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Food Processing Equipment

Market Research [MRP]

ID: 118223



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Industry: **Food Processing & Packaging**Sector: **Food Processing/Packaging Equipment**

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Report Date: **09/14/2004**
 Expires: **09/30/2007 (Expired)**

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This report presents and overview of the Panamanian Food Processing Equipmente market and analyzes best prospects for U.S. exports.

Food Processing and Packaging Equipment

Summary

The food processing and packaging equipment market is estimated at \$35 million in 2004, with U.S. products leading the market with a 35% share, and expected to continue growing at an annual rate of 15%. The beverage and food industries constitute one of the principal manufacturing and export sectors of the economy, and Free Trade Agreements (FTA) have created many new investment opportunities.



Market Tip: Beef, seafood and agricultural exports have increased since FTAs were signed with El Salvador, and especially with Taiwan, where exports grew by 600%!

Market Overview

Panama's diversified food industry is a major and stable sector of the economy. Many local companies have been acquired or have teamed up with multinational corporations, as a strategy to increase global exports. Besides bananas, sugar, seafood, shrimp, fishmeal, coffee and meat, exports of other products such as alcoholic beverages, fruits and vegetables, poultry and eggs, have increased significantly in recent years. Of special interest to U.S. exporters are the free trade agreement talks underway between both countries, which are expected to conclude in a few months.

The food processing and packaging equipment market is expected to continue expanding with yearly growth rates of 15% for the next few years and U.S. exports should lead the market with equipment for the beverage, fruit and vegetable, canning and sealing, prepared foods, snack, seafood, meat, poultry and dairy food industries. Current yearly imports of U.S. products are estimated at \$12 million and yearly growth rate of at least 15% are anticipated.

2002 Food Exports \$391,882,000

(Sources: Office of the Comptroller General and FAO)

Market Trends

Panama's economy gradually started recovering in 2002, with a GDP increase of 0.8% that year, followed by a 4% upturn in 2003, and estimated 5% growth in 2004. The agricultural and food industries jointly contribute an annual 11% to the GDP, and are forecasted to exceed GDP growth rates the coming years.

To help boost manufacturing activities, the Legislative Assembly recently approved an industrial promotion bill

that subsidizes the industrial sector with negotiable financial instruments called Industrial Promotion Certificates (CFI), issued for new investments by qualifying companies.

Tourism is expanding rapidly and according to the Panamanian Tourism Institute (IPAT), the sector should inject at least \$875 million into the national economy in 2004, making it the largest revenue generating sector in the country, surpassing the Panama Canal and Colon Free Zone. This should fuel the internal market demand for processed food products and beverages. International tourism promotional activities should also reach a much broader audience, with the appointment of a renowned salsa singer and actor as the new head of the IPAT in September.

Panama is a multicultural and multiethnic society, and this has created a demand for frozen and refrigerated deli products, ethnic and typical foods. Many supermarkets offer a wide range of ethnic food products, including Chinese, Kosher, Spanish, Latin American and Italian, among others. Growth in the service industries, work schedules, larger female workforce and long home travel distances have also increased the number of people dining out at lunchtime; moreover, this hectic lifestyle has also fueled a demand for supermarket retailed prepared or ready to cook food in individual and family sized portions. Fast food franchise outlets and shopping mall food courts, have all experienced significant growth in recent years, and require specially prepared pre-processed food products.

Additionally, many workers now have more disposable income, benefited by a tax reform law enacted in 2002, which eliminated tax deductions from monthly salaries of up to \$800.

To cope with rising demand, in large part as a result of the FTAs, and remain competitive, the industry will have to make short and long term investments in new plants, equipment and technology; not to mention compliance with sanitary, safety and environmental regulations. Many large international concerns have bought out or entered into alliance with well established local companies as part of their strategic globalization program. Such is the case with Grupo Alimenticio Pascual, the country's principal cookie and cracker manufacturer, which was acquired for \$25 million by the Colombian group, Casa Luker; Cerveceria Nacional, with a beer market share of 81%, purchased by Grupo Bavaria; and Grupo Melo which made a joint investment of \$15 million in a poultry plant, with Tyson Foods.



Market Fact: From 1999 to 2003, revenues generated by tourism soared from \$538 million to \$805 million, with the number of visitors expanding from 555,026 to 897,047 in the same period, and estimated to top 1,000,000 in 2004, driving internal market demand for food products and services.

Import Market

It is estimated that imports of food processing and packaging equipment totaled \$26 million in 2002, growing to \$30 million in 2003, and closing at \$35 million in 2004. U.S. products have traditionally led the import

market with average annual shares of about 35%. The overall import market, along with U.S. imports, are expected to show annual growth rates of 15% to 20% the next three years, as trade opportunities rise after the FTA signing between both countries. This kind of equipment is not manufactured locally.

These estimates are based on available data from the Office of the Comptroller General, the Ministry of Economics and Finance, the Vice Ministry of External Commerce and interviews with industry experts and trade associations. The future inflation rate is likely to remain stable at 2%.

The following are 2003 import market share estimates of the major competitors: U.S. 35%, Germany 15%, Spain 11%, Brazil 11%, Italy 9%, Taiwan 8%, Mexico 5% and Switzerland 4%.

Competition

Well-known U.S. and international suppliers marketed in Panama include: R.H. Forschner, Dexter-Russell,

Cryovac, Sigma, Tetra Pak, Hantover, Koch, APV Crepaco, Hess, FMC, Alfa Laval, Lombi, Lyco, Cornell, Waukesha, Garland, Wells, Peerless, Toledo/Mettler, Angelus, Bizerba-Werke, American Can, Urschel, Foss, Hobart, Scotsman, Star, Roxell, Formost Packaging, Hayssen, Bow Matic, Abco, Velati, Pearson and Kronos among others.

While U.S. products account for the major share of the import market, a wide range of food processing and packaging equipment is available from other countries, that meet diverse purchasing criteria for pricing, quality, after-sales service, delivery time and financing. There are about ten importers/distributors with trained personnel constantly calling on the various end user sectors, offering their products and services. Many offer attractive payment plans or lease their equipment.

Equipment manufactured in the U.S. and Europe is perceived as being of higher quality, while that of other third countries is considered to be highly competitive in price, but of lower quality and lacking adequate after sales service. Certain industries prefer purchasing from countries renowned for their specialties; i.e., brewing equipment from Germany, sausage and pasta making machinery from Italy, etc.

End Users

The following chart gives a breakdown of Panama's principal food production activities:

2003 Major Food Production 3,315,154 Metric Tons

(Sources: Office of the Comptroller General and FAO)

Because of the highly competitive nature of the food processing industry, and to comply with the various sanitary and safety regulations, factories strive to invest in modern, innovative and efficient packing, packaging and labeling solutions. Manufacturing is all carried out by the private sector, sectorized by the following end-user groups:

► **Beverage Industry**

This is one of largest sub-sectors. The two large breweries were both acquired by multinational corporations: Cerveceria Nacional by Grupo Bavaria and Cerveceria Baru-Panama by Heineken. They also operate as bottling plants for Coca-Cola, Pepsi-Cola and a number of other soft drinks, non-alcoholic beverages, bottled water, juices and breakfast drinks. There are four liquor and spirits manufacturers, led by Bacardi Centroamerica and the Grupo Varela.

► **Dairy Industry**

Milk production is concentrated in three provinces: Chiriqui, Herrera and Los Santos, and many milk producers are associated as cooperative entities. The two largest milk factories, Industrias Lacteas and Bonlac, manufacture and distribute a wide range of dairy products, including high quality milk, ice cream, frozen desserts, butter, yogurt, cream, fruit drinks. They frequently introduce new products into the market. Like other sub-sectors of the food industry, manufacturing of dairy products such as cheeses is dynamic and very diversified, ranging from cottage to large scale agro-industrial corporations such as Nestle.

► **Meat and Fish Processing Industry**

Seafood products represent the country's leading export group and most processing is performed in the ports of Vacamonte and Puerto Armuelles. Efforts are made to manufacture value-added products, in addition to

frozen products, as means of increasing profits and competing globally. Users of meat (beef and pork) processing equipment include meat processors, packers, abattoirs, butcher shops and super market chains such as Super 99, El Rey, Casa de la Carne, Price Smart, Riba Smith and Machetazo. There is a wide variety of locally produced cold meats, sausages, deli, cured and smoked products with the best known brands being Berard, Kiener, Melo, Rimith and Blue Ribbon. Poultry is the top meat staple of the local diet and processing is very advanced; the principal producers are Toledano and Melo (Tyson), a multi-product company and one of the country's largest exporters.

► **Agro Industry**

Bananas and sugar are the main agricultural exports and there is concern over the FTA negotiations with the U.S. Bananas are produced by the Chiquita subsidiary and independent farmers in the Bocas del Toro and Chiriqui provinces. Sugar production is carried out in the central provinces and refined by Azucarera Nacional, Santa Rosa, Ofelina, La Estrella and others. Rice production is also significant and is mostly grown in Chiriqui, as is coffee, while corn is mainly harvested in the middle provinces. Many farmers have reinvested in non-traditional products such as watermelons, cantaloupes and noni juice. Companies like Nestle manufacture a large variety of tomato products and canned tropical juices.

► **Baking Industry**

Four flour mills, Harinas Panama, Harinas del Istmo, Gold Mills and Oro del Norte, supply the burgeoning bread and pastry trade, which consists of large scale bread factories such as Panificadora Moderna to neighborhood bread shops. In 2002, there were 203 bakeries just in Panama City. Following their U.S. counterparts, many supermarkets have also installed in-store bakeries.

Market Access

The outlook for imports of food processing and packaging equipment is favorable and the market is very receptive to U.S. products. Import duties are reasonable and customs clearance is relatively fast and straightforward. Panama has a dollar-based economy, good transportation infrastructure and telecommunication systems, modern ports and excellent access to shipping and air transport.

Panama is a very open market and there are no strict distributor protection laws per se. In 1989 the Supreme Court of Justice declared the unconstitutionality of Cabinet Decree no. 344 of 1969, which had up to then regulated and protected the activities of representation and distribution. General commercial law would instead govern contracts or relations between the vendor or supplier and the local company.

U.S. products enjoy a high quality image. There are no import barriers for food processing and packaging equipment; and import duties on this type of equipment currently range from 3% to 15% of the CIF value, most of which will be eliminated upon signing of a free trade agreement with the U.S. Ad valorem import duties are levied on the CIF value plus a 5% value-added tax. Many food processors prefer using high quality U.S. equipment to insure compliance with the different health, sanitary, environmental, processing and packaging standards and regulations, including those set forth by the U.N. Codex, all enforced by the Ministries of Health, Agriculture and Commerce.

Market Entry

Some U.S. manufacturers are represented by local reps or commission agents who carry out product

promotions, follow-up orders and collections and solve claims. Others opt for direct customer contact facilitated by widespread Internet use. Direct mail is also widely used, as is participation in trade and general commercial shows, at local and international levels. High tech, sophisticated equipment and systems require well-trained engineers and technicians for proposals, professional installations and maintenance. It is highly recommended that warranty provisions, user and service manuals be provided in Spanish.

For products with a specific market volume or those requiring a sizable investment and/or technical know-how, exclusive distributor relationships can be established, either by a signed contract or verbal agreement, and usually for a predetermined time period.

Panama is the region's major banking center with more than 80 national and foreign banks and credit can be obtained at competitive market rates. The U.S. dollar is legal tender. Project financing is available from multilateral funding entities such as the Inter-American Development Bank (IDB), the International Finance Corporation (IFC) of the World Bank, the U.S. Overseas Private Investment Corporation (OPIC) and the U.S. Export-Import Bank, which offers credit guarantees and insurance.

U.S. vendors will usually grant credit terms of 30 to 60 days net for established companies with at least three U.S. valid trade references. Other common payment options are letters of credit and advance payment via wire transfers or bank drafts. There are several international credit information services such as Dun & Bradstreet with updated ratings of major distributors. Local credit references can be obtained from the Asociacion Panamena de Credito (APC) by affiliation or service fee. Sales are conducted with a variety of payment and lease terms including 30 to 90 days credit. Most commercial establishments accept credit cards for retail sales.



Marketing Tip: The U.S. Embassy's Commercial Service offers a number of proven services for U.S. companies seeking business partners in Panama. For additional information, visit their website at www.buyusa.gov/panama

Opportunities for Profile Building

Industry-specific conferences and seminars are usually held concurrently with the trade shows listed below.

Key Contacts

Trade Associations

American Chamber of Commerce & Industry (AMCHAM)

Contact: David Hunt, Executive Director

P.O. Box 168; Balboa, Panama

Tel: (507) 269-3881

Fax: (507) 223-3508

E-mail: amcham@panamcham.com

Web site: www.panamcham.com

Colon Free Zone Users Association

Asociacion de Usuarios de la Zona Libre de Colon

Contact: Galo Pinto de la Ossa, Executive Director

P.O. Box 3118; Zona Libre de Colon, Panama

Tel: (507) 441-4244

Fax: (507) 441-4347

E-mail: usuarios@auzonalibrecolon.com

Web site: www.auzonalibrecolon.com

National Association of Aviculturists

Asociacion Nacional de Avicultores de Panama (ANAVIP)

Contact: Maria de Lavison, Executive Director

Physical Address: San Francisco, Calle 75 No. 61

P.O. Box 6-3997; El Dorado, Panama

Tel: (507) 226-4656

Fax: (507) 226-9905

E-mail: anavip@anavip.com

Web site: **www.anavip.com**

National Union of Small and Medium-Sized Enterprises

Union Nacional de Pequeñas y Medianas Empresas (UNPYME)

Contact: Jose Mendoza, President

Physical Address: Llanos de Curundu, Local No. 1996-B

P.O. Box 87-1740; Panama 7, Panama

Tel: (507) 232-5808

Fax: (507) 232-5818

E-mail: unpyme@sinfo.net

Web site: **www.unpyme.org**

Panamanian Chamber of Commerce, Industry and Agriculture

Camara de Comercio, Industrias y Agricultura de Panama

Contact: Jose Ramon Varela, Executive Director

P.O. Box 74; Panama 1, Panama

Tel: (507) 225-6841

Fax: (507) 227-4186

E-mail: direje@panacamara.com

Web site: **www.panacamara.com**

Panamanian Industrial Syndicate

Sindicato de Industriales de Panama (SIP)

Contact: Daniel Vega, Executive Director

P.O. Box 6-4798; El Dorado, Panama

Tel: (507) 230-0284

Fax: (507) 230-0805

E-mail: sip@cableonda.net

Web site: www.industriales.org

Rice Millers' National Association

Asociacion Nacional de Molineros de Arroz (ANALMO)

Contact: Denia de Sanjur, Executive Director

Physical Address: Via Ricardo J. Alfaro, Edif. Sun Tower # 321

P.O. Box 6-10494; El Dorado, Panama

Tel: (507) 236-2106

Fax: (507) 236-2106

E-mail: analmo@sinfo.net

Web site: www.analmo.org

Upcoming Trade Shows & Publications

Trade Shows

EXPOCOMER 2005

Organized by the Panamanian Chamber of Commerce, Industry and Agriculture. This is the largest, annual, horizontal, international exhibition in Panama. Expocomer 2004 statistics: 32 countries, 492 exhibitors, 34,517 visitors.

Next show: March 2-6, 2005, Atlapa Convention Center, Panama City.

Contact: Roberto Appleby, Executive Director

Camara de Comercio, Industrias y Agricultura de Panama, Departamento de EXPOCOMER

P.O. Box 74; Panama 1, Panama

Tel: (507) 227-0033

Fax: (507) 227-0115

E-mail: expo@expocomer.com

Web site: www.expocomer.com

EXPO INDUSTRIA

General industry related show held every two years. 2003 show statistics: 70 exhibitors, 5,000 visitors.

Next show: June 2005, Atlapa Convention Center, Panama City.

Sponsor: Panamanian Industrial Syndicate (SIP).

Organizer: Congrexpo International.

Contact: Patrica Petterson, Executive Vice President

P.O. Box 55-1627; Paitilla, Panama
Tel: (507) 269-5655

Fax: (507) 269-5680

E-mail: congrexp@congrexp.com
Web site: www.congrexp.com/industria

Publications

ENLACE

Official publication of the Panamanian Chamber of Commerce, Industry and Agriculture. Published monthly. Circulation 2,000. Contact: Paola Valdes, E-mail: paola.c@panacamara.org, Tel: (507) 227-1233, Fax:

(507) 227-0713. Ad rates vary; e.g., from \$165.00 for a quarter page to \$480.00 for a full page ad.

ENE (Ejecutivos, Negocios, Economía)

Official publication of the Panamanian Association of Business Executives (APEDE). Printed every six weeks. Circulation 9,000. Contact: Eva Montilla, E-mail: emontilla@apede.org, Tel: (507) 227-3511, Fax: (507) 227-1872. Ad rates start at \$250.00 for a quarter page.

BUSINESS PANAMA

Official publication of the American Chamber of Commerce and Industry (AMCHAM).

Published monthly. Circulation 1,000. Contact: Timothy de St. Croix, E-mail: amcham@panancham.com, Tel: (507) 269-3881, Fax: (507) 223-3508. Ad rates start from \$350.00 for a half page, \$500.00 for a full page, and up to \$700.00 for a back cover; all subject to special discounts for extended contracts.

Official publication of the Panamanian Chamber of Commerce, Industry and Agriculture. Published monthly. Circulation 2,000. Contact: Paola Valdes, E-mail: paola.c@panacamara.org, Tel: (507) 227-1233, Fax:

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Official publication of the American Chamber of Commerce and Industry (AMCHAM).

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