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Global Agricultural Information Network

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El Salvador

Exporter Guide

Annual 2015

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Report Highlights:

Complete update of Annual Exporter Guide (with review of 2014-15) for trade in 2016.

Post:
San Salvador

Executive Summary:
I. MARKET OVERVIEW

A. Current Economic Situation

Although El Salvador is the smallest country in Central America, it is the fourth largest economy with a nominal gross domestic product (GDP) of \$25.16 billion in 2014. The economy took a hit from the global recession and real GDP contracted by nearly 4 percent in 2009. The Government of El Salvador (GOES) has promoted an open-market economy and has recently led economic diversification initiatives in new sectors such as non-traditional agricultural products (tuna, bakery, snacks, beverages, and dairy products, among others), processed food, distribution, telecommunication services, and tourism. Development in these areas follows a 30 year evolution in the economy from being agricultural based to one of commercial, retail and financial services. A glance into sector distribution in recent years confirms the importance of services in the overall economy:

Sector Breakdown: Percent share of Real GDP					
	2010	2011	2012	2013	2014
Agriculture	11.0	10.6	10.2	10.3	10.5
Industry	29.1	29.1	29.1	29.5	24.7
Services	59.3	59.3	60.7	60.1	64.8

CIA-The World Fact Book/Economist Intelligence Unit

It is important to note that an element which has allowed for growth in services has been internal demand, something which has been positively affected by the remittances of more than 2.5 million Salvadorans living in the United States. According to recent data from the Central Bank, for the period of January to October 2015, the remittance level reached \$3.5 billion, which is 3 percent more than the level registered during the same period in 2014, which was \$3.4 billion. As per the Multiple Purposes Household Survey conducted by the Ministry of Economy in 2014, about 20 percent of Salvadorans receive remittances and they represent approximately 16 percent of total GDP.

As for telecommunications, following privatization of the sector in 1998, market dynamics have provided for interesting statistics. By the end of 2014, for example, there were 9.1 million working mobile phone lines, which is 144 percent market penetration. However, according to the industry, El Salvador is still lagging behind in regards to more modern internet connectivity platforms and fixed telephone line systems.

Tourism has been on the upswing since the creation of the Ministry of Tourism in 2004. The arrival of tourists is expected to have an economic impact in El Salvador of approximately \$1.3 billion in 2016, 19 percent higher than the \$1.10 billion received in 2015, according to the Ministry of Tourism. Part of the strategy to increase tourist visits began with the launching of a new promotional campaign, “The Best

Kept Secret.” The aim is to attract tourists particularly from the United States and Canada, who represent 36 percent of tourist volume. This strategy seeks to convey the message that El Salvador is a closer destination that is a “host par excellence and authentic”.

Trade is highly important to El Salvador, demonstrated by its free trade agreements with the Dominican Republic, Chile, Mexico, Panama, Taiwan and Colombia, as well as its membership in the Central American Dominican Republic Free Trade Agreement with the United States (CAFTA-DR) which went into effect in 2006. Recently it signed an Association Agreement with the European Union that includes the establishment of a free trade area. Free Trade Agreements with Canada, Peru, and Belize are under negotiation. A partial Scope Agreement was signed with Cuba. With the reduction of import tariffs and removal of almost all non-tariff trade barriers, El Salvador’s trade has expanded significantly over the last few years.

The privatization of the banking system in the early 1990’s resulted in a financial sector that is recognized as one of the most efficient in Latin America, and which has created an array of financing options for local importers. In addition, a good credit standing with foreign suppliers complements the availability of funds to carry out business transactions. El Salvador uses the U.S. dollar as its official currency, eliminating foreign exchange risk for investors.

B. Current Political Situation

On March 15, 2014, El Salvador held presidential elections within a framework of democracy, transparency and full respect for the Constitution and the rule of law. The winning candidate was former Vice-President Salvador Sánchez Cerén of the Farabundo Marti Liberation Front (FMLN), which is a leftist political group. San Salvador Mayor Norman Quijano of the National Republican Alliance (ARENA) was the runner-up in an extremely tight election result. So far the new administration, after winning by less than a quarter of a percent, is trying to be conciliatory, but has a very small timeline within which to maneuver due to a high fiscal deficit and slow economic growth inherited from the previous administration. Meanwhile, the country continues to cope with the residual effects of the financial crisis with a downward trend in economic activity, especially exports and foreign investment, as well as a high delinquency rate that is a major burden on Salvadoran society.

National Unity Alliance (GAN) is the newest political party and one which embraces centrist principles. ARENA was created in the early eighties, has a pro-business platform. The FMLN is composed of former guerrilla organizations and was formed after the country’s peace accords were signed in 1992.

C. Market Size

El Salvador is densely populated, with population growth averaging 0.69 percent per year over the seven years. Of its 6.4 million people, nearly 66 percent are estimated to live in urban areas. According to the “Multiple Purpose Household Survey” conducted by the Ministry of Economy in 2014, the capital city of San Salvador accounts for approximately 28 percent of the country’s population. This figure is understandable when one considers that migration to this city accelerated during the 1980’s as a result of civil conflict, and continued thereafter due to natural disasters and the shrinking of the agricultural sector. Other than San Salvador, there are three major cities: San Miguel, in the eastern part of the

country, and Santa Ana and Sonsonate, in the west. Recent government economic development programs have targeted the impoverished eastern and northern regions, both of which were damaged significantly by past civil conflict. The government's focus in the eastern region has been the building of the aforementioned seaport in the province of La Unión.

In 2012, The Government of El Salvador successfully completed a \$461 million compact with the Millennium Challenge Corporation (MCC), known as FOMILENIO I, focused on economic development in the Northern Zone of the country. A compact is a five year grant for countries that pass MCC's eligible criteria. The support obtained through MCC's financing has enabled Salvadorans to realize a long-held aspiration of opening the Northern Zone to markets in neighboring countries and better integrating it with the rest of the country. Projects were divided into three main areas: Human Development, Productive Development and Road Connectivity. In September 2014, the MCC approved a \$277 million second compact, known as FOMILENIO II, to help El Salvador develop the coastal zone through investment attraction, education and road infrastructure.

El Salvador in Facts and Figures:

- Area 20,742 sq. km. (8,008 sq. miles)
- Time Zone: UTC - 6
- Population: 6.4 million (2014)
- Unemployment/Underemployment: 6.2 percent (2014 est.)
- Inflation: 1.1 percent (2014 est.)
- Nominal GDP: US\$25.16 billion (2014)
- Distribution of Income or Consumption- Gini Index: 43.5 (2013)
- Household income or consumption by percentage share:
 - Lowest 10% : 1%
 - Highest 10% : 37%
- Population below poverty line: 36.5%
- Major Agricultural Products: coffee, sugar, corn, rice, beans, oilseed, sorghum, tuna, dairy products.
- Leading Agricultural Exports: Sugar, coffee, tuna, bakery products, dairy products, frozen tropical fruit and processed ethnic foods such as corn tamales.
- Leading Agricultural Imports: Wheat, yellow corn, rice, soybean meal, cotton, dairy products, and consumer-ready products.
- U.S. exports of consumer-oriented products reached a record US \$149 million in 2014
- U.S. Agricultural, Fish and Forestry Exports: \$539.7 million (2014)
- U.S. Agricultural, Fish and Forestry Imports: \$221.4 million (2014)

Source: Salvadoran Central Bank (BCR), "Multiple Purpose Household Survey 2014" (Ministry of Economy of El Salvador), CIA World Fact book on-line, USDA-FAS, BICO Reports, World Bank.

On average, Salvadorans spend over 65 percent of their income on food. Households earning \$400 to \$1,500 per month and above are considered to be in the middle to middle-upper income classes. There are approximately 460,000 households in this category and 60 percent reside in urban areas. It is

estimated that about 1.2 million people or 20 percent of the population is middle class.

The Salvadoran market may be significantly larger than portrayed by U.S. export data. A high percentage of El Salvador’s imports of consumer-oriented products are actually registered as imported by Guatemala. The main reason is that many imports come through Guatemala’s Santo Tomas de Castilla port and even though they are in-transit to El Salvador, local customs officials tally them as Guatemalan imports. Particularly close links with the United States are evident by the strong commercial relationship between both countries.

D. Advantages and Challenges in the Market

Advantages	Challenges
U.S. agricultural and food products are sought after by Salvadoran’s HRI sector, as they enjoy an excellent reputation among Salvadoran consumers and are renowned for their high quality and high food safety standards.	U.S. agricultural and food products are more expensive than some regionally available food products. Guatemala, Canada, Mexico, Chile, and Mexico are strong competitors.
In general, El Salvador in its implementation and application of regulations is transparent and open, as it follows and adopts WTO and Codex guidelines for food safety.	Problems obtaining a Certificate of Free Sale make it difficult to register U.S. food products.
Exposure to U.S. media as well as language, cultural, and commercial ties with the United States all contribute to positive attitudes toward U.S. products	High marketing costs (advertising, discounts, sampling, etc.) are necessary to promote new market products.
The tourism and restaurant sectors are growing and are a dynamic sector for U.S. exports.	International economic slowdown and higher commodity prices could affect employment, income and economic growth in El Salvador.
Major retailers are developing increasingly sophisticated distribution systems, which will provide more space and better cold chain technology for high value imports	Security is a major concern in El Salvador and the local authorities still need to improve their security conditions.
The implementation of CAFTA-DR has lowered or eliminated duties for most U.S. food products	Tariff rate quotas of sensitive products continue to protect local producers of products such as poultry, and dairy.
Salvadoran importers are frequently searching for new-to-market products as they must update their portfolio from time to time in order to gain market share.	Importers tend to buy small quantities to test market. In general, U.S. companies are not attracted to sell small quantities. This lack of interest many times restricts their entry in the market.

Most large importers/distributors are members of the Salvadoran Distributors Association – ADES (<http://www.ades.org.sv>). This association manages the relationship of its members with local retailers,

wholesalers, and supermarkets and can provide good information on how to enter the Salvadoran market.

II. EXPORTER BUSINESS TIPS

A. Business Customs

The successful introduction of products into the Salvadoran market depends on acquiring local representation and making personal contacts. The advantages of local representation include market knowledge, up-to-date information, and guidance on business practices and trade laws, sales contacts, and market development expertise.

Salvadoran business relationships and meetings are, at first, formal. One is expected to use proper titles, shake hands before and after your meeting, and not use a person's first name until a relationship has been solidified. Salvadorans commonly use titles such as Licenciado(a) (title acquired after completing a BA or law degree), Ingeniero (title acquired after completing an engineering degree or BS), or Doctor(a) (title acquired after completing a medical degree or a PhD). These are followed by the person's last name (i.e. Licenciado Gómez). However, if the education degree is unknown, the formal Señor (Mr.) or Señora (Mrs.) is used before the last name (i.e. Señor Gomez, Señora Ramirez).

El Salvador tends to be very much a business-card society and it is important upon first meeting someone to exchange business cards. It is an excellent practice to have a ready supply of business cards.

Breakfast meetings are common and begin about 7:30 a.m. Lunches and dinners can be lengthy affairs (2-3 hours), so it is advisable not to plan a tight schedule around them. Dinners start late by U.S. standards, frequently at 8:00 or 9:00 p.m. Lunch is usually at 12:30 p.m., and it is the largest meal of the day.

B. Customer Taste

The four basic foods for the vast majority of the population in order of importance are: tortillas made from white corn, beans, eggs, and rice. Bread, meat, fruit, vegetables (fresh, canned and frozen), snacks and juices are readily consumed in varying quantities depending upon income level. Generally, people living in the city consume more bread and meat and fewer tortillas and beans.

Salvadoran consumers are very familiar with U.S. style food. Most U.S. fast food franchises have outlets in El Salvador. Food courts located in shopping malls are popular and viewed as a perfect place to socialize. Delivery service has caught on quickly in this market as well.

As more women join the labor force, there is less time for meal preparation at home. In addition, domestic servants are finding better-paying jobs in the growing Maquila (cut and sew) industry. As a result, the average housewife is changing her preference towards ready-to-eat or easy preparation meals, much as what occurred within the United States during the latter half of the last century.

U.S. foods, such as hot dogs and hamburgers, are preferred by the younger generation. Ramen-style

soups have fulfilled a niche in the call center, construction and apparel sectors. These soups are a quick and inexpensive lunch for thousands of laborers who cannot afford to pay for a regular cafeteria meal.

Culturally speaking, Salvadorans have adopted much of U.S. culture such as music, sports, fashion, and fast foods.

C. Food Standards and Regulations

El Salvador does not have a specific Food Law that applies to imported foodstuffs. Instead, the health code is the most widely used instrument to enforce local food safety. The Ministry of Health is in charge of all registrations and authorizations to import, manufacture, and sell foodstuffs and beverages, as well as any raw materials used in the production process. The most pertinent regulation used to enforce proper health safety when importing foodstuffs is Section 12 Article 88 of the Salvadoran Health Code. This particular article states that in order to import any food or beverage their use must be authorized by a Certificate of Free Sale and Consumption issued by a competent health authority in the country of origin. In addition, Article 95 states that the Ministry of Health will be responsible for product registration including imported foods and beverages. For U.S. products, the Ministry of Health will accept the Certificate of Free Sale issued by an official U.S. government institution. Each respective certificate must include the name of the product and its components. The certificate is valid for one year, and it can cover a list of products that can be annexed to the certificate when requesting the import permit from the Ministry of Health.

Other products such as fresh produce and products of animal origin are regulated by the Plant Health Division and the Livestock General Direction (DGSV and DGG by their Spanish name) of the Ministry of Agriculture (MAG). For animal origin products, MAG will accept a simple copy of the original Certificate of Free Sale which will be compared to the original by the Ministry of Agriculture officials to verify the expiration date and will be handed back to the importer so that he/she can proceed to the Ministry of Health to complete the import requirements.

The Government of El Salvador (GOES) has been unable to design a program geared towards the implementation of food safety laws and their proper enforcement. The main problem has been attributed to limited resources due to other important needs such as public infrastructure and social programs. However, local policy makers are beginning to react to criticism by unsatisfied consumers regarding food safety and quality control. A Consumer Protection Law was ratified by the National Assembly and has been in effect since April 1996. According to the law, the Ministry of Economy through the Consumer Protection Agency (DDC by its Spanish name) is the entity in charge of enforcing all the dispositions stated in this law. The National Assembly has ratified an updated Consumer Protection Law. Under the revised law, the DDC is designated as the sole entity in charge of safeguarding consumers from unsafe products.

Most food products are inspected for safety at the port of entry. However, the Ministry of Health carries out random testing at the retail and wholesale level to make sure that foodstuffs comply with all the required health and quality standards. Nevertheless, many unchecked products manage to reach their final destinations due to lack of human resources and appropriate infrastructure to control illegal distribution channels.

The trend in food safety in El Salvador is for tighter control and more efficient regulations. The tendency is towards the use of Codex Alimentarius norms. Meanwhile, Central American norms, and in some instances FDA norms, are being used until Codex norms are revised and adopted.

1. Labeling Requirements

The Ministry of Health requires the following labeling information for all products sold in El Salvador:

1. The label should express the nature of the product, composition, quality, origin and general processing method.
2. Name of the product: Must be the specific name.
3. Net Content: It must be expressed in decimal metric system units.
4. Ingredients: They should be listed with their proper names, in decreasing order, according to their importance in the composition of the product. It is not necessary to identify the percentage of each ingredient.
5. Additives: Must be mentioned by the group it belongs to (for example: antioxidant), followed by its specific name and its concentration in the final product.
6. Lot identification and manufacturing date: in order to identify the lot, a code can be used, which must be provided and clarified to the Health authorities. To identify the manufacturing date, 6 digits must be used year, month, and day.
7. Expiration date: When a product has limited shelf life, it must be declared on the label. Labels for food products whose shelf life is between 3 and 18 months must include the statement “PREFERABLY CONSUME BEFORE”, followed by the day and month. Labels for food products that expire in shorter periods should state “Expiration Date”, with the day and month.
8. Storage instructions.
9. Manufacturer’s name: The label must include the manufacturer, importer, dealer, distributor or legal representative of the product, and their respective addresses.
10. Sanitary Registry: The label must declare the number of Sanitary Registry (Reg. No. D.G.S. El Salvador), issued by the Environment Attention Division of the Ministry of Health.
11. Country of Origin.
12. The product must contain the name and address of the supplier in El Salvador in the form of a sticker; this is usually provided by the supplier or distributor.

El Salvador’s labeling law requires that the product description be in Spanish. There is no enforcement at this time. However, major retail outlets are requiring stickers with product description in Spanish to comply with the law. GOES is working on a new regulation that will begin enforcement of labels only in Spanish for all food products.

In order to determine if a product can be imported with only the standard U.S. label, it is necessary to examine U.S. labeling norms and compare them to the general norms of the Codex Alimentarius for labeling of foodstuffs. The Salvadoran Body for Technical Regulations (OSARTEC) is currently working on labeling regulations based on the Codex. Due to lack of resources the GOES has not enforced this policy and food products with U.S. labels can be seen throughout the distribution chain. However, the GOES is currently requiring that a sticker in Spanish that includes a list of ingredients, manufacturing method, and expiration date be used until the requirement of Spanish-English labels can

be fully implemented.

The Ministry of Health/Environment Attention Division and the Ministry of Economy/Consumer Protection Agency enforce local labeling regulations. All products should be properly labeled prior to distribution for human consumption.

Sample-size product labeling requirements are identical to those listed above. However, local authorities are a bit lenient with this type of product due to the small quantities that are imported.

Bulk packed or institutional size products are required to visibly display the contents and ingredients either in the container or package.

Nutritional labeling is not required by the Ministry of Health. The U.S. nutrition label needs to be analyzed by the Nutrition Department of the Ministry of Health in order to be accepted. Some locally produced products at the retail level have nutrition facts in English to comply with U.S. regulations due to expectations of exporting to the U.S. market under the Central America – U.S. – Dominican Republic (CAFTA-DR) Free Trade Agreement. According to local health officials, the possibility of consumers being misled by U.S. labels exists. Since most Salvadorans do not speak English, local health officials fear they could be basing their opinion on the picture that is used in the label by U.S. manufacturing companies.

The only requirement for shelf life of a product is the expiration and manufacturing date. The DGSV and DGG from the Ministry of Agriculture require a country of origin certificate for all products that are imported to El Salvador.

The GOES does not grant any exceptions under the labeling law. However, in extreme cases, the Ministry of Health can analyze a product in order to guarantee consumer health and decide whether that particular product can be imported for human consumption.

Both Universal Product Code (UPC) and EAN bar codes are acceptable in El Salvador. Bar coding is rapidly becoming an important instrument in the food business. Currently all local supermarket chains require that a product sold throughout their stores has to be coded.

When alcoholic beverages are being imported, the label must read: "The excessive consumption of this product is harmful and creates addiction. Sales to consumers under the age of 18 are prohibited". This is based upon Article 26 of the Regulatory Law for the Provision and Commercialization of Alcohol and Beverages. In the case of tequila, the following is also required: area of production, alcohol grade and manufacturing process.

2. Product Registration

According to the Health Authorities in El Salvador, the following information is required for an exporter to register a product.

An application must be filed at the Environment Attention Division of the Ministry of Health, which shall include the following information:

- Application for Registration of Food Products.
- Power of Attorney on behalf of the Salvadoran attorney or company Representative.
- List of ingredients (Qualitative/Quantitative composition of the product)
- Free Sale Certificate
- Warehouse Operation License.
- Labels.
- Samples
- Name, address and telephone of the supplier in El Salvador.
- Package's manufacturing material: describe the package's material which is in contact with the product.
- Net weight/volume.
- Commercial brand name.

This application must be filed with the following documents:

1. Power of attorney granted in favor of the Salvadoran attorneys or the company representative in the country, duly notarized at the nearest Salvadoran Consulate in the U.S. or by notary public.
2. The list of ingredients must be submitted in decreasing order according to the formulation of the food. It must solely quantify nourishing additives, such as: flavorings, colorants, emulsifiers, preservatives, sweeteners and any other that the product contains according to the national or international regulations. The rest of ingredients must be described in qualitative form. One original and one copy of the List of Ingredients must be submitted, the original for the file and the copy to be filed at the laboratory when samples are given.
3. An original with Apostille Certificate of free sale of the product, issued by the competent health authorities of the country of origin. If the Certificate is in English it must be translated to Spanish duly notarized by a Salvadoran attorney. In case the Certificate is used for a list of various products, the original will be attached to one of the product files and the others will use a photocopy.
4. A copy of the authorization for the warehouse functioning where the products will be stored must be submitted, issued by the nearest Health Unit. Usually the local distributor obtains this license. In case there is no warehouse available, a document indicating what the marketing mechanism will be must be submitted.
5. Label of the product, which shall specify the name of the product, list of ingredients, name of manufacturer, importer and/or distributor and the expiration date. In case it is necessary usage instructions are required. If the same product is commercialized in various sizes, a label for each presentation is required. Two original labels must be submitted in order to verify the fulfillment of the requirements established in the Mandatory Salvadoran Regulation: General Rule for Labeling of Pre-packed Foods RTCA 67.01.07:10.
6. Product samples: the Environmental Health Department of the Ministry of Health requires for solid products 3 samples of the product weighing 200 grams each. For liquid products, 3 samples of the product weighing 200 milliliters each. For alcoholic beverages, 2 samples of 200 milliliters each must be presented. For bottled water, 3.785 liters (one gallon) for the physical-

chemical analysis and 1 sample of 500 milliliters for the microbiological analysis.

3. Import and Inspection Procedure

Usually when clearing a product through customs, a Customs inspector, a Customs police officer, and a Ministry of Health inspector are involved in the process. English is the commercial language used for import documents. On average, it takes approximately three to five days to clear a product through customs. Most importers use a Customs agent to expedite the clearing procedures. At this time, there is no appeals system in place for disputed product rejections.

One of the steps taken into expediting the importing process has been the implementation of a “Single Window” service, which is handled by the Central Reserve Bank. There is a different section for Imports and Exports. The service consists of having a sole point of collection for all required import documents and permits from the different government authorities, who have regulations applicable to the products being imported.

In order to access this service, the importer must be registered into the Imports System called SIMP. Payments of import policy can now be made through electronic payments at two major banks and at a cashier located inside the Central Reserve Bank.

The steps in custom clearance for prepackaged foodstuff, fresh produce and products of animal origin are:

1. Request Import Permit from Ministry of Health (prepackaged foods) or DGSV/DGG (fresh produce/animal origin products).
2. Once the import permit has been granted by the pertinent authority, the importer must take the sanitary registration, packing list, bill of lading, insurance policy, airway bill, shipping information and product invoices to the Revenue Department at the Ministry of Finance to get the policy for payment of import tariff. All of this process is what actually takes place when using the SIMP system described above.
3. The import permit has to be cleared by Customs, Customs Police and the Regional Organization for Agricultural Sanitation (OIRSA).
4. Customs Police conducts a product inspection.
5. Once product has been cleared by the Customs Police, it can be withdrawn by the importer.

The Ministry of Finance, in addition, has implemented a system called “Teledespacho” designed to expedite customs procedures. This system uses satellite technology to allow importers and exporters to send their commercial invoices, bills of lading, and airway bills through an electronic link or web to the Salvadoran Customs office to be processed. All Customs agents have access to this satellite system through an individual personal identification number (PIN) that enables them to get in contact with Customs. This system is also available to import/export companies that have offices outside El Salvador. These companies can purchase the software to hook up with the Customs satellite system to send their product invoices. The Teledespacho system makes it possible for merchandise to clear customs 24 hours a day, seven days a week.

In addition to Teledespacho, the GOES uses a "self-liquidation" process that allows the presentation, assessment, calculation and payment of duties directly by the importer, without physical inspection of the merchandise in 85 percent of the cases. Local businesses, importers and shippers have noticed a big improvement in the operation of Salvadoran Customs since the initiation of the above mentioned reforms.

MAG has also created an online system to process import permits for dairy, meat and fresh produce called the Agricultural Food Safety Information System (SISA). Importers have access to this system with an authorized PIN and no longer have to visit MAG offices to request import permits. According to MAG, this new procedure is part of a GOES process to expedite import, as well as export procedures. These procedures are due to increased trade. This system can be accessed at MAG’s website www.mag.gob.sv.

The Ministry of Health also has an online system to request import permits for food products. This system can be accessed at the following website:

<http://usam.salud.gob.sv/index.php/servicios/en-linea/guia-de-servicios-gaisa>

Information of costs for different services such as import permits and product registrations can also be found at this website.

U.S. exporters must always take into account that a tariff-rate quota (TRQ) system still applies to various commodities, with a 5 to 20 year phase-out period under CAFTA-DR. If you wish to look out for a particular product, you can visit <http://apps.fas.usda.gov/agtariiftracker/Home/Search>.

For additional information please refer to the FAIRS Narrative Report ES1506 at <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>.

D. Opportunities and Challenges after the Implementation of CAFTA-DR

PRODUCT	CHALLENGE	OPPORTUNITY
WHEAT - Bulk Wheat – DNS, SRW and HRW varieties	Most of the wheat processed by Salvadoran mills comes from the United States, although some Canadian wheat is imported. Annual imports of U.S. wheat range from 207,000 to 245,000 metric tons. In 2014, U.S. wheat imports reached a US\$86 million.	Bakery consumption continues to increase, mainly due to the availability of fresh bakery centers in all major supermarket chains. Growth in Convention tourism is also helping boost consumption of bakery products at hotels; due to the increase of business events. Bakery manufacturers are very optimistic about free trade and believe CAFTA-DR is providing growth opportunity. Ethnic bakery products exported to the U.S. are growing due to the high demand of these products by the Salvadoran

<p>RICE - Rough rice - Milled parboiled rice</p>	<p>El Salvador is not self-sufficient in rice production and needs to import from other countries, especially the United States, to meet demand. Actual local demand is estimated at approximately 107,500 metric tons of rough rice, of which 30 percent is covered by local production. Typically, El Salvador imports rough rice to keep rice mills operating throughout the year. However, small quantities of imported milled rice have recently reached local supermarket chains to meet upscale consumer demand. El Salvador has officially abolished the use of a price-band mechanism to assess import duties for basic grains. CAFTA-DR established Tariff Rate Quotas (TRQs) for rice.</p>	<p>community residing in the U.S.</p> <p>Rice production is decreasing at a fast pace, not only in El Salvador but also in the rest of the region. Under CAFTA-DR, tariffs will be eliminated and TRQs established as follows: 18-year duty phase-out, initial TRQ of 61,000 metric tons (MT) for rough rice, growing by 2% per year and an initial TRQ of 5,250 MT for milled rice, growing by 375 MT per year for the first five years, 1,000 MT increase in year 6, and an annual 325 MT Increase thereafter.</p>
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<p>CORN - Yellow corn - #2 for animal feed and hard endosperm corn for snack manufacturing</p>	<p>Since the 1960's, El Salvador has been an important market for U.S. yellow corn, for its poultry and animal feed industries. The snack processing industry is also a major importer of hard endosperm corn. Imports of yellow corn from the United States cover almost all local demand.</p>	<p>The food-processing sector in El Salvador is not as developed as it is in Guatemala or Costa Rica. However, snack food production is at the top of the list in this sector. Yellow corn is a main ingredient in the snack manufacturing process. The DIANA and Bocadeli snack brands produced in El Salvador offer respectable quality for the price, and have roughly 75 percent of the market. In addition, DIANA is the largest snack producer in Central America and is already exporting certain products to ethnic markets in the United States. The poultry and dairy sectors are also major users of yellow corn for feed mix. CAFTA-DR provides for a yellow corn Tariff Rate Quota (TRQ) of 350,000 metric tons (MT) with a 5 % growth per year with a 15-year duty phase-out. A fixed part of the TRQ will be subject to a performance requirement, which will be eliminated in 15 years. White corn was also granted a TRQ of 35,000 MT under CAFTA-DR. There is a growing market for white corn flour to make tortillas.</p>
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SOYBEANS - Soybean meal	<p>El Salvador does not produce any soybean meal, thus, all demand must be met with imports. The poultry, swine and livestock sectors use the product as feed. Commercial trade is growing quickly due to the high demand for poultry products. In 2014, soybean meal imports reached a record US\$85.8 million. El Salvador's poultry industry is the most developed in the region and is quickly increasing production to supply demand by other Central American neighbors, particularly Honduras.</p>	<p>Dairy production is increasing due to government incentives and sanitary regulations that provide protection against contraband cheese from Nicaragua and Honduras. Soybean meal is an important ingredient used in cattle feed mix. CAFTA-DR provides immediate access for soybean meal.</p>
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III. MARKET SECTORS

A. Retail

The market expectations for the Retail Sector remain positive, as it continues to be a key area of the Salvadoran economy, supported by employment, increasing purchasing power, mainly fueled by remittances, and a steady expansion of consumer credit.

Hypermarkets/supermarkets, convenience stores, coexist with the traditional small grocery stores (mom-and-pop) and open-air markets.

There are two dominant supermarket chains in El Salvador: Super Selectos and Walmart Mexico y Centroamerica.

Super Selectos supermarket is owned by the Calleja Group. This local supermarket chain currently accounts 95 stores, and with its slogan “The Salvadorans’ supermarket” (“El Super de los Salvadoreños”) keeps a fierce competition among other retailers.

In 2008, Grupo Calleja, along with other seven supermarket chains from the Central American/Panama region joined in a strategic alliance named SUCAP (Panama and Central American Supermarkets). SUCAP groups 8 different supermarket chains that combined add up 330+ stores in the region. SUCAP negotiates and buys in large volume for the region; therefore they get lower prices which can be transferred to the final consumer. The members of SUCAP are: La Colonia (Honduras), Super Selectos (El Salvador), La Torre (Guatemala), La Colonia (Nicaragua), Súper 99, El Machetazo (Panama), Gessa and Automercado (Costa Rica).

Although SUCAP is a method of procurement for Super Selectos, they also use all other sourcing

methods, such as buying from local importers, distributors and import directly from international suppliers.

Walmart Mexico y Centroamerica is the largest retailer in the region with over 600 stores. In El Salvador, there are a total of 92 stores. In order to reach different consumer segments, Walmart has stores in 4 different formats: Walmart Super Centers, Despensa de Don Juan, Maxi Despensa and Despensa familiar.

PriceSmart El Salvador, S. A. de C. V., is based in San Diego, California and has two stores in El Salvador - both of which are located in the capital city of San Salvador. Similar to membership warehouse clubs in the United States, it carries a mixture of groceries, apparel, electronics, household goods, and automotive parts. PriceSmart's first chosen location (1999) was in the upscale Santa Elena area, and it initially focused on two market segments: the growing upper middle class seeking imported goods, and restaurants looking for a source of premium ingredients/products alongside known staples and local brands. As PriceSmart's presence became stronger, its offerings appealed to the larger middle class and the second store opened in a few blocks away from the popular Metrocentro shopping mall. It is more accessible than the Santa Elena location and it has made American imports available to consumers that were familiar with them via firsthand migration or by proxy through family members in the United States.

Supermarket Profile:

Supermarkets in El Salvador are reticent to release exact sales information. Therefore, sales have been categorized as follows:

- A: Less than 10 million
- B: \$11 - \$25 million
- C: \$26-\$75 million
- D: \$76 - \$100 million
- E: \$101 - \$150 million
- F: More than \$150 million

Owner Group	Supermarkets, Hypermarkets and Club Outlets	Current Stores	Estimated annual sales	Purchasing Agent Type
Calleja, S.A. de C.V.	Super Selectos	82	F	U.S. Broker/Importers/Direct
	Selectos Market 2/	13	B	U.S. Broker/Importers/Direct
Walmart Mexico y Centroamerica	Walmart Supercenter	4	F	U.S. Broker/Importers/Direct
	Despensa de Don Juan	20	E	U.S. Broker/Importers/Direct
	Despensa Familiar	60	B	U.S.

	1/			Broker/Importers/Direct
	Maxi Despensa	8	C	U.S. Broker/Importers/Direct
Price Smart	Price Smart	2	F	U.S. Broker/Importers/Direct
TOTAL		189		

1/ Smaller popular area stores

2/ Convenience store

B. HRI Food Service

The GOES views foreign investment as crucial for economic growth and development and has taken numerous steps in recent years to improve the investment climate. U.S. food franchises have increased their presence in El Salvador rapidly during the last eight years, including McDonalds, Burger King, Wendy's, Pizza Hut, Kentucky Fried Chicken, Bennigan's, Tony Roma's, Chili's, Asia Grill, China Wok, T.G.I. Fridays, Starbucks, Papa John's, Taco Bell, Domino's Pizza and Red Mango. Grupo Piramide is a Salvadoran franchising operator that also manages U.S. franchises in Guatemala and Panama. In 2012, they opened the first outlets of Ruth Chris Steakhouse. In 2014, Ruby Tuesday's, Longhorn Steak House, and Cold Stone Creamery were inaugurated.

There has also been a boom in coffee shops/restaurants over the last five years. With some capital injection, small, independent, family-owned coffee shops are being converted into nice little restaurants. Salvadorans usually get together at these restaurants for breakfast in the morning and/or for informal meetings and socializing after work. The boom in this sector brings more demand for bakery products, dairy products, and more sophisticated drinks such as cocktails, smoothies, milk shakes, fresh fruits and fruit juices. Starbucks is a major player in this sector.

The hotel sector has also increased the number of four and five-star hotels enjoying a high occupancy rate, mainly for convention tourism. Construction work for 2 new hotels, a Fairfield by Marriott and a Hyatt, has already started and they are scheduled to open in 2016 and 2017 respectively. Also there has been a significant increase in small hotels nationwide. Given a 10 percent average growth rate in tourism, the demand for food products, especially high quality of U.S. foods should continue to grow.

C. Food Processing

The food processing industry is relatively small compared to Guatemala and Costa Rica.

- Snack food production is at the top of the list in this sector.
- The DIANA brand produced offers respectable quality for the price, and has roughly 80 percent of the local market and 40 percent of the regional market. In addition, this company is the largest snack producer in Central America and is already exporting its products to ethnic markets in the United States.
- Other local snack producers are Bocadeli and Ideal. These companies are working hard to increase market share and offer a wide variety of snacks.
- U.S. suppliers can take advantage of the need for ingredients from these snacks producers.
- There are also some joint venture investments in food processing by U.S. companies such as Del Monte, Clamato and Badia Spices who produce locally for the Central America region.

- CAFTA-DR has also attracted foreign investment to El Salvador including companies such as Calvo tuna processor from Spain.
- On February 2009, with an investment of US\$20 million the Mexican juice group Jumex inaugurated a beverage plant in Nejapa. Jumex exports most of their production to the rest of Central America, Mexico, Colombia and the Caribbean.
- Sigma Alimentos, a large Mexican meat and deli company, has invested in a pork processing plant to cover local demand and export to other Central American countries.
- Another important industry in this sector is meat processing. There are approximately 10 companies which are members of the Salvadoran Meat Processors Association (ASICARNE). Imports of U.S. pork meat by this sector have grown tremendously over the last five years, due to the fact that the Salvadoran population is a large consumer of sausage products.
- Walmart Centro America has invested in a meat processing plant to supply its stores nationwide.
- Another significant sector is the dairy industry. Dairy processors in the market offer a wide variety of products which include cheese, yogurt, and sour cream. The dairy industry also has an association called ASILECHE (Salvadoran Association of Milk Producers and Industrial Processors). This sector is already exporting dairy products to the United States.
- The bakery industry is the last component of the food processing sector. Bakery consumption has increased tremendously, mainly due to the availability of fresh bakery centers in all major supermarket chains and coffee shops demand.

IV. BEST PRODUCT PROSPECTS

Top 10 best product prospects imports from the United States			
	(in millions of U.S. dollars)		% Change
Product Description	2013	2014	2013/2014
Wheat	71.5	86	20.30%
Beef and Beef Products	3.0	4.0	32.00%
Pork and Pork Products	9.2	11.6	26.70%
Dairy Products	11.0	14.0	27.70%
Fresh fruit	13.1	16.3	24.50%
Processed vegetables	8.7	10.5	20.10%
Chocolate & Cocoa products	6.1	13.3	119.10%
Fruit and Vegetable juices	1.4	1.8	25.90%
Prepared food	35.7	37.8	35.80%
Tree nuts	1.2	2.1	82.70%

Source: USDA/FAS BICO REPORT

V. Key Contacts

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Please do not hesitate to contact the office below for questions or comments regarding this report or require assistance to export processed food products into El Salvador:

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