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Report Highlights:

U.S. consumer-oriented exports to Ecuador have experienced significant changes since 2000, when the Ecuadorian economy was dollarized. In 2003 U.S. exports increased by 48%, due mainly to the rapid development of supermarkets and food service operations. However, the U.S. has lost market share from 16% in 2000 to 11% in 2003, mainly to Peru and Chile, whose exports to Ecuador in the same period have grown by 548% and 124% respectively. It is expected that the U.S.-Andean Free Trade Agreement will improve the competitiveness of U.S. consumer products in this market.

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SECTION I. MARKET OVERVIEW

Ecuador, with its population of 12.6 million, is currently recovering from a disastrous economic crisis that took place four years ago, between 1999 and the beginning of 2000. The economic turmoil resulted in the collapse of the banking sector, the "dollarization" of the national currency, an important contraction of imports, and high inflation rates. However, since the fourth quarter of 2000, when the economy was fully dollarized, the situation begun to improve, including growing imports in the following three years.

Ecuador's GDP reached \$26.7 billion, representing a 3% growth during year 2003. Projections mention a GDP increase of 3.7% by the end of 2004, which shall continue the restoration of Ecuador's economy. Sales of foods and beverages in the retail sector reached approximately 5% of the GDP or \$1.6 billion, and it is estimated that Ecuadorians spend 30% of their income to buy groceries. Minimum wage is set at \$267/month, which shows an important growth compared to \$46 at the end of 1999. Consumers primarily situated in groups with higher income, representing approximately 3 million people, demand imported products. These consumers are located mainly in four cities: Quito, Guayaquil, Cuenca and Manta.

In addition, inflation rates have decreased from their highest annual rate of 91% in 2000 to 7.5% in 2003, with a projected rate of 4% for 2004. As anticipated, high inflation levels during the past four years –affecting local products- represented an opportunity for imported products to become more competitive in price. This is why consumer food imports from main competitors in this category –Chile, Colombia and Peru- have grown by 124%, 98%, and 548% in the period 2000-2004.

U.S. consumer oriented exports to Ecuador have experienced significant changes in the last four years. In 1999, Ecuador's consumer food imports from the U.S. reached \$18 million, but as a result of the economic changes and a better competitive position of imported products, imports increased by 63% to 29.3 million in 2003.

Edible fishery product imports also exhibit a growth behaviour, although not as notable. In 1999 imports of these products from the U.S. were \$4.8 million, while in 2003, they reached \$5.3 million, growing approximately by 10%.

Finally, the current U.S.-Andean free trade negotiations shall represent an important opportunity for increased U.S. food exports to Ecuador by providing easier access for food agricultural products through tariff reduction and elimination of non-tariff measures, which have represented stiff barriers for U.S. products in this market.

By summarizing available trade and demographic data, we conclude the following facts:

- Current absolute U.S. market share for consumer oriented products in Ecuador is 11% (year 2003).
- Ecuador's 5 top suppliers of consumer oriented foods in 2003 were: Chile, Colombia, United States, Peru and Netherlands.
- Ecuador's 5 top suppliers of edible fishery products in 1999 were: Colombia, Panama, Chile, Peru and Thailand. The United States occupied the ninth place in this category.

- Growing presence of the female population in the labor market is notably increasing families' income, and determining out-of-home eating trends. Approximately 33% of jobs are occupied by women.
- Working day changes from double to single shifts have increased demand for quality food service during ordinary working days. A significant part of the population are also having lunch away from home during the weekends.
- Predominant young population (42% are between 15 and 39 years old) creates high demand for consumer ready and fast food products.
- Quito, Guayaquil and Cuenca are Ecuador's major urban centers, with around 5 million people concentrated in these three main cities.

The table below summarizes key advantages, and challenges facing U.S. products in Ecuador.

ADVANTAGES	CHALLENGES
Dollarization has brought stability to the economy, thus imports are rising again.	Persistent low wage levels determine that most of the population can not buy imported food.
The growing food processing industry demands high quality ingredients not produced locally.	Higher tariffs for U.S. products make them less competitive by price.
Free trade negotiations shall provide easier access for U.S. products, thus a boost in food imports is expected in the mid term.	Non-tariff barriers imposed by the Ministry of Agriculture still complicates agricultural imports.
Consumers are increasingly oriented to fast food consumption and supermarket shopping.	Lack of private-funded brand promotional activities makes U.S. products less visible in supermarket shelves.
Ecuadorian emigrants have adopted foreign consumption tendencies, which have been transmitted to their families in Ecuador, creating markets for imported products.	The small Ecuadorian market is a constraint for U.S. exporters in seeking of large volume deals.
Growth of tourism creates outstanding opportunities for the HRI sector.	Violence in neighboring countries such as Colombia could affect the growth of tourism.

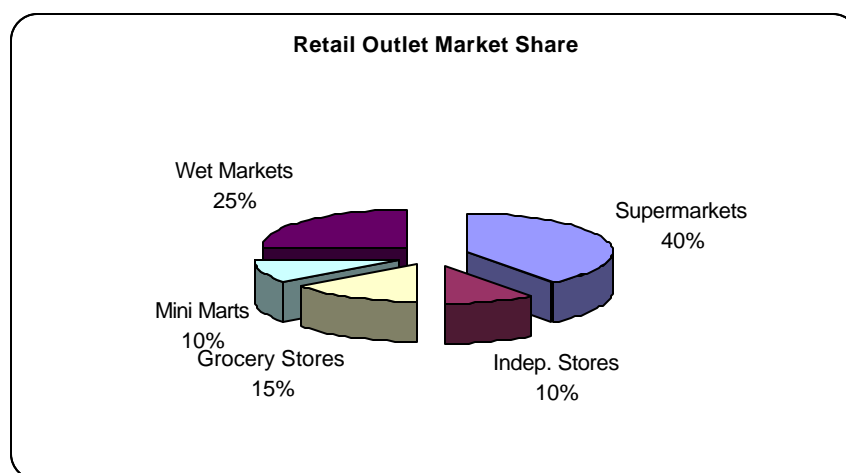
SECTION II. EXPORTER BUSINESS TIPS

- Since the import volume that most importers normally handle (especially for food products) is usually small, they must make use of consolidators at a U.S. port. Thus, exporters should be in close contact with consolidators and import agents in order to remain informed about their clients' needs in Ecuador.

- Large importers such as supermarket chains and wholesalers buy directly from the manufacturer or producer; while smaller importers work with distributors and product representatives.
- It is recommended that new product exporters deal with local brand representatives who co-manage marketing strategies, advertising, promotion, training and market reporting. This will make the exporter more aware of business opportunities or constraints within the country.
- Importers are required to obtain an import permit (Documento Unico de Importación, DUI), which is issued through any bank registered at the Central Bank of Ecuador. Depending on the product, each importation must be previously authorized by the Ministry of Agriculture or by the Ministry of Health.
- Every processed food or beverage product exported to Ecuador must obtain a Sanitary Registration from the Ministry of Health, which will allow the product's distribution and sale in Ecuador. In June of 2001 the legislation governing sanitary registration matters changed; resulting in a faster, more transparent issuing process. The new laws include acceptance of FDA free sale certificates, but also requires declaration of composition formulas. Other changes include: issuance terms reduced from one year to 30 days and a 10-year duration of the sanitary registration. The registration fees add up to \$530 per product, plus a \$170 annual maintenance fee.
- Although Ecuadorians are becoming more nutrition conscious, those who look for healthy and safer food remain as a minority: 7% of the population (less than 1 million people). Popular taste is for very spicy food and usually accompanied by lots of fried foods. Mayonnaise and ketchup are greatly consumed, and rice is a first necessity food product. Potatoes are usually prepared to accompany lunch or dinner, and salads are much more appreciated nowadays. Fast foods are dominated by roasted chicken, hamburgers, hot dogs and sandwiches; even though, Mexican, Italian, American and Arab foods are highly consumed. Ecuadorians drink a lot of carbonated beverages, fruit-based/flavored juices and beer.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Retail Food Sector



- Ecuador's retail food sector is divided into five categories: Supermarkets, wet markets, independent stores, grocery stores, and mini marts.
- In 2003, the size of Ecuador's retail food sector was \$2 billion, with 106 supermarket and hypermarket stores. An important sales figure of \$1.6 billion has been registered in 2003, of which, 34% (\$550 million) corresponds to Supermaxi, the largest supermarket chain in Ecuador. Opinions from food importers reveal that in most cases their sales (thus imports) of food products have increased an average 20% annually during the past two years. Supermarket chains expect to increase their sales by at least 15% in 2005, and plan to open at least 10 new stores in the next two years.
- Approximately 34% of Ecuadorians (4.5 million people) buy food in a supermarket, with an average monthly expense of \$250. The highest percentage of supermarket customers is found among the population with middle and highest incomes, which combined reach approximately 30% of Ecuador's population.
- The two largest supermarket chains, Supermaxi and Mi Comisariato account for the majority of food sales with respective market shares of 38% and 17%. An average 18% of the available shelf space is dedicated to market imported foods and beverages, such as fresh fruit, prepared or canned fruits and vegetables, frozen items, snacks, confectionery, wine, juices, beer and lately, dietary products.
- Mini-marts tend to offer imported and specialty products such as cigarettes, liquors, snacks (sweet and salty), and soft drinks.
- The best way to enter this sector is through direct contact with supermarkets. Using local importers and distributors, who usually require exclusivity, tends to increase the cost, thus making the product less competitive.
- Sales usually increase during special holidays such as Mother's day, Christmas, Carnival, Saint Valentine's day, and Father's day, although the vacation season (June-September) is usually the best in sales for most consumer-ready products. Imported products are demanded principally because of their special packaging, ease of use and higher quality.
- The number of supermarkets and self-service stores are increasing, as people turn to these stores in order to get a wider variety of products in a more organized and cleaner shopping environment. Such stores offer the best sale opportunities for imported products
- For more information on this sector, please refer to Ecuador's Retail Food Sector report at: <http://www.usdaecuador.org/usda.php?c=69>

Food Processing Sector

- Ecuador's most important food processing sub-sectors are those related to fruit processing, bakery products, meats, fish and sausages, confectionery products and beverages. As Ecuador continues to be a net agricultural exporter, accounting for 64% of total exports, its demand for quality ingredients for the food processing industry is projected to maintain its current levels.

- The size of the food processing market in Ecuador was \$3.0 billion in 2002, and remained constant during 2003. As economic stability returns, this sector is starting to grow again
- Imported ingredients for the food processing industry continue to originate mainly in Colombia, Chile, the United States and Mexico. Intermediate agricultural product imports from the United States have remained constant since 1999 at average annual values of \$30 million. However, this type of imports decreased by 36% in 2003 due to the competitive situation with prices.
- Some EU countries are also gaining market share in Ecuador's food processing industry: Germany, the United Kingdom, and the Netherlands.
- According to import statistics, most demanded products are: milk powder, processed sugars, sugar ingredients, juice mixtures and concentrates, colorants, flour, cereals, meats, ferments, emulsions and extracts.

HRI Food Service Sector

- Total sales of the HRI Food Service sector were \$500 million in 2002, and its participation on Ecuador's GDP was around 1.5%. It is expected that this sector will continue to grow in the next five years at an average rate of 4%.
- The growth of tourism represent a key opportunity for the HRI sector. Approximately 700,000 tourists visited Ecuador during 2003, surpassing the estimates for such period.
- There are several international hotel chains such as: Hilton, Marriott, Sheraton, Swissotel, Radisson, Holiday Inn, Howard Johnson and others, which import food and beverage products for their restaurants and food service areas. Hotels import around 10% of their food and beverage items. Their sales reached \$180 million in 2002.
- Most restaurants are supplied by local producers and importers, thus they do not import directly. However, some large restaurants do import, especially meats and wine. Large hotel chains such as Hilton or Swissotel import through agents in the country of origin. Restaurant sales reached \$311 million in 2002.
- Imported products by the HRI sector with the greatest demand are: meats, oysters, shell-fish, salmon, mussels, squid, wine, beer, liquor, olive oil, truffles, canned tomatoes, confectioneries, sausages, pre-cooked frozen potatoes, cheese products, mushrooms and spices.
- Restaurant franchises currently present in Ecuador include: Pizza Hut, Burger King, Mc Donald's, Dunkin Donuts, Domino's Pizza, KFC, Baskin 31 Robbins, Subway, Taco Bell, TGI Fridays, Tony Roma's, Applebee's, Kenny Rogers Roasters, American Deli, Crepes & Waffles, Tropi Burger, Pollo Tropical, Little Caesars and others.
- The majority of products used by franchises are imported. These include: mayonnaise, ketchup, mustard, beef, poultry, spices, special formulas, cheese, pepperoni, bacon, olives, corn oil, frozen french fries, ice cream and yogurt mixes. However, most of these products are supplied by each franchisee's world supplier.

SECTION IV: BEST HIGH-VALUE PRODUCT PROSPECTS

Based on import statistics, as well as consumer preferences and Ecuadorian market trends, the products offering outstanding U.S. export opportunities include:

- Fresh fruit: apples, grapes, peaches and pears
- Snack foods (sweet and salty snacks)
- Pet foods (dog and cat food)
- Poultry products
- Wine, beer and beverages.
- Processed, canned vegetables (including french fries)
- Milk powder and dairy products
- Breakfast cereals and pancake mixes
- Canned fruits, dried fruit and nuts
- Salsas and spices
- Meat products
- Fruit and vegetable bases and essences
- Confectionery and chocolate candies
- Baby foods
- Nursery products
- Low-carb foods

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

For more information about this report, please do not hesitate to contact:

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TABLE A: KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%) (2003)	700	16
Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%) (1999)	150	15
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%) (1999)	10	53
Total Population (Millions) / Annual Growth Rate (%)	12.6	2.1
Urban Population (Millions) / Annual Growth Rate (%)	8.1	2.9
Number of Major Metropolitan Areas	3	
Size of the Middle Class (Millions) / Growth Rate (%) ¹	2	1.5
Per Capita Gross Domestic Product (U.S. Dollars)	2,112	
Unemployment Rate (%)	9	
Per Capita Food Expenditures (U.S. Dollars)	160	
Percent of Female Population Employed	33	
Exchange Rate ²	U.S. Dollar	

¹ / Middle Class defined as families with yearly incomes ranging from \$8,000 to \$20,000.

² / Ecuador has a Dollarized economy, in which the U.S. Dollar is the authorized currency.

Sources: United Nations Trade Database
Central Bank of Ecuador
National Institute of Statistics, Ecuador

TABLE B. CONSUMER FOOD & EDIBLE FISHERY PRODUCT IMPORTS

Ecuador Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S Market Share		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
CONSUMER-ORIENTED AG TOTAL	202	254	262	24	27	29	12	11	11
Snack Foods (Excl. Nuts)	26	43	42	2	2	2	7	5	6
Breakfast Cereals & Pancake Mix	4	4	4	1	1	1	14	14	15
Red Meats, Fresh/Chilled/Frozen	4	5	3	1	1	1	16	20	14
Red Meats, Prepared/Preserved	1	1	2	1	1	1	66	58	22
Poultry Meat	1	1	3	1	1	2	60	60	91
Dairy Products (Excl. Cheese)	6	9	6	1	1	1	17	8	9
Cheese	1	1	1	1	1	1	70	66	70
Eggs & Products	5	4	4	1	1	1	14	31	23
Fresh Fruit	29	37	38	3	4	4	10	10	10
Fresh Vegetables	2	5	3	1	1	1	1	1	2
Processed Fruit & Vegetables	13	18	18	2	2	2	12	12	12
Fruit & Vegetable Juices	2	2	3	1	1	2	31	37	56
Tree Nuts	2	2	2	1	1	1	44	35	51
Wine & Beer	8	8	9	1	1	1	11	7	8
Nursery Products & Cut Flowers	14	10	11	2	2	1	14	16	10
Pet Foods (Dog & Cat Food)	3	3	3	1	1	1	30	24	23
Other Consumer-Oriented Products	84	102	111	8	10	10	9	10	9
FISH & SEAFOOD PRODUCTS	4	24	29	1	1	1	2	1	0
Salmon	1	1	1	1	1	1	3	1	4
Surimi	1	1	1	1	1	0	100	36	0
Crustaceans	1	1	1	1	1	1	8	11	5
Groundfish & Flatfish	1	1	1	1	1	1	1	1	1
Molluscs	1	1	1	0	1	0	0	3	0
Other Fishery Products	3	22	27	1	1	1	1	0	0
AGRICULTURAL PRODUCTS TOTAL	484	581	568	122	153	102	25	26	18
AG, FISH & FORESTRY TOTAL	495	615	610	123	154	103	25	25	17

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

TABLE C. TOP SUPPLIERS OF CONSUMER FOODS & FISHERY PRODUCTS

CONSUMER ORIENTED AG IMPORTS				FISH & SEAFOOD PRODUCT IMPORTS			
(\$1000)	2001	2002	2003	(\$1000)	2001	2002	2003
Chile	86,193	98,245	98,132	Colombia	2,443	20,554	17,395
Colombia	44,800	58,726	57,147	Areas NES	890	-	4,773
United States	23,605	27,499	29,304	Panama	263	1,535	2,434
Peru	4,583	19,584	18,425	Chile	450	612	1,423
Netherlands	7,862	9,151	9,590	Peru	4	285	1,120
Venezuela	5,694	6,539	7,287	Thailand	3	-	509
Mexico	2,060	4,045	6,288	Guatemala	11	-	480
Brazil	1,099	2,417	6,041	Vanuatu	-	-	119
Argentina	4,278	1,855	3,704	United States	84	152	116
Spain	1,820	2,725	3,159	Spain	168	137	112
Israel	4,144	3,016	3,079	Russian Federation	-	-	95
Belgium	478	2,052	2,561	El Salvador	-	5	64
China	2,636	2,028	2,278	United Kingdom	-	-	64
Italy	1,511	2,533	2,196	Honduras	-	22	39
Germany	1,477	1,446	1,498	Mexico	-	-	37
Other	10,159	11,820	11,222	Other	168	229	39
World	202,422	253,693	261,920	World	4,485	23,530	28,826

Source: United Nations Statistics Division