contracts quicker and quicker with farmers now not only for a particular season, but also for the medium and long term. This includes the transfer of technology from the industry towards farmers, in addition to the financing of plantations, which is a permanent task carried out in Chile with the aim of improving production and efficiency in the industry. In this sense, industry pressure on farmers to generate higher production levels all the time is resulting in contract growing becoming more frequent and it will continue to be in the future.

With temperature control becoming more important as an industry involves, how big is investment in cold storage? I know that a number of coldstores were damaged or destroyed in last year's earthquake.

Fortunately, a large part of the coldstores in Chile can be found in what we call the Central Valley of the country. In this area, last year's earthquake had less of an effect and, of course, it did not suffer the effect of the tsunami that caused the large part of damage to buildings. We did not have serious problems with cold storage capacity for last year's or even this year's production. This was thanks

to construction regulations in Chile which are some of the most rigorous and secure in the world.

Which are Chile's biggest export customers, by value, for processed foods and beverages? What are the new emerging markets?

The destinations where we have seen the biggest growth compared with 2010 were, in general, countries in Latin America and Asia.

Last year was clearly the year when China started becoming a big customer for many suppliers around the world. I was very interested to hear that China is buying Chilean products. How important is this business?

It is a market that represented USD392 million in returns for Chile in 2010: the sixth most important market for Chile.

Is the salmon crisis in the south of Chile ended now? Is the industry recovering?

Yes. We can now say that this problem is now practically eradicated. This was clearly shown in the export figures which reached 187 000 tonnes during the first semester of 2011, an increase of 23% compared with the same period the previous year.

With the increase in domestic demand, as Chile becomes more wealthy, are more companies looking at the domestic market or is export still the top priority? The last figure I saw for the Chilean domestic food and drink market was about USD30 billion.

We export more than what we sell domestically. What normally occurs is that export figures are delivered in FOB values and domestic sales are normally expressed in consumer levels. Chile has a domestic food market of USD18 billion at consumer level and some USD12 billion FOB in exports. If this last figure is shown at a end-user level, in the hundreds of countries we supply, surely one could assess the big difference between what we consume in Chile and what Chilean food

products are consumed worldwide.

What effect is climate change having on Chilealimentos' members and operations? Is there a move towards producing fruits and vegetables more suited to a dry climate?

It is hard to say exactly what is understood by climate change in our country. However, we have seen throughout the years that fruit and vegetable production has been moved towards the southern zone of the country where water is less scarce. This represents a new opportunity for us to increase our supply since in the Central Southern zone of Chile there is more land to produce fruit and vegetables, those which as a result of temperature issues we could not produce a few years ago.

How does Chilealimentos measure the success of its various initiatives?

We have a main indicator that we are always monitoring and that is the increase in the value and volume of our processed food exports produced by our associated companies.

At the start of the 1980s, Chile exported products worth some USD50 million from Chilealimentos members. In 2010, the figure increased to close to USD2.4 billion. In the last 10 years, we have managed to triple our shipments.

How is the energy efficiency campaign going? Last year, I was told that Chile has managed to increase production without consuming more energy: a remarkable achievement. Is that continuing?

Effectively, at a national governmental level we are committed to an energy saving campaign, which has been developing for a while and was given a boost in January this year. At a Chilealimentos associate level, where companies have participated in member projects that deal with energy saving, in just three years electricity use in Kwh/tonne has been reduced by 9% and use of kilos of fuel/tonne has been reduced by 23%.



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Processing and blending

Chile has a sophisticated frozen food industry, and the country's small population means export markets are essential for survival and growth.

BY NEIL MURRAY

CHILE has long been known as a reliable supplier of quality frozen fruits and vegetables. The business has always been export-oriented. As processors have explained, the Chilean domestic frozen food market, while it is probably the most sophisticated in South America, is still relatively small. With a domestic market population of around 17 million, processors really have to look abroad, especially if they are seeking customers for products more sophisticated than frozen bulk berries (for example).

"Latin America is a stable market, and a very young market: not so developed in terms of the cold chain," nods Cristobal Arancibia of Southfruit. "Chile is very sophisticated." This is certainly true of the fast food sector, where the American influence is huge. "People like to laugh at the Americans, but here in Chile we really try to imitate them," said one *FOODNEWS* contact, who had better remain anonymous.

Processors in Chile have some advantages over their counterparts in other countries. Take frozen raspberries, for example. Chile's rival in the northern hemisphere is Serbia. In Serbia, the harvest lasts about 25 days. In Chile, with its wide north-to-south geographical spread, it lasts four months. "Our factories can afford to wait," says Antonio Dominguez, president of the International Raspberry Organisation and whose company, Nevada Export, is in the business. "In Chile, there is a wider spread and less risk. Processors have four months to react to how much to pay for raw material and they can adjust the price during the season. At the end of four months, it is easier to be more profitable. If Chile sees Serbia has a good crop, then Chilean stocks will have to go to market. And if you have weather problems during a 25-day harvest, then your losses can be high."

Ditzler Chile, one of the country's leading processors, changed its name from Frigo Ditzler. The Swiss-owned company ("It is very good to be known as a Swiss company," smiles managing director Michael Brogle, "because people associate Switzerland with quality") has also changed its focus from the bulk production of frozen fruits. "The margins are tiny: that is always the problem," explains Brogle. "But it is now impossible to get rid of the bulk side because we need it now to supply added value products."

Ditzler has moved into the fruit preparations business, making ingredients for dairy and other processed food industries. In a way,



An Ishida multi-head weigher, the latest in high-tech, in Ditzler Chile's factory

this is a return to its Swiss roots, as the original founder of the company was in the yogurt business. Ditzler Chile is vertically integrated, with its own growing fields for cherries. Top quality fruit is, of course, sold as IQF but a more varied processing operation means that second grade fruit can also be used. Ditzler makes ingredients for jam, sauces, the ice cream industry and is now experimenting with pie mixes. Chile has a very strong bak-

ery industry and a strong culture of eating pastry products, so this is a potentially very successful sideline. Its products have attracted the attention of (perhaps unsurprisingly) Swiss retailers, and both Coop and Migros buy Ditzler fruit mixes. The company is trying to do business with Asda in the UK, but Brogle says its frozen food division is not so developed (this is probably a very shrewd assessment, actually). In Chile, Ditzler is

working with the Lider chain which, like Asda, is owned by WalMart. The company has found, like other Chilean suppliers selling in different markets, that all markets are not the same when it comes to packaging. In Europe, for example, German consumers like their frozen fruits and vegetables in cardboard boxes. In the UK, they prefer polythene pillow packs.

Because Chile has a more sophisticated frozen foods sector than other Latin American companies, its processors are realising that they do not necessarily need to rely on domestic raw material. Southfruit's Cristobal Arancibia says his company does not want to be dependent only on berries and their relatively short season, so it imports frozen items from Asia for distribution in Latin America. Fruits and vegetables are mixed and re-packed, so Southfruit exports Peruvian tropical fruits to China, sells Ecuadorian broccoli and cauliflower to Chile. Thai or Chinese products can be sold anywhere. This is an amalgam of processing and trading. So: export, import, trading.

"Berries are sold as good for health, and that is the concept that we are exploring," adds Arancibia. "We are selling a health product. Actually we are not selling blueberries, but some strange round berry that is good for the eyes, health, everything. The Chinese are starting to eat and they want to eat a lot of things. They want to try western flavours and they are taking a lot of western custom in the way they're eating. Berries are a new opportunity, a new fashion. My main concern is that they are starting to plant blueberries, but for the moment, they are importing."

Business is strong and Southfruit plans to invest in a new factory in Chile – at present, it rents two: one in Curico and one in Linares, for berry fruit and also repacking and mixes. Alifrut, too, is moving far beyond basic frozen fruits with products like frozen empanadas



Cristobal Arancibia

"Berries are sold as good for health and that is the concept we are exploring. We are selling a health product. Actually, we are not selling blueberries but some strange round berry that is good for everything."

and even fresh products, like blueberries.

The frozen sector stands between the fresh and the juice sectors: when there is stronger demand for IQF fruit (such as raspberries) there is less raw material for the juice manufacturers. When there is very strong demand from the fresh sector, there is less raw material for any form of processing. For this reason, according to Antonio Dominguez of Nevada Export and the International

Raspberry Organisation, some raspberry processors are moving towards owning (or at least having total control of) their own plantations. It obviously secures the raw material supply, and it has the added bonus of controlling and monitoring the pesticide content, which is of particular importance for juice manufacturers as the pesticide content becomes concentrated along with the juice. It is something less of an issue with single strength juice. However, this vertical integration is less likely to happen in the frozen sector because of the highly successful Productive Alliance – a government initiative involving collaboration between freezer plants and farmers.

It is interesting to see that Chile's frozen fruit and vegetable processors face the same consumer resistance and ignorance as their counterparts in the northern hemisphere: namely, that frozen products are inherently less nutritious than fresh. In the UK, the British Frozen Food Federation has been campaigning against this perception for decades, and it is only relatively recently that the message has started to be successfully conveyed. If fruits and vegetables are frozen as fast as possible and as soon after picking as possible, then the essential nutrients and vitamins are locked into the product. Some fresh produce, especially if kept in controlled atmosphere storage, can be days, weeks or even months old by the time it is sold.

Again, in the UK, Bird's Eye was carefully stressing, in its TV advertisements of 30 years ago, that its peas were frozen within an hour or two of picking, and in this instance at least, the education campaign was successful, for peas became the first vegetable in the UK whose frozen consumption outstripped that of fresh.

Chile's processors should get the message across to consumers in less time, because they have the experience of their counterparts in Europe and the US to draw upon.

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A safe supplier

Neil Murray poses some swift questions to Cristian Stewart, of fresh and frozen fruit and vegetable supplier, Comfrut

What investments has the company made in the last 12 months?

We have invested in laser sorters, an IQF tunnel and plant improvements for automation and to increase food safety.

Is the sector showing growth?

We see a growth of 10-15% in our sector.

What ways are there of adding value?

Fruit mixes are obvious, but are there products that can be targeted at food processors? Agrana does this successfully.

We have more customers for retail packs. There are more fruit options in mixes other than the ones produced in Chile, and better packaging displays.

How strong is the organic sector? Is it growing? Or are people looking more for Fairtrade products today?

There is growing demand, but limited sourcing. Growers are not so happy with prices and restrictions. Every year new certifications are being requested but the market is not willing to pay the extra costs for Europgap, Globalgap, etc., especially in Europe. Other markets are more flexible.

The US dollar is making life difficult: what efficiencies can be made to balance the rise of the peso? Canning technology is hard to improve, so I imagine that savings must be made in the supply side. Is there a move to more growing under contract?

Packing and sorting technologies are helping to reduce costs. Labour costs and restrictions have increased more and more, so whatever can be done in automation is the key to success.

We have tried to increase prices but only with some success.

Is the area devoted to growing fruit and vegetables for freezing and purée static, increasing, or falling?

For some products it is falling; strawberries for example. The business has been bad for growers. There has not been much of an increase elsewhere except for blueberries.

Chile's minimum wage is increasing.

What effect is this having on business?

It is having a bad effect. If you add this to the peso weakness, our costs are going up and returns are going down. It is a bad scenario.

Are customers now coming to Chile as a "first choice" supplier? Historically, Chile has been regarded as an "alternative" or "different season" supplier, but my impression is that this has changed.

For some of our customers, yes, we are the first choice. They understand we have a good safety programme in place and we are a reliable supplier.

Our experience has been to grow with our customers and we tend to be their whole-year supplier.

I know that last year, most raspberries went for freezing and there was a shortage for juice/purée. What is the situation this year?

This year has been more balanced in terms of volume to each part of the industry.

Finally, what do you think is the European perception of Chile? I have my own impressions, but it would be interesting to see what Chileans think.

I believe they see us as a safe supplier in terms of chemical residues and other contamination, and some of our exporters are reliable, but not all.



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Local favourites

Chilean nuts are tariff-free into many key markets in Latin America, writes Neil Murray



Machine cracking is fine, but for the best quality nuts, hand cracking has a higher yield

CHILE's almond production, while still minuscule by the standards of California (forecast to produce 1.9 billion lbs this season!), is significant for many countries in Latin America that impose tariffs on US nuts. Chile has the advantage of watching California harvest its nuts and then waiting until its own harvest time comes around (the seasons are reversed, remember).

"The blooming time in California changes the market prices. So does the harvest in California in August-September, and the third price change is when nuts come to market with the first official forecast," points out Cristian Manterola Salas of Parmex almonds. Chile harvests its almonds from the end of February through to March and April. Buyers tend to have to go to the spot market in August-September, which is a perfect time for Chile to sell.

Again, Chile has become the first choice for some customers. Latin American ice cream businesses buy their almonds from Chilean producers. However, the Mexican government is to lift its 20% duty on Californian nuts. "So for Chilean exporters,

maybe the market will disappear unless we put ourselves on the same price level as California," says Manterola.

Chilean almond production this year is estimated at 14 000-15 000 tonnes, up from 9 000-11 000 tonnes last year. There is no new land being planted to almonds in Chile, as it tends to compete with land earmarked for other crops, but there are new plantations now coming into bearing in La Serena, some 470km north of Santiago, so output will continue to rise for some years.

"We are trying to push the processed business because this is the business where we have an advantage compared with California (and other Chilean) exporters," says Manterola. Parmex produces crushed, diced and powdered almonds in addition to whole nuts. "It means we can pay the growers a bit more. We would like to sell more almonds to Europe but if conditions remain the same in Brazil and Argentina, we will be sending more there. Brazil is a very big market and we can grow and grow in Brazil."

Walnut production is also soaring: companies like Frutexsa and Andes

Quality (which has a dedicated nut plant, in addition to its dried fruit business, in San Felipe, to the north of Santiago) are adding to their production lines. Frutexsa has added a new calibration line, and following its experiment in placing nut and dried fruit shops on stations in Santiago's Metro system, has increased the number of stores to six and is planning more. Sales from these shops alone are already worth USD1.5 million. David del Curto is exporting walnuts directly to customers (rather than through brokers) for the second year in succession. The quantities are



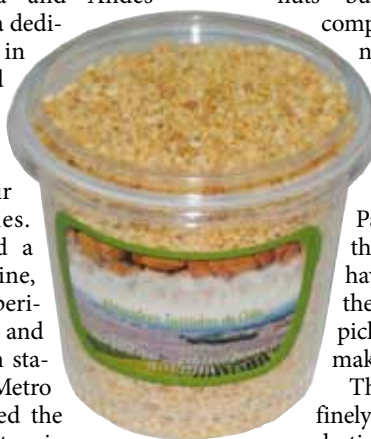
Parmex almonds ready to be shipped for export

small – just five containers, containing halved nuts – but are predicted to grow fast, and the company this year will export half its nuts in-shell and half as halves.

Chilean walnuts are highly prized for their unique qualities. Chile's isolation (Andes to the east, Pacific Ocean to the west, Atacama desert to the north and Patagonia to the south) means that they are secure against diseases and have a total absence of aflatoxins. And the varieties planted do not need to be picked: they drop from the trees, which makes harvesting cheaper.

The nuts are slightly paler and more finely formed than walnuts from other destinations, and the taste is supposed to be slightly more delicate. While mechanical opening is obviously cheaper, hand shelling results in a much lower wastage rate and for a premium product, is still worth doing. At Huertos del Valle's nut facility, one particular lady on the shelling line was pointed out as the fastest, most precise worker of all: it is mesmerising to watch someone performing what looks like a very simple task so fast and precisely, and knowing that while it looks simple, it requires extraordinary skill.

"Under the process of manual cracking, the nuts are almost perfect, so the appearance is very good," points out Sebastian Stevenson of Huertos del Valle. "This is why quality bakers put Chilean walnuts on the tops of their cakes, for decoration. They put US walnuts inside!"



Specialist added-value almond products attract ingredient companies, such as ice cream makers





“Chilean walnuts are highly prized for their unique qualities. Chile’s isolation means that they have a total absence of aflatoxins. And the varieties planted do not need to be picked: they drop from the trees”

Huertos del Valle has 55 hectares planted to walnuts but not all are producing yet – in three or four more years they will all be in production.

“We just need more fruit to grow,” says Stevenson. All Chilean nut companies look at ‘total quality’, not just ‘product quality’: hygiene, timing, service, ISO and HACCP, and real traceability.

“The nut market is growing strongly and we are doubling production,” says Javier Plaza de Frutexsa. “The new markets in Europe are growing strongly, and so is Latin America. The most important market is Turkey, where they buy in shell walnuts and shell them and re-export them.”



INTERVIEW: Rafael Irarrazaval, general manager, Anakena

BY NEIL MURRAY

What investments have been made recently?

The company has an investment programme, to reduce costs and increase automation for the industrial sector. The big investment is with clients to open new markets. With producers, there is an agronomic programme to help them to be more productive. We work with producers for a whole year. The average yield is 4.0 tonnes of walnuts per hectare. Anakena’s growers produce 5.0 tonnes/ha. Chile has 30 000 ha of walnuts. We can produce, in time, up to 120 000 tonnes (production is currently about 40 000 tonnes).

What other actions can be taken to maintain competitiveness? More automation?

We are somewhere between automatic and manual. We have electronic sorting by laser sorters. Sometimes we use pre-cracking machines. Hand cracking is helped by machines. It is not like the US, where they press the button and all the lines start.

Which new markets are looking interesting, and why?

Asia and the Middle East. We export shelled nuts, but Turkey buys in-shell. In India, nuts go for industrial production. There is no retail market. Some companies who buy them send them to retail but otherwise it’s a confectionery and bakery market. About 10% of production is inshell, for the industrial market. Not for oil – halves are 14 bucks a kilo, so oil manufacture is too expensive.

What is your present production, and estimated production for this year?
5 900 tonnes in-shell.

Is nut farming an attractive option for Chilean farmers?

Producers receive USD20 000 for their production and they have USD5 000 costs, so the profit is USD15 000. So the answer is: @Yes!”

What qualities do Chilean nuts have to separate them from others?

The main potential of Chilean nut is the colour and the flavour: very fresh, compared with others.

Are customers in Brazil and Europe and Asia seeking Chilean products as a first option these days? (Our impression is ‘yes!’). If so, why?

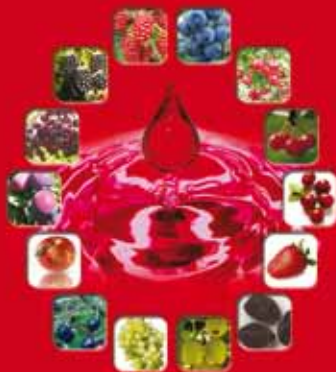
Or seasonality? I think it’s both. Some clients are looking for reversed season supply. Clients they sell to for the whole year, and for that they are the first choice. Chilean prices are the highest in the market: about 5% over the average. Other qualities are the flavours, colour, and the season.

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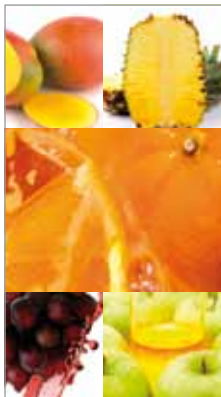


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A laboratory for change

BY NEIL MURRAY

How are you coping with the dollar?

For us, the dollar has been a very important issue. I would say that it is hitting us really badly. Dramatically for some people. Having said that, in my view we have been forced to cope or adjust to this situation since it is here to stay. In our case, this year, we planned more carefully and took some forwards to avoid the exchange rate fluctuation.

What are you doing as regards added value ingredients?

We are already doing it and it is within our company objectives. Chile has done a very good job in getting close to the finished product and we still have a long way to go, but we are on the right track for it, especially in dried and dehydrated fruits and vegetables where we have done a very good job to become powerful world food supplier. We have been approached by several companies to do a sort of "mixed deal". We have done some consumer packaging and done some special product to be repacked at destination. We are not a long way off doing a good percentage of consumer packaging here in Chile for markets such as Europe or North America. Today we have almost all year long delegations coming to Chile to do audits on hygiene, food safety and production control. For most Chilean companies, ISO, HACCP, BRC and other certifications are well known.

Where does Chile stand in Latin America?

Chile has become like a laboratory to make changes, politically, economically and socially. We were one of the first countries in Latin America to implement agronomic reforms, the same in opening up to the world market, the first to have a socialist government elected, one of the first to come from the military to a democratic government, a successful democratic government and the first to move from a socialist government to a right wing one. In the food industry, we have been the first to get clime on the food chain scale.

With all this experience, other Latina American companies or underdeveloped countries are looking at us for this experience. I think Chile or Chilean companies will get more involved in some projects abroad.

Is Chile now becoming an origin of first choice?

Absolutely. When you talk to clients, they say "look at this product, can you develop something similar or even better?" I see this situa-



Juan Eduardo Laso

tion becoming more and more frequent. Quality wise, hygiene, food safety and traceability are well known and used here. In this aspect, we have no difference from Europe, North America or Asia.

As a country, the challenge for us lies on improving the social care and educational system. The government is on the right track.

The other thing that has changed in the last five years is that the world has become a single market place. When you have a multinational involved in Latin America, to sell to them we are obligated to comply with European and North American rules. This has forced most of us to go one step further in our production and service strategy.

And what is happening with the Chilean economy?

The Chilean economy is stronger than ever. This fact, together with the copper price situation and the interest rates paid in Chile, has driven the dollar downward.

Just to mention a couple of facts, today we have an unemployment rate of 7.5% and the country has a projected growth of 6% even

with today world situation.

What sort of new products are you developing?

As mentioned before, product development is one of the pillars of our company. Today we are offering macerated in rum raisins, dehydrated blueberries and golden berries or Uchuvas. Other companies have offered special dehydrated apples or other types of vegetables. Specific products for specific niche markets.

And finally?

The situation, like in the old days when you could be an exporter with almost no investment, is really gone. There are some companies that do offer processing service and they do an excellent job. You can rent service from such companies but you need to be very careful to make sure the right oil and quality standards are used. Paperwork can also be a problem when doing process in another plant. Today business is not only delivering the right product but doing it on time and offering the right after sale service.

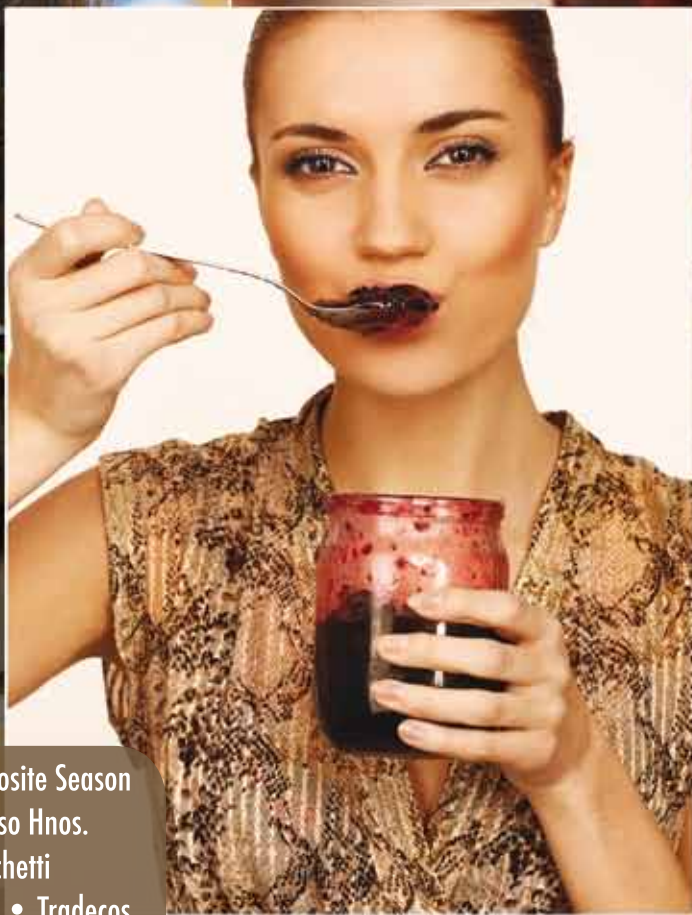
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Pay for the best

CHILEAN canned peach exports have rebounded close to their highest-ever level. In 2008, Chile sold 62 542 tonnes of canned peaches, and then the exports took a slight dip, due to the recession. Last year, they went back up to 61 252 tonnes, and in the first six months of 2011 Chile exported 33 173 tonnes, a massive 45% increase over the first-half figures for 2010.

Chile is presently selling at around USD26.50 per carton, fob. China's price is USD20.00/carton, which one might think would give it an unassailable lead, but according to Alan Wilson, commercial manager of Pentzke, "People are fed up with problems involving China" and prefer to deal with reliable suppliers.

All countries to which Chile exports have revalued their currencies. "To all our customers, there has not been much of a change at the consumer level. The market has taken the prices with no worries," adds Wilson, which is good news. All customers



International customers are happy to pay a premium for Chile's top quality canned fruits, reliably sold.
by Neil Murray.

seem to be buying the quantities expected with them. The massive increase in exports in 2011 appears to be due to a large order from Mexico, while elsewhere in Latin America, Chile is doing better business in Peru and Colombia.

Producers in Chile are still under price pressure. "We have to increase our prices for fruit – or the growers will cut the trees down.

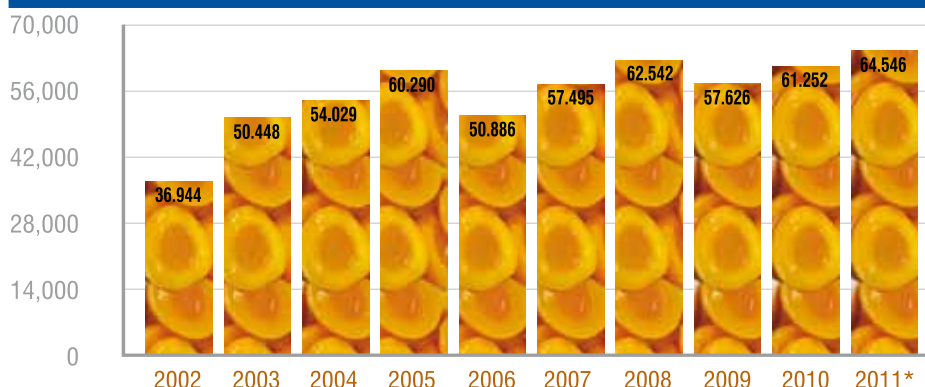
Tinplate and sugar prices continue to be volatile and unpredictable. "Currency is the main issue," adds Wilson. "We are quite concerned with the Chilean peso."

The industry is still improving its efficiency. "Everywhere, you can replace people. There is a lot of machinery for automatic sorting, palletising and labelling machines," continues Wilson. "I saw an automatic factory in Europe with a robot palletiser. We are going to go the same way." Another reason for this is that people no longer want to do the 'dirty jobs'. Or they are finding work in the construction sector, which is hugely busy rebuilding and reconstructing after last year's earthquake. In booming Chile, they have the luxury of choice.

Farming is going to consolidate. In the long run, the farmers that are inefficient will unfortunately disappear. They are being replaced by those who are more efficient, and who replant with varieties with higher yields. There is a decreasing number of growers and the processors are signing contracts getting in with the bigger players, precisely because they are looking for better quality. The small farmers do not have the capital to invest.

"There is nothing new in this industry and that is something that we need to find. Peel-off tops? Easy-open is not really a solution," concludes Wilson.

Chilean Canned Peach Exports (tonnes)



Source: Chilealimentos - Odepa | (*) = Projection

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Bigger farms

CONSOLIDATION is inevitable in Chilean agro-industry. Small farms are starting to be swallowed up, and the country is reaping the economies of scale.

It is happening in the tomato business, according to Juan Manuel Mira of Tresmontes Lucchetti Agroindustrial. "Five years ago the average tomato farm area was 4-5 hectares. Now the average is 25ha," he says.

This makes it far easier to improve efficiency by introducing mechanisation. Five years ago, 20% of the company's transplanting was done mechanically. Now it is 100%, and 55% of the crop is harvested mechanically. "In Chile, the bigger farms have 300-400ha: five years ago, this was very unusual," he adds.

Tresmontes Lucchetti also claims to be the only tomato processing company that is promoting drip irrigation. Not only is it more economical in water terms, but it also helps us increase yields. Interestingly, it also appeals to customers who are concerned about sustainability.

"In Chile, water for irrigation is still very cheap, but every day it is a bit more complicated to have more water available in summertime in different areas. We need to cultivate tomatoes in new areas with better yields. And we want to continue to grow". To this end, efforts are being made to cultivate tomatoes in the area between the coastal mountains and the Pacific Ocean: it is a narrow area but the water supply is guaranteed from deep wells.

Investment in mechanisation has been made. The next stage is to raise the yields of the tomato fields, which have to be adapted for mechanical harvesting. Presently, the yield is 97 tonnes of fruit per hectare, which is seen as competitive.

Last year, Tresmontes Lucchetti pro-



Juan Manuel Mira

duced 78 000 tonnes of tomato paste. Its intention is to be bigger in Asian markets

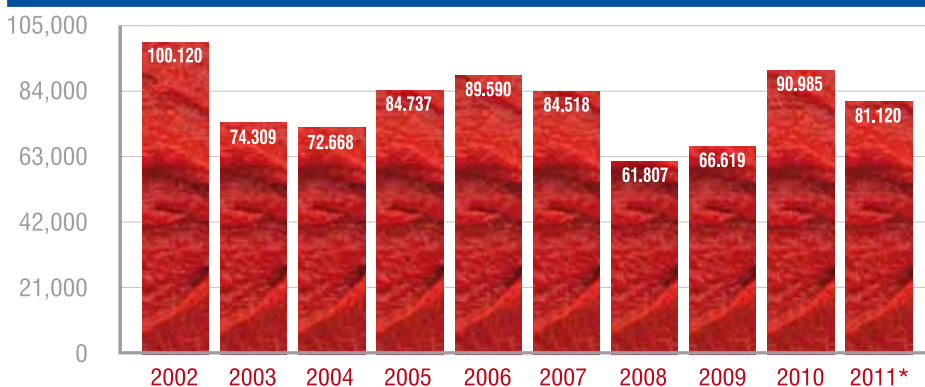
More efficient farms and better irrigation are making Chilean tomato products much more competitive, writes Neil Murray

– Japan, Korea, Taiwan, Malaysia. "They are more concerned about the competitiveness of European producers and they don't want to depend on the US. We aim to increase our share there."

Chilean paste is similar in flavour to Portuguese and Spanish product: 30-32 cold break, or hot break 28-30. Some customers are looking at Chile first, these days. Whether they select Chilean or (for example) Chinese paste depends on the use to which it is to be put. If Far Eastern ketchup makers are looking for paste, apparently, they will tend to blend US product with Chinese.

If they are looking for a good quality product for other use, they will select Chilean or European. Also, some clients in countries like Taiwan or Malaysia are looking at Chilean paste first because of its low acidity. It means they can use lower quality cheaper tinplate, because packs last longer than they do when filled with higher acid product.

Chilean Tomatoe Paste Exports (tonnes)



Source: Chilealimentos - Odepa | (*) = Projection

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