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**Date:** 12/11/2015

**GAIN Report Number:**

## **Ecuador**

### **Food Processing Ingredients 2015 Annual**

#### **Ecuador's Food Processers Salivating over U.S. Food Processing Ingredients**

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**Report Highlights:**

The food processing industry is a key player within Ecuador's manufacturing sector. It alone accounts for 42 percent of the manufacturing sector's contribution to Ecuador's gross domestic product. The food processing sector in 2014 (latest full year data) accounted for 16 percent of Ecuador's estimated \$12.5 billion in non-oil export earnings. An effective market entry strategy includes targeting Ecuador's technically-sophisticated food manufacturers. These firms are better positioned to import U.S. artificial flavorings, colorants, preservatives, and spices. U.S. food ingredients, especially seasonings used in the manufacture of pre-cooked and easy-to-prepare meals, are in high demand.

#### **SECTION I. MARKET SUMMARY**

Ecuador's economic growth in 2016 is forecast to slow to around 0.8 percent, an improvement from -0.7 percent in 2015. Despite slower economic growth, Ecuador nonetheless continues to offer U.S. food and agricultural product exporters a number of good possibilities.

Younger and lower- to middle-income consumers' purchasing power and appetite for imports is healthy. Ecuador counts with a population of about 15.8 million (Central Intelligence Agency, July 2015 estimate) with a median age of 26 that is growing at 1.4 percent annually. Although unemployment in 2015 is estimated at a low of 4.8-5 percent, underemployment however hovers at a high of 50 percent. High underemployment in a workforce that numbers about 7.2 million is a key factor limiting further food product consumption. The government aims to improve consumption through private and public-sector salary increases and cash transfer programs. Reportedly the economy will remain dollarized in the near- to medium-term.

Government spending remains the main driver of the economy, but it is constrained by the oil sector's output capabilities and lower international petroleum prices. Sources comment that the combination of these factors could divert revenues away from public work projects in the near- to medium-term. The government is increasingly reliant on China, its main creditor, to finance disproportionately high levels of public spending. Ecuador continues to service its Chinese debt through the future sale of oil shipments.

Ecuador's food processing industry is a key player within the country's manufacturing sector. The food processing sector reportedly accounts for about 42 percent of the manufacturing sector's contribution to the country's gross domestic product (GDP). The food processing sector in 2014 (latest full year data) contributed 16 percent to Ecuador's \$12.5 billion non-oil export earnings. The country is the world's largest exporter of bananas, as well as a major supplier of cut flowers, fruits, cocoa, coffee, tuna, and shrimp.

**Table 1: Ecuador, Retail Sales and Consumer Expenditure, (\$ billions), 2012-16**

	2012	2013	2014	2015 (estimate)	2016 (forecast)
Retail Food Sales (\$ billion)	\$19.4	\$20.4	\$21.9	\$23.1	\$25.3
Food, Beverage and Tobacco (consumer expenditure; \$ billion)	\$13.7	\$14.5	\$15.7	\$17.0	\$18.4

Source: Economist Intelligence Unit.

Ecuador's food processing industry's main food and beverage sub-sectors include:

- Meat, meat products and sub-products
- Processed shrimp
- Fish and other processed aquatic products
- Crude and refined animal and vegetable oils
- Processed dairy products
- Milling and bakery products, noodles and pasta
- Sugar and sugar cane products

- Processed cocoa products, chocolates, and confectionery products
- Foodstuffs various
- Beverage products

**Table 2: Ecuador, Food Processing, Food and Beverage Sub-Sectors, (\$ millions), 2012-14**

	2012	2013	2014	2013-14 % Change
Meat, meat products and sub-products	795.0	851.2	980.5	15.2%
Processed shrimp	258.2	637.2	1,014.3	59.2%
Processed Fish	145.4	176.3	162.6	-7.8%
Other processed aquatic products	684.8	835.3	778.6	-6.8%
Crude and refined animal and vegetable oils	464.6	344.0	397.5	15.5%
Processed dairy products	345.0	365.4	391.3	7.1%
Milling products	224.3	216.9	189.9	-12.5%
Bakery products	334.1	364.1	386.5	6.1%
Noodles and pasta	30.6	32.5	42.4	30.4%
Sugar and sugar cane products	128.5	107.0	118.1	10.4%
Processed cocoa products, chocolates, and confectionery products	115.3	96.1	100.4	4.5%
Coffee products	122.3	105.4	71.9	-31.7%
Foodstuffs various	204.9	124.1	139.0	12.0%
Alcoholic beverage products	401.8	496.1	566.9	14.3%
No-Alcoholic beverage products	245.6	273.9	322.5	17.7%
<b>Total Food and Beverage GDP</b>	<b>4,500.4</b>	<b>5,025.5</b>	<b>5,662.3</b>	<b>12.7%</b>

Source: Central Bank of Ecuador, FAS Quito office research (based on latest available data).

The Central Bank of Ecuador (BCE) estimates that food and agricultural products (including livestock, fisheries, aquaculture, and forestry) contributed at least \$14 billion to the country's GDP in 2014. The bank clarifies that the food and beverage subsector alone accounts for about \$5.7 billion. Particularly strong growth in 2014 according to the BCE has been in the shrimp processing sector (up 59 percent), as well as the noodle and pasta sector (up 30 percent) and beverage sector (up 18 percent). Milling products however shrank about 13 percent. Food and beverage processing remains largely concentrated in Ecuador's major urban centers.

**Table 3: Ecuador, Breakdown of Food and Beverage Manufacturers, 2011 (latest data)**

	MICRO	SMALL	MEDIUM	LARGE
<b>Food and Beverage Manufactures</b>	<b>2017</b>	<b>160</b>	<b>126</b>	<b>138</b>

Meat, meat products and sub products	16	11	20	10
Fish and other processed aquatic products	19	12	15	24
Fruits and vegetables products	23	17	10	10
Animal and vegetable oils	3	2	5	19
Dairy products	36	17	12	13
Milling products, starch and starch products	16	9	10	13
Foodstuffs various	60	64	38	31
Beverages	44	28	16	18

Source: Superintendencia de Compañías – CIU.

**Table 4: U.S. Supplier Advantages and Challenges in Ecuador**

Advantages	Challenges
<ul style="list-style-type: none"> <li>• Ecuador’s economy continues to grow, albeit at a somewhat slower pace than in recent years.</li> <li>• With a number of processed food products facing now import restrictions, new opportunities are potentially developing for exporters of unprocessed raw materials and food ingredients.</li> <li>• The United States remains Ecuador’s main agricultural trade partner despite a cooling relationship.</li> <li>• U.S.-origin products are well regarded for their high quality and value.</li> <li>• Local food processing industry is challenged to offer competitive market prices.</li> </ul>	<ul style="list-style-type: none"> <li>• U.S. food and agricultural products (including food ingredients) are disadvantaged by the absence of a free trade agreement with Ecuador.</li> <li>• Ecuador’s import procedures are cumbersome.</li> <li>• U.S. foodstuffs exporters are less aggressive than other regional trade partners (e.g., Chile) in tracking Ecuadorian sales.</li> <li>• A quarter of the population is below the poverty line; ; lacking the financial means to afford imported products</li> <li>• U.S.-origin products tend not to be as price competitive as those from neighboring countries.</li> </ul>

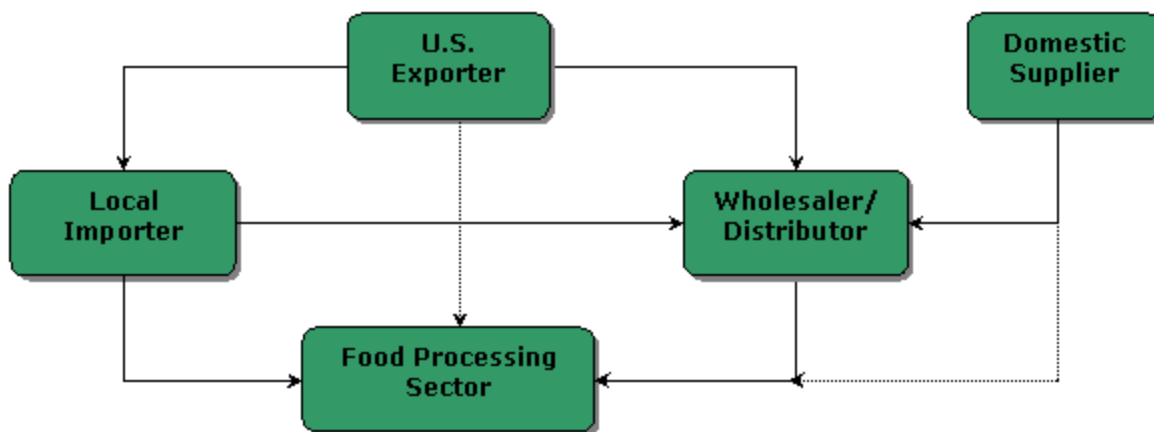
## SECTION II. ROAD MAP FOR MARKET ENTRY

### A. Entry Strategy

- U.S. food ingredient producers and exporters seeking to enter the Ecuadorian market should contact local food processors directly or work with representatives, agents or distributors to define the application and product type best suited to meet end user needs. Large companies usually import directly from foreign suppliers. Small- and medium-sized enterprises, lacking the ability to purchase large volumes, deal primarily with a representative or distributor. In the case of large volumes, the establishment of a local subsidiary to guarantee services and quality to clients is often advisable.
- U.S. food processing ingredients are well regarded for their high quality and value. To compete with local competitors’ own improving quality and pricing, U.S. exporters need to offer a combination of quality, competitive pricing, and additional services (i.e., warranties and packaging suited to the local market’s standards).

- U.S. exporters should build relationships with importers and distributors through personal visits. Constant monitoring, support, and ongoing communications with the importer can help offset freight and tariff advantages of neighboring country exporters.
- Creditworthiness is always a concern. U.S. exporters are advised to avoid offering direct credit lines until their client's creditworthiness is well established. If letters-of-credit are utilized, it is advisable that these be confirmed and that they are irrevocable letters-of-credit.
- FAS Quito can provide U.S. exporters with valuable market information, key import contacts, and local legal and business information. Exporters contemplating sales to Ecuador should contact FAS Quito (Section V).

## B. Market Strategy



One way for new market entrants to build sales in Ecuador is by offering a combination of competitive pricing along with profit sharing, promotion cost support, as well as by engaging in joint product promotions. If it is not possible to penetrate existing distribution channels, exporters can attempt to establish their own distribution channels. Distribution channels in Ecuador will vary between those for domestic and imported products.

FAS Quito finds that raw material and food ingredients represent a significant portion of the final purchase price of locally manufactured food products. To maximize returns, local food processors will often seek out more affordable, locally sourced food ingredients. Local food processors tend to purchase directly from foreign suppliers, forgoing the use of brokers. We find that local companies with low sales volumes often face higher import related costs. To compensate for these expenses, many of these companies source imported food ingredients from wholesalers who act as importers.

## C. Company Profiles

Ecuador's food and beverage processing companies are ramping up production output in response to increased product demand driven by population and income growth. Local processing companies are attempting to capitalize on this growth often by lobbying the government for support at the expense of imported products.

**Table 5: Ecuador, Food and Beverage Manufacturing Subsectors, (\$ millions)**

Economic Activity	Total Companies (2011)	Net Sales 2011 (\$ millions)	Market Share
Meat, meat products and sub products	57	1,086.7	16.5%
Fish and other processed aquatic products	70	938.5	14.2%
Fruits and vegetables products	60	239.6	3.6%
Animal and vegetable oils	29	925.9	14.0%
Dairy products	78	490.7	7.4%
Milling products Starch and starch products	48	229.6	3.5%
Foodstuffs various	193	1,522.3	23.1%
Beverages	106	1,158.8	17.6%
<b>TOTAL</b>	641	6,592.02	100.0%

Source: Superintendencia de Compañías.

Ecuador's food processing sector is one of the most successful components of the national economy. The sector is benefitting from stable, consistent demand for its products.

**Table 6: Profiles of Major Food Processing Companies (\$ millions)**

Company	Imports	2014 Sales (\$ millions)	End-Use Channels	Production Location	Procurement Channels
<b>CORPORACIÓN FAVORITA</b> (Meat, bakery goods)	Specialized food ingredients and processed food	1,868.9 (total retail sales)	Retail and HRI	Pichincha (33) Guayas (23) Azuay (4) Loja (1) Tungurahua (3) Imbabura (3) Manabí (7) Esmeraldas (4) Sto. Domingo (2) Cotopaxi (3) Los Ríos (2) Chimborazo (2) Cañar (1) El Oro (5)	Direct
<b>PRONACA</b> (Meats and poultry, prepared fruit and vegetables, prepared animal food, dry goods, prepared meals)	Grains, live animals, soybean meal, condiments	940.9	Retail and HRI	Ecuador (3) Brazil (1) Colombia (1)	Direct
<b>NESTLE ECUADOR</b> (Dairy products, baked goods, confectionary, snack food, dry	Specialized food ingredients	513.67	Retail and HRI	Ecuador (1) Chile (6) Colombia (3)	Direct

goods, prepared meals)				Venezuela (2)	
<b>LA FABRIL</b> (Oilseed products)	Bean raw oil, sunflower oil, fragrances, Flavors and antioxidants	455.8	Retail and HRI	Ecuador (1)	Wholesaler; Direct
<b>ARCA Ecuador</b> (Beverages)	Syrup	504.4	Retail and HRI	Ecuador (2)	Direct
<b>COMPANÍA DE CERVEZAS NACIONALES</b> (Beer)	Starch, Barley, glucose syrup	489.4	Retail and HRI	Ecuador (2)	Importers; Direct
<b>NEGOCIOS INDUSTRIALES REAL NIRSA</b> (Fish, prepared meals, dry goods)	Specialized food ingredients	405.7	Retail	Ecuador (1)	Direct, Broker
<b>THE TESALIA SPRING COMPANY</b> (Beverages)	Specialized food ingredients	255.5	Retail and HRI	Ecuador (1)	Direct
<b>DANEC</b> (Oilseed products)	Animal fat, vegetable oil, corn oil, catalyst	248.5	Retail	Ecuador (1)	Direct
<b>INDUSTRIAS ALES</b> (Oilseed products)	Specialized food ingredients	205.40	Retail	Ecuador (1)	Wholesaler; Direct
<b>UNILEVER ANDINA ECUADOR</b> (Oilseed products, ice creams)	Animal fat, vegetable oil, corn oil, Specialized food ingredients	297.7	Retail and HRI	Ecuador (1)	Direct
<b>SOCIEDAD AGRICOLA E INDUSTRIAL SAN CARLOS</b> (Sugar)	Specialized food ingredients	133.6	Retail	Ecuador (1)	Wholesaler; Direct
<b>COMPANIA AZUCARERA VALDEZ</b> (Sugar)	Specialized food ingredients	142.1	Retail	Ecuador (1)	Wholesaler; Direct
<b>ECUDOS</b> (Sugar)	Specialized food ingredients	76.1	Retail	Ecuador (1)	Direct
<b>ECUAJUGOS</b> (Non-alcoholic beverages)	Specialized food ingredients	121.1	Retail and HRI	Ecuador (1)	Direct
<b>INDUSTRIAS LACTEAS TONI</b> (dairy products)	Specialized food ingredients	167	Retail	Ecuador (1)	Wholesaler; Direct
<b>MODERNA ALIMENTOS</b> (Baked goods)	Wheat, Specialized food ingredients, Oats	138.1	Retail and HRI	Ecuador (4)	Wholesaler; Direct
<b>CORPORACION SUPERIOR</b> (Baked goods)	Wheat, Specialized food ingredients, Oats	110.8	Retail and HRI	Ecuador (3)	Wholesaler; Direct
<b>INDUSTRIAL SURINDU</b> (Baked goods, confectionary)	Molasses	74.54	Retail and HRI	Ecuador (1)	Direct
<b>INDUSTRIAL MOLINERA</b> (Dry goods: powdered wheat, oats)	Wheat, Oats	79.3	Retail	Ecuador (2)	Direct
<b>QUALA ECUADOR</b>	Specialized food	73.5	Retail and	Ecuador (1)	Direct

(Beverages, dairy, snacks and cereals, grocery)	ingredients and food commodities		HRI	Colombia (1)	
<b>CONFITECA</b> (Confectionary products)	(Sugar, gums, essence)	64.2	Retail	Ecuador (1) Colombia (1) Peru (1)	Direct, broker
<b>MONDELIZE -KRAFT FOODS ECUADOR</b> (Beverages, cheese and dairy, convenient meals, snacks and cereals, grocery)	Specialized food ingredients and food commodities	90.4	Retail and HRI	Ecuador (1) Peru (1) Colombia (1) Venezuela (2)	Direct
<b>PASTEURIZADORA QUITO</b> (dairy products)	Specialized food ingredients	68.5	Retail	Ecuador (1)	Wholesaler; Direct
<b>TIOSA</b> (Baked goods)	Specialized food ingredients and food commodities	66.1	Retail and HRI	Ecuador (1)	Direct

Source: FAS Quito office research.

**SUPERMARKET CHAINS:** Supermarket chains sell imported food products targeting middle- and high-income consumers. FAS Quito recommends that exporters of U.S. food ingredients contact large importers, wholesalers/distributors or supermarkets directly. Based on store sales, the main supermarket chains in Ecuador, representing approximately 60 percent of the sector, are *La Favorita (SuperMaxi)*, and *El Rosado (Mi Comisariato)*. *Tiendas Industriales Asociadas*, *Mega Santa Maria*, and *Supermercados Coral* are fast growing medium-sized supermarket chains.

Major food importers/distributors supply all major supermarket chains and provincial retailers. Major supermarket chains will usually request product exclusivity from new-to-market suppliers. Suppliers to major supermarkets have a wide range of distribution channels. The negotiating power of major supermarkets towards food suppliers is disproportionate. The major supermarket chains prefer to import expensive high-end products directly in order to earn higher profit margins.

#### D. Sector Trends

Ecuador's food and beverage sector has achieved a high degree of industrialization and technical sophistication among the larger processors. However, small processors' operations rely primarily on less efficient traditional production methods. Spurring the sector's growth is increased acceptance and consumption of processed food products, which are now a well established part of the national food culture.

Exchange rate fluctuations between the U.S. dollar and neighboring Latin American currencies often results in food processing ingredients being sourced by Ecuadorian importers from more affordable origins such as Colombia, Chile, and Mexico. Best product prospects include processed sugar, concentrated ingredients flavors, juice concentrates and mixtures, colorants, cereals, meats, flours, and food extracts.

FAS Quito recommends an Ecuador sales strategy that includes targeting food manufacturers with diversified product lines. One leading food manufacturer alone maintains a portfolio of over 800



products and 26 brands. We understand that the main processed food products in the Ecuadorian market are pre-cooked or easy to prepare meals; these utilize a high proportion of imported food ingredients and seasonings.

### SECTION III. COMPETITION

U.S. food ingredients face competition from Latin American producers. Exports from neighboring countries, benefitting from a closer proximity, are often more competitive due to lower shipping costs. Import tariffs levied on U.S. food ingredients are higher than those charged against neighboring countries' products that benefit from free trade agreements.

**Table 7: Competitive Situation Facing U.S. Suppliers**

<b>Product Category</b>	<b>Major Import Supply Sources in 2014</b>	<b>Strengths of Key Supply Countries</b>	<b>Advantages and Disadvantages of Local Suppliers</b>
Seafood	Kiribati: 5% Micronesia: 3% Peru: 3.5%	Peru is the major supplier of sea products in South America.	Ecuador is a major Latin American tuna fish producer.
Non-alcoholic beverages	Mexico: 25% Colombia: 21% Germany: 18%	Colombian products are more price competitive.	Growing product diversification.
Beer	Colombia: 31% Mexico: 25% Netherlands: 16%	Mexico offers a wide variety of beer products at competitive prices.	There is a growing trend to buy local brands.
Oil seed products	United States: 36% Netherlands: 9% Brazil: 8%	Suppliers are benefitting from high international commodity prices.	National production is low.
Sugars and sugar confectionery	Colombia: 63% China: 9% Peru: 7%	Colombian sugar meets quality certifications and is tariff exempt.	Domestic production is less competitive than imported product.
Dairy products	Chile: 54% Peru: 13% Brazil: 12%	Suppliers offer a number of products not produced within Ecuador.	Domestic production is protected by the government.
Baked goods	Colombia: 44% Peru: 41% United States: 8%	Main suppliers offer competitive prices.	International product manufacturers are ready present in the market.
Milling products	Argentina: 45% Chile: 23% Colombia: 11%	Andean Community member, Colombia is tariff exempt.	A local oligopoly controls pricing.
Meat	Chile: 38% United States: 34% Canada: 21%	Main suppliers provide advance sanitary certifications.	Quality concerns with informal sector production.
Prepared fruit and vegetables	Chile: 45% Peru: 12% United States: 8%	Chilean products are high price competitive.	Year round domestic production is limited by lack of technology.

Prepared animal food residues and waste from the food industry; prepared animal feed.	United States: 33% Argentina: 25% Peru: 23%	Main suppliers offer a number of products not produced locally.	Local industry is diversifying and offering competitive pricing.
Preparations of food miscellaneous	Chile: 25% Colombia: 20% United States: 14%	United States produce ingredients that do not exist in the region	National production is scanty and possesses deficiencies.
Alcoholic beverages (Spirits)	United Kingdom: 37% Colombia: 17% Peru: 12%	Main suppliers offer competitive pricing and branded quality products.	Local industry concentrates on low-end product production. Bulk growing for local bottling.

Source: FAS Quito Office Research.

Ecuador is heavily reliant on imports of wheat, soybean oil, and soybean meal. Ecuador is also an importer of fish products, crustaceans, and mollusks, as well as an importer of pre-mix ingredients for dog and cat pet-foods and related products.

Domestic food manufacturers rely heavily on local food ingredients. Ecuador's government is attempting to restrict imports in order to stimulate local production and increased domestic use. The government is also aiming to increase production for regional export. Ecuadorian companies tend to import specialized food ingredients such as flavoring agents, colorants, preserving agents, and emulsifiers. These products have traditionally being imported mainly from the United States and the European Union (EU) since Ecuador lacks the means to manufacture these products in sufficient volume.

#### **SECTION IV. BEST PRODUCT PROSPECTS**

Good prospects exist for high quality U.S. food ingredient products (e.g., artificial flavorings, colorants, preservatives, and spices). Wheat, soy bean flour, yellow corn, fruit juices and concentrates, glucose syrup, whey, and lactose also offer good prospects.

#### **Category A: Products Present in the Market Which Have Good Sales Potential**

<b>Product Category</b>	<b>Import Tariff Rate</b>	<b>Key Constraints for Market Development</b>	<b>Market Attractiveness for the United States</b>
Preparations of food miscellaneous	10% - 30%	Chile and Colombia dominate imports. Some products may require a Certificate of Conformity. Safeguards applied for products in this category.	Domestic production is limited; opportunities exist for high quality U.S. products.

Milling products and cereals	20% - 30%	Local oligopoly controls the industry, including price fixing. Some products may require a Certificate of Conformity	The United States and Canada supply 37% and 40% of Ecuador's cereal needs; insufficient domestic production.
Chocolate and confectionery products	30%	Colombia dominates imports thanks to more competitive prices. Some products may require a Certificate of Conformity. Safeguards applied for products in this category.	U.S. brands are well recognized; Ecuadorian sugar prices are elevated.
Bakery products, noodles and pasta	20% - 25%	Andean Community members and regional suppliers dominate imports. Some products may require a Certificate of Conformity. Safeguards applied for products in this category.	Specialty U.S. products are not available in the region. Quality products are preferred.
Non-alcoholic beverages	30%	Colombia dominates imports. Some products may require a Certificate of Conformity. Safeguards applied for products in this category.	Domestic production is slow to launch new brands; local production costs are high.
Meat and meat products	20% - 85%	Some products may require a Certificate of Conformity. Safeguards applied for products in this category.	U.S. products are recognized for their quality.
Dairy products	25% - 30%	National production is promoted. Regional suppliers are main suppliers. Some products may require a Certificate of Conformity. Safeguards applied for products in this category.	Specialty U.S. products are not available in the region.

**Category B: Products Not Present, But With Good Sales Potential**

<b>Product Category</b>	<b>Import Tariff Rate</b>	<b>Key Constraints for Market Development</b>	<b>Market Attractiveness for the United States</b>
Basic Chemicals products for the preparation of food	0% - 5%	Lack of accurate market information.	Tariffs are minimal.
Crude and refined oil and fat	0% - 20%	Domestic manufacturing is well diversified. Some products may require a Certificate of Conformity.	Consumers are increasingly demanding healthier corn and canola oil; Ecuador mainly produces palm oil.

		Safeguards applied for products in this category.	
Seeds and dry fruits	0% - 10%	Chile is major supplier that benefits from competitive pricing and shipping cost advantages. Some products may require a Certificate of Conformity. Safeguards applied for products in this category.	Importers prefer U.S. product based on taste preferences.

## SECTION V. POST CONTACTS AND FURTHER INFORMATION

U.S. Embassy Quito, Foreign Agricultural Service (FAS) Office of Agricultural Affairs  
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For additional information, see [www.fas.usda.gov](http://www.fas.usda.gov). See also to our Exporter Guide, Food and Agricultural Import Regulations and Standards (FAIRS), and FAIRS Export Certificate GAIN reports.