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Food Processing Ingredients

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Report Highlights:

The market for food processing ingredients in Honduras has increased steadily over the past few years and further increases are expected. The United States continues to be Honduras' largest supplier for food processing ingredients due to a strong acceptance for high quality. The Central American – Dominican Republic Free Trade Agreement with the United States (CAFTA-DR) provides new trade opportunities.

Post:

Tegucigalpa

SECTION I. MARKET SUMMARY

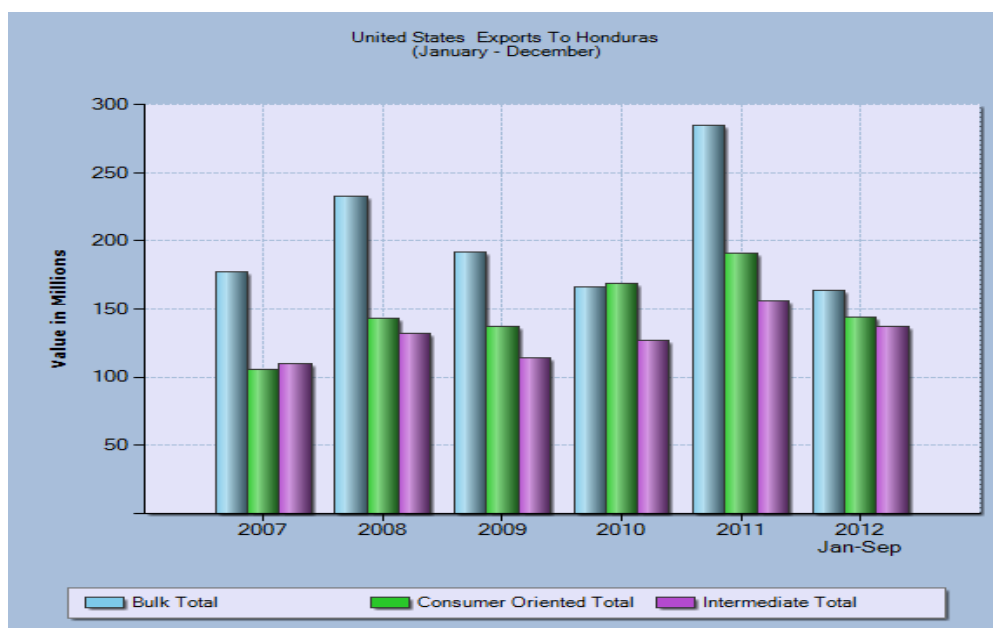
Although the food industry in Honduras is not as developed as other Central American Countries, the Honduran food processing sector remains promising for U.S. exporters. The sector is expected to experience growth supported by advances in the retail, restaurant, and tourism industries for the foreseeable future.

The tourism industry in Honduras, for instance, has experienced substantial growth: Total visitors were 1.8 million in 2011, and U.S. dollar income from tourists increased from US\$627.2 million in 2010 to US\$638.8 million in 2011. With growing tourism, the hotel industry is rapidly expanding into both urban and rural areas. New supermarkets have been opened in the country, especially with the entrance of Wal-Mart in the Central American region. The restaurant industry is growing at an even faster rate with many first-class restaurants, fast-food chains, and franchises opening in Honduras. The development of modern shopping malls and commercial centers has prompted the establishment of an increasing number of restaurant businesses. Honduras currently has the largest presence of established U.S. fast food and casual dining franchises in Central America.

The United States continues to be the largest supplier of food ingredients to the Honduran food processing sector, something which can be partly attributed to U.S. products having a strong high-quality reputation. Colombia, Mexico, Chile, Sweden, Argentina and other Central American countries are the leading competitors of the United States.

Consumption trends influencing the type and quality of inputs being used in processed foods are as follows: a wide variety of ingredients are used for mass consumption products such as bread, poultry, snacks and food preparations. Honduran importers prefer U.S. products due to their high-quality and fitness as inputs for processed foods.

Honduras imports a significant amount of bulk and intermediate products from the United States mostly used for food ingredients. The graphic below shows the export increase of these products over the years. Please note that the data of this year is up to September 2012.



The following chart indicates the advantages and challenges for United States exports of ingredients for the processing food sector in Honduras.

Advantages and Challenges for U.S. Exporters Targeting Honduran's Food Processing Sector

Advantages	Challenges
The United States continues to be the leading supplier of ingredients for processed food products, and Honduran consumption of processed foods is increasing.	Proximity and price of Central American countries.
U.S. products are considered to be high-quality resulting in consumers having a strong preference for the products.	The current economic situation in the country limits purchasing power and customers are price sensitive.
CAFTA-DR eliminates most tariffs and other barriers to U.S. goods destined for the Central American market, provides protection for United States investments and intellectual property, and creates more transparent rules and procedures for doing business.	Promote investment, maintain macroeconomic stability, and to increase the private sector's competitiveness in order to reap the benefits of Free Trade Agreements such as CAFTA-DR.
Because of the close proximity of Honduras to the United States, containerized cargo from gateway cities can be transported to Honduras in two to three days. With the lowest logistical costs in the region, Honduras serves as a distribution platform for the rest of Central America.	Direct competition from Central American countries, Mexico, Colombia, Argentina and Chile.
The rapidly development of new restaurants, casual dining, fast food and new hotel chains in the main cities are also contributing to the processed food sector growing.	Unclear and occasionally restrictive labeling, zoosanitary and phytosanitary import requirements.

Honduras Imports of Ingredients from the World
(in millions of US\$)

Commodity	2009	2010	2011	% Change (2011/2010)
Wheat	53.8	38.9	76.7	97.07
Coarse grains	70.3	82.6	146.2	76.97
Soybean oil	5.7	4.7	6.3	33.20
Tomatoes, prepared or preserved	11.2	10.3	13.3	28.72
Other bulk commodities	0.105	0.241	0.304	26.29
Vegetable oils	19.9	42.3	49.9	17.99
Animal fats	17.3	32.4	37.2	14.71
Soybean meal	58.0	64.2	72.9	13.57
Cocoa	8.9	10.7	11.9	12.03
Baking related	151.7	151.9	166.4	9.60
Sweetener/Beverage Bases	4.7	4.9	5.3	8.97
Sugars and Sugar Confectionary	27.2	30.9	32.7	6.0
Mechanically deboned meat	6.2	7.7	8.0	5.04

Source: Global Trade Atlas (GTA)

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

In order to effectively export products to Honduras, strong relationships with prospective buyers are fundamental. While it may take a little longer to establish a business relationship in Honduras than is customary in the United States, the investment in time can provide long-lasting, mutually profitable alliances. Although a U.S. firm may export directly to Honduran companies, it is suggested that U.S. firms have a local representative or a representative who can personally travel to Honduras. U.S. companies can also benefit from opening their own offices in Honduras.

U.S. exporters enjoy a strong position in the Honduran market bolstered by CAFTA-DR which eliminates most tariffs and other barriers for U.S. goods destined for the Central American market. Furthermore, the CAFTA-DR provides protection for U.S. investments and intellectual property, and creates more transparent rules and procedures for doing business.

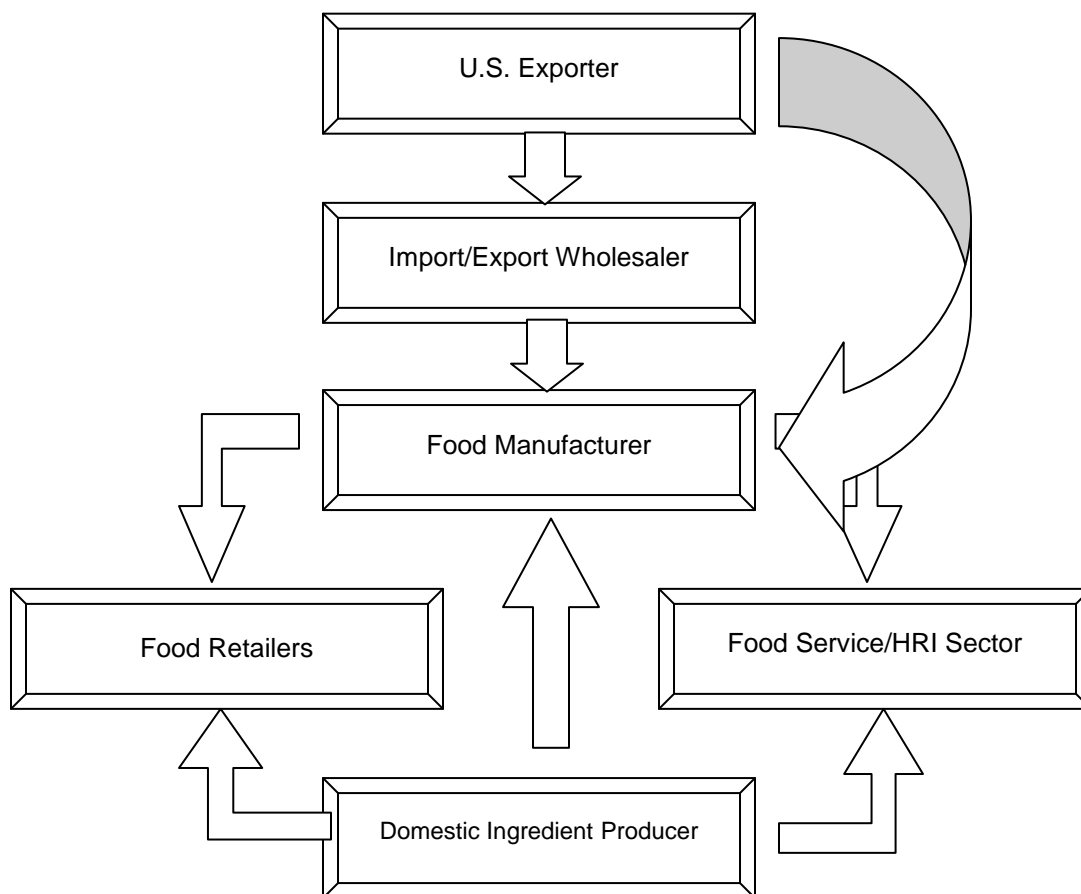
The Government of Honduras (GOH) is generally open to foreign investment and welcomes it; restrictions and performance requirements are fairly limited. The Honduran openness to investment, its

geographical proximity to the United States, and the Honduran port of Puerto Cortés, which is the largest deep water port in the region, have made Honduras increasingly attractive to investors. Additionally, Honduras has almost concluded a brand new highway, known as Canal Seco or the Dry Corridor, which will connect Puerto Cortes on the Caribbean with the Pacific Ocean giving U.S. companies easier coast-to-coast access.

B. Market Structure

Price is one of the most important elements that influence the receptivity score of most Honduran imports. In many cases, Honduran firms buy directly from exporters if cost reductions can be achieved.

Honduras: Product Distribution Channel Flow



C. Company Profiles

The table below shows a variety of large and medium-sized food processing companies in Honduras.

Some of these companies are already using U.S. food ingredients, while others are potential users.

Company	Production	End-Use Channels	Production Location	Procurement
Corporación Dinant	Snacks, oils and fats, condiments, seasonings, pastas	Retail	Honduras and Nicaragua	Direct & Brokers
Lacthosa	Milk, shakes, juices, cheese, cream, ice tea, butter, yogurts	Retail	Honduras	Direct
Especies Don Julio	Seasonings, condiments, sauces, pastas, soft drinks	Retail and HRI	Honduras	Direct & Brokers
Cadeca	Poultry	Retail and HRI	Honduras	Direct
Alimentos de Cortes	Beverages	Retail and HRI	Honduras	Direct, Distributors & Brokers
Alimentos Marvisa	Seasonings, condiments, sauces	HRI	Honduras	Distributors & Brokers
Panificadora La Popular	Bakery	Retail	Honduras	Direct & Brokers
Inversiones Amalgamadas	Prepared meals, plantains	HRI	Honduras	Direct
Servi 2000	Beverages	Retail, HRI	Honduras	Direct
Corporación Industrial del Atlántico “Rojitos”	Prepared meals, refried beans	Retail	Honduras	Direct
Industrias Sula	Snacks	Retail, HRI	Honduras	Direct & Brokers
Panadería Superman	Bakery	Retail	Honduras	Direct & Brokers
Grupo Jaremar	Snacks, oils and fats, condiments, seasonings	Retail, HRI	Honduras	Direct

D. Sector Trends

The food processing industry has limited foreign direct investment (FDI); some of the foreign companies that were formerly established in Honduras have been transferred to other Central American countries or Mexico due to a variety of issues.

A description of the consumption trends according to the Global Trade Atlas (GTA) the major ingredients used by the food processing sector in Honduras follows:

Coarse grains: The United States is the leading exporter of course grains to Honduras: in 2011, U.S. coarse grains made up almost 100 percent of total Honduran coarse grain imports. The main competitors of the United States are Argentina and Mexico followed by Nicaragua and Chile. Given the dominance of the United States, it is positioned to expand overall exports to Honduras as demand for coarse grains increases. Coarse grains are an important basic input for the growing poultry, shrimp, and tilapia sectors in the country.

Wheat: The United States is the main exporter of wheat to Honduras. Exports have increased steadily

over the years. In 2011 U.S. wheat exports to Honduras increased 97.07% in comparison to last year. Bolstered by the strong demand for bread, bakeries in Honduras range from many small, family bakeries to a handful of large commercial bakers. The bakeries largely source their flour from Honduran mills which import wheat from the United States.

Mechanically Deboned Meat (MDM): The United States has 98.31 percent of the country's market share for Mechanically Deboned Meat (MDM). There are various food processors that use MDM as a key ingredient in the production of cold cuts, hot dogs, and sausages. A wide sector of the Honduran population demonstrates preference for cold cuts and other processed meat products for their convenience and cost attributes. Restaurants and hotels also demonstrate high levels of demand for processed meat products.

Animal fats: Honduras is a strong market for U.S. exporters of animal fats with limited competition from Nicaragua, Canada and Guatemala. The U.S. market share of animal fat imports has increased to nearly 100 percent in 2011. The U.S. dollar value has increased for animal fats in Honduras, from 31.7 million in 2010, to 37.1 million in 2011.

Mixes and bakery preparations: U.S. exporters have substantially increased their exports within this sector from US\$17.3 million in 2010 to US\$19.8 in 2011. U.S exporters face strong competition from other Central American countries and Mexico; however, many of the regional products may include U.S. ingredients.

Sugar/sweetener/beverages: The United States continues to be the biggest supplier of the sector and has considerable market share potential, with limited competition from Guatemala, China and El Salvador.

Cocoa: Cocoa is an important market that needs to be considered. The United States has increased its exports considerably from US\$3.9 million in 2010 to US\$4.2 million in 2011. U.S. companies have a 34.94 percent market share. The United States is the leading country in this sector with strong competition from Mexico and Guatemala. Thus U.S. companies have ample room for growth in a segment.

Snacks food ingredients: There has been a slight decrease in this export sector due to Central American countries competition. The market share for U.S. ingredients can expand since there is a widespread consumption of snacks in the domestic market, particularly within young people, and the middle and low-income population.

Tomato paste: Tomato paste preparations have a tremendous growth potential for U.S. exporters holding over 34.65 percent of the market share. Costa Rica has shown tremendous growth and is the main competitor in supplying this product. However, the United States still holds a strong position in the sector and its export value has increased in the last year.

Expansion of food processors: Honduran exporters are pursuing expansion plans to increase production, processing and improve the quality of their exports. Honduran exports of processed fruits and vegetables have increased in the last years, from US\$18.6 million in 2010 to US\$20.2 million in 2011. These types of exports, as well as others, will require different food ingredients in the future as Honduran firms are looking forward to opportunities to expand exports to the United States.

III. COMPETITION

The table below describes the competitive situation facing U.S. suppliers in terms of domestically produced goods and imports from other countries.

Product Category	Countries	2009	2010	2011	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Sweetener/Beverage Bases	1.United States	4.0	4.1	4.8	U.S. quality and enough supply to meet demand	Supply is not enough to meet demand
	2.Guatemala	0.38	0.38	0.33		
	3. China	0.04	0.053	0.087		
	4.El Salvador	0.077	0.093	0.080		
Coarse grains	1.United States	69.8	82.3	146.0	Importers trust quality of U.S. products and availability during most of the year	Supply is not enough to meet demand.
	2.Argentina	0.076	0.085	0.049		
	3.Mexico	0.18	0.062	0.041		
Baking related	1.Guatemala	60.1	43.3	47.3	Proximity, transportation and price	Supply is not enough to meet demand.
	2.Mexico	24.9	37.7	38.5		
	3. El Salvador	33.0	32.1	37.2		
	4.United States	15.3	17.3	19.8		
Mechanically deboned meat	1.United States	6.0	7.5	7.9	Companies trust the quality and effectiveness of U.S exporting process. And excellent customer service	There is no local production of mechanically deboned meat
	2.Panama	0	0	0.13		
	3.Costa Rica	0	0.009	0.0075		
Wheat	1.United States	53.8	38.9	76.7	U.S. quality and strong business relationships have been proven throughout the years	There is no local production of wheat
	2.Costa Rica	0	0.00068	0		
	3.Guatemala	0.0002	0	0		
Soybean meal	1.United States	51.4	61.9	72.4	U.S. quality and availability throughout the years	There is no local production of soybean meal
	2.Belgium	0.49	2.2	0.48		
	3.Guatemala	0.00029	0	0		
Soybean oil	1.Argentina	0.83	0.55	2.5	Cost and Price	There is no local production of soybean oil
	2.Mexico	0	1.7	1.7		
	3. Nicaragua	0.42	1.2	0.74		
	4.United States	2.2	0.032	0.52		
Vegetable oils	1.Mexico	0.22	14.7	12.1	Proximity, transportation and price	Local production of African Palm oil is mainly for export
	2.Guatemala	7.0	7.3	10.8		
	3. Costa Rica	2.1	7.1	10.6		
	3.United States	5.9	4.7	7.7		
Animal fats	1.United States	17.3	31.7	37.1	Quality and availability throughout the year	There is not enough local production
	2.Nicaragua	0.0002	0.0062	0.0050		
	3.Canada	0.00060	0.62	0.042		
Other bulk commodities	1.Canada	0.0012	0.10	0.21	Cost and Price	There is no local production
	2.China	0.0005	0.0004	0.0019		
	3.United States	0.030	0.015	0.017		
Tomatoes, prepared or preserved	1.Costa Rica	6.4	6.8	7.4	Proximity, transportation cost and price	Local production is for domestic consumption
	2.United States	3.6	1.3	4.6		
	3.Chile	0.87	2.1	1.1		

Cocoa	1.United States	3.1	3.9	4.2	Importers trust quality of U.S. products and availability during most of the year	There is no enough local productions to satisfy demand
	2.Mexico	1.2	2.2	2.8		
	3.Guatemala	1.6	1.4	2.1		

Source: Global Trade Atlas (GTA)

IV. BEST PRODUCTS PROSPECTS

The CAFTA-DR brought a wide range of U.S. products that can enter Honduras duty free. Among those products, the food processing sector can utilize goods such as: bacon and pork offals, raisins, fresh sweet corn, mushrooms, canned sweet corn, tomato paste, canned pears, peaches and mixed canned fruit, potato flour, dehydrated granules and pellets, french fries, frozen orange juice, grapefruit and cranberry juice, mixed concentrates, shelled walnuts, almonds, pistachios, peanut, soups and broths.

Honduran tariffs on the remaining goods are currently within a 15 percent range. Under CAFTA-DR, there are Tariff Rate Quotas (TRQ) for pork, chicken leg quarters, milk powder, butter, cheese, other dairy products, rough rice, milled rice, yellow and white corn. As of 2013, most of the TRQs phase out within 10 years. The table below shows the best product prospects for the food ingredients market in Honduras.

Product	2011 Market Size (volume) %	2011 imports (Sales) In millions of US\$	Market Attractiveness for U.S. Products
Coarse grains	99	52.4	Demand for coarse grains will continue to rise with the increase of poultry, shrimp and tilapia sector
Wheat	100	53.8	The U.S. is the major supplier. Bakery industry is increasing its growth
Sweetener/beverage bases	89	4.0	Local production of non-alcoholic and alcoholic beverages has increased
Mechanically deboned meat	98	6.0	There is no local production
Soybean meal	99	51.5	There is no local production
Fats and oils	100	17.3	There is no enough local production to satisfy demand

Source: Global Trade Atlas (GTA)

V. POST INFORMATION

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