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Food Processing Ingredients

Ecuador's Food Processers Seeking U.S. Food Processing Ingredients

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Report Highlights:
The food processing industry is a huge component of Ecuador's manufacturing sector, grossing $5.3 billion in 2015. Excellent sales prospects exist for U.S. food ingredient products to supply this industry. This report provides a road map for exporters wishing to enter the market and who want to understand the key channels of distribution for food ingredients, as well as growth areas for industrial process foods, beverages and edible fishery products.

Post:
Quito

SECTION I. MARKET SUMMARY

Ecuador's economic growth in 2017 is forecast at 0.3 percent, an improvement from the -2.3 percent in 2016. Despite slow economic growth, Ecuador continues to offer U.S. food and agricultural product exporters a number of excellent possibilities.

Younger and lower to middle-income consumers' have considerable purchasing power which drives demand for imports. Ecuador's population is 16.1 million (Central Intelligence Agency, July 2016 estimate) with a median age of 27 that is growing at 1.3 percent annually. Although unemployment in 2016 is estimated at only 5.2 percent, underemployment hovers at around 45 percent. High underemployment in a workforce that numbers about 7.6 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. The economy is forecast to remain "dollarized" in the near to medium-term.

The food processing sector is one of the strongest performing sectors in Ecuador's economy. The sector is a huge component of the country's manufacturing sector, accounting for about 40 percent of the sector's contribution to the country's gross domestic product (GDP). In 2015, the food processing sector represented 15 percent of Ecuador's $11.7 billion in non-oil export earnings, or $1.8 billion. Spurring the sector's growth is increased acceptance and consumption of processed food products, which are now a well establish part of the national food culture.

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

	2013	**2014**	**2015**	**2016 (estimate)**	**2017 (forecast)**
Retail Food Sales ($ billion)	$22.3	$23.7	$24.2	$25.0	$26.0
Food, Beverage and Tobacco (consumer expenditure; $ billion)	$14.7	$15.6	$16.3	$17.3	$18.5

Source: Economist Intelligence Unit.

Ecuador's domestic 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
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Table 2: Ecuador, Food Processing, Food and Beverage Sub-Sectors contribution to GDP, ($ millions), 2012-15

	2012	2013	2014	2015	2014-15 % Change
Meat, meat products and sub-products	795.0	851.2	980.5	837.5	-14.6%
Processed shrimp	258.2	637.2	1,014.3	961.8	-5.2%
Processed Fish	145.4	176.3	162.6	158.5	-2.5%
Other processed aquatic products	684.8	835.3	778.6	526.3	-32.4%
Crude and refined animal and vegetable oils	464.6	344.0	397.5	430.7	8.4%
Processed dairy products	345.0	365.4	391.3	350.1	-10.5%
Milling products	224.3	216.9	189.9	307.0	61.7%
Bakery products	334.1	364.1	386.5	338.3	-12.5%
Noodles and pasta	30.6	32.5	42.4	45.3	6.9%
Sugar and sugar cane products	128.5	107.0	118.1	87.5	-25.9%
Processed cocoa products, chocolates, and confectionery products	115.3	96.1	100.4	92.0	-8.4%
Coffee products	122.3	105.4	71.9	101.1	40.5%
Foodstuffs various	204.9	124.1	139.0	112.3	-19.2%
Alcoholic beverage products	401.8	496.1	566.9	561.4	-1.0%
No-Alcoholic beverage products	245.6	273.9	322.5	471.7	46.3%
Total Food and Beverage GDP	**4,500.4**	**5,025.5**	**5,662.3**	**5,381.5**	-5.0%

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 $14.9 billion to the country’s GDP in 2015. The food and beverage subsector alone accounts for about $5.3 billion. The milling sector has shown particularly strong growth in 2015 (up 61 percent), the coffee sector is up 40 percent, and the non-alcoholic beverage sector is up 46 percent. Sugar and sugar cane products and foodstuffs shrank about 26 percent and 19 percent respectively. Food and beverage processing remains largely concentrated in Ecuador’s major urban centers such as Quito, Guayaquil and Cuenca.

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

	MICRO	SMALL	MEDIUM	LARGE
Food and Beverage Manufactures	**2017**	**160**	**126**	**138**
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 – CIIU.

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

Advantages	Challenges
• New opportunities are developing for exporters of unprocessed raw materials and food ingredients, due to import restrictions on a number of processed food products. • The United States remains Ecuador's main agricultural trading partner, despite a cooling in the diplomatic relationship. • U.S.-origin products are well regarded for their high quality and value. • Local food processing industry struggles to offer competitive market prices.	• U.S. food and agricultural products (including food ingredients) are disadvantaged by the absence of a free trade agreement with Ecuador. • Ecuador's economy has experience a recession in last year and is expected to slowdown in coming years. • Ecuador's import procedures are cumbersome. • U.S. foodstuffs exporters are less aggressive than other regional trade partners (e.g., Chile) in tracking Ecuadorian sales. • A quarter of the population is below the poverty line, lacking the financial means to afford imported products • U.S.-origin products tend not to be as price competitive as those from neighboring countries.

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.

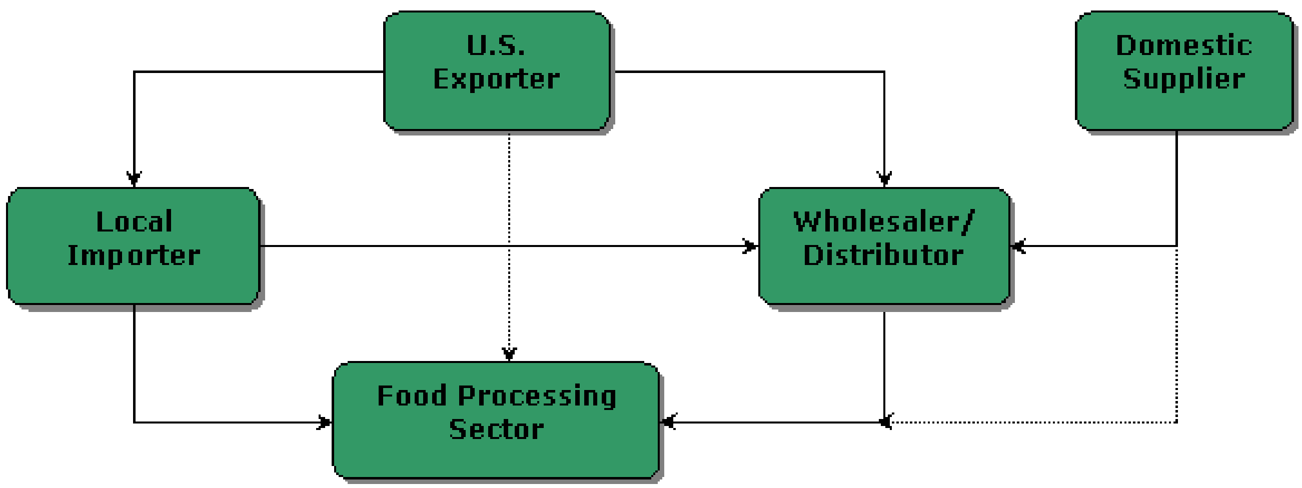
- U.S. food processing ingredients are well regarded for their high quality and value. To compete with local competitors' own improving quality and pricing, U.S. exporters need to offer a combination of quality, competitive pricing, and additional services (i.e., warranties and packaging suited to the local market's standards).

- U.S. exporters should build relationships with importers and distributors through visits to Ecuador. 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 Structure



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, and 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 estimates 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. 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.

Local food processors sell their products in supermarket chains throughout Ecuador. Based on 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. These same supermarket chains sell imported food products targeting middle- and high-income consumers.

Company Profiles

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. 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 processed 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%
TOTAL	641	6,592.02	100.0%

Source: Superintendencia de Compañías.

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

Company	Imports	2015 Sales ($ millions)	End-Use Channels	Production Location	Procurement Channels
CORPORACIÓN FAVORITA (Meat, bakery goods)	Specialized food ingredients and processed	$1,989.0 (total retail sales)	Retail and HRI	Pichincha (33) Guayas (23)	Direct

	food			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)	
PRONACA (Meats and poultry, prepared fruit and vegetables, prepared animal food, dry goods, prepared meals)	Grains, live animals, soybean meal, condiments	$988.0	Retail and HRI	Ecuador (3) Brazil (1) Colombia (1)	Direct
ARCA Ecuador (Beverages)	Syrup	$532.1	Retail and HRI	Ecuador (2)	Direct
NESTLE ECUADOR (Dairy products, baked goods, confectionary, snack food, dry goods, prepared meals)	Specialized food ingredients	$523.6	Retail and HRI	Ecuador (1) Chile (6) Colombia (3) Venezuela (2)	Direct
COMPAÑIA DE CERVEZAS NACIONALES (Beer)	Starch, Barley, glucose syrup	$502.5	Retail and HRI	Ecuador (2)	Importers; Direct
LA FABRIL (Oilseed products)	Bean raw oil, sunflower oil, fragrances, Flavors and antioxidants	$464.2	Retail and HRI	Ecuador (1)	Wholesaler; Direct
HOLDING TONICORP (dairy products)	Specialized food ingredients	$374.9	Retail	Ecuador (1)	Wholesaler; Direct

NEGOCIOS INDUSTRIALES REAL NIRSA (Fish, prepared meals, dry goods)	Specialized food ingredients	$355.6	Retail	Ecuador (1)	Direct, Broker
UNILEVER ANDINA ECUADOR (Oilseed products, ice creams)	Animal fat, vegetable oil, corn oil, Specialized food ingredients	$291.6	Retail and HRI	Ecuador (1)	Direct
THE TESALIA SPRING COMPANY (Beverages)	Specialized food ingredients	$278.2	Retail and HRI	Ecuador (1)	Direct
DANEC (Oilseed products)	Animal fat, vegetable oil, corn oil, catalyst	$240.8	Retail	Ecuador (1)	Direct
INDUSTRIAS ALES (Oilseed products)	Specialized food ingredients	$206.2	Retail	Ecuador (1)	Wholesaler; Direct
SOCIEDAD AGRICOLA E INDUSTRIAL SAN CARLOS (Sugar)	Specialized food ingredients	$147.8	Retail	Ecuador (1)	Wholesaler; Direct
MODERNA ALIMENTOS (Baked goods)	Wheat, Specialized food ingredients, Oats	$142.7	Retail and HRI	Ecuador (4)	Wholesaler; Direct
COMPANIA AZUCARERA VALDEZ (Sugar)	Specialized food ingredients	$127.4	Retail	Ecuador (1)	Wholesaler; Direct
AVITALSA	Grains, live animals, soybean meal, condiments	$120.3	Retail and HRI	Ecuador (1)	Wholesaler; Direct
AJECUADOR	Syrup	$120.0	Retail and HRI	Ecuador (1)	Direct
CORPORACION SUPERIOR	Wheat, Specialized	$119.2	Retail and HRI	Ecuador (3)	Wholesaler; Direct

(Baked goods)	food ingredients, Oats				
CORPORACION AZUCARERA ECUATORIANA (Sugar)	Specialized food ingredients	$114.9	Retail	Ecuador (1)	Direct
ECUAJUGOS (Non-alcoholic beverages)	Specialized food ingredients	$108.2	Retail and HRI	Ecuador (1)	Direct
QUALA ECUADOR (Beverages, dairy, snacks and cereals, grocery)	Specialized food ingredients and food commodities	$90.6	Retail and HRI	Ecuador (1) Colombia (1)	Direct
MONDELIZE - KRAFT FOODS ECUADOR (Beverages, cheese and dairy, convenient meals, snacks and cereals, grocery)	Specialized food ingredients and food commodities	$94.4	Retail and HRI	Ecuador (1) Peru (1) Colombia (1) Venezuela (2)	Direct
LACTEOS SAN ANTONIO (dairy products)	Specialized food ingredients	$89.2	Retail	Ecuador (1)	Wholesaler; Direct
FERRERO DEL ECUADOR (Confectionary and Chocolate products)	(Sugar and specialized food ingredients)	$78.4	Retail	Ecuador (1) Colombia (1) Peru (1)	Direct, broker
INDUSTRIAL MOLINERA (Dry goods: powdered wheat, oats)	Wheat, Oats	$77	Retail	Ecuador (2)	Direct
ALPINA PRODUCTOS ALIMENTICIOS (dairy products)	Specialized food ingredients	$75.5	Retail	Ecuador (1)	Wholesaler; Direct
TIOSA (Baked goods)	Specialized food ingredients and food commodities	$74.5	Retail and HRI	Ecuador (1)	Direct
INDUSTRIAL SURINDU	Molasses, specialized	$74.3	Retail and HRI	Ecuador (1)	Direct

(Baked goods, confectionary)	food ingredients and food commodities				
PASTEURIZADORA QUITO (dairy products)	Specialized food ingredients	$69.9	Retail	Ecuador (1)	Wholesaler; Direct
CONFITECA (Confectionary products)	(Sugar, gums, essence)	$62.1	Retail	Ecuador (1) Colombia (1) Peru (1)	Direct, broker

Source: FAS Quito office research.

C. 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 establish part of the national food culture.

Exchange rate fluctuations between the U.S. dollar and neighboring Latin American currencies often result in food processing ingredients being sourced by Ecuadorian importers from more affordable origins such as Colombia, Chile, and Mexico. Best U.S. 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. The main processed food products in the Ecuadorian market are pre-cooked or easy to prepare meals that utilize a high proportion of imported food ingredients and seasonings.

SECTION III. COMPETITION

U.S. food ingredients face strong competition from Latin American producers. Exports from neighboring countries, benefitting from a closer proximity, are 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.

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.

Ecuador is heavily dependent on imported 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.

Table 7: Competitive Situation Facing U.S. Suppliers

Product Category	Major Import Supply Sources in 2014	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Seafood Net imports: 71,190 MT US$83.3 million	Kiribati: 10% Marshall Islands: 5% Peru: 4 %	Peru is the major supplier of sea products in South America.	Ecuador is a major Latin American tuna fish producer.
Non-alcoholic beverages Net imports: 5,804 MT US$6.5 million	Colombia: 29% Mexico: 24% Germany: 18%	Colombian products are more price competitive.	Growing product diversification.
Beer Net imports: 2,126 MT US$1.9 million	United States: 34% Argentina: 27% Netherlands: 15%	Suppliers offer wide variety of beer products at competitive prices.	There is a growing trend to buy local brands.
Oil seed products Net imports: 8,860MT US$25.2 million	United States: 33% Brazil: 13% Canada: 8%	Suppliers are benefitting from high international commodity prices.	National production is low.
Sugars and sugar confectionery Net imports: 83,157MT US$68.5 million	Colombia: 58% Guatemala: 12% China: 7%	Colombian sugar meets quality certifications and is tariff exempt.	Domestic production is less competitive than imported product.
Dairy products Net imports: 3,949 MT US$9.5 million	Chile: 35% United States: 23% Peru: 13%	Suppliers offer a number of products not produced within Ecuador.	Domestic production is protected by the government.
Baked goods Net imports: 16,235 MT US$37.5 million	Colombia: 44% Peru: 42% United States: 6%	Main suppliers offer competitive prices.	International product manufacturers are ready present in the market.
Milling products Net imports: 53,651 MT US$31.0 million	Chile: 46% Argentina: 17% Colombia: 9%	Andean Community member, Colombia is tariff exempt.	A local oligopoly controls pricing.
Meats Net imports: 7,364 MT US$12.6 million	United States: 52% Chile: 38% Uruguay: 5%	Main suppliers provide advance sanitary certifications.	Quality concerns with informal sector production.

Prepared fruit, vegetables and nuts Net imports: 32,498 MT US$45.7 million	Chile: 41% Peru: 14% United States: 9%	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. Net imports: 1,070,057 MT US$596.7 million	United States: 34% Peru: 24% Bolivia: 15%	Main suppliers offer a number of products not produced locally.	Local industry is diversifying and offering competitive pricing.
Preparations of food miscellaneous Net imports: 26,192 MT US$202.1 million	Chile: 34% Colombia: 17% United States: 13%	Suppliers produce ingredients that do not exist in the country	National production is scanty and possesses deficiencies.
Alcoholic beverages (Spirits) Net imports: 2,130 MT US$7.2 million	United Kingdom: 48% Colombia: 19% Panama: 10%	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

SECTION IV. BEST PRODUCT PROSPECTS

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

Category A: Products Present in the Market That Have Good Sales Potential

Product Category	2015 Imports (US$ Millions)	5-Yr. Avg. Annual Import Growth	Import Tariff Rate	Key Constraints for Market Development	Market Attractiveness for the United States
Preparations of food miscellaneous	$202.1	6%	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.

Cereals and Milling products	$345.6	0.2%	20% - 30%	Local oligopoly controls the industry, including price fixing. Some products may require a Certificate of Conformity	The United States and Canada supply 32% and 50% of Ecuador’s cereal needs; insufficient domestic production.
Chocolate and confectionery products	$60.8	6%	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, Flour and Starch	$102.6	4%	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	$6.5	-16%	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	$12.6	0.4%	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	$9.5	-3%	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.

Note: For more information about the required "Certificate of Conformity," please see FAS Quito's 2016 FAIRS Report.

Category B: Products Not Present in Significant Quantities, but with Good Sales Potential

Product Category	Import Tariff Rate	Key Constraints for Market Development	Market Attractiveness for the United States
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. Safeguards applied for products in this category.	Consumers are increasingly demanding healthier corn and canola oil; Ecuador mainly produces palm oil.
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.

Note: For more information about the required "Certificate of Conformity," please see FAS Quito's

2016 FAIRS Report.

SECTION V. POST CONTACTS AND FURTHER INFORMATION

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For additional information, see www.fas.usda.gov. See also to our Exporter Guide, Food and Agricultural Import Regulations and Standards (FAIRS), and FAIRS Export Certificate GAIN reports