

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ecuador

Food Processing Ingredients

Advantages and Challenges Facing US Products in Ecuador

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Report Highlights:

Ecuador's food processing industry is a key player within the country's manufacturing sector. By some estimates the food processing sector accounts for about 45 percent of the manufacturing sector's contribution to the country's roughly \$66 billion gross domestic product. This sector in 2013 accounted for about one-third of Ecuador's estimated \$25 billion export earnings. Ecuadorian companies tend to import specialized food ingredients such as flavoring agents, colorants, preserving agents, and emulsifiers. Ecuador lacks the means necessary to manufacture these products in sufficient volume.

SECTION I. Market Summary

A. Market Overview

Ecuador's economy remains vulnerable to oscillations in international metal and petroleum prices, as well as fluctuations in the country's currency (i.e., the U.S. dollar). It is estimated that the country's 2013 gross domestic production (GDP – real growth rate) will grow about 4 percent compared to 2012, reaching roughly \$66 billion (at constant 2000 prices). Growth in 2014 is being forecast at a slightly better 4.2 percent, but nonetheless still down from the 4.9 percent compound annual growth rate (CAGR) achieved throughout the 2009-13 period.

Government spending remains the main driver of the economy. It is however constrained by the oil sector's output capabilities and international barrel prices. Maintenance work at the country's main refinery will lead to increased imports of petroleum derivatives in the near-term. Reportedly the combination of these factors could divert revenues away from public projects in the near- to medium-term. Two Chinese lines of credit of about \$3.2 billion are allowing the government to maintain disproportionately high levels of public spending.

Ecuador's food processing industry is a key player within the country's manufacturing sector. By some estimates the food processing sector accounts for about 45 percent of the manufacturing sector's contribution to the country's gross domestic product. The food processing sector in 2013 accounted for about one-third of Ecuador's estimated \$25 billion 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.

This country of 15.4 million (Central Intelligence Agency, July 2013 est.) inhabitants has the region's smallest retail market. Nevertheless improved macro-economic stability, accompanied by rising real income levels has increased consumers' purchasing power over the past 10 years. However, by international standards personal income at about \$10,000 (in purchasing power parity terms) is low; forcing Ecuadorians to devote a high portion of their disposable income to food purchases. Private consumption per head in 2013 is roughly \$3,700.

Table 1: Ecuador, Retail Sales and Consumer Expenditure, 2011-14

	2011	2012	2013	2014
Retail Food Sales (\$ billion)	18.1	19.4	21.1 (est.)	22.9 (forecast)
Food, Beverage and Tobacco (consumer expenditure; \$ million)	12,253	13,289	14,489	15,784

Sources: 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), 2008-12

Economic Activity	2008	2009	2010	2011	2012
Meat, meat products and sub-products	467.6	391.9	410.9	434.4	443.6
Processed shrimp	124.3	126.1	166.0	210.8	236.6
Fish and other processed aquatic products	631.3	508.2	498.0	599.1	661.3
Crude and refined animal and vegetable oils	343.9	292.8	321.7	381.9	405.9
Processed dairy products	240.1	276.6	304.4	335.0	350.5
Milling and bakery products, noodles and pasta	317.2	543.8	598.5	662.4	692.3
Sugar and sugar cane products	129.4	120.5	145.2	164.6	170.1
Processed cocoa products, chocolates, and confectionery products	126.0	69.9	80.4	81.4	81.8
Foodstuffs various	307.0	325.3	387.7	404.9	430.2
Beverage products	459.0	528.5	591.5	674.7	778.3
Total Food and Beverage (\$ billion)	3.14	3.18	3.50	3.94	4.25
Percentage Food and Beverage GDP Growth	34.2%	1.2%	10.1%	12.7%	7.6%

Source: Central Bank of Ecuador, FAS Quito office research.

The Central Bank of Ecuador (BCE) estimates that food and agricultural products (including livestock and forestry) contributed close to \$7 billion to the country's GDP in 2012. The food and beverage subsector alone accounts for about \$4.25 billion. Particularly strong growth in 2012 has been seen in the beverage sector (up 18 percent), as well as by the shrimp farming sector (up 14 percent). Local beef and beef products saw however a slight contraction of about 2 percent. Food and beverage processing remains largely concentrated in Ecuador's major urban centers.

Table 3: Food Manufacturing Companies, Sales, (\$ millions), 2009-11

Economic Activity	Total Companies (2009)	Total Companies (2010)	Total Companies (2011)	Net Sales \$ millions (2009)	Net Sales \$ millions (2010)	Net Sales \$ millions (2011)
Meat, meat products and sub products	43	69	57	767.1	306.3	1,086.7
Fish and other	71	85	70	1,357.9	910.8	938.5

processed aquatic products						
Fruits and vegetables products	39	61	60	205.9	316.2	329.5
Animal and vegetable oils	38	36	29	954.5	552.5	925.9
Dairy products	146	75	78	635.3	439.4	490.7
Milling products, starch and starch products	50	49	48	196.3	229.3	229.6
Foodstuffs various	218	218	193	1,803.1	1,341.2	1,522.3
Beverages	132	132	106	1,001.5	751.6	1,158.8

Note: Information December 2009-11 (with 2011 being latest information available).

Source: Superintendencia de Compañías – Anuario Estadístico Societario NIIF 2011, CIU 4.

FAS Quito cautions that information provided by Ecuador’s Superintendencia de Compañías (see, table 3) is prone to inaccuracies; reported sales figures often tend to be misrepresented.

Table 4: Breakdown of Food and Beverage Manufacturers, 2011

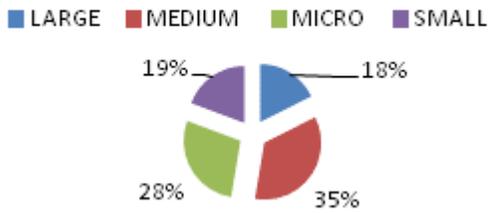
	MICRO	SMALL	MEDIUM	LARGE
Food and Beverage Manufactures	160	156	116	64
Meat, meat products and sub products	16	11	20	10
Fish and other processed aquatic products	19	12	15	24
Fruits and vegetables products	23	17	10	10
Animal and vegetable oils	3	2	5	19
Dairy products	36	17	12	13
Milling products, starch and starch products	16	9	10	13
Foodstuffs various	60	64	38	31
Beverages	44	28	16	18

Source: Superintendencia de Compañías – CIU.

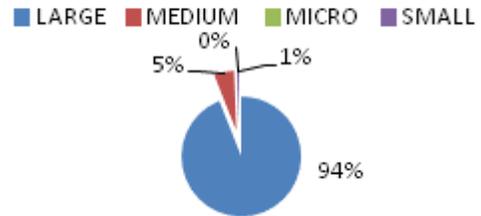
	Distribution of Companies by Sales
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Distribution of Companies by Size

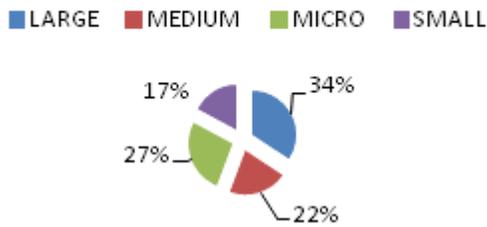
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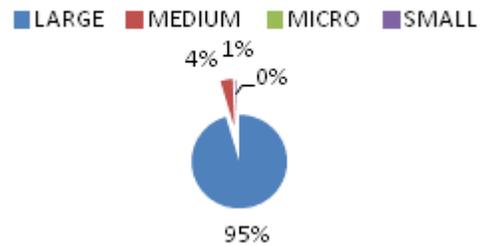
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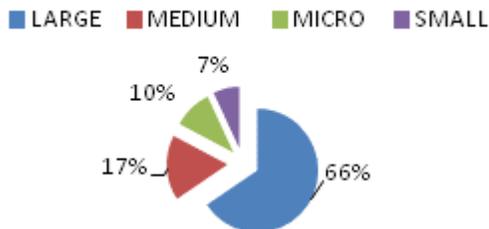
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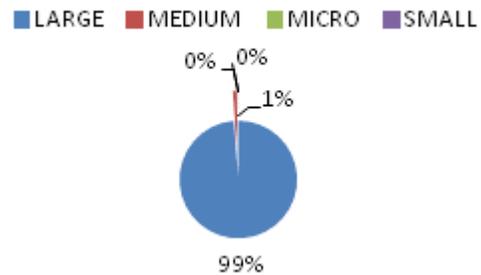
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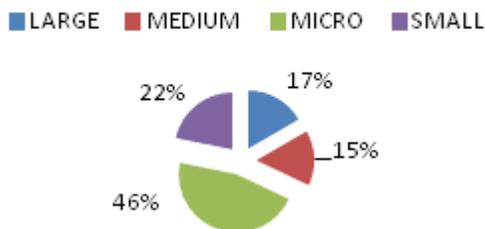
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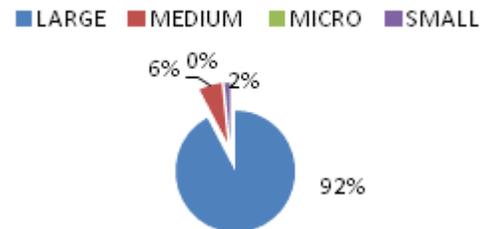
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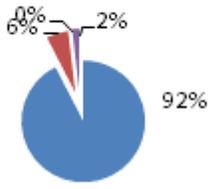
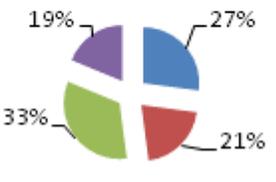
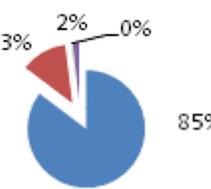
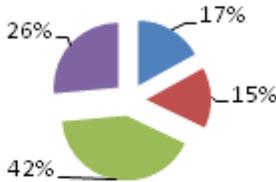
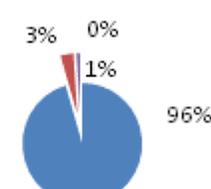
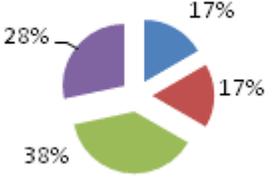
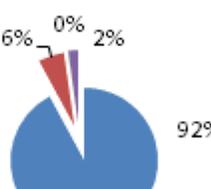


Dairy products



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Advantages and Challenges Facing U.S. Products in Ecuador

Advantages	Challenges
<ul style="list-style-type: none"> • Ecuador’s economy continues to grow, albeit at a somewhat slower pace than in recent years. • 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. • The United States remains Ecuador’s main agricultural trade partner despite a cooling relationship. • U.S.-origin products are well regarded for their high quality and value. 	<ul style="list-style-type: none"> • U.S. food and agricultural products (including food ingredients) are disadvantaged by the absence of a free trade agreement with Ecuador. • 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. • Nearly 29 percent of the population is low income; lacking the financial means to afford imported products • U.S.-origin products tend not to be as price competitive as those from neighboring countries.

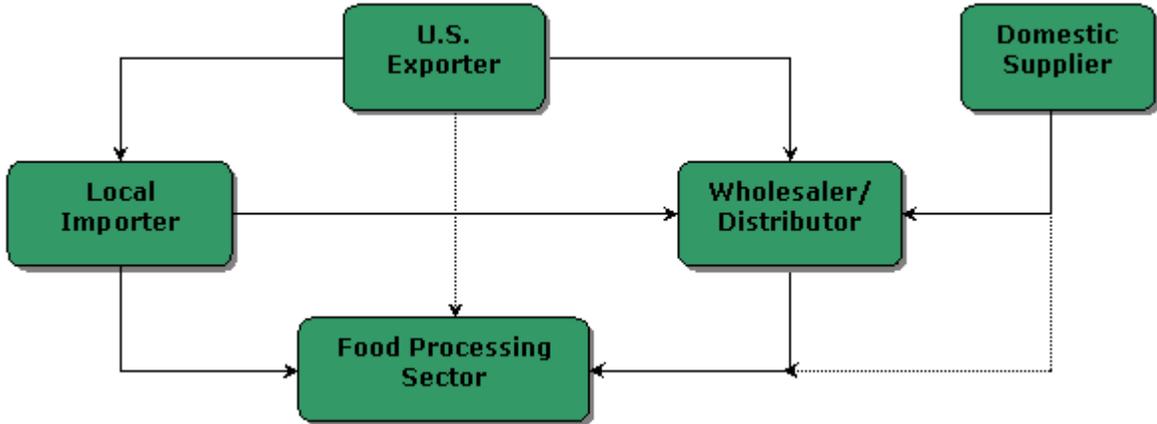
SECTION II. Road Map for Market Entry

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 advisable.
- U.S. food processing ingredients are well regarded for their quality and value. To compete with 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 solid 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 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 as soon as possible (see Section V).

B. Market Structure



One way for new market entrants to build up 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.

SUPERMARKET CHAINS: Supermarket chains market 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 medium-sized supermarket chains that are growing fast and obtaining an important market share.

Major food importers/distributors supply all major supermarket chains and provincial retailers. It should be noted that major supermarket chains 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. At FAS Quito we find that the

major supermarket chains prefer to import expensive high-end products directly in order to earn higher profit margins.

C. Company Profiles

Ecuador's food and beverage processing companies are ramping up production output in response to increased product demand driven largely 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

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.

At FAS Quito, we find Ecuador's food processing sector to be 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	2012 Sales (\$ millions)	End-Use Channels	Production Location	Procurement Channels
CORPORACIÓN FAVORITA (Meat, bakery goods)	Specialized food ingredients and processed food	1,606.1 (Note: This is the total sales at retail level and does not reflect the actual amount of sales of processed products by the company)	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
PRONACA (Meats and poultry, prepared fruit and vegetables, prepared animal food, dry goods, prepared meals)	Grains, live animals, soybean meal, condiments	800.2	Retail and HRI	Ecuador (3) Brazil (1) Colombia (1)	Direct
NESTLE ECUADOR (Dairy products, baked goods, confectionary, snack food, dry goods, prepared meals)	Specialized food ingredients	506.1	Retail and HRI	Ecuador (1) Chile (6) Colombia (3) Venezuela (2)	Direct
LA FABRIL (Oilseed products)	Bean raw oil, sunflower oil, fragrances, Flavors and antioxidants	454.9	Retail and HRI	Ecuador (1)	Wholesaler; Direct
ARCA Ecuador (Beverages)	Syrup	421.5	Retail and HRI	Ecuador (2)	Direct
COMPAÑIA DE CERVEZAS NACIONALES (Beer)	Starch, Barley, glucose syrup	409.7	Retail and HRI	Ecuador (2)	Importers; Direct
NEGOCIOS INDUSTRIALES REAL NIRSA (Fish, prepared meals, dry goods)	Specialized food ingredients	353.1	Retail	Ecuador (1)	Direct, Broker
DANEC (Oilseed products)	Animal fat, vegetable oil, corn oil, catalyst	262.4	Retail	Ecuador (1)	Direct
INDUSTRIAS ALES (Oilseed products)	Specialized food ingredients	212.4	Retail	Ecuador (1)	Wholesaler; Direct

UNILEVER ANDINA ECUADOR (Oilseed products, ice creams)	Animal fat, vegetable oil, corn oil, Specialized food ingredients	261.1	Retail and HRI	Ecuador (1)	Direct
SOCIEDAD AGRICOLA E INDUSTRIAL SAN CARLOS (Sugar)	Specialized food ingredients	150.2	Retail	Ecuador (1)	Wholesaler; Direct
COMPANIA AZUCARERA VALDEZ (Sugar)	Specialized food ingredients	139.4	Retail	Ecuador (1)	Wholesaler; Direct
ECUDOS (Sugar)	Specialized food ingredients	130.9	Retail	Ecuador (1)	Direct
ECUAJUGOS (Non-alcoholic beverages)	Specialized food ingredients	106.8	Retail and HRI	Ecuador (1)	Direct
INDUSTRIAS LACTEAS TONI (dairy products)	Specialized food ingredients	148.5	Retail	Ecuador (1)	Wholesaler; Direct
MODERNA ALIMENTOS (Baked goods)	Wheat, Specialized food ingredients, Oats	126.1	Retail and HRI	Ecuador (4)	Wholesaler; Direct
INDUSTRIAL SURINDU (Baked goods, confectionary)	Molasses	60.8	Retail and HRI	Ecuador (1)	Direct
INDUSTRIAL MOLINERA (Dry goods: powdered wheat, oats)	Wheat, Oats	84.7	Retail	Ecuador (2)	Direct
CONFITECA (Confectionary products)	(Sugar, gums, essence)	60.8	Retail	Ecuador (1) Colombia (1) Peru (1)	Direct, broker
MONDELIZE -KRAFT FOODS ECUADOR (Beverages, cheese and dairy, convenient meals, snacks and cereals, grocery)	Specialized food ingredients and food commodities		Retail and HRI	Ecuador (1) Peru (1) Colombia (1) Venezuela (2)	Direct
PRODUCTOS NUTRITIVOS SUPAN TIOSA (Baked goods)	Specialized food ingredients and food commodities	74.8	Retail and HRI	Ecuador (1)	Direct

Source: FAS Quito office research.

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 on the sector's growth is the fact that the consumption of processed food products is now a well established part of the national food culture.

Exchange rate fluctuations between the U.S. dollar and the Latin American currencies, often results in food processing ingredients being sourced from more affordable origins such as Colombia, Chile, and

Mexico. At FAS Quito we find that the products most in demand are processed sugar, concentrated ingredients flavors, juice concentrates and mixtures, colorants, cereals, meats, flours, and food extracts.

FAS Quito recommends that an effective Ecuador sales strategy include the diversification of product lines. For example Pronaca, Ecuador’s leading company in this sector 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

FAS Quito finds that U.S.-origin food ingredients face competition primarily from Latin American producers. Exports from neighboring countries are often more competitive because of lower shipping costs. We also find that import tariffs levied on U.S.-origin food ingredients are higher than those charged against similar products originating in neighboring countries, which benefit from free trade agreements.

We understand that Ecuador is a heavy importer of wheat, soybean oil and soybean cakes and other residues thereof. Ecuador is also an importer of fish products, crustaceans, and mollusks, as well as an importer of pre-mix ingredients for dog and cat food products.

Domestic food manufacturers tend to rely heavily on local food ingredients; which counts with lower shipping costs. Ecuador’s government is currently attempting to restrict imports in order to foment local manufacture for increased domestic use and in order to boost regional exports. 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 necessary to manufacture these products in sufficient volume.

Table 7: Competitive Situation Facing U.S. Suppliers

Product Category	Major Import Supply Sources in 2012	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Seafood	Peru 34% Free trade zone (Ecuador) 6% Papua New Guinea 5%	Peru is the major supplier of sea products in South America.	Ecuador is a major Latin American tuna fish producer.
Non-alcoholic beverages	Colombia: 50% Mexico: 17%	Colombian products are more price competitive.	Growing product diversification.

	Austria: 8%		
Beer	United States: 40% Mexico: 30% Colombia: 21%	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% Brazil 14% Netherlands 10%	Suppliers are benefitting from high international commodity prices.	National production is low.
Sugars and sugar confectionery	Colombia: 67% Peru 7% China 7%	Colombian sugar meets quality certifications and is tariff exempt.	Domestic production is less competitive than imported product.
Dairy products	Chile 44% United States 18% Peru 14%	Suppliers offer a number of products not produced within Ecuador.	Domestic production is protected by the government.
Baked goods	Peru: 50% Colombia: 37% United States 5%	Main suppliers offer competitive prices.	International product manufacturers are ready present in the market.
Milling products	Chile:28% Canada: 24% Colombia: 17%	Andean Community member, Colombia is tariff exempt.	A local oligopoly controls pricing.
Meat	Chile 38% Brazil 28% United States 20%	Main suppliers provide advance sanitary certifications.	Quality concerns with informal sector production.
Prepared fruit and vegetables	Chile: 43% United States: 12% Peru 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 51% Peru 27% Brazil 8%	Main suppliers offer a number of products not produced locally.	Local industry is diversifying and offering competitive pricing.
Preparations of food miscellaneous	Chile 32% Colombia 22% United States: 13%	United States produce ingredients that do not exist in the region	National production is scanty and possesses deficiencies.
Alcoholic beverages (Spirits)	United Kingdom: 41% Germany: 11% Colombia: 9%	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.

SECTION IV. Best Product Prospects

At FAS Quito, we find that high quality U.S. food ingredient products such as artificial flavorings, colorants, preservatives, and spices have good prospects in Ecuador. Wheat, soy bean flour, yellow corn, fruit juices and concentrates, glucose syrup, whey, and lactose also evidence good prospects.

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

Product Category	Import Tariff Rate	Key Constraints for Market Development	Market Attractiveness for the United States
Preparations of food miscellaneous	10% - 30%	Chile and Colombia dominate imports	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	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	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	Specialty U.S. products are not available in the region. Quality products are preferred.
Non-alcoholic beverages	30%	Colombia dominates imports	Domestic production is slow to launch new brands; local production costs are high.
Meat and meat products	20% - 85%	Market access granted (March 2013)	U.S. products are recognized for their quality.
Dairy products	25% - 30%	National production is promoted. Regional suppliers are main suppliers.	Specialty U.S. products are not available in the region.

Category B: Products Not Present, 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.	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.	Importers prefer U.S. product based on taste preferences.

SECTION V. Contact Information

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