EMBASSY OF INDIA

SANTIAGO

CHILE

LEATHER AND LEATHER PRODUCT MARKET SURVEY

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Commissioned from Ms. Carmen Fuentealba

on behalf of the

सत्यमेव जयते

Economic Diplomacy Division

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This market survey aims to provide relevant information on the leather and leather products in Chile so that Indian exporters may get a deep understanding of it and may also develop and execute a successful market entry into Chile.

The survey includes quantitative information such as market size, import and export statistics, sales by distribution channel and type of product, among other data. It also contains qualitative information about companies, products, consumer profile, entry requirements, etc.

1. Market Overview

1.1 Market Size

According to the Chilean tax agency (SII), in 2015 there were 1.030 companies in the leather processing and manufacturing sector[1]. From them, 539 companies were dedicated to the manufacturing of different types of leather products (such as clothing, luggage and handbags) and 491 to produce footwear. Together, they totalized annual sales of approximately US$ 1.015 million[2].

It is also estimated that around 10 companies are dedicated to leather processing and tannery. These companies mainly process finished leather for local leather good and shoe producers and wet blue leather for export. Sheep leather is produced mainly in the southern regions is usually exported raw, without processing.

The range of products from local leather tanneries is quite limited in terms of quality, colours, thickness, finishing, etc. Therefore, manufacturers of leather goods and leather importers should often reprocess leather by their own, in order to get unique and exclusive finished products.

Chilean manufacturers of leather goods (such as clothing, belts, handbags, wallets, luggage pieces, etc.) are generally very small companies and handcrafters.

[1]Statistics issued by the SII show the number of companies created in each economic sector. It should be noted that this does not mean that all of them are actually operating and producing.
[2]The exchange rate used in this survey is 1 US$: CHP 625

Footwear sector is by far the most important in the Chilean leather industry, in terms of local manufacturing and imports.

According to Fedeccal A.G.[3], in Chile there are around 25 footwear manufacturers producing each between 500 to 2.500 pairs per day. There are also about 50 small companies producing shoes semi-manually or supported by few machinery, manufacturing each about 500 pairs per week. Additionally, there are several micro companies manufacturing shoes in a handcraft manner. Total local shoe production represents almost 13% of the total market.

As per Euromonitor International statistics, in 2016 footwear sales were, in terms of volume, around 93.3 million of shoes. This means that Chileans buy in average almost 6 pairs of shoes per capita per year, the highest rate in the Latin American region. In addition, footwear sales showed a consistent and important increase in the last six years (+ 34.5%), in terms of volume. See chart below.

Sales of Footwear by Category: Volume (in units)

Category	2011	2012	2013	2014	2015	2016
Children's Footwear	13,664.7	15,547.9	17,175.9	18,174.1	18,628.5	19,150.5
Men's Footwear	19,452.3	20,037.6	21,733.9	22,951.9	23,525.7	23,879.7
Women's Footwear	36,232.4	40,521.1	45,123.6	47,836.2	49,494.2	50,242.0
TOTAL	**69,349.3**	**76,106.5**	**84,033.4**	**88,962.3**	**91,648.4**	**93,272.2**

Source: Euromonitor International

In terms of value, Euromonitor International statistics show that footwear sales reached US$1,860 million in 2016, representing a growth of 5% versus previous year and a 49.2 % growth versus 2011. The demand for fashionable and comfortable sports footwear drove sales in 2016. During the last 6 years, the average sale price per unit has increased from US$ 17.97 to US$ 19.93.

Table 2 Sales of Footwear by Category: Value (in million US$)

Category	2011	2012	2013	2014	2015	2016
Children's Footwear	212.8	242.2	267.8	300.0	304.6	320.8
Men's Footwear	363.9	376.7	414.8	454.3	479.9	501.0
Women's Footwear	669.6	751.8	848.0	931.7	993.4	1,037.1
TOTAL	**1,246.3**	**1,370.7**	**1,530.6**	**1,686.0**	**1,777.9**	**1,858.9**

[3]Fedeccal is a private business association gathering main Chilean footwear manufacturers.

Source: Euromonitor International

As seen in the chart above, most of sales correspond to women´s footwear (55.8% of total sales in 2016). According to Euromonitor International, this category is growing fast, driven by the growth in the number of working women in Chile and a rising demand for more sophisticated products among affluent women with higher purchasing power.

Men footwear (27% of total sales in 2016) is traditionally small compared with women's footwear, but has been growing in proportion mainly driven by sport and casual footwear. In the case of children (17.2% of total sales in 2016), most sales correspond to school shoes, which are part of the uniform required in all schools in Chile.

In the case of belts, in 2016 sales achieved 250.000 units in terms of volume and US$ 14.4 million in terms of value. According to Euromonitor International, in 2016, within apparel accessories, belts registered the fastest current value growth of 10%. These products are very popular amongst Chilean consumers as they are fashionable, practical and are worn by every age group.

1.2 Consumers and trends

Leather products are generally considered as premium products, because of its cost and superior quality.

During the last decade and in line with the increase of the disposable income per capita, Chilean consumer has become more willing to buy premium products and, therefore, pay more for them. According to a recent research[4], 89% of Chilean consumers are willing to pay more for high quality products.

Moreover, Chileans have become more conscious about their personal appearance and image and are more willing to invest in superior clothing, footwear and apparel accessories. The number of working women in Chile is increasing fast; they have now a higher disposable income to buy clothes, shoes and accessories for work and leisure. Shoes and handbags are a very important part of women's outfit, in which Chileans are often willing to expend more than in other type of clothing. Leather shoes and handbags are premium products but still affordable for medium-class women; they are even a way for women to pamper themselves and also a much appreciated gift for special occasions.

[4]Source: Nielsen Global Research - 2016

Chilean men, especially younger ones, are becoming increasingly fashion-conscious and are taking pride in developing a personal style and wearing fashionable clothes and shoes.

Even if almost 90% of footwear is imported, there are a raising number of small local manufacturers and handcrafters that produce high quality shoes (and also bags and belts) made of real leather, with innovative and unique designs. Their production is oriented to a fast-growing consumer group appreciating exclusivity and premium quality. These manufacturers are constantly looking for different types of leather - in terms of colours, thickness, textures, etc…- which are currently not provided by local tanneries.

In addition, Chilean consumers are more conscious about wellness and healthcare, boosting a fast-growing market for sport related products and services, such as sports footwear. In addition, it is more acceptable for consumers to wear sports footwear in day-to-day activities and even to work, rather than just for exercising. In fact, sports and comfortable shoes have been the main demand-driven factor of the footwear sales increase in the last years.

Chilean consumers are also more aware of the advantages of leather shoes compared to synthetic, in terms of foot health, aesthetics and duration. Nevertheless, shoes made of faux-leather or textiles continue to be by far the most sold, mainly due to their low price. In terms of volume, imports of synthetic leather footwear more than double imports of real leather shoes. Similarly, imports of shoes with textile upper are more one and a half of leather shoes.

The "fast fashion" concept (driven by the arrival of international chains such as H&M, Forever 21, Zara, etc.) is well installed in Chile, especially among young people. It has encouraged consumers to constantly adopt newest fashion trends by buying more often clothes, shoes and accessories, generally of low cost and poor quality. Most of the footwear sold in this type of chains is made of textile and faux leather.

It should be noted that seasonality is noticeable for leather products, such as garment, shoes and accessories. Main dates are Christmas (for gifts) and back to school period (March).

It is worth mentioning that in Chile there is a fast-growing consumer trend toward animal protection and welfare, especially younger age groups. Along with no eating meat, they are against the usage of real leather shoes, garment and accessories, due to the way animals are raised and slaughtered in many countries of the world. It is usual to see public demonstrations of animal rights groups in different context, protesting in favor of animal welfare and dignity.

In addition, Chileans are more and more concerned about the negative effects of air and water pollution generated by some industries. Tanneries are often seen as pollutant industries, due to the solid and liquid wastes (i.e. chromium) resulting of the leather processing, that goes to the atmosphere and rivers.

Related to personal protection equipment (PPE) made of leather, it is important to mention that - according to Chilean labor regulation - companies are responsible for taking all the necessary measures to preserve their employees´ life and health by keeping adequate hygiene and safety conditions at workplace. In the case of tasks exposed to physical risks, in most cases companies supply personal protection products – such as safety shoes and gloves – to their employees and demand they use them by the mean of compulsory internal rules. For this reason, most personal protection element (EPP) sales are performed in the framework of public and private tenders, instead of direct sales to final users.

1.3 Prospects

Given the recent rise in the local leather shoe and bag manufacturing industry, it could be expected an increase in the demand for finished leather within next years. Nevertheless, this increase should be moderate, as most manufacturers are small, with a limited production capacity.

Chile is facing a slowdown in its economic growth. For this reason, Euromonitor International expects that sales of footwear will be impacted, with a predicted slow down for volume sales. Besides, the footwear sector is reaching a relative maturity, and therefore no dramatic growth is set to appear. Sales increase will continue to be mainly driven by casual and sport shoes, as it has been in the recent years. See chart below.

Forecast Sales of Footwear: Volume 2016-2021 (in units)

Category	2016	2017	2018	2019	2020	2021
Children's Footwear	19,150.5	19,683.3	20,226.8	20,781.4	21,346.7	21,923.5
Men's Footwear	23,879.7	24,228.1	24,590.6	24,967.7	25,362.7	25,779.2
Women's Footwear	50,242.0	51,071.6	51,981.8	52,960.2	54,026.0	55,159.8
Footwear	93,272.2	94,983.0	96,799.2	98,709.3	100,735.4	102,862.6

Source: Euromonitor International

In terms of value, footwear sales are expected to reach US$ 1,906 in 2021 (+2.5% vs. 2016). According to Euromonitor International, children's footwear is expected to record the fastest growth (+5.8% vs. 2016); in this category, school and functional shoes will lead sales.

In the case of belts, Euromonitor International forecasts a +29.1% increase in sales volume for the 2016/2021 period and a +20.3% increase in sales value. See chart below.

Forecast Sales of belts: Volume 2016-2021 (in units)

'000 units	2016	2017	2018	2019	2020	2021
Belts	1,247.1	1,328.4	1,405.6	1,477.9	1,545.2	1,609.5

Source: Euromonitor International

2. Imports and Exports

Import and export statistics contained in this section correspond to the following products, with the respective Harmonized System (HS) code under which they are classified in Chile[5]
:

HS Chapter/code	Description
	Leather
41.07	Bovine and horse leather (finished)
41.13	Other types of leather (finished)
	Leather garment, shoes and accessories
42.02.21.00	Handbags
42.02.31.00	Wallets
42.02.91.00	Other leather bags
42.03.10.10	Jackets and coats
42.03.30.00	Belts
64.03[6]	Shoes (with leather upper)
	Personal Protection Equipment (PPE)
42.03.29.00	Safety leather gloves
64.03.40.00	Safety shoes

[5]The HS codes under each type of leather product is classified correspond to the Custom tariff classification defined by the Chilean Customs and in force from January 1, 2017. In some cases, they may not coincide with the codes used in India.
[6]Except safety shoes classified under HS code 64.03.40.00

Chile produces and even exports some types of leather and leather products; nevertheless, local manufacturing is not enough to fulfil volumes demanded. Local production either provides the whole range of leather and leather products demanded by leather processors and final clients, respectively in terms of design, colours, thickness, etc.

2.1 Imports

2.1.1 Imports by type of product

2.1.1.1 Finished leather

About an half of the total Chilean leather imports correspond to finished leather, while the rest is raw leather and leather at different stages of processing.

Total imports of finished leather have been decreasing in the last 5 years in terms of volume (-29.2% 2016 vs 2012) and value (-43.8%). Part of this decrease is due to the fact that some local tanneries are importing leather in different levels of processing, instead of finished product. See chart below.

Total finished leather imports (in US$ CIF)

HS chapter/code	**2012**	**2013**	**2014**	**2015**	**2016**
41.07 (bovine, horse)	7.709.023	7.060.583	5.563.420	5.833.042	4.672.544
41.13 (others)	3.433.707	3.532.880	2.999.426	1.957.000	1.735.224
Total	**11.230.730**	**10.593.463**	**8.562.845**	**7.090.742**	**6.407.768**

Source: Chilean Customs Statistics

In addition, leather import decrease is also a consequence of a higher demand of synthetic leather instead of real leather by local manufacturers willing to produce lower cost finished products. Synthetic leather has considerably increased its quality and aesthetics, making it even hardly recognisable for non-expert consumers.

2.1.1.2 Leather garment, shoes and accessories

Main leather product imports correspond by far to shoes (92.2% of total in 2016), followed by leather handbags with 3.5%. See chart below.

Total leather garment, shoe and accessory imports (in US$ CIF)

Hs chapter/code	2012	2013	2014	2015	2016
42.02.21.00 handbags	6.345.227	7.468.598	7.335.621	8.341.868	11.706.187
42.02.31.00 wallets	3.687.236	4.187.064	4.352.651	5.118.747	3.860.313
42.02.91.00 other bags	1.330.476	1.528.505	1.274.265	1.143.800	1.060.633
42.03.10.10 jackets	9.955.567	8.903.165	9.302.321	11.265.309	5.872.126
42.03.30.00 belts	3.944.503	3.735.359	3.667.550	3.441.390	3.360.006
64.03 shoes	328.0235.511	379.958.542	369.916.969	325.060.592	305.955.591
Total	**353.498.520**	**405.781.233**	**395.849.377**	**354.371.706**	**331.814.856**

Source: Chilean Customs Statistics

Total imports of leather products have decreased in the last 4 years, mainly due to the fact that consumers are switching from real leather products to synthetic ones. This is especially noticeable in the case of shoes. Chilean imports of leather shoes decreased 5.9% in 2016 versus previous year, while according to Fedeccal, total Chilean shoe imports grew +10,47% in terms of volume and + 3,19 % in terms of value in the same period. Consumers are looking for more affordable products and Chilean economy slowdown is reinforcing this trend.

Only leather bags imports have increased in the last 5 years (+ 84.5% in 2016 vs 2012).

2.1.1.3 Leather personal protection products

In 2016, leather safety shoe and glove imports decreased in 2016, compared to previous year (-18%), even if volumes (in number of imported units) increased. Import unitary price of safety gloves decreased and shoes decreased -29.7% and -20.9% in 2016 vs. 2015, respectively. See chart below.

Total leather safety product imports (in US$ CIF)

Hs chapter/code	2012	2013	2014	2015	2016
42.03.29.00 safety gloves	41.657.707	38.773.459	27.394.232	34.473.364	24.588.495
64.03.40.00 safety shoes	63.308.655	69.152.020	72.927.668	67.118.409	57.774.811
Total	**104.966.362**	**107.925.479**	**100.321.900**	**101.591.773**	**82.363.306**

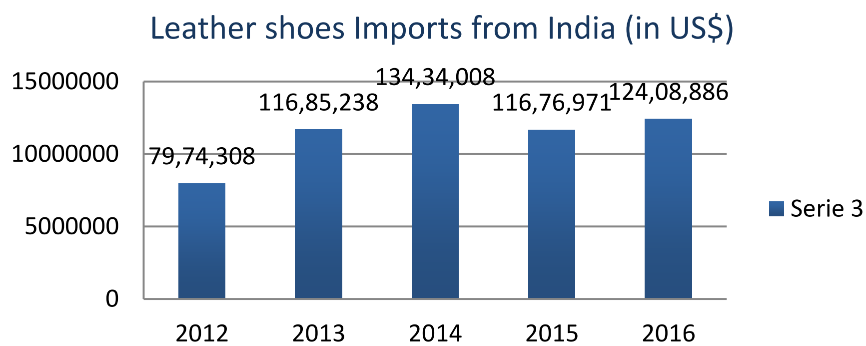
Source: Chilean Customs Statistics

This decrease reflects that importers are looking for cheaper products (i.e. made of lower quality leather but fulfilling certification requirements) to better satisfy the demand of a growing group of cost-conscious companies in a period of economy slowdown.

2.1.2 Imports by country

2.1.2.1 Finished leather

In 2016, almost an half of finished leather imports came from Brasil (49.8%), followed by China (18.0%) and USA (11.5%). Brasil and Argentina - two important bovine leather producers - have advantages in terms of their proximity to Chile, allowing faster and cheaper transportation of their products. See chart below.



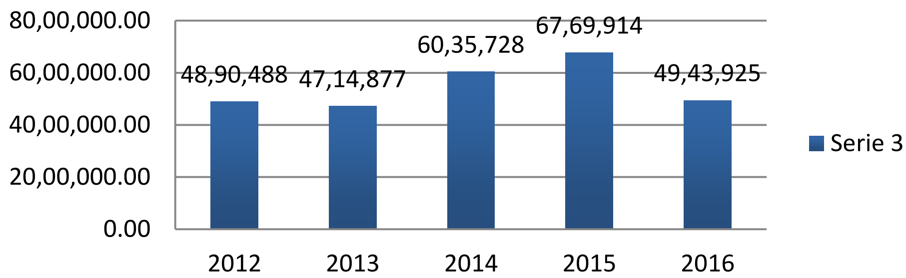
Source: Chilean Customs Statistics

Statistics do not record imports of finished leather from India in 2016.

2.1.2.2 Leather shoes

Leather shoe imports come by far from China (52.1%), followed by Vietnam (16.9%) and Brasil (7.9%). See chart below.

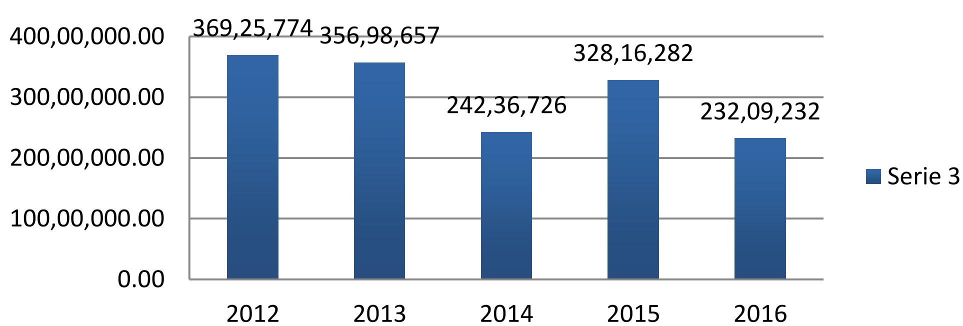
Leather garment and accessory Imports from India (in US$)



Source: Chilean Customs Statistics

In 2016, India ranks in fifth position with imports for almost US$ 12.4 million, representing 4.1% of total. Leather shoe imports from India have fluctuated between US$ 11.5 to 13.5 million within the last 4 years, after an almost 40% growth compared to 2012. See chart below.

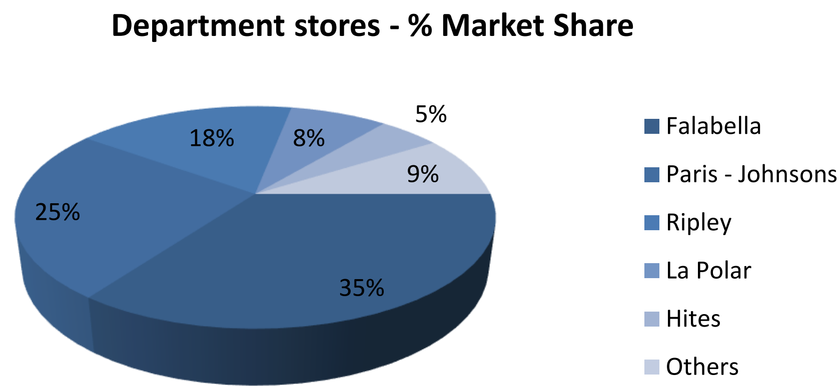
Leather personal protection product Imports from India (in US$)



Source: Chilean Customs Statistics

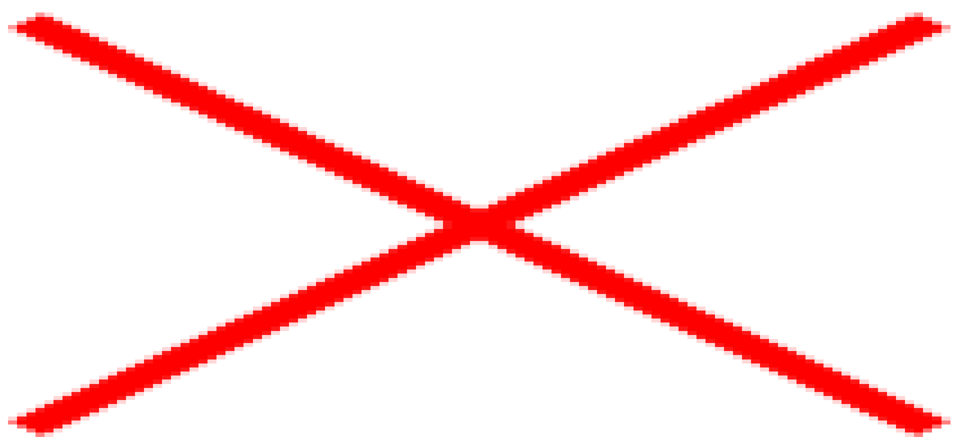
2.1.2.3 Leather garment and accessories

In terms of value, leather garment and accessory imports come from China (34.3%), followed by India (29.7%) and France (19.1%). See chart below.



Source: Chilean Customs Statistics

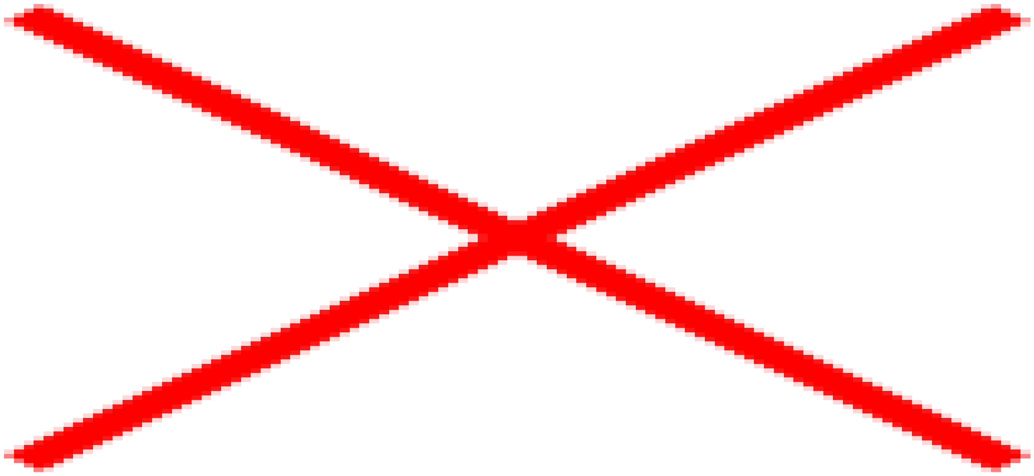
In 2016, leather garment and accessory imports from India accounted for US$ 4.9 million, corresponding most of them to leather jackets and coats. Imports from India have fluctuated between US$ 4.7 to 6.8 million within the last 5 years. See chart below.



Source: Chilean Customs Statistics

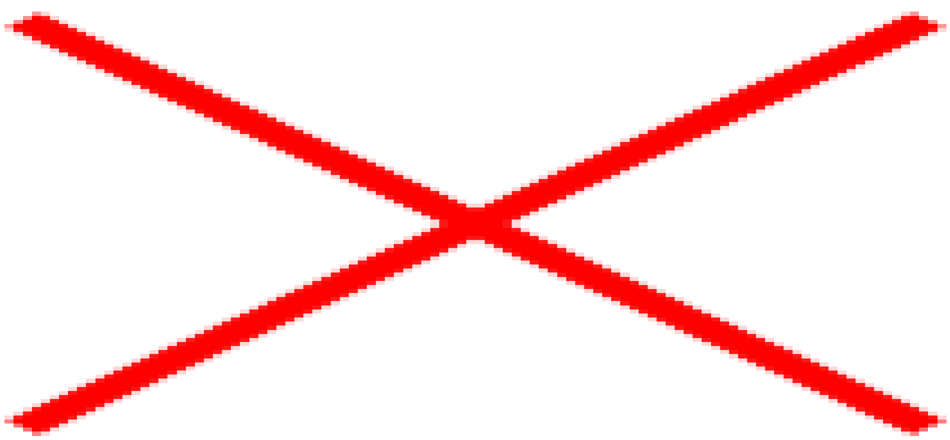
2.1.2.4 Leather personal protection products

In terms of value, leather personal protection product imports come from China (69.8%), followed by India (28.2%). See chart below.



Source: Chilean Customs Statistics

In 2016, leather personal protection product imports from India accounted for US$ 23.2 million, most of them corresponding to leather gloves. Imports from India showed considerable fluctuations within the last 5 years, moving between US$ 23.2 to 40.0 million. See chart below.



Source: Chilean Customs Statistics

2.1.3 Imports by company

2.1.3.1 Finished leather

In 2016, almost 35 Chilean companies imported finished leather. However, 7 of them gathered around 84% of total imports (in terms of import value), showing a relatively high level of concentration of this market.

The following chart shows main finished leather importers in 2016. Note that the main importer is identified with an “X”. This is due to the fact that the company expressly requested Chilean Customs not to reveal its name, in accordance to Personal Data Protection Law. Nevertheless, as per its volume, there are good changes it corresponds to Calzados Gino.

Finished leather Imports by Company – 2016 (CIF Value)

Company	Volume (in Kg)	Value (US$ CIF)
X	58.870	1.266.726
MANUFACTURA DE CALZADOS SAN MIGUEL	63.589	1.074.751
COLCHONES ROSEN S.A.I.C	40.296	1.054.099
COMERCIAL HECTOR CARRASCO Y CO	95.932	672.770
LAMINADORA TEXTIL S A	32.369	596.949
JUAN BATARSE Y COMPANIA LTDA.	38.315	375.542
EZQUERRA CUEROS LIMITADA	19.040	311.149
OTHER	77.841	1.055.781
TOTAL	**426.252**	**6.407.768**

Source: Chilean Customs Statistics

Main two importers (Calzados Gino and Manufactura San Miguel) correspond to shoe manufacturers, while the company ranking in third position (Colchones Rosen) is a furniture manufacturer. The rest of the companies in the above chart are tanneries and companies dedicated commercialize leather and other related products to small local manufacturers.

2.1.3.2 Leather shoes

In 2016, almost 750 Chilean companies imported leather shoes, showing the high level of atomization of this market. From them, the 7 main importers represented about 56% of total, in terms of import value.

The following chart shows main leather footwear importers in 2016. As same as in the case of finished leather imports, the company identified with an “x” is most probably Calzados Gino.

Leather shoe Imports by Company – 2016 (CIF Value)[7]

Company	Volume (in units)	Value (US$ CIF)
X	2.032.626	46.751.068
FORUS S.A.	1.303.609	31.579.962
COMERCIALIZADORA SKECHERS CHIL	1.351.602	20.629.754
BATA CHILE S.A.	1.534.476	20.146.518
DISTRIBUIDORA G&G LIMITADA	738.032	17.692.736
NIKE DE CHILE LIMITADA	1.153.224	17.374.914
FALABELLA RETAIL S.A.	694.551	16.970.630
OTHER	7.892.018	184.810.010
TOTAL	**16.700.136**	**305.955.590**

Source: Chilean Customs Statistics

Some importers, such as Calzados Gino and Distribuidora G&G (Manufactura San Miguel) are manufacturers, but also import finished shoes to complement their product lines.

Others, like Bata and Forus, import all the shoes they commercialize. It is worth mentioning that Bata used to produce some of its footwear in Chile, but it closed its factories. Chilean production costs are relatively high compared with other countries, and therefore it is unlikely that international brands will manufacture their products locally.

2.1.3.3 Leather garment and accessories

In 2016, almost 978 Chilean companies imported leather garment and accessories, showing a high level of atomization. From them, the 6 main importers represented about 36.7% of total, in terms of import value. See chart below.

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[7]Importer identified with an "X" corresponds to a company that expressly requested Chilean Customs not to reveal its name, in accordance to Personal Data Protection Law.

Leather garment and accessory Imports by Company – 2016 (CIF Value)[8]

Company	Value (US$ CIF)
COMCAIT S.A.	2.477.530
X	2.361.700
FALABELLA RETAIL S.A.	1.565.314
LOUIS VUITTON CHILE LIMITADA	1.554.862
COMERCIALIZADORA SAINT HONORE	817.345
GABEFAR CHILE SPA	707.980
OTHER	16.374.565
TOTAL	**25.859.266**

Source: Chilean Customs Statistics

In the above chart, the second main importer is identified with an "X". A per its volume, there are good changes it corresponds to Dagorret (a leather jacket and shoes importer).

2.1.3.4 Leather personal protection products

In 2016, almost 336 Chilean companies imported leather safety gloves and shoes. From them, the 6 main importers represented about 67.3% of total, in terms of import value.

It is worth mentioning that almost all safety gloves and shoes commercialized in Chile are imported. There are just a few small companies producing industrial leather gloves but at very low scale.

[8]Importer identified with an "X" corresponds to a company that expressly requested Chilean Customs not to reveal its name, in accordance to Personal Data Protection Law.

Leather personal protection product Imports by Company – 2016 (CIF Value)[9]

Company	Value (US$ CIF)
X	16.865.541
TECNO BOGA COMERCIAL LIMITADA	12.791.462
TRECK S A	9.942.779
VICSA SAFETY COMERCIAL LIMITAD	6.111.664
BATA CHILE S.A.	4.727.122
AMERICAN SHOE S A	2.639.593
PROTEKNICA S.A.	2.352.253
OTHER	26.932.893
TOTAL	**82.363.306**

Source: Chilean Customs Statistics

2.2 Exports

2.2.1 Finished leather

Almost a third of the total Chilean leather exports correspond to finished leather, while the rest is raw leather and leather at different stages of processing.

Finished leather exports accounted for US$ 10.3 million FOB, similar to the value exported in 2015 (US$ 10.4 million FOB). Exported volume increased +28.9% in 2016 versus 2015, reflecting a decrease in the average export price, from US$ 22.9 to $ 17.6 per kg. Main export countries of destination were China (38.1%) and Peru (23.4%).

2.2.2 Leather garment and accessories

Chilean leather garment and accessory exports accounted for US$ 2.4 million FOB. From them, about 78% corresponded to leather handbags.

[9]Importer identified with an "X" corresponds to a company that expressly requested Chilean Customs not to reveal its name, in accordance to Personal Data Protection Law.

Most of these exports (75%) were mainly to re-export operations conducted by 2 luxury brand importers (Hermes and Louis Vuitton), showing that local manufacturers (which most are small companies) produce mainly for the internal market.

2.2.3 Leather shoes

In terms of value, around 58% of the total Chilean shoe exports correspond to real leather shoes, while the rest are shoes made with other type of material, such as synthetic leather and textile. Chilean leather shoe exports accounted for US$ 3.4 million in 2016, representing a -1% decrease compared to previous year.

As same as in the above case, most exports correspond to re-export operations. According to Fedeccal, only 4 of the 48 shoe export companies correspond to manufacturers. From them, the main one is Guante-Gacel with 11.9% in terms of volume and 21.8 % in terms of value. The rest of the companies correspond to importers that re-send imported to shoes to other countries.

Main export countries of destination were Peru (49.0%), Australia (23.0%) and Argentina (5.3%).

2.2.4 Personal protection products

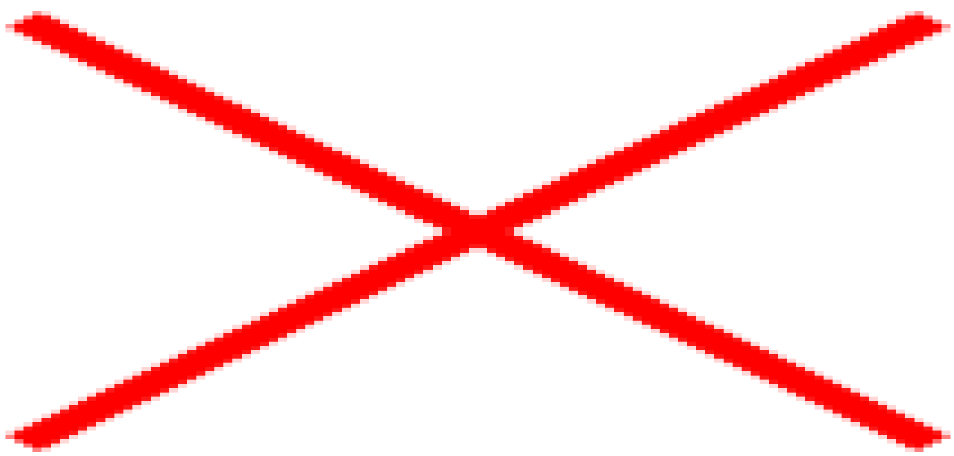
In 2016, leather safety shoe and glove exports were non-significant, accounting for US$ 472 M FOB and representing a -31% decrease compared to 2015. Products were exported to other countries in Latin America, such as Peru (38.2%) and Costa Rica (12.5%).

3. Distribution channels

Distribution chain for imported leather is quite short. It is imported by tanneries and leather distributors for its commercialization to leather product manufacturers (specially small ones. Some big leather product manufacturers also import directly. Similarly, leather personal protection products (gloves and shoes) are usually imported by specialized companies and sold to smaller specialized retailers or home improvement stores, as well as to companies (directly or through tendering processes).

In the case of other leather products (such as shoes, garment and accessories), the distribution chain is longer and involve other types of companies.

According to Euromonitor International, in the case of shoes, main distribution channels to consumers are Apparel and Footwear Specialist Retailers (54.1%), followed by Department stores (29.5%). See chart below.

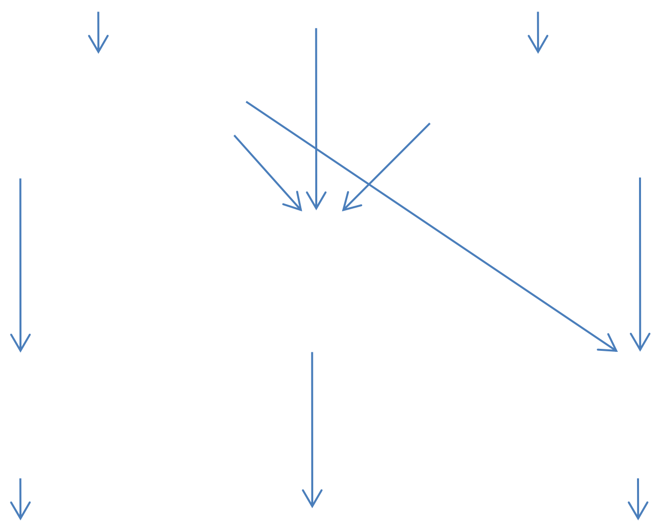


Source: Euromonitor

In the case of apparel and footwear, it is important to note that Internet has become an important retailing channel. In 2016, it increased +31% in value sales terms versus previous year (Euromonitor International). Chilean consumers are becoming increasingly familiar with online sales, especially the younger population. Many traditional retailers and department stores have developed internet retailing sites, in parallel with their physical stores. Others, like Dafiti (www.dafiti.cl) and Linio (www.linio.cl) are pure internet retailer.

The following chart shows the flow of imported leather product distribution in Chile and its main players.

Leather Product Distribution Flow[10i]



ANNEX 1 shows the contact data of some of the main companies importing and distributing leather and leather products

3.1 Importers and representatives

This group is composed by local companies importing and distributing leather shoes, garment and accessories and conducting the whole product supply process. Importers/representatives buy the products to the foreign manufacturers (under a representation or franchise contract) and are responsible of importing them and conducting custom clearance formalities. They are also in charge of the storage, internal transportation, sales and promotion and customer service. Accordingly, they assume almost all the risk of product operation in Chile.

[10]Within recent years, supermarkets (especially under the format of hypermarkets) are an important distribution channel for shoes, garment and accessories. Nevertheless, they are not considered in this survey given they usually do not commercialize leather products as they focus on more inexpensive and massive products.

In some cases, some activities (such as storage or distribution) are not directly conducted by them, but subcontracted to third parties.

Some importers/representatives commercialize only imported products, under the international brands they represent or under their own private labels. For instance, in the case of shoes, Forus S.A. (the leading company in 2016 with a value share of 12%) has a wide brand portfolio, which mixes recognisable international brands (Hush Puppies, Columbia, CAT Footwear, Azaléia, Merrell, Nine West, Brooks and Cushe, among others) with its own private label (Calpany). Luxury brands (such as Louis Vuitton, Church´s, Armani and Hermes) have local representatives/franchisees that import and run brand-exclusive points of sale.

Other local companies, such as Comcait (bags and accessories) and Importadora Police (shoes) import and commercialize only under their own brands.

In general terms, shoe, garment and accessory representatives prefer to represent well-known foreign brands (i.e. are already present in several countries), inasmuch as it makes much easier and faster to introduce them into the local market and to create awareness among consumers.

Other importers are leather product manufacturers that import finished product to complement their collections. This is the case, for instance, of Calzados Gino S.A, (shoes) and Dagorret (garment).

In all the above cases, companies sell their products to department stores, small retail stores and/or through their own points of sales.

3.2 Foreign brand subsidiaries

Several shoe and garment foreign brands have created their own subsidiaries in Chile. This is generally the case when sales volumes justify operating directly in a given country or when the company prefer to have the total control of their products, until their arrival to final consumers.

Due to its retail market sophistication and manageable size, Chile has served to many international retailers as a test market for the rest of Latin America, particularly to Argentina, Peru, and Colombia.

This is the case, for instance, of several luxury brands (such as Burberrys, Prada, Carolina Herrera, Montblanc, etc.) but also of some massive retailers, such as H&M, Zara and Forever 21, among others.

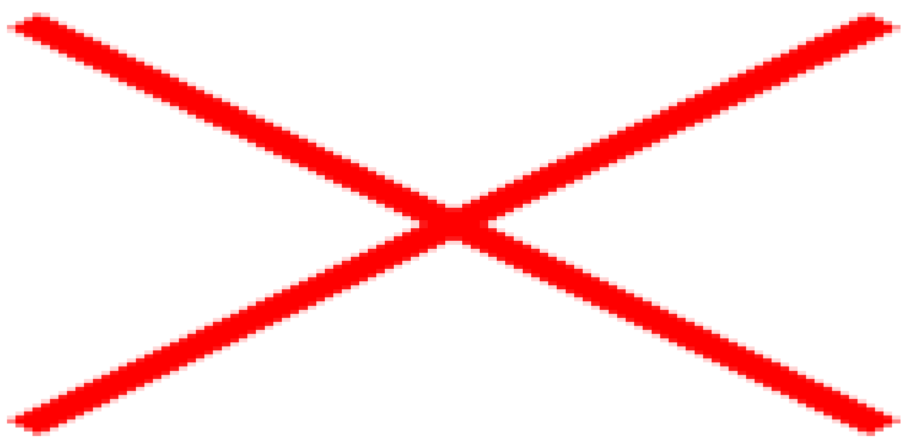
Another example is Bata Chile S.A., the footwear company ranking second in Chile with a value share of 11% in 2016. Through its brands Bubble Gummers, Bata, North Star, Power, Weinbrenner, Teener, Timberland and Marie Claire the company covers different market segments, with a wide store network and affordable prices.

Foreign brand subsidiaries mainly sell their products to department stores, and/or through their own points of sale.

3.3 Department Stores

Department stores are very important market players in the garment, shoe and accessory segments. In Chile, its penetration rate in terms of surface (measured in m2 per capita) is 80, far from other Latin-American countries, like Brasil (25) and Peru (25).

One of the main characteristics of this channel is its high concentration. Three main chains (Falabella, Paris and Ripley) gather almost 78% of the department store segment and totalize almost 166 outlets all over the country. See chart below.



Source: Ripley annual report 2016

All the above department store chains are owned by Chilean capitals. The key to Chilean retailers' successful expansion is that Chilean retailers have developed a competitive culture and business model, which they have been even able to export to neighbour countries, such as Argentina, Peru and Colombia.

A key factor explaining the fast expansion of department stores in Chile is the fact that they have developed their own credit card, requiting less demanding conditions, in terms of income level and credit behaviour. This has allowed low and medium income consumers to buy in these stores, having access to credit.

Department store chains have also developed their own private labels of shoes and garment. They import leather products manufactured under their own designs by foreign suppliers. As China is their main source of supply, the main three department stores (Falabella, Paris and Ripley) have their own permanent shopping agents based in this country.

Department stores have also taken the franchise or exclusive representation of several well-known garment and shoe brands. This is the case, for instance, of Falabella (Aldo, Mango, Warehouse, etc.), Ripley (Sfera, Trucco, Aerosoles, Vero Moda, etc.). In most cases, apart from selling these brands in their own stores, they have opened mono-brand points of sales.

4. Import and commercialization formalities

All products imported and commercialized in Chile should meet some formalities. Some of them are the usual to any import, but there are some specific to leather and leather products, necessary to its entry and further commercialization. Although most of these formalities are conducted by the importer, it is advisable that the exporter be aware of the documentation and product requirements necessary to fulfil the Chilean regulation.

4.1 Product certification

4.1.1 Leather

To be allowed to enter into Chile, leather should comply with the sanitary requirements imposed by the Servicio Agricola y Ganadero (SAG), the Chilean Agriculture and Livestock Service.

These sanitary requirements are referred to different aspects, such as:

- Origin country should have been declared free of some specific livestock diseases (i.e. foot and mouth, rinderpest, etc.). If not, leather should be processed under determined preservation treatments (salting, drying, etc.).
- Leather should have been processed in facilities granted with export authorization in its country of origin.
- Leather should be clean, free of any residue of meat, bone, blood, etc.
- Transportation must ensure leather sanitary conditions.

In addition, the SAG will require a certificate issued by a competent institution in the country of origin, certifying the sanitary requirement compliance, country of origin, name of the producer, product identification, volume and weight. This certificate does not prevent SAG to ask to importers additional sanitary analysis upon product arrival to Chile.

Specific sanitary requirements for each type of leather (bovine, sheep, pig, horse) could be revised at this link: www.sag.cl/ambitos-de-accion/productos-de-origen-animal-0

4.1.2 Safety shoes and gloves

Importers of safety footwear[11] must get a certification of the National Health Institute (Instituto de Salud Pública or its acronym ISP) before commercialize them in the local market. The certification should be conducted by an authorized safety control laboratory[12] and performed under different standards, depending of the specific usage footwear is intended to. In Chile, certification is required for the following types of safety shoes:

- For general usage (standard NCh772/1.0f1992)
- Electrically insulation for less than 600 volts ((standard NCh2147/2.0f2005)
- Resistance to hydrocarbons (standard NCh1351/2.0f1996)
- Antistatic properties (standards NCh2147/1.0f1993)

In the case of safety gloves, they should be certified under the Chilean standard NCh1252/1.0f1996.[13]

For other types of safety shoes and, in general, for other personal safety products that do not require compulsory certification under Chilean regulation, local manufacturers and importers can register their companies and products on the Register of Personal Protection Element Manufacturers and Importers upon the National Health Institute (ISP).[14] This voluntary registration allows companies to get a "quality certification" that is frequently required by final buyers and in as part of most public and private bidding bases. To be part of the register, companies are requested to provide samples and voluntary technical information about the products they commercialize (i.e. international certification, such as EN, ANSI, NIOSH, etc.). Once approved, the registration is valid for three years.

4.2 Labelling requirements

[11]For more information click on this link: www.ispch.cl/sites/default/files/certificacion_de_calzados_de_seguridad_en_chile.pdf

[12]To see the list of authorized laboratories click on this link: www.ispch.cl/sites/default/files/Listado%20laboratorios%20empresas%20autorizadas%2005072017.pdf

[13]Chilean product standards (NCh) are available at www.inn.cl for a fee.

[14]To see the list of companies already registered click on this link: www.ispch.cl/sites/default/files/Listado%20RFI%20Septiembre%202017.pdf

Some leather products, such as shoes and garment, should be labelled according to current regulation. Labelling provisions are the same for both, locally produced and imported products.

4.2.1 Shoe labelling

Decree 17/2006 of the Ministry of Economy[15] rules the labelling of footwear.

The label must be in Spanish and should comply with the Chilean standard NCh1808.Of2004, related to its size and font size. Labelling could be under in the shape of:

- An indelible permanent label
- A printed of embroidered label, sawn to the product
- A self-adhesive sticker or a label tied to the product

Labelling should be at least in the right foot and contain the following information:

a. Shoe size
b. Country of production
c. Type of material, separately identified for upper, outsole, and lining.
d. Importer's name and Tax ID number.

Footwear should be labelled at the country of origin or at its arrival to Chile in a bonded warehouse, before Custom clearance.

4.2.2 Leather garment labelling

Leather garment (such as jackets, pants, shirts, etc.) are subject to labelling regulations applicable to any garment product. Labelling is ruled by Decree 26/1984 of the Ministry of Economy and further modifications.

Labels should have the following characteristics:

- Should be manufactured in a material compatible with the fabric they are adhered.

[15] See the full text by clicking in www.leychile.cl/Navegar?idNorma=249180

- Should be printed or embroidered
- Should be resistant to dry or wet cleaning

Labelling should be in Spanish and contain the following information:

a. Name of the manufacturer or importer and registered trademark, if any
b. Country of production
c. Size
d. Fabric composition of the different parts of the garment (i.e. lining, shell, etc..), in order of importance and expressed in %.
e. Characteristics of the clothing (i.e. wrinkle proof, no shrink, etc.)
f. The four wash care symbols related to washing, ironing, bleaching and dry cleaning

4.3 Import procedures

In the case of any import, Chilean Customs requires that each customs entry be supported by the following documents:

- Commercial Invoice
- Certificate of Origin
- International Transport Document (Bill of Lading or Air Way Bill)
- Packing List, when necessary
- Value declaration
- Other Documents (i.e. safety certificates)

All imports of a total value exceeding USD 1,000 (FOB) require the participation of a Customs Broker. Minor imports (less than USD 1,000 FOB) can be cleared directly by importers, following a simplified procedure.

Prior import licenses are not requested by authorities. This is valid for any type of goods.

4.4 Duty fees and taxes

The general VAT rate in Chile is 19% and is calculated on CIF value + duty taxes.

The tax treatment applicable to imports into Chile includes the payment of customs duties, Value Added Tax (VAT) and other taxes (if applicable), all calculated on CIF value and determined under GATT valuation standards. Leather and leather product imports are subject only to duty taxes and VAT:

The ad-valorem customs duty rate is 6%. However, goods originating in any of the countries or regions having signed a Commercial Agreement with Chile and evidencing such condition by means of a Certificate of Origin can be benefited with a reduction or exemption of import duties.

Chile has signed 25 Commercial Agreements with 66 countries, which have granted tariff preferences which each country applies to imports.[16]

India and Chile have signed a Partial Scope Trade Agreement (PSA) giving Indian leather and leather product imports into Chile some tariff preferences. In the case of the products (and their respective HS codes) analysed in this survey, duty taxes to pay go from 0 to 2.4%. See details in the following chart:

HS Chapter/code	Description	% of Tariff preference	% of Duty tax to pay
	Finished Leather		
41.07	Bovine and horse leather (finished)		
	41.07.11.00	80%	1.2%
	41.07.19.00	60%	2.4%
	41.07.91.00	100%	0%
	41.07.92.00	80%	1.2%
	41.07.99.00	80%	1.2%
41.13	Other types of leather		
	41.13.10.00	100%	0%
	Leather garment, shoes and accessories		
42.02.21.00	Handbags	80%	1.2%
42.02.31.00	Wallets	60%	2.4%
42.02.91.00	Other leather bags	80%	1.2%
42.03.10.10	Jackets and coats	60%	2.4%
42.03.30.00	Belts	60%	2.4%
64.03	Shoes (with leather upper)		
	64.03.19.00	60%	2.4%
	64.03.20.00	60%	2.4%
	64.03.51.00	80%	1.2%
	64.03.59.00	60%	2.4%

[16]Find the list of countries and the complete texts of Commercial Agreements signed by Chile, by clicking on this link: www.direcon.gob.cl/acuerdos-comerciales/

	64.03.91.10	60%	2.4%
	64.03.91.20	60%	2.4%
	64.03.91.90	60%	2.4%
	64.03.99.10	60%	2.4%
	64.03.99.91	80%	1.2%
	64.03.99.92	60%	2.4%
	64.03.99.93	60%	2.4%
	Personal Protection Products		
42.03.29.00	Safety leather gloves	80%	1.2%
64.03.40.00	Safety shoes	60%	2.4%

Source: Direcon

It is worth mentioning that, Chile has a has a Free Trade Agreement signed with China (the main country of origin the of most of leather products), granting with a 100% tariff preference to almost all analysed leather products, that is to say, they are not subject to duty fees.

4.5 Trademark protection

Even if it is not mandatory, it is strongly recommended that foreign companies register their trademarks if they aim to use them in Chile. They will permit to uniquely identify a company and its products to its customers and to distinguish them from those of its competitors

It is also advisable that, before using a trademark or logo, companies should check if such signs are already registered in identical terms or in similar terms (from a visual or phonetic point of view).

Trademark protection lasts 10 years and its registration can be renewed indefinitely (for periods of 10 years at a time). According to Chilean law, trademarks cannot be revoked for non-use reasons. The owner of a trademark could authorize a third party to use it under a license contract.

The National Institute of Industrial Property INAPI (www.inapi.cl) is the Chilean agency for registering trademarks, copyrights and appellations of origin. The registration procedure can be done in person or via internet, for a fee. According to Chilean law, it is not necessary to hire a lawyer or trademark agent to file a trademark application. Nevertheless, it is highly recommended in the case of companies having foreign residence, which should appoint a local representative.

5. Market opportunities and conclusions

5.1 SWOT analysis

The following SWOT Analysis is intended to be a useful technique for understanding the Strengths and Weaknesses of India leather and leather product exporters, and for identifying both the Opportunities open to them and the Threats they face in the Chilean market.

SWOT ANALYSIS

Strengths	**Opportunities**
• Good quality of Indian leather. • Wide variety of Indian leather products, especially of shoes and accessories. • Existence of experienced Indian producers and exporters. • General good image of Indian products. • Duty tax preference (India-Chile Partial Scope Agreement).	• Fast grow of garment and shoe segments. • Consumer trend toward high quality products. • Growing consumer consciousness for personal appearance. • Growth of local premium shoe manufacturers, which require innovative leather.
Weaknesses	**Threats**
• Low experience of India leather exporters in the Chilean market.	• Current economy slowdown • Limited number of potential importers/distributors in a highly concentrated market. • High competition of Chinese low cost products • Strict sanitary and labelling requirements for leather and leather products. • Very concentrated market, leaving limited space for new brands.

5.2 Main conclusions

India is the world´s second main leather exporter, representing almost 13% of world production. Main leather product exports are shoes (38%) and accessories (23.3%). It is estimated that in 2017 Indian leather industry size will account for US$ 17.9 billion. Besides, India leather products are well known because of its high quality.

Chilean imports of Indian leather products are relatively significant in the case of leather gloves for personal protection. They represent almost 88.6% of total, accounting US$ 21.9 million in 2016. Indian leather gloves have a very good reputation because of its quality. Even tough, an Indian leather glove manufacturing company (Paruna) opened its own subsidiary in Chile.

Similarly, India is the main country of origin of leather jacket imports, with 44.9% of total and accounting US$ 2.6 million in 2016. Indian leather jackets are very well reputed among Chilean importers, because of its quality and the flexibility to manufacture different designs.

Nevertheless, in the case of shoes - the biggest leather product category – the market share of India among Chilean imports is very small, representing only 4.1%. In this category, India has plenty of room to grow. Even if footwear has reached a relative maturity, there are promising prospects of growth in some specific segments. This is the case of casual and comfortable shoes, in line with Chilean consumer trend toward wellness and sport. Another promising segment is children footwear; parents have been increasingly drawn to premium leather footwear as they are worried that shoes with mediocre workmanship and materials may negatively affect their children’s feet and their growth.

It is important to take in mind that representatives/franchisees of leather product foreign brands, as well as the local subsidiaries of these brands, have very few possibilities to decide where to import from, as most of the time this decision is imposed to them by the brand. Therefore, Indian exporters willing to sell leather products (shoes, garment and accessories) in Chile should focus on companies importing under their own brands, as well as on department stores (for their private labels). India exporters should also take in mind that price is one of the main decision factors and that these latest will most likely be compared to China prices, for similar quality products.

In addition, India is currently not exporting finished leather to Chile. The country produces and even exports some types of leather; nevertheless, local manufacturing is not enough to fulfil volumes demanded, as well as the demanded varieties, in terms of design, colors, thickness, etc. Given the recent rise in the local leather shoe and bag manufacturing industry, it could be expected an increase in the demand for finished leather within next years. Even if this increase should be moderate, there are good opportunities for Indian finished leather, as well as in different stages of process. Importantly, Indian exporters should comply with the strict sanitary requirements for leather import and commercialization.

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