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El Salvador

Food Service - Hotel Restaurant Institutional

2018

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Report Highlights:

El Salvador is experiencing a boom in the hotel and restaurant industries, strongly driven by a growing tourism sector that reported approximately \$1.3 billion in income in 2017. In addition, increased urban development is attracting more people to live in luxury apartment buildings in residential areas nearby new shopping malls and a wide variety of restaurants. This growing trend represents a great opportunity for U.S. exports of consumer-ready foods and ingredients.

Post: San Salvador

Market Fact Sheet: El Salvador

Executive Summary

El Salvador continues a pattern of persistent low economic growth (1.9% average 2010- 2016). However, as local production of foods has decreased, El Salvador strongly relies on imports. A recent study from the Salvadoran Government reported that about 93% of vegetables are imported, as well as 66% of basic grains, 55% of fresh fruits and 46% of meats.

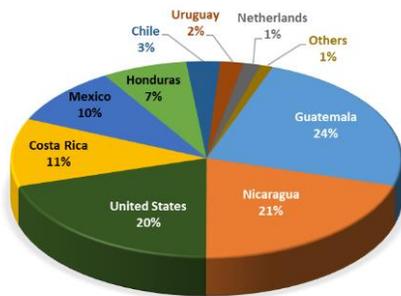
Salvadorans spend about 50% of their income on food. Another study by the Ministry of Economy shows that Salvadorans are increasing their spending on eating out due to increased time away from home. Monthly expenditures for lunch averaged \$48 and \$36 for dinner respectively. These numbers are high considering that monthly income is \$544 and the cost of the basic food basket is \$185 for a family of four members.

In 2017, El Salvador total imports of agricultural and related products reached \$1.9 billion, out of which \$465.5 million were from the United States. Overall, and for the same period, the main trading partner continued to be the United States as 45% of the total Salvadoran exports were shipped to the U.S. and 32% of total imports were from the U.S.

Imports of Consumer-Oriented Products

In 2017, the United States was the third largest supplier of consumer-oriented products to El Salvador with exports valued at \$160 million.

EL SALVADOR-CONSUMER ORIENTED AGRICULTURAL IMPORTS 2017 (US\$ MILLION)



Source: Global Trade Atlas

El Salvador's food industry is less developed than in neighboring countries. However, it is currently the regional leader in the production and export of snacks, juices and carbonated beverages. Salvadoran food manufacturers rely on imports of ingredients. In 2017, food ingredients imports reached \$715.5 million, a four percent increase from 2016.

Food Retail Industry

Supermarkets and Walmart Mexico y Centroamerica.

Most consumers prefer to shop at supermarkets because of the perception that they are cleaner, safer and usually carry special promotions that are not offered in other retail outlets like open-air markets.

Quick Facts CY 2017

Imports of Consumer-Oriented Products from the U.S.: \$160 million

List of Top 10 U.S. Ag Products in El Salvador:

- | | |
|-------------------|-------------------------------|
| 1) Corn | 6) Pork & pork products |
| 2) Soybean meal | 7) Processed vegetables |
| 3) Prepared food | 8) Chocolate & cocoa products |
| 4) Rice | 9) Condiments & sauces |
| 5) Dairy products | 10) Beef & beef products |

Trade

El Salvador Ag. Exports to the world: \$1.1 billion
 El Salvador Ag. Imports from the world: \$1.9 billion
 El Salvador Ag. Imports from the U.S.: \$465.5 million
 El Salvador Ag/ Exports to the U.S.: \$200 million

GDP/Population

Population (millions): 6.2 million
 GDP (billions USD): \$56.9
 GDP per capita (USD): \$8,000 (2017 EST.)

Source: Global Trade Atlas, CIA-The World Fact Book, El Salvador's Central Reserve Bank

Strengths	Challenges
The hotel and restaurant sector is growing and they are dynamic sectors for U.S. exports. Currently there are 500 hotels and over 400 registered restaurants in El Salvador. Additionally, a not too small informal sector is a key player, being a good distribution channel to reach consumers of restaurants located in lower income cities/rural areas.	El Salvador is a highly price-sensitive market, and thus, lower quality products may be in higher demand if sold at lower prices.
Corporate/Convention/Medical tourism attract travelers from all over the world who usually look for a high-end eating and lodging experience.	A lack of consistency and transparency in import and customs procedures.
Salvadorans are frequent travelers and are familiar with American brands.	Foodservice suppliers from Mexico and other Central American countries offer lower

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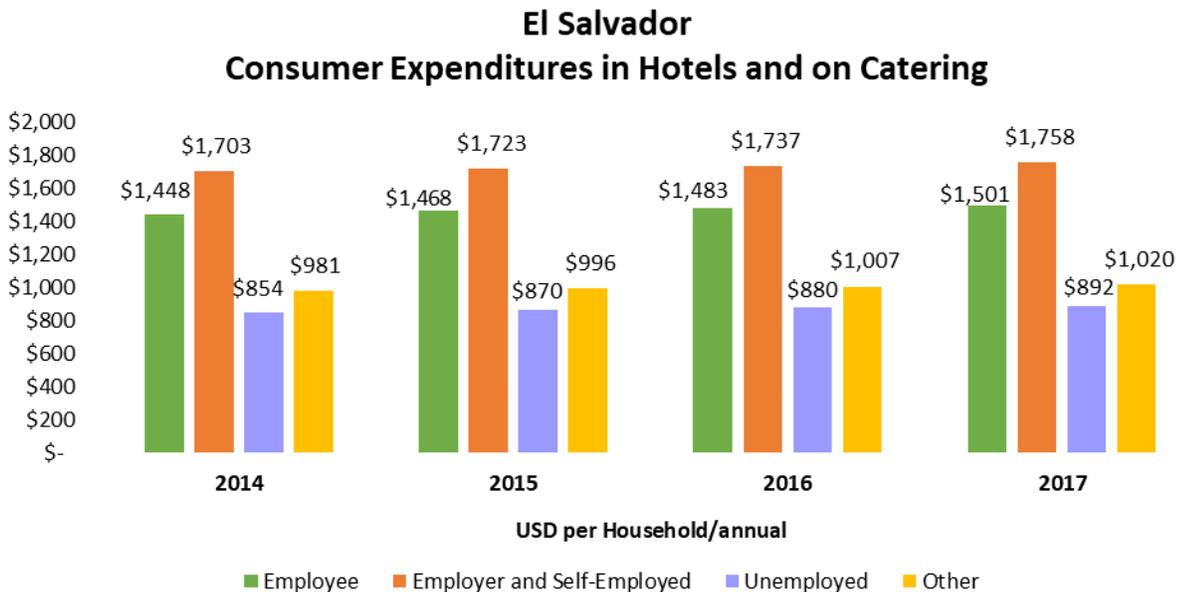
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SECTION I: MARKET SUMMARY

El Salvador is the smallest country in Central America with only 6.2 million inhabitants. It continues to suffer from persistent slow economic growth. According to the World Bank, economic growth between 2010 and 2016 averaged 1.9 percent, the slowest in Central America. The food and beverage sector in El Salvador plays a key role in the economy, contributing over 6 percent to GDP and generating about 34,000 direct jobs. Main export markets of this sector are Guatemala, Honduras and the United States.

El Salvador offers potential opportunities for U.S. food products as it increases its tourism sector. For instance, in 2017, over 2 million tourists generated income valued at approximately \$1.3 billion. Tourism, in turn, creates greater demand for imported food products and provides excellent opportunities for U.S. food and beverage exporters, as the foodservice industry is constantly looking for a wider variety of products to satisfy the demand of their restaurant/hotel/institutional clientele.

As commuting times in El Salvador have increased, people are leaving their homes earlier in the morning and are eating out increasingly more often. According to the “Multi-Purpose Homes Survey” conducted by the Ministry of Economy in 2017, active working Salvadorans spend a monthly average \$53 in lunches in restaurants/cafeterias and another \$40 monthly in snacks and beverages. In 2017, per capita expenditures of consumers eating out from different economic sectors were: Storage/Transportation and Communications (\$195.92), Hotels and Restaurants (\$165.49) and Community and Health Services (\$163.32). The graphic below further illustrates steady consumption rates of select demographic households eating out from 2014-2017.



Source: Euromonitor

Advantages and Challenges Facing U.S. Products in El Salvador

Advantages	Challenges
The hotel and restaurant sector is growing making for opportunities for U.S. exports. Currently there are 500 hotels and over 400 registered restaurants in El Salvador. Additionally, a not too small informal sector is a key player, being a good distribution channel to reach consumers of the restaurants located at lower income cities/rural areas.	El Salvador is a highly price-sensitive market, and thus, demand for lower quality items is high as long as prices remain low.
Corporate/Convention/Medical tourism attract travelers from all over the world that are looking for a high-end eating and lodging experience.	Foodservice suppliers from Mexico and other Central American countries offer lower prices due to lower shipping costs and understanding of cultural business practices.
Salvadorans are frequent travelers and are very familiar with American brands.	A lack of consistency and transparency in import and customs procedures.
A fast-paced living style and longer commuting times are driving consumers to look for convenient, ready-to-eat meal options, as well as eating out almost every day.	Overall, the Salvadoran economy remains very susceptible to the world economy and outside events that can disrupt investment.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Market Entry Strategy

El Salvador has a very dynamic importing sector that is educated in consumer trends, attends food tradeshows and is open to bringing new products to meet demand of the HRI sector. The government of El Salvador recently signed a Regulatory Reform Law to eliminate bureaucratic barriers so that all government offices adhere to specific requirements established in current law. Expectations for this reform are that it will help, among other processes, to expedite the registration of food/beverages products.

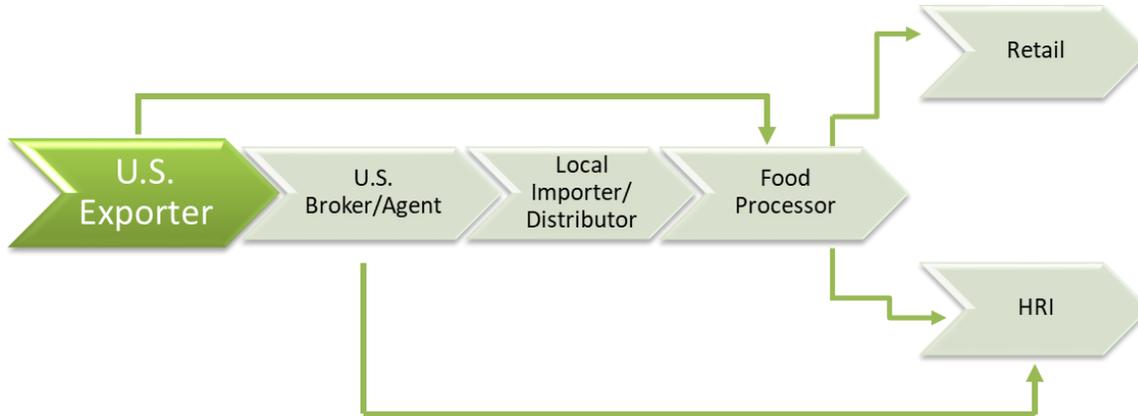
Most hotels and restaurants buy from all the different distribution channels available, including the direct importing of food ingredients. El Salvador does not produce enough food to meet its demand. According to a recent study from the Salvadoran government, El Salvador imports about 93% of its vegetables, 66% of its basic grains, 55% of its fresh fruits and 46% of total meats.

For U.S. exporters that want to sell in the Salvadoran market, having a local partner is highly recommended. These could be either importers/agents or distributor companies that provide insight into local consumer trends and business practices. The Foreign Agriculture Service (FAS) in San Salvador can provide a list of companies that are currently importing different products and have direct access to buyers in the HRI sector.

B. Market Structure

The HRI sector in El Salvador, as in most places, values fast service and high quality at the lowest/reasonable prices. Local food manufacturers are adapting to package sizes and specific flavor profiles required by the HRI sector, promoting heavy competition with long time suppliers from Mexico and neighboring Central American countries. In addition, the HRI sector is looking to import more of its imported raw materials directly to reduce costs.

The diagram below shows the basic distribution flow for imported foods/beverages for the HRI sector in El Salvador:



C. Sub-sector Profiles

• Hotels

Historically, this sector has not grown at high rates; however, in recent years El Salvador has received important investment from both foreign and local firms, with more development seen at beach and exclusive areas of San Salvador. According to the Salvadoran Hotel Association, there are about 500 registered hotels and a few others pending to open in 2019, which will expand room availability to over 1,000 in the San Salvador area. Corporate tourism keeps growing as El Salvador is one of the main hubs for conventions and other large events. There are also a good number of small hotels in the rural areas, specifically at coffee regions and mountains, which in the first half of 2018 attracted more than 400,000 Salvadorans for internal tourism.

Most hotels in El Salvador prefer to purchase their food products through local importers, distributors, wholesalers and large open-air markets. Chefs are key to making purchase decisions, so it is highly suggested to talk to them and show new products to them before offering them to Purchase Managers.

For more information about main hotel chains/brands present in El Salvador, please check the Salvadoran Hotel Association's website: <http://hotelesdeelsalvador.com/>

• Restaurants

There are about 400 restaurants registered with the Salvadoran Restaurant Association, however, there are hundreds more across the country not included in a registry, but that also offer a variety of

dining opportunities. Among these are different settings such as cafeterias, small restaurants and traditional fast food.

Depending on the format, either specialty or franchise, most restaurants purchase fresh produce from local suppliers and large open-air markets. Franchises and other international food restaurants usually import directly or purchase from local importers/distributors or wholesalers such as Pricemart who sell the ingredients/products they need in large size packages.

Home/office delivery service is widely available now for restaurants, including fine, gourmet/international cuisine options, through apps such as HUGO, UberEats and the newest eLUNCH.

To see a detailed list of main restaurants registered in El Salvador please check the Salvadoran Restaurant Association website: <http://ares.sv/>

• **Institutional**

In El Salvador, many institutions offer unique opportunities to sell imported food products, specifically for hospitals -public and private- as well as traditional government agencies that are responsible for their own food purchases.

Be aware that in doing business with the Salvadoran government, there is no electronic contracting platform, only an electronic notification system for companies registered online as providers at COMPRASAL (www.comprasal.gob.sv). This registry is open to U.S. companies, regardless of whether the company has a local representative. Public announcements are made through print media and are posted on the government procurement website.

Institutional Sector Markets with best opportunities are:

- Public and private hospitals
- Penitentiaries
- Public schools under the “Healthy School” program

III. COMPETITION

Although the Salvadoran food industry is not as developed as other Central American countries, it is currently the regional leader in the production and export of snacks, juices and carbonated beverages. As such, Salvadoran food manufacturers rely heavily on imports of food ingredients.

El Salvador is a signatory to 10 free trade agreements and Central American neighbors, Mexico, and Chile are the main competitors for the United States in consumer-oriented and food ingredient products.

According to the 2018 Industrial Exporters Ranking Report, in 2017, El Salvador’s total food ingredients imports, including some semi-processed or processed foods for the Food Manufacturing sector, reached \$715.5 million, an increase of 3.8 percent from 2016.

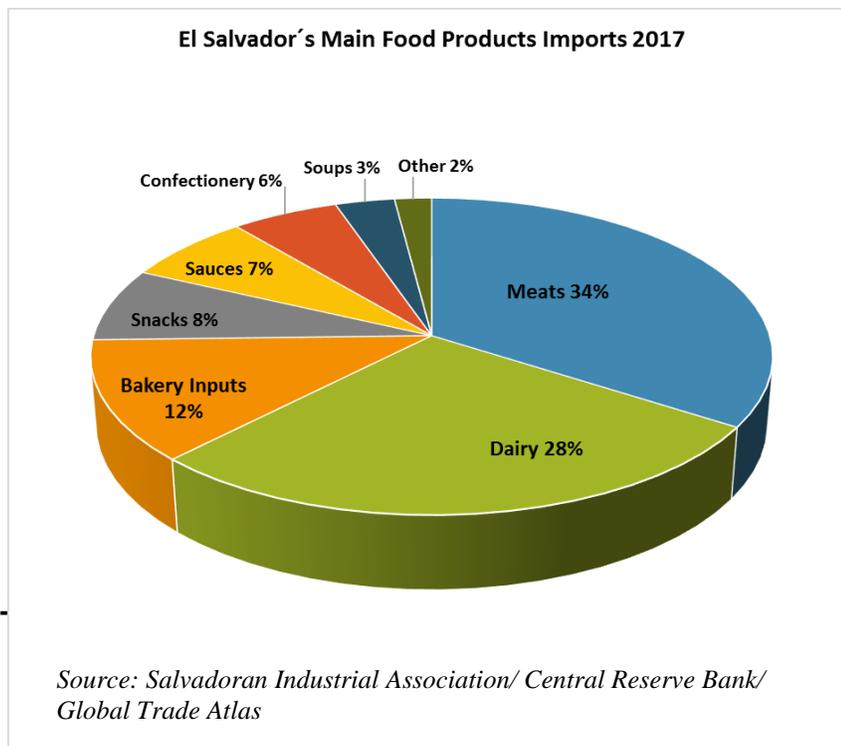
Proven high food safety standards and excellent quality, as well as technical support and assistance in the development of new products, give U.S. food ingredients a competitive advantage.

Key Suppliers of Intermediate Agricultural Exports to El Salvador- 2017 Data

Product Category	Major Suppliers (%)	Strengths of Countries Competing with the
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	share in value)	U.S.
Beef and beef products Total import value: \$106 million	1) Nicaragua -----76 2) U.S. -----10 3) Guatemala ----- 7	Pricing and low shipping costs due to proximity.
Dairy Total import value: \$206 million	1) Nicaragua -----52 2) Costa Rica----- 9 3) Honduras----- 8 4) U.S.-----6	Pricing and availability of cheese to make “pupusas” (typical dish) according to consumer taste preference.
Condiments and Sauces Total import value: \$51 million	1) Costa Rica----- 36 2) U.S.-----28 3) Guatemala----- 21	Costa Rican and Guatemalan manufacturers are very familiar with Salvadoran consumers’ preferences and develop products in accordance. Low prices and local distribution availability.
Milling Industry Products; Malt; Starches; Inulin; Wheat Gluten Total import value: \$33 million	1) Honduras-----32 2) Guatemala----- 28 3) Switzerland----- 10 4) Belgium-----9 5) Mexico-----7 6) Germany-----3 7) U.S.-----2	Pricing and distribution availability.
Fruit and vegetable juices Total import value: \$ 26 million	1) Guatemala----- 56 2) Honduras-----17 3) Mexico-----9 4) Costa Rica-----7 5) Taiwan-----6 6) U.S.-----4	Good quality and large offering of tropical fruits flavors at low prices.

Source: Global Trade Atlas



Products present in the market, which have Good Sales Potential:

El Salvador is a heavy baked products-consumer, so there is still potential for baking inputs, dairy, fruit/vegetable juices, and beef.

Products Not Present in Market but which have Good Sales Potential:

Specialty fresh fruit such as kiwi and the large size varieties of strawberries for baking operations within hotels and restaurants.

Another trend is to meet demand from healthy eating consumers who ask for more natural, reduced sugars or fat free products. Potential product categories are natural sweeteners, assorted flavor juices and fruit extracts.

Products not present because they face Significant Barriers:

Fresh fish and by-products as current regulations from Ministry of Agriculture require plant-by-plant inspection at point of origin.

SECTION V- POST CONTACTS AND FURTHER INFORMATION

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