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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.

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SECTION I. MARKET OVERVIEW

With 14 million people, Ecuador offers significant export opportunities as, the purchasing power of the lower and middle classes has noticeably increased. Due to financial crisis the Government of Ecuador (GOE) instituted import restrictions through the establishment of quotas and tariffs for about 150 product categories. GOE obtained WTO approval only for a tariffs approach and all restrictions should be lifted by January 2010. For some products, this measure creates an opportunity to increase market share as the measure also impacts imports from countries that have trade preferences and forcing all countries to compete under the same conditions.

Consumer goods imports decreased significantly from $1.8 billion to $975 million dollars when comparing January to April 2008 with the same period in 2009, in both value and volume of imported goods (9.45 percent and 10.84 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.

In 2008, the Gross Domestic Product (GDP) of Ecuador grew 6.5 percent. The agriculture sector grew 5.3 percent; manufacturing 4.7; textiles and clothing 1.7 percent; chemical products, rubber and plastic 9.6 percent; machinery and equipment manufacture 9.7 percent; other manufacturing industries 6.6 percent; and the construction sector increased 17.8 percent. In the service sector, the most representative growth is seen in retail (5.5 percent), transportation (5.1 percent), and financial mediation (8.1 percent). Governmental services grew roughly 10.7 percent, focusing on health, education, and infrastructure expenditures.

The increase of household income has lead to an increase in consumption of 7 percent. This increase is a direct consequence of government initiatives, including salary redistributions for federal employees and doubling of direct payments to low income households, as well as remittances from Ecuadorians living abroad. Lastly, an 11.6 percent increase in government consumption, as a result of recent legislative changes in government procurement procedures, has also contributed to this increase.

The GDP increased 1.2 percent in the first quarter of 2009, and the government expects it to grow 3.82 in 2009. This growth is largely driven by increases in impulse consumption, private investment, and oil revenues. [1] From January 2009 to March 2009, imports decreased in value by 3.35 percent as compared to the previous year (from FOB $3,535,189 to $3,416,791). However, the volume of imports actually increased by 4.12 percent. The price of imports increased 29.9 percent and the largest contributors were imports of raw materials (4.25 percent), consumer goods (7.2 percent), and gas and lubricants (5.6 percent). The value of raw materials imports decreased by 3.83 percent and the imported quantity decreased by 7.76 percent; the value of consumer goods decreased 3.99 percent in volume while the unit price increased 3.90 percent. Fuel and lubricants imports decreased in quantity by 25.10 percent but had a unit price decrease of 45.41 percent.

In 2008, $7,716.8 million of Ecuador's imports came from Latin American Trade Integration Association (ALADI). Within ALADI, 30.61 percent of imports came from Andean Community members (Colombia-$1,782.42 million or 75.43 percent, and Peru-$562 million or 23.78 percent), and 33.36 percent from Venezuela. The United States supplied 18.93 percent of Ecuador's imports while 16 percent came from China, Japan, and Korea.

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 highlights the percentage of annual growth by segment and total imports. The second chart illustrates that annual growth peaked in 2005 at 35 percent, and has decreased slowly except for November 2007-April 2008, when there was an increase from 13.4 percent to 19.8 percent.

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

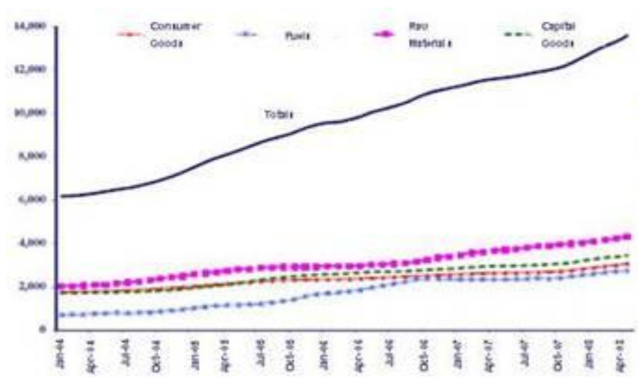
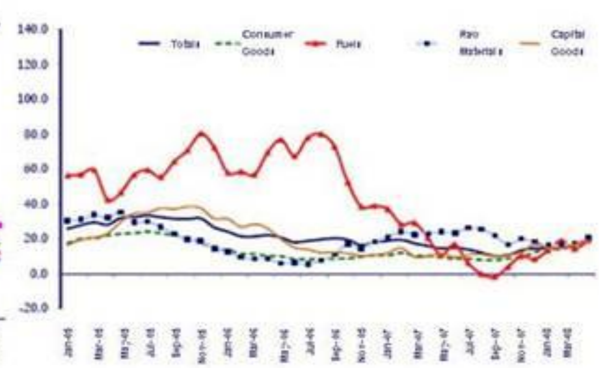


Chart 2
Growth of Imports by Product Group (%)



From January to April 2009, all import products segments reduced in FOB value with the most relevant being fuels and lubricants with 26.08 percent and raw materials with 11.29 percent growth.

The numbers from April 2009 show that imports of non-durable consumer goods had an FOB value of $601.67 million, representing 13.59 percent of total FOB imports of $4.42 billion, and a decrease in value of 12.64 percent, and a decrease in quantity of 8.88 percent.

Imports of durable consumer goods reached $374.32 million, representing 8.46 percent of total imports from January-April 2009 and a decrease in value of 3.8 percent, a 17.60 percent decrease in quantity, and an increase of 16.74 percent increase in unit price.

Table 1
Imports Evolution: Consumer Goods
Value, Quantity and Unit Price
January- April 2008/2009

% Market Share Totals		Increase (+) / Decrease (-) Value	Volume	Unit Value
22.05%	Consumer Goods	-10.84%	-9.45%	1.56%
13.59%	Non-Durable Consumer Goods	-8.88%	-12.64%	-4.12%
8.46%	Durable Consumer Goods	-17.60%	-3.80%	16.74%

Raw materials imports decreased 7.10% percent with a value of $1.495 billion from January-April 2009 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 7.67 percent. Industrial capital goods imports showed an increased of 12.58 percent in April 2009, signifying that capitalization of Ecuadorian industry and agriculture has been taking place but it has decreased in the last year.

Ecuador has sought to diversify its import source countries resulting in an increase in imports from ALADI partners.

99.9 percent of Ecuador's exports to U.S. receive tariff preferences under ATPDEA and/or SGP regimes..
From January to July 2009, non-oil exports represented US$7,101,425.04 million, for which the European Union market share accounts for 16.51 percent, and the United States 35.98 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.
Having a U.S. Dollar as the country currency creates economic stability for importers and gives higher purchasing power to the consumers.	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.	U.S. 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

- Research information by product with shipping consolidators and with U.S. ports statistics. This information will show the preferences of Ecuadorian consumers.

- Ecuadorian supermarket chains prefer to import directly from producers. However, U.S. companies that want to export for the first time should contact brokers to facilitate the process.

- In general, Ecuadorians prefer spicy 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 supermarket chains require that American exporters have all permits and licenses needed as well as the logistic arrangements necessary for products at the port of departure.
- 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 as there are niche markets for many high value products for 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 appeared in supermarkets, due to strategic alliances with producing companies, is supermarket 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, which represent approximately 60 percent of the sector, are La Favorita (Supermaxi), and El Rosado (Micomisariato). Tiendas Industriales Asociadas, Mega Santa Maria, Supermercados Coral and Magda Espinosa

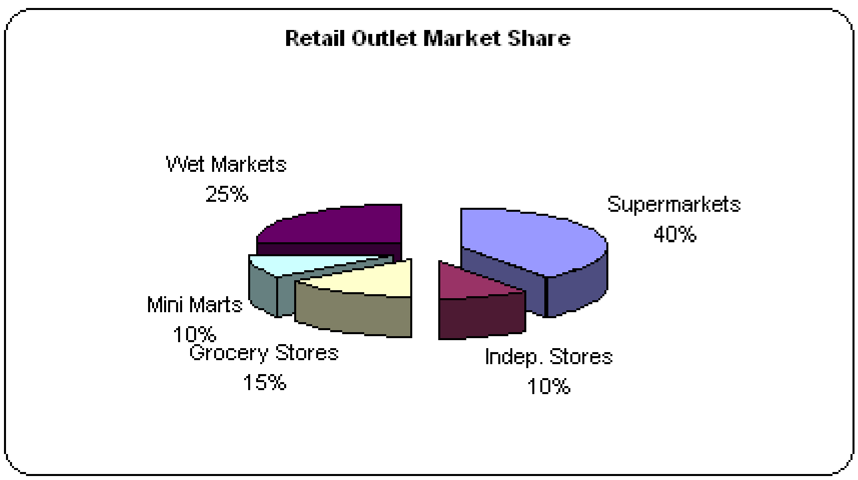
are medium-sized supermarket chains that are growing fast and obtaining an important market share. Total sales in 2008 among the main supermarkets reached $1.7 million, representing a growth in sales of 19 percent compared to 2007, when total sales reached $1.4 million.

- Supermarket chains did not experienced remarkable profit growth from 2007 to 2008. However, the profits over sales reached for La Favorita 10.77 percent and for El Rosado 3.79 percent.

- The 25 largest food sector companies experienced a 24 percent growth in sales from 2007 to 2008 ($2345 million up from $3240 million).

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Retail Food Sector



- 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 two largest supermarket chains, Supermaxi, 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 2008 reached $589 million, $100 million more than in the 2007.

- 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 $1600 million in the 2008, signifying a 34 percent increase compare to 2007.

- Food producers are also beginning to diversify their products such as Tecopesca de Manta, a fishing company that has begun to manufacture processed foods like soup and new seafood dishes.

- The beverage sector in 2008 was one of the fastest growing sectors with an increase on sales of 43 percent and with a market of $1,387 millions.

- The beverage sector has focused on improved distribution channels 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 12 percent (over $356 million), due to this new 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 2008, an increase of 33 percent since 2003.

- 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, 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, Chilly'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 tarrif segments include the following products:

- Soybean and subproducts
- Wheat and meslin
- Corn for animal feed.
- Food preparations
- Frozen Fish
- Fresh Fruits such as apples, pears, peaches
- Bake products and supplies for the pastry
- Mineral water and other bottled waters
- Spirits and liqueurs
- Sugar confectionery including white chocolate
- Chocolate and other food preparations containing cacao
- Malt extract
- Coffee and Tea

Additional recommendations:

- Frozen produce
- Precooked frozen meals
- Ice cream
- Beef and beef products
- Low-calorie food products
- 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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[1] Central Bank of Ecuador, press release no. 155