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Colombia Country Facts:

- Colombia is the third largest Latin American country by population (49.8m) and the fourth largest by GDP.
- Colombia has had an average economic growth of over 4% between 2001 and 2017 and grew 2.7% in 2018.
- Colombia was ranked number 3 in Latin America and the Caribbean for “Ease of doing business” in 2017 behind Mexico and Peru, and 59th in the world – according to the World Bank and the IMF.
- Colombia has access to 60 countries and more than 1.5 billion consumers through its network of trade agreements. Some of these agreements include the US, Canada, the EU, and South Korea
- Fixed investment is playing an important role in the economy, as it increases from 18.8% of GDP in 2008 to 29.0% in 2017.
- It is a country characterized by the expansion of the middle class and increasing foreign direct investment, due to improvement in the security environment.
- The approval of the peace deal in particular will improve Colombia's reputation amongst investors.
- Disposable incomes are rising, with the portion of households expected to be earning above the USD10,000 mark reaching almost 29.0% by the end of 2020. - According to BMI Forecast 2017.
- Colombia has continuously decreased its poverty levels, and the percentage of people considered to be middle class has doubled in the last 15 years.
- Colombia is the 37th member of the OECD – this means that public institutions in Colombia will meet standards of the developed world which gives more confidence to investors.
- Colombia was recognized as the first country in the region that best protects investors, obtaining the sixth worldwide position – World Bank.

Food and Drink Sector Overview:

Colombia's food and drink industry will show signs of recovery from 2017 onwards, supported by a gradually improving consumer outlook as inflation heads lower on the back of higher oil prices. However, discounters and private-label goods will continue to gain market share in the mass grocery retail sector as consumers remain price-conscious. The food industry will remain a significant contributor to the country's economy.

Regarding opportunities in Colombia, a young population, rising disposable incomes and an increasing number of working women are fuelling demand for higher-value, processed goods. Food and drink producers' best opportunities lie in building on their already strong relationships with the country's mass grocery retailers. Targeting low-income consumers through private label food products or discount retail formats will offer significant growth opportunities. An improving security environment and low barriers to entry in some areas make Colombia attractive to international investors. Weakening global oil prices will weigh on private consumption growth, which in turn is likely to have negative consequences for the food and drink, as well as retail sectors. A reversal of the peace negotiations between the government and the FARC could damage Colombia's reputation in the eyes of investors, but this is unlikely to happen.

The sectors that are expected to grow are fruit (9.4% average growth per year) and fresh vegetables (10.7% average growth per year), in line with growing health-consciousness. Meat and poultry is the largest segment by sales. Sales are forecast to grow in this sector from COP29,116bn in 2018, rising to COP41,684bn by 2021.

The urban population of Colombian cities will increase from 76.7% to 78% of the total over the same period, supporting rising food consumption, as urban dwellers generally have higher incomes and greater accessibility to formal food retail than those living in rural areas. Food consumption growth will also be driven by increased demand for value-added and premium products, in line with rising incomes, with producers investing in Colombia to tap into the growing demand for 'indulgence' products, such as chocolate, ice cream, yoghurt and coffee. International investors such as Danone and Nestlé, and local firms such as Grupo Nutresa and Alpina Productos Alimenticios are all keen to capitalise on this rising demand and are investing significant funds to increase capacity. Starbucks entered the Colombian market in July 2014, hoping to capitalise on the new breed of consumer.

Sales of non-essential products, such as chocolate, have seen some of the biggest increases in Colombia over the past few years, in line with rising disposable incomes. Chocolate is likely to be the main beneficiary from the premiumisation trend, although volume sales will be relatively stagnant over the next five years. Overall, we expect sales of sugar and sugar products to rise by an average of 8.5% a year between 2017 and 2021. The confectionery sector benefits from the fact that over half of Colombia's population is aged 30 and below. As in other markets, confectionery sales in Colombia are influenced by the health and wellness trend, which is reflected in new products which are marketed as low-sugar and fat-free alternatives to traditional confectionery. We expect more multinational investment in the sector over coming years, which will also support volume sales through the introduction of new products.

Portuguese retailer Jerónimo Martins entered Colombia's mass grocery retail market in 2013 with his discount banner Ara. The company aims to have 1,000 stores across the country by 2020.

Colombia's food processing sector is a major contributor to the country's industrial output employment, and continues to attract foreign direct investment. The mass grocery retail sector is well developed by regional standards, making it relatively easy to roll out new products. Despite large income disparities, Colombia's affluent middle class provides a reasonably large market for value-added drink products.

Dairy:

Domestic production is substantial, accounting for the bulk of local consumption. Currently, local producers account for around 97 percent of demand in Colombia, with this dominance expected to remain for the foreseeable future. Exports currently account for only a small proportion of total production. However, with Colombia being the largest milk producer in the Andean region, there is strong export potential for the milk sector. In addition, Colombia does not produce a wide variety of cheeses, and there is potential for imports from the UK as Colombians' food preferences become more global.

Healthy Snacks:

Colombian consumers are increasingly aware of the need to adopt healthier eating habits. Manufacturers have responded to such demands by rapidly introducing healthier products that are low in sugar, high in protein, low in sodium, fat-free or free from trans fats. Healthy snack bars are becoming increasingly popular. Innovations in sweet and savoury snacks have increased protein, reduced chemicals, and fewer additives and trans fats.

Soft Drinks and Water:

The bottled water market in Colombia offers natural, carbonated, flavored water, energizing water, and functional water (added vitamins and/or minerals). This niche has proven to be successful as a result of increasing demand for sophisticated products. This has been driven by the growing presence of value-added products in response to the increasingly sophisticated taste of consumers.

Near double-digit growth in soft drinks value sales is forecast through to 2021, on the back of a solid outlook for volume sales. Growth in the core carbonated drinks segment is expected to remain robust, averaging 11.0% a year, with cola drinks particularly popular in Colombia, as they are across Latin America. Carbonated drinks make up by far the largest segment of Colombia's soft drinks market, accounting for sales of COP4,520bn by 2021. There is also substantial scope for growth in bottled water and fruit juices (averaging 9.0% a year) over the period, as these segments benefit from rising incomes and growing health-consciousness.

Carbonates account for around two-thirds of soft drink consumption. The carbonates subsector is dominated by brands from The Coca-Cola Company and PepsiCo, which together account for around 80% of sales. Coca-Cola's bottled water brand Indega is also ranked second in terms of sales in the lucrative bottled water subsector. The bottled water sector is large and benefits from the fact that local tap water is often unsafe to drink. The two leading companies in the soft drinks sector are Postobón, a unit of Ardila Lulle Holding, and Coca-Cola FEMSA. Postobón operates about 20 production plants and is the leading soft drinks manufacturer in the country. It enjoys a strong market position across all categories. The company is a bottler for PepsiCo and produces its own range of carbonated soft drinks (Postbón, Colombiana, Hipinto and Bretaña), bottled water (Agua Cristal) and fruit drinks (Hit and Capitán Frutonita). Products are exported throughout South America, Central America and the Caribbean. Coca- Cola FEMSA, Coke's largest bottler in Latin America, has recently invested heavily in Colombia in order to compensate for declining carbonates sales in Mexico. In June 2015, Femsa inaugurated a USD250mn bottling plant with an annual capacity of 55mn unit cases, as part of its two-year acceleration plan. The company also has a strong presence in the bottled water segment, following the acquisition of Agua Brisa, the largest water brand in the country, from SABMiller- owned Bavaria in 2008.

Tea:

The market for (hot) tea is increasing in Colombia due to augmented health consciousness and marketing efforts from the country's tea distributors. This is expected to result in an increase in tea consumption over the coming years. Coffee, however, is the hot drink of choice in Colombia.

Mass Grocery Retail:

Colombia is one of the most attractive markets in Latin America for mass grocery retailers, with the sector benefitting from rising incomes, a large urban population and growing investment by regional and international chains. We highlight significant expansion opportunities in Colombia for discount formats, which are proving to be a hit with both low- and middle-income consumers. The hard discount format will continue to outperform the wider mass grocery retail (MGR) sector.

The expansion of private labels offers significant growth opportunities for the low-income consumer segment, but will slow value growth in the sector.

According to Colombian retail association Fenalco, the discount segment accounted for 6% of all grocery sales in 2018, and while still modest, this has risen from around 2% of the total in 2014. Structural Trends While sales growth in Colombia's MGR sector will remain relatively subdued in the near term, consumer purchasing power will recover

strongly over our forecast period as oil prices rise and inflation lowers. Stronger economic growth will translate in to increased investment, job creation and political stability which bodes well for Colombia's MGR sector. Our long-term positive outlook for Colombia's MGR sector is further boosted by significant multinational presence in the sector. International players in the sector, such as Chilean Cencosud, are focusing expansion on large urban areas, such as the capital, Bogotá, and the major cities of Cali and Medellín, as well as regions of the country with a low presence of MGR outlets, particularly the Atlantic coast cities of Barranquilla, Cartagena and Santa Marta. Colombia is the third most populous country in Latin America, with the total population set to reach over 50mn by 2021.

More than three-quarters of Colombians live in urban areas, including four major cities with over one million residents each: Bogota (8.1mn), Medellin (2.5mn), Cali (2.4mn) and Barranquilla (1.2mn). We expect urbanisation to continue growing at a rate of 1.1% annually over our forecast period to 2021, stimulating demand for formal grocery stores. An expanding middle class creates further opportunities for retailers, enabling consumers to move into the formal grocery market and trade up on price points. We forecast the number of households in Colombia earning USD10,000+ to expand at a CAGR of 4% through to 2021 reaching over 4.2mn, or 27%, of total households. In particular, the growing number of dual-income urban households will translate into strong demand for convenience and small express-style supermarkets. However, it is the discount segment that has seen the most activity in Colombia in recent years.

Discount chains have emerged rapidly, taking advantage of the slower economic growth and inflationary pressures in 2015/2016 by attracting customers with affordable private label product ranges. According to Colombian retail association Fenalco, the discount segment accounts for 6% of all grocery sales, and while still modest, this has risen from around 2% of the total in 2014. We hold a particularly positive outlook for discounter Surtimax, as it has a large geographic footprint in Colombia, has established a strong presence among low income consumers and often collaborates with traditional retailers. The company's latest strategy is to establish partnerships with small independent grocers, supplying products and marketing assistance to help them modernise their retail proposition.

The low price points of discounters means they provide the ideal platform to enable low-income consumers to take the first steps into the formal grocery sector. The supermarket segment will see moderate sales growth on the back of its private label offerings. However, value growth will be muted as private label goods retail price is 15% lower than branded goods. We expect Grupo Éxito, Cencosud and Olimpica to benefit from the popularity of private label goods. Wet markets and the informal retail segment will remain resilient over our forecast period, in line with cultural tradition, but also the fact that Colombian consumers are increasingly exhibiting preferences for fresh produce on the back of rising health awareness. As a result of deficient cold chain infrastructure in the formal retail sector and a general aversion of frozen produce, we expect wet markets to gain from this trend.

Product Registration:

The best approach to enter the Colombian market is through distributors. In order to import and distribute beverage products into Colombia, products must be registered with the National Institute for Food and Medicine Vigilance (Invima). It is necessary to obtain a Mandatory Sanitary Notification (Sanitary Registry). According to Decree 3075 of 1997, product registration is NOT required for:

- Animal-origin food products (chilled/frozen) that have not been subject to any transformation process.
- Natural food products that have not been subject to any transformation process, such as grains, fresh fruits and vegetables, etc.
- Products used as raw materials by industry or the foodservice operators for food preparation.

A transformed product is defined by the GOC as one subject to processing, which results in a significant change of its

internal structure.

The Colombian Ministry of Health, through Resolution 719 of 2015, set an official classification of food products for human consumption based on their risk to public health. Additionally, Resolution 2674 of 2013 establishes three types of product registrations based on the registered product risk to public health and sets the respective periods of validity:

1. Product registrations for high risk products are valid for 5 years;
2. Product permits for intermediate risk products are valid for 7 years;
3. Product notifications for low risk products are valid for 10 years.

It is highly recommended that the UK exporter apply for sanitary registration, otherwise the importer will control the product in Colombia for the duration of the 10 year registration.

The INVIMA registration of processed foods requires: (1) completion of the registration form (2) Certificate of Legal Representation (3) Certificate of Free Sale assuring that the products are authorized for human consumption in the United States. This certificate needs to be issued by a government (UK state, local or federal) public health authority. It should be noted that the GOC implemented The Hague Convention of October 5, 1961 with Law 455 of August 4, 1998 to facilitate import documentation. The above listed required documents must carry an "apostille" stamp. The "apostille" stamp is provided by different UK state authorities, including a notary or a State Secretary or Under Secretary. This procedure replaced the notarization requirement formerly undertaken by the Colombian Embassy/Consulates in the United States and by the Ministry of Foreign Affairs in Bogotá. A translator approved by the Ministry of Foreign Affairs must translate these documents into Spanish. The following three firms are examples of firms with expertise in product registration:

Labelling:

Colombia requires country-of-origin labelling for processed food products. However, frozen vegetables are not classified as a processed food and therefore no country-of-origin labelling is required. Also, fresh fruit and vegetables do not require country of origin labelling. Product labelling information on imported processed products must be present at the point of retail sale. The responsibility for this labelling information rests with the importer, not the retailer. Many Colombian importers arrange for this information to be placed on the product by the exporting firm before it enters Colombia. Labels on processed food products must indicate the specific name of the product, ingredients in order of predominance, name and address of manufacturer and importer, number of units, instructions for storage and usage (when required), and expiration date.