



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 10/22/2008

GAIN Report Number: EC8012

Ecuador

Exporter Guide

Annual

2008

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Report Highlights:

With a population of almost 14 million people, Ecuador offers significant export opportunities for agricultural and food products due to a variety of factors, including increased purchasing power by the lower and middle classes and a natural desire for imported products. However, political uncertainty remains, as a new constitution has been enacted, and should be taken into consideration when analyzing trade prospects in this market.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Quito [EC1]
[EC]

Table of Contents

SECTION I. MARKET OVERVIEW 3
SECTION II. EXPORTER BUSINESS TIPS 7
SECTION III. MARKET SECTOR STRUCTURE AND TRENDS 8
 Retail Food Sector 8
 Food Processing Sector 9
 HRI Food Service Sector 10
SECTION IV: BEST HIGH-VALUE PRODUCT PROSPECTS 10
SECTION V: KEY CONTACTS AND FURTHER INFORMATION 11
SECTION VI: BIBLIOGRAPHY 11

SECTION I. MARKET OVERVIEW

With a population of almost 14 million people, Ecuador offers significant export opportunities although the political climate does create a mood of uncertainty. The Correa government has focused on education, health, and infrastructure, while the purchasing power of the lower and middle classes has noticeably increased.

Consumer goods imports rose from \$807 million to \$1.078 billion dollars when comparing January to April 2007 with the same period in 2008, resulting from an increase in value and volume of imported goods (33.5 percent and 39.7 percent, respectively).

The increased purchasing power of a larger segment of the population has led to higher internal consumption and a higher demand for local processed products. This promotes the participation of local food processors in the market and increases competition with imported goods, which often face import duties.

In 2007, the Gross Domestic Product (GDP) of Ecuador grew 2.7 percent due to an increase in the non-oil economy of roughly 4.4 percent. The agriculture sector grew 4.9 percent; manufacturing 4.6 percent (based on 6.4 percent growth of the sugar industry); textiles and clothing 6.7 percent; chemical products, rubber and plastic 6.6 percent; machinery and equipment manufacture 8.7 percent; other manufacturing industries 6.6 percent; and the construction sector increased 4.5 percent. In the service sector, the most representative growth is in retail (5.0 percent), transportation (5 percent), and financial mediation (9 percent). Governmental Services grew about 5.2 percent, focused on health, education and infrastructure expenditures.

The increase of household income has resulted in an increase in consumption of 6 percent, which is a direct consequence of government initiatives – salary redistributions for federal employees as well as doubling direct payments to low income households – as well as remittances from Ecuadorians living abroad and, lastly, a 4.8 percent increase in government consumption as a result of recent legislative changes in government procurement procedures.

Gross Domestic Product is expected to grow by 4.3 percent in 2008, largely driven by increases in impulse consumption, private investment, and oil revenues.¹ From January 2008 to April 2008, imports increased by 28.3 percent as compared to the previous year (from FOB \$3.761 million to \$4.827 million). However, the volume of imports actually decreased by 1.2 percent. The price of imports increased 29.9 percent and the largest contributors were imports of raw materials (10.2 percent), consumer goods (7.2 percent), and gas and lubricants (5.6 percent). The value of raw materials imports grew by 29.3 percent although the imported quantity decreased by 3.6 percent; the value of consumer goods grew 39.7 percent in volume while the unit price decreased 0.4 percent; while fuel and lubricants imports decreased in quantity by 7.5 percent but had a unit price increase of 45.3 percent.

From January 2008 to April 2008, 42.1 percent of Ecuador's imports came from other ALADI (Latin American Trade Integration Association) members, signifying almost a 5 percent increase from the same period in 2007. Within ALADI, 32.4 percent of imports came from Andean Community members (\$525.4 million, or 74.1 percent, from Colombia and \$177.5 million, or 25 percent, from Peru) and 31.4 percent from Venezuela. The United States supplied 19 percent of imports while 20.4 percent came from Asia. Within ALADI, the Andean Community stands out with 32.4 percent of imports, and Venezuela with 31.4 percent

¹ Central Bank of Ecuador, press realize no. 155

(mostly oil products). From April 2007 to April 2008, CIF values of goods from Colombia decreased 5.6 percent and increased 5 percent from Peru.

The following charts depict medium and long-term trends in Ecuador’s import market. The first chart illustrates the different groups of import products and the growing trends in the commercial balance. The second chart illustrates percentage annual growth by segment and total imports. On this chart, one can observe that annual growth peaked in 2005 at 35 percent, and has decreased slowly except for November 2007-April 2008, when there was a slight increase from 13.4 percent to 19.8 percent.

Chart 1
Value of Imports by product group
(US\$ Millions)

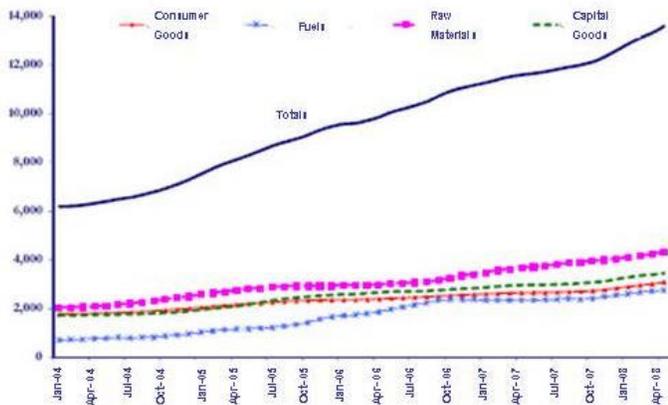
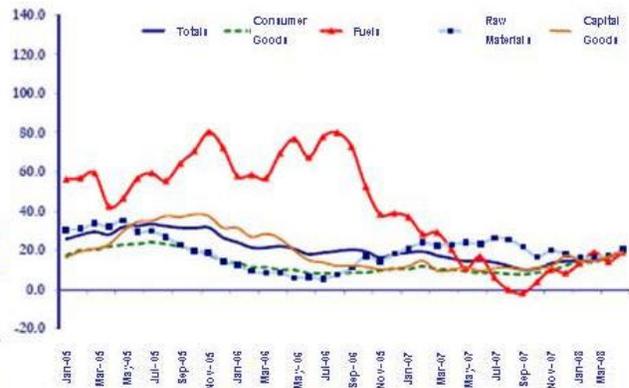
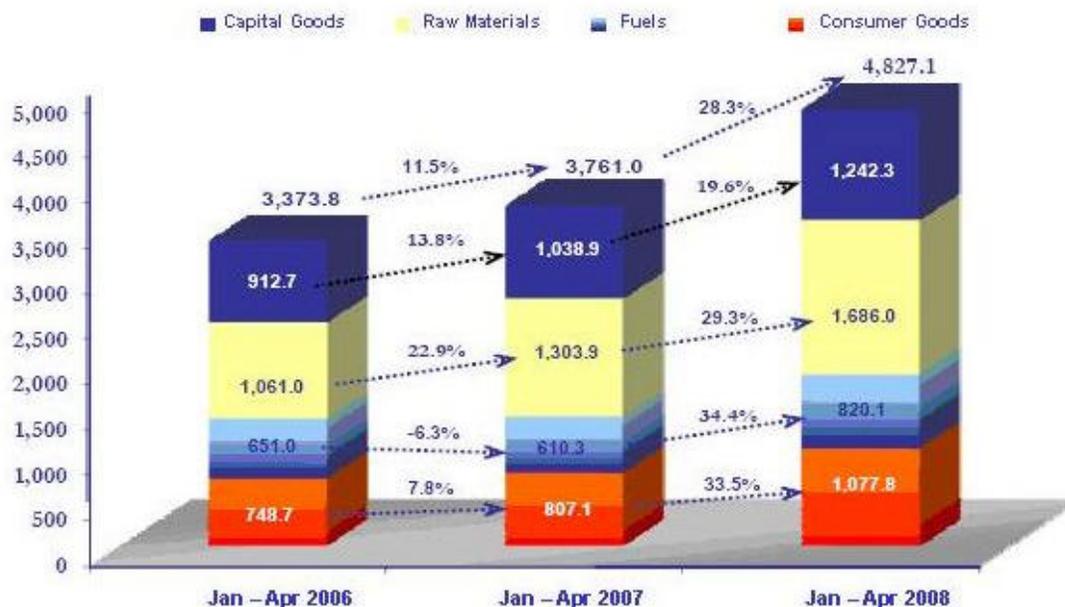


Chart 2
Growth of Imports by Product Group (%)



From January to April 2007, all import products segments grew in FOB value (see Chart No. 3,) the most relevant being fuels and lubricants with 34.4 percent growth and consumer goods with 33.5 percent growth.

Chart 3
Total Imports by Economic Classification
Period: January to April 2006-2008
(US\$ Millions)



The numbers from April 2008 show that imports of non-durable consumer goods had an FOB value of \$688.7 million, representing 14.3 percent of total FOB imports of \$4.82 billion, an increase in value of 40.9 percent, and an increase in quantity of 48.4 percent. Pharmaceuticals contributed the most to this import group at \$267.5 million or 38.8 percent.

Imports of durable consumer goods reached \$389 million, representing 8.1 percent of total imports from January- April 2008 and an increase in value of 22.3 percent, a 16.2 percent increase in quantity, and a 5.2 percent increase in unit price.

Table 1
Imports Evolution: Consumer Goods
Value, Quantity and Unit Price
January- April 2007/2008

% Market Share	Totals	Increase (+) / Decrease (-)		
		Value	Volume	Unit Value
22.30%	Consumer Goods	33.5%	39.7%	-4.4%
14.30%	Non-Durable Consumer Goods	40.9%	48.4%	-5.1%
3.80%	Food Products	110.0%	97.6%	6.3%
0.40%	Beverages	14.0%	-4.2%	19.0%
5.50%	Pharmaceutical Products	24.6%	14.9%	8.4%
8.10%	Durable Consumer Goods	22.3%	16.2%	5.2%

Raw materials imports increased 29.3 percent with a value of \$1.33 billion from January-April 2007 compared to the same period in 2008. The value of imported food products reached \$225.9 million, an increase in value of 77.7 percent and an increase in unit price of 76.6 percent.

The FOB value of capital goods imports increased 19.6 percent. Industrial capital goods imports showed an increased of 15.8 percent in April 2008, signifying that capitalization of Ecuadorian industry and agriculture has been taking place.

Ecuador has sought to diversify its import source countries resulting in an increase in imports from ALADI partners. Despite the fact that bilateral commercial agreements with the United States have decreased, 99.9 percent of US exports to Ecuador receive tariff preferences under ATPDEA and/or SGP regimes, or through WTO agreements.

It is important to note the change in the trade balance between the US and Ecuador. In 2006, 53.4 percent of Ecuador's exports went to the US while only 23.2 percent of imports in Ecuador came from the US. Since 2006, US imports have decreased while imports from Chile and Peru have increased in part due to lower inflation and a more favorable exchange rate with those trading partners.

Regarding non-oil exports, the EU is the main commercial partner consuming 28.6 percent of total exports. This is attributed to the depreciation of the dollar which makes exports more attractive to consumers in countries with stronger currencies like the EU. By June 2008, annual real depreciation of the dollar was 2.3 percent.

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

ADVANTAGES	CHALLENGES
Appreciation for United States food quality and culture.	Tariffs have increased for several consumer goods.
Foreign policy has aided in imports of raw materials and capital goods.	Due to the redistribution of resources, there has been a decrease in income for the middle and high income groups of the Ecuadorian population, which will eventually slow the growth in consumption of imported food and beverages.
Local food processing industries do not have competitive prices for the market.	The Ecuadorian market is relatively small and a constraint for U.S. exporters seeking large volume contracts.
Consumers are increasingly changing their habits and becoming more oriented toward fast food consumption and grocery store purchases.	The weak dollar causes an increase in price for most products.

Ecuadorian emigrants have adopted foreign consumption tendencies, which have been transmitted to their families in Ecuador, creating niche markets for imported products.	US companies have lost market share to companies from Peru and Chile that have benefited from favorable exchange rates.
Growth of tourism creates outstanding opportunities for the HRI sector, which has been growing in recent years.	Smuggling continues to affect the market for legally imported products.

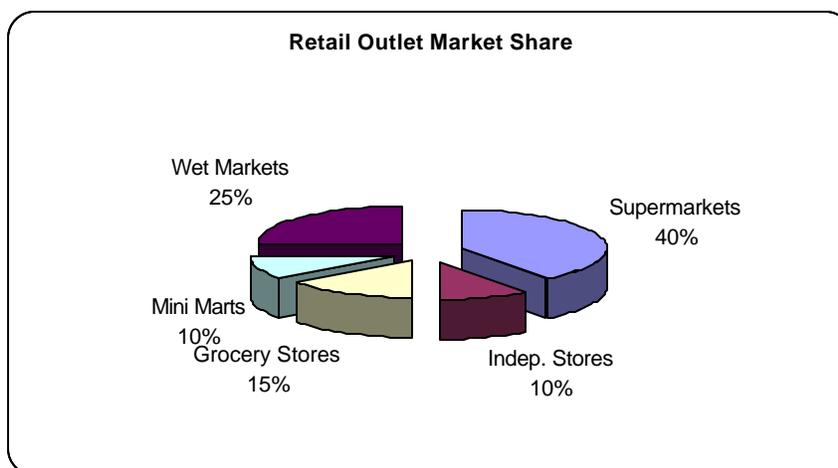
SECTION II. EXPORTER BUSINESS TIPS

- Search for detailed information by product with shipping consolidators and with US ports statistics. This information will show the preferences of Ecuadorian consumers.
- Ecuadorian supermarket chains prefer to import directly from producers. US companies that want to export for the first time should directly contact local business agents.
- In general, Ecuadorians prefer spiced foods accompanied by fried foods.
- The food sector in Ecuador at the retail level can be divided into five categories: supermarket chains, open or wet markets, independent groceries, small food stores, and convenience stores known as mini-marts.
- Importers for the big supermarket chains require that American exporters have all permits and licenses needed as well as the logistic arrangements necessary to offer products at the port of departure. Importers for the larger supermarket chains require American exporters have all permits/licenses required as well as
- Any person or company that wants to import in Ecuador must obtain an import permit (DUI or Unique Document for Imports), and, if applicable, the importer must have authorization from the Ministry of Agriculture or the Ministry of Public Health.
- Importers usually search for competitive conditions in prices and quality. However prices are not always constrained, since there is a niche market for many high value products within the high-level income consumers.
- Brand loyalty is common in Ecuador. Therefore, exporters seeking to enter new markets in Ecuador will need to demonstrate the strengths of the new product through advertisement. The use of point-of-purchase (POP) material is recommended as well as promotional campaigns and samples.
- Ecuadorian eating habits have changed dramatically in recent years: there are more women working outside of the home and commute times/distances are longer causing more consumers to choose fast food or processed food.
- There is fierce competition among distributors for new consumers. In order to gain market share, some distributors permanently place new products in discount stores where prices usually are between a 10 percent and 20 percent lower.

- A new tendency that has appear at the supermarkets, do to strategic alliances with producing companies, is the supermarkets branded products. This allows the stores to offer more competitive prices.
- Importers in Ecuador are mostly interested in canned products, confectionaries, and grains.
- The consumers that usually shop at grocery stores in Ecuador traditionally belong to the middle and higher classes.
- The main supermarket chains in Ecuador, that represent approximately 60 percent of this sector are La Favorita (Supermaxi), El Rosado (Micomisariato), Mega Santa Maria, Magda Espinosa and Comisariatos Vélez Bonilla. The total sales in 2007 among these supermarkets reached \$1.6 million, representing a growth in sales of 16 percent compared to 2006, when total sales reached \$1.4 million.
- Supermarket chains experienced remarkable profit growth from 2006 to 2007. La Favorita in 122 percent, El Rosado 44 percent, and Mega Santa Maria in 20 percent; whereas the profits over sales reached in La Favorita 10.9 percent and in El Rosado 4 percent.
- The 25 largest food sector companies experienced a 20 percent growth in sales from 2006 to 2007 (\$2.7 million up from \$2.2 million).

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Retail Food Sector



- Ecuador's food retail sector is divided into five categories: supermarkets chains, open or wet markets, independent groceries, small food stores, and convenience stores known as mini-marts.
- Approximately 34 percent of Ecuadorians (4.5 million people) buy food in a grocery store, with an average monthly expenditure of \$250. The highest percentage of supermarket customers is found among the population with middle and high incomes, which combined reach approximately 30 percent of Ecuador's population.

- The three largest supermarket chains, Supermaxi, Mega Santa María and Mi Comisariato account for the majority of food sales in this segment. On average, 18 percent of the available shelf space is dedicated to imported foods and beverages, such as fresh fruit, prepared or canned fruits and vegetables, frozen items, snacks, confectioneries, wine, juices, beer and more recently, diet products.
- Mini-marts tend to offer imported and specialty products such as cigarettes, liquors, snacks, and soft drinks.
- The best way to enter this sector is through direct contact with supermarkets using local importers and distributors who usually require exclusive contracts, which tends to increase costs, thus making the product less competitive.
- Sales usually increase during special holidays such as Mother's Day, Christmas, Carnival, Valentine's day, and Father's day. Although, demand for most consumer-ready products usually peaks during the tourist season (June-September).
- 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.

Food Processing Sector

- Due to variations in the exchange rate between the dollar and Latin American currencies, ingredients for food processing are mainly imported from Colombia, Chile, and Mexico.
- The most demanded products for this sector are: powdered milk, processed sugar, concentrated ingredients for sugar, juice concentrates and mixtures, colorants, cereals, meats, ferments, flours, and food extracts.
- A successful sales strategy for processed food products in Ecuador is the diversification of product lines. For example, Pronaca, the leading company in this sector has a portfolio with over 800 products and 26 brands. Pronaca's sales in 2007 reached \$489 million, \$100 million more than in the 2006.
- The main processed food products in the market are pre-cooked or easy to prepare products for which many ingredients and seasonings are imported.
- The fishing sector exported \$718 million in the 2007, whereas the aquaculture sector reached \$700 million in exports of shrimp and tilapia, signifying a 14 percent increase since 1998 which was the previous highest growth year for this sector.
- The recovery of the shrimp sector has brought multinationals investment from companies such as Pescanova from Spain. The Aquaculture Chamber expects this sector to grow 10 percent in the 2008.
- There is a current trend among some local producers who are focusing on gaining domestic market share at the expense of international markets. Conservas Isabel, for example, has chosen to pursue a gain of 14 percent in the local market in damage of its export market by redistributing products.

- Food producers are also beginning to diversify their products such as Tecopesca de Manta, a fishing company who has begun to manufacture processed foods like soup and other seafood dishes.
- The beverage sector has been emphasizing improving its channels of distribution to extend its coverage while simultaneously launching new products, as is the case of Sap Miller which owns the largest local brewery. From June 2007 to June 2008, sales grew 45 percent (over \$317 million), due to its distribution strategy.

HRI Food Service Sector

- The growth of the tourism industry continues to represent a key opportunity for the HRI sector. Approximately one million tourists visited Ecuador in 2007 up 33 percent from 2003, resulting in marked growth of the hotel and restaurant industry.
- Most restaurants are supplied by local producers and importers, the only exception being the big hotel chains that manage direct imports through agents in the country of origin.
- Products with 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, and spices.
- The most important franchises in Ecuador are Pizza Hut, Burger King, McDonald's, Dunkin Donuts, Domino's Pizza, KFC, Papa Johns, Baskin Robbins, Subway, Taco Bell, TGI Fridays, Tony Roma's, Applebee's, Kenny Rogers Roasters, American Deli, Crepes & Waffles, Tropi Burger, Pollo Tropical, and Little Caesars.
- Most products used by franchise restaurants are imported and include: mayonnaise, ketchup, mustard, beef, poultry, spices, special ingredients, cheese, pepperoni, bacon, olives, corn oil, frozen french fries, ice cream and yogurt mixes. However, most of these products are supplied by each franchise's global supplier.
- Wine is becoming an important product in the food and beverage sector however, the majority of wine in Ecuador is imported. The primary exporters of wine to Ecuador are Chile and Argentina, followed by the United States, the EU, and Australia. As the economy grows, there is an increasing demand for wine especially since there is considerable promotion of wine culture in the larger cities.

SECTION IV: BEST HIGH-VALUE PRODUCT PROSPECTS

Based on import statistics, as well as consumer preferences and Ecuadorian market trends, outstanding U.S. export opportunities according to the tariff segments include the following products:

- Soya-Bean Oil-Cake And Other Solid Residues
- Wheat And Meslin
- Maize (Corn)
- Food Preparations, NES
- Soya-Bean Oil And Its Fractions, W/N Refined
- Fish, Frozen, Excl Fish Fillets And Other Fish Mea

- Apples, Pears And Quinces, Fresh
- Bread,Pastry Etc W/N Cntg Cocoa;Comm Waf Empty
- Waters,Min Or Aerated,Sweet Or Flav,Non- Alc Bev E
- Udenat Ethyl Alc By Vol <80% Alc;Spirits Liqueurs
- Sugar Confectionery (Incl White Choc), Not Contain
- Malt Extract; Food Prep Of Flour < 40% Cocoa
- Chocolate And Other Food Preparations Containing C
- Extr, Ess & Conc Of Coffee, Tea Or Maté; Chic O Co

Additional recommendations:

- Frozen produce
- Precooked frozen meals
- Ice cream
- Fresh seasonal fruits
- Beef and beef byproducts
- Low-calorie food products
- Chocolate bars
- Bakery products
- Specialty beers
- Soft drinks
- Wine

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

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

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