

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 3/29/2019

**GAIN Report Number:**

## **Ecuador**

### **Food Processing Ingredients**

#### **A growing sector looking for quality ingredients and diversification**

**Approved By:**

Kirsten Luxbacher, Regional Agricultural Attaché

**Prepared By:**

FAS Quito Staff

**Report Highlights:**

The food processing industry is a huge component of Ecuador's manufacturing sector. In 2017, the sector contributed \$6.3 billion to Ecuador's gross domestic product and grossed \$10.5 billion in net sales. 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. It provides information on the key channels of distribution for food ingredients, and highlights growing product segments including industrially processed foods, beverages, and edible fisheries products.

**Post:**

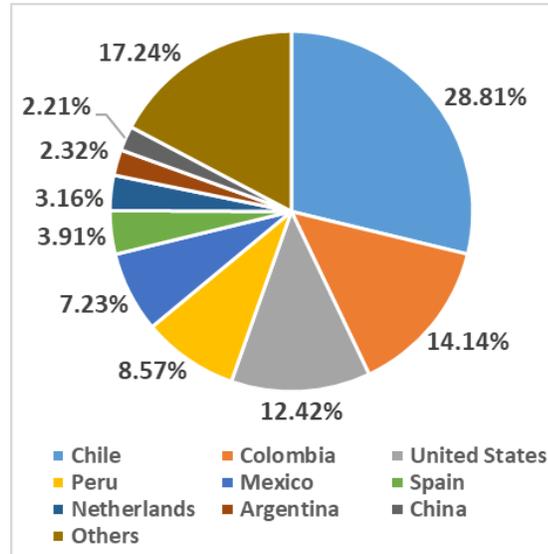
Quito

**Executive Summary**

The food processing industry is a huge component of Ecuador’s manufacturing sector. In 2017, it contributed \$6.3 billion to the national gross domestic product (GDP). Excellent sales prospects exist for U.S. food ingredient products to supply this industry.

**Imports of Consumer Oriented Products**

Imports of Consumer Oriented Food and Agricultural Products in 2018 reached US\$ 753 million. Major suppliers include Chile, Colombia and United States.



**Food Processing Industry**

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 45 percent of the sector’s contribution to the GDP. In 2018, the food-processing sector represented 12 percent of Ecuador’s \$12.8 billion in non-oil export earnings, or \$1.5 billion.

According to 2017 information from the Superintendencia de Compañías, the entity in charge of the registration of all companies in Ecuador, there are 1,018 food and beverage manufacturers in Ecuador. These companies are distributed by size as follows: 46 percent microenterprises, 28 percent small companies, 14 percent medium companies, and 12 percent large companies.

**Food Retail Industry**

The Economist Intelligence Unit forecasts retail food sales for 2019 at \$25.5 billion and consumer expenditures for food, beverages, and

**Quick Facts CY2017 –CY2018**

Import of Consumer Oriented Products: \$753 million

Top Imported Agricultural Products to Ecuador:

|              |                   |
|--------------|-------------------|
| Soybean Meal | Animal Feed       |
| Wheat        | Food Preparations |
| Soybean Oil  | Deciduous Fruits  |
| Sucrose      | Corn              |
| Barley       | Oats              |

2016 Food and Agriculture Product Contribution to GDP: \$16.1 billion

Top 5 Ecuador Retailers:

- Corporación Favorita (Supermaxi, Megamaxi, Aki)
- Corporación El Rosado (Mi Comisariato)
- Supermercados TIA
- Supermercados Santa Maria
- Hypermercados Coral

GDP/Population

- Population: 16,498,502 (July 2018 est.)
- GDP: \$193 billion (2017 est.)
- GDP per capita: \$11,500 (2017 est.)

Total Food & Beverage Processors in country: 1,018

Sources: Ecuadorian Central Bank, CIA Factbook, The Economist Intelligence Unit, Ecuador Central Bank, FAS Quito

**U.S. Supplier Advantages and Challenges in Ecuador**

| Advantages   | Challenges   |
|--|--|
| <ul style="list-style-type: none"> <li>• New opportunities are developing for exporters of unprocessed raw materials and food ingredients.</li> <li>• The United States remains Ecuador’s main agricultural trading partner.</li> <li>• U.S.-origin products are well regarded for their high quality and value.</li> <li>• Local food processing industry struggles to offer competitive market prices.</li> <li>• The U.S. dollar is local currency in Ecuador.</li> </ul> | <ul style="list-style-type: none"> <li>• U.S. food and agricultural products are in disadvantaged by the absence of a trade agreement with Ecuador.</li> <li>• Slow economic growth in Ecuador.</li> <li>• Ecuador’s import procedures are cumbersome.</li> <li>• U.S. foodstuffs exporters are less aggressive than other trading partners (e.g., Chile) in seeking Ecuadorian sales.</li> <li>• U.S.-origin products tend not to be as price competitive as those from neighboring countries.</li> </ul> |

|   |  |
|---|--|
| tobacco at \$15.4 billion. Retail food sales have grown over the past five years at an average rate of 2.1 percent. |  |
|---|--|

## SECTION I. MARKET SUMMARY

Ecuador offers U.S. food and agricultural product exporters a number of excellent possibilities, particularly in the food-processing sector. This is in spite of slow economic growth, forecast at one percent in 2019. The food-processing sector is one of the strongest performing sectors in Ecuador's economy. The sector is a huge component of the nation's manufacturing sector. It accounts for about 45 percent of the sector's contribution to the country's gross domestic product (GDP). In 2017, the food-processing sector represented 12 percent of Ecuador's \$12.8 billion in non-oil export earnings, or \$1.5 billion. Spurring the sector's growth is increased acceptance and consumption of processed food products, which are now a well-established part of the national food culture due to the changing lifestyles of new generations. The Economist Intelligence Unit forecasts retail food sales for 2019 at \$25.5 billion and consumer expenditures for food, beverages, and tobacco at \$15.4 billion.

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

**Table 1: U.S. Supplier Advantages and Challenges in Ecuador**

| Advantages  | Challenges  |
|---|---|
| <ul style="list-style-type: none"> <li>• New opportunities are developing for exporters of unprocessed, raw materials and food ingredients, due to import restrictions on a number of processed food products.</li> <li>• The United States remains Ecuador's main agricultural trading partner.</li> <li>• U.S.-origin products are well regarded for their high quality and value.</li> <li>• Local food processing industry struggles</li> </ul> | <ul style="list-style-type: none"> <li>• U.S. food and agricultural products (including food ingredients) are disadvantaged by the absence of a free trade agreement with Ecuador.</li> <li>• Slow economic growth that is expected to remain in coming years.</li> <li>• Ecuador's import procedures are cumbersome.</li> <li>• U.S. foodstuffs exporters are less aggressive than other regional trading</li> </ul> |

|   |  |
|---|--|
| <p>to offer competitive market prices.</p> <ul style="list-style-type: none"> <li>• The U.S. dollar is local currency in Ecuador</li> </ul> | <p>partners (e.g., Chile) in tracking Ecuadorian sales.</p> <ul style="list-style-type: none"> <li>• A quarter of the population is below the poverty line, lacking the financial means to afford imported products.</li> <li>• U.S.-origin products tend not to be as price competitive as those from neighboring countries.</li> </ul> |
|---|--|

The Central Bank of Ecuador (BCE) estimates that food and agricultural products (including livestock, fisheries, aquaculture, and forestry) contributed to at least \$16.1 billion of the country’s GDP in 2017. The food and beverage subsector alone accounted for about \$6.2 billion. The fish-processing sector exhibited particularly strong growth in 2017 (up 92 percent), the pasta and other coarse-grained products sector is up 16 percent and milling processing sector is up eight percent. The sugar and sugar cane products, as well as the crude and refined animal and vegetable oils sector shrank about 21 percent and four percent, respectively. Food and beverage processing remains largely concentrated in Ecuador’s major urban centers of Quito, Guayaquil, and Cuenca.

According to 2017 information from the Superintendencia de Compañías, the entity in charge of the registration of all companies in Ecuador, there are 1,018 food and beverage manufacturers in the country. These companies are distributed by size as follows: 46 percent microenterprises, 28 percent small companies, 14 percent medium companies, and 12 percent large companies.

## **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, 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 (contact information in Section V) and review our Exporter Guide.

## B. Import Procedure

In order to import ingredients and food products for the processing industry, these items must first be classified into different categories: raw materials, processed ingredients, or processed products. The second step is to determine the channel of commercialization since some products need sanitary notifications prior to importation. Depending on the classification, the importer needs to obtain an import permit. Once the import permit is issued, the product can be shipped and proceed through the Ecuadorian Customs process. For more information, please review our Exporter Guide and FAIRS Country and Certificate reports.

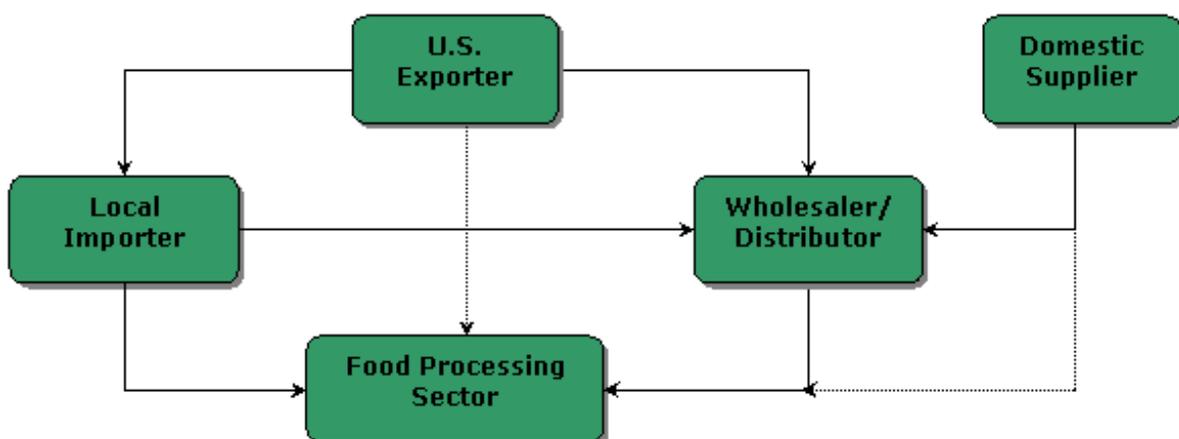
## C. Distribution Channels

One way for new market entrants to build sales in Ecuador is by offering a combination of competitive pricing along with profit sharing, cost support of promotions, 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, foregoing 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 *Hipermercados Coral* are fast growing medium-sized supermarket chains. These same supermarket chains sell imported food products targeting middle- and high-income consumers.

## D. Market Structure



## E. Company Profiles & Company Products

Ecuador's food processing sector is one of the most successful components of the national economy. The sector benefits 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 by lobbying the government for support at the expense of imported processed products.

**Table 2: Ecuador, Food and Beverage Manufacturing Subsectors, (\$ millions)**

| <b>Products</b>   | <b>Total Companies (2017)</b> | <b>Net Sales 2017 (\$ millions)</b> | <b>Market Share</b> |
|---|-------------------------------|-------------------------------------|---------------------|
| Meat, meat products, and sub products                         | 85                            | \$ 1,291.07                         | 12.3%               |
| Fish and other processed aquatic products                     | 104                           | \$ 2,062.55                         | 19.7%               |
| Fruits and vegetables products                                | 134                           | \$ 520.36                           | 5.0%                |
| Animal and vegetable oils                                     | 37                            | \$ 1,238.36                         | 11.8%               |
| Dairy products  | 93                            | \$ 692.00                           | 6.6%                |
| Milling products  | 63                            | \$ 292.44                           | 2.8%                |
| Starch and starch products                                    | 2                             | \$ 6.24                             | 0.1%                |
| Bakery Products   | 70                            | \$ 330.47                           | 3.2%                |
| Sugar and sugar cane products                                 | 10                            | \$ 324.11                           | 3.1%                |
| Cacao, chocolate, and confectionary products                  | 60                            | \$ 261.72                           | 2.5%                |
| Macaroni, noodles, couscous, and similar farinaceous products | 24                            | \$ 211.46                           | 2.0%                |
| Prepared meals and dishes                                     | 31                            | \$ 8.78                             | 0.1%                |
| Foodstuffs various  | 87                            | \$ 851.90                           | 8.1%                |
| Pet food and Animal Feed                                      | 71                            | \$ 796.14                           | 7.6%                |
| Alcoholic Beverages   | 41                            | \$ 89.48                            | 0.9%                |
| Wine  | 10                            | \$ 16.73                            | 0.2%                |
| Beer  | 21                            | \$ 529.98                           | 5.1%                |
| Non-Alcoholic Beverages                                       | 75                            | \$ 944.14                           | 9.0%                |
| <b>TOTAL</b>  | <b>1018</b>                   | <b>\$ 10,467.94</b>                 | <b>100%</b>         |

Source: Superintendencia de Compañías.

## F. Sector Trends

Ecuador's larger food and beverage processors, representing 83 percent of the sector's net sales, have achieved a high degree of industrialization and technical sophistication. Small processors rely primarily on less efficient, traditional production methods. Spurring the sector's growth is increased acceptance and consumption of processed food products, which are now a well-established part of the national food culture.

Exchange rate fluctuations between the U.S. dollar and neighboring Latin American currencies often

result in Ecuadorian importers sourcing food-processing ingredients from more affordable origins such as Colombia, Chile, and Mexico. Best U.S. product prospects include processed sugar, concentrated ingredient flavors, juice concentrates and mixtures, colorants, cereals, meats, flours, and food extracts.

FAS Quito recommends sales strategy in Ecuador 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 fastest growing 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 levied against neighboring countries and European 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. Food processors import these products from the United States and the European Union as Ecuador lacks the means to manufacture these products in sufficient volumes.

Ecuador is heavily dependent on imported wheat, soybean oil, and soybean meal. It is also an importer of fish products, crustaceans, and mollusks for further processing and commercialization. Additionally, it imports pre-mix ingredients for dog and cat pet food and related products.

**Table 3: Competitive Situation Facing U.S. Suppliers**

| <b>Product Category</b>  | <b>Major Import Supply Sources in 2017</b>           | <b>Strengths of Key Supply Countries</b>   | <b>Advantages and Disadvantages of Local Suppliers</b>                  |
|--|--|--|---|
| <b>Seafood</b><br>Net imports: 76,097MT<br>US\$113.6 million                         | International Waters 61%<br>Spain: 9%<br>Chile: 4%   | Chile is the major supplier of seafood products in South America (mainly Salmon).        | Ecuador is a major Latin American tuna fish processor.                  |
| <b>Fruit and Vegetable Juices</b><br>Net imports: 1,655 MT<br>US\$3.9 million        | United States: 24%<br>Costa Rica: 23%<br>Brazil: 23% | Costa Rica’s products are more price competitive.  | Growing product diversification by importing bulk and bottling locally. |
| <b>Sugars and sugar confectionery</b><br>Net imports: 110,026 MT<br>US\$75.3 million | Colombia: 57%<br>China: 10%<br>Peru: 10%             | Colombian and Peruvian sugar products meet quality certifications and are tariff exempt. | Domestic production is less competitive than imported product.          |

|   |   |   |  |
|---|---|---|--|
| <b>Dairy products</b><br>Net imports: 9,646 MT<br>US\$52.5 million  | Mexico: 46%<br>Chile: 9%<br>Argentina: 9%         | Suppliers offer a number of products not produced within Ecuador. | Domestic production is protected by the government.              |
| <b>Milling products</b><br>Net imports: 61,632 MT<br>US\$33.7 million   | Chile: 41%<br>Colombia: 27%<br>Argentina: 5%      | Andean Community member, Colombia, is tariff exempt.              | A local oligopoly controls pricing.                              |
| <b>Meats</b><br>Net imports: 3,925 MT<br>US\$7.4 million  | Chile: 45%<br>United States: 439%<br>Uruguay: 6%  | Main suppliers provide advance sanitary certifications.           | Quality concerns with informal sector production.                |
| <b>Prepared fruit, vegetables and nuts</b><br>Net imports: 54,073 MT<br>US\$76.6 million  | Chile: 48%<br>Peru: 12%<br>Netherlands: 6%        | Chilean products are highly price competitive.                    | Year round domestic production is limited by lack of technology. |
| <b>Prepared animal food residues and waste from the food industry; prepared animal feed</b><br>Net imports: 1,475,048 MT<br>US\$845.0 million | Peru: 29%<br>United States: 24%<br>Bolivia 16%    | Main suppliers offer a number of products not produced locally.   | Local industry is diversifying and offers competitive pricing.   |
| <b>Preparations of food miscellaneous</b><br>Net imports: 29,262 MT<br>US\$228.2 million  | Chile: 29%<br>Colombia: 14%<br>United States: 14% | Suppliers produce ingredients that do not exist in the country.   | National production is small and deficient.                      |

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

| <b>Product Category</b>             | <b>2017 Imports (US\$ Millions)</b> | <b>5-Yr. Avg. Annual Import Growth</b> | <b>Import Tariff Rate</b> | <b>Key Constraints for Market Development</b>   | <b>Market Attractiveness for the United States</b>                                  |
|-------------------------------------|-------------------------------------|--|---------------------------|---|---|
| Preparations of food, miscellaneous | \$228.2                             | 2.9%                                   | 10% - 30%                 | Chile and Colombia dominate imports. Some products may require a Certificate of Conformity. | Domestic production is limited. Opportunities exist for high quality U.S. products. |
| Cereals and milling products        | \$408.7                             | 2.9%                                   | 20% - 30%                 | Local oligopoly controls the industry, including price                                      | The United States and Canada supply 32% and 50% of                                  |

|                            |        |        |           |  |  |
|----------------------------|--------|--------|-----------|--|--|
|                            |        |        |           | fixing. Some products may require a Certificate of Conformity.   | Ecuador's cereal needs. Insufficient domestic production.  |
| Fruit and vegetable juices | \$3.9  | 0.9%   | 30%       | Costa Rica dominates imports. Some products may require a Certificate of Conformity.   | Domestic production is slow to launch new brands. Local production costs are high so most companies import bulk to bottle locally. |
| Meat and meat products     | \$7.4  | -17.2% | 20% - 85% | Some products may require a Certificate of Conformity.   | U.S. products are recognized for their quality. Many products are commonly used in the deli meats industry.                        |
| Dairy products             | \$52.5 | 0.3%   | 25% - 30% | National production is promoted. Regional suppliers are the main suppliers. Some products may require a Certificate of Conformity. | 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 2018 FAIRS Report.

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

| <b>Product Category</b>                             | <b>Import Tariff Rate</b> | <b>Key Constraints for Market Development</b>   | <b>Market Attractiveness for the United States</b>  |
|---|---------------------------|---|---|
| Basic chemical 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 diversified. Some products may require a Certificate of Conformity.   | 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. | Importers prefer U.S. product based on taste preferences.   |

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

**Category C: Product Not Present Because They Face Significant Barriers**

| <b>Product Category</b> | <b>Import Tariff Rate</b> | <b>Key Constraints for Market Development</b>                       | <b>Market Attractiveness for the United States</b> |
|-------------------------|---------------------------|---|--|
| Poultry Meat            | 45%-85%                   | Poultry sector is protected and import licenses are usually denied. | Local production cost high.                        |
| Cheeses                 | 20%-25%                   | Dairy sector is protected and import licenses are usually denied.   | Local cheese production is not diversified.        |
| Whey                    | 5%-30%                    | Dairy sector is protected and import licenses are usually denied.   | Small local production.                            |

**SECTION V. KEY CONTACTS AND FURTHER INFORMATION**

For additional information, see [www.fas.usda.gov](http://www.fas.usda.gov) or e-mail the Foreign Agricultural Service Quito at: [agquito@fas.usda.gov](mailto:agquito@fas.usda.gov). See also FAS Quito’s Exporter Guide, Food and Agricultural Import Regulations and Standards (FAIRS), and FAIRS Export Certificate GAIN reports for Ecuador, where you will find contact information for Ecuador’s regulatory agencies, a list of ministries responsible for food policies, a graph of import policies, and other valuable contact information.