

Country Market Profile: Costa Rica

Euromonitor reports that Costa Rica's economy seriously contracted in 2020. The country has been hit hard by the Coronavirus (COVID-19) pandemic, owing to its highly open economy that has large exposures to trade, tourism, foreign direct investment, and global supply chains. Costa Rica's tourism exports have collapsed. Providing the outbreak remains contained, economic growth should begin to recover in quarter three. Real Gross Domestic Product (GDP) will bounce back in 2021, to growth of 2.3% and is expected to rise to 3% per year through 2027.

- The economy experienced a recession in 2020, falling by 5.5% in 2020 after an increase of 2.1% in 2019.
- The real value of private final consumption rose by 1.6% in 2019 and a fall of 4.1% was expected in 2020. Consumer spending has been hampered by the lockdown and social distancing measures in 2020, with expenditure on larger items being deferred.
- Costa Rica has solid investment prospects thanks mainly to its high levels of human capital. More than two-thirds of the inflows of Foreign Direct Investment (FDI) come from the U.S. The recent accession to the Organization for Economic Co-operation and Development (OECD) should improve the country's investment prospects.

Tourism is the country's largest industry, employing around 13% of the workforce and accounting for approximately 13.1% of GDP. It is also the country's largest earner of foreign exchange. Eco-tourism makes up nearly 40% of the industry's revenue in a typical year. An estimated 26% of Costa Rica consists of natural reserves and park systems that help to safeguard much of the world's biodiversity and the burgeoning eco-tourism industry. Approximately 40% of all visitors are from the U.S. The real value of inbound tourist and business travel receipts rose by 5.1% in 2019 but the performance will be limited by travel bans in 2020 and is forecast to decline by 44.8%.

Costa Rica has been experiencing a population boom which will gradually decelerate in the medium term. Between 2000 and 2030, total population will increase from 3.9 million to 5.5 million. Costa Rica's potential workforce (those between 15 and 64 years) will be growing slightly faster than total population as a result of the prolonged population boom. As growth of population slows, the percentage of elderly will rise. In 2020, 8.7% of all Costa Ricans were more than 65 years of age and the share will rise to 13.2% in 2030.

USDA's Office of Agricultural Affairs, OAA, in San Jose, hereinafter referred to as "Post" tells us that the United States is Costa Rica's largest trading partner and Costa Rica's largest foreign direct investor. Market prospects for U.S. consumer-oriented products such as beef, pork, poultry, dairy, wine and beer, snack foods, ready-to-eat meals, frozen food products, condiments, and pet food continue to increase with impressive growth. Costa Rican consumers trust and enjoy the excellent reputation of U.S. food, beverage and ingredients products, and demand has increased since Costa Rica's implementation of the Dominican Republic - Central America Free Trade Agreement (CAFTA-DR) in 2009.

Costa Rica has 42 trade agreements which cover about 90% of its exports. They include agreements with China, Singapore and the European Union (EU) as well as the US-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR). Costa Rica's free-trade agreement with China should be instrumental in helping to diversify export markets. The agreement is forecast to boost Chinese imports by 10% and exports to China by 16%. The tariffs on steel and aluminum announced by the U.S. will have a negative effect on Costa Rica's producers.

Proximity with the United States is a major advantage for shipping time and for U.S. exporters who wish to visit or communicate with potential customers. In 2020, U.S. agricultural exports to Costa Rica grew 1% and reached an all-time high US\$729.3 million. Additionally, U.S. food products and food companies continue to permeate the market in Costa Rica as the Costa Rican public is both receptive and accustomed to them. American food companies, restaurants, and supermarket chains, have been highly successful in Costa Rica and have a strong presence in the country.

With such a high degree of trade, especially with the U.S., Costa Rican importers are well accustomed to working with foreign partners in this market. Many business people in Costa Rica are bilingual, thus, are able to facilitate business negotiations with Americans. However, the business culture in Costa Rica can be less fast-paced than in the U.S. and those wishing to do business in here should be prepared for this cultural difference. U.S. exporters should also note that export procedures and processes in Costa Rica go through many levels of bureaucracy that can, at times, slow the importation process for food products.

In 2020, U.S. Consumer-oriented exports dropped 8% to US\$294.9 million. Costa Rica also imports an abundance of U.S. processed foods, totaling US\$241.1 million in 2020, a decline of 7%. Top U.S. processed food exports to Costa Rica in 2020 included:

- Food Preparations & Ingredients
- Dog & Cat Food
- Snack Foods
- Processed Vegetables & Pulses
- Prepared/Preserved Dairy Products
- Non-Alcoholic Beverages
- Prepared/Preserved Meats

Advantages & Challenges for U.S. Food Exporters

Advantages:

- The United States is geographically close to Costa Rica, which gives logistical advantages for marketing and trade.
- U.S. exporters can supply different volumes according to local demand and maintain reliable supply throughout the year.
- The United States now enjoys lower duties in almost every agricultural product as a result of CAFTA-DR. Tariffs on nearly all U.S. agricultural products will be phased out by 2020.

- U.S. food products are competitive in terms of price and quality.
- Costa Rica initiated a new on-line product registration system, which eventually will reduce registration times for new imported products.
- Retailers are interested in stocking more U.S. products, including private-labeled goods.

Challenges

- U.S. products from the Western United States and the upper Midwest face higher transportation costs relative to alternate suppliers from the rest of Central America.
- Low volume shipments of high-value products face additional costs since they must go through freight consolidators in Miami or other ports.
- Many U.S. exporters are unaware that an Apostille can serve to validate the Certificate of Free Sale.
- Costa Rica's often slow and cumbersome bureaucracy poses a challenge to doing business in the country.
- The Ministry of Health has specific requirements for the wording of Certificates of Free Sale. Failure to meet these requirements slows down product registration.
- Local producers are increasing in the sector.

Retail Sector:

Euromonitor reported that the retail sales value of packaged food was US\$3.4 billion in 2020. That represented a growth rate of 27.1% since 2016 and a dollar amount of US\$732 million. The forecast to 2025 is also promising. They predict an increase of 23.3% and a value of US\$794.8 million for a market size of US\$4.2 billion. High growth products in the forecast include:

- Ready Meals
- Processed Fruit & Vegetables
- Breakfast Cereals
- Savory Snacks
- Ice Cream & Frozen Desserts
- Soup

Post reports that the Costa Rican retail sector focused on e-commerce and convenient shopping solutions during 2020. Grocery retailers, mixed retailers and specialist's stores across the country invested in e-commerce platforms instead of opening new outlets. These players shifted their attention to improving their ecommerce sites and digital interfaces to support consumer demands for convenient shopping solutions. Home delivery services were the most significant business model to emerge over the last five years. These services have enjoyed a rising popularity among local buyers especially due to the COVID-19 crisis. These services offer consumers multiple payment options. Convenience stores and "mini-supers" (also known locally as "pulperias"), are small local stores that offer a limited selection of basic goods frequented by local consumers to

supplement their weekly purchases. Traditional outdoor markets, of which there are estimated to be around 13,000 in the country, remain popular for produce purchases.

The supermarket format has been gaining prominence in recent years and there are now more than 350 supermarkets in Costa Rica. As retail supermarkets expand their reach and consumer base, they present an excellent opportunity for U.S. exporters of food, beverages, and agricultural products. Market analysts note that 55% of food products sold in supermarkets are imported from abroad with 32% of these imports being from the United States. There are five major supermarket chains in Costa Rica: Wal-Mart (United States), Gessa (Costa Rica), AutoMercado (Costa Rica), Price Smart (United States), and Megasuper (Colombia). Wal-Mart (under the names of Pali and Maxi Pali) has 185 stores and owns more than 80% of all the supermarkets.

Due to increased competition among supermarket chains, retailers strive to offer high-quality products, diversify their product range, and offer in-store services. This has resulted in the growth of prepared foods sold in stores. This trend has coincided with a rise in demand for convenience foods, including healthy convenient food options, which are now popular with consumers. High-end and budget supermarkets and mini supers alike are looking to target this niche. Some food distributors can provide entry into both retail outlets and to the food service sector. Entry into smaller retailers is best accomplished through working with local distributors.

Best Product Prospects:

Post reports that demand for healthy and/or gourmet snack items are increasing in Costa Rica. Snacks with natural ingredients, dried fruits, whole wheat, and high-quality ingredients are gaining popularity with health conscious consumers. This trend is not limited to snack foods; the demand for niche food items, such as organic products or gluten-free goods, is also expanding, which provides opportunities for U.S. exporters.

Food Service Sector:

Post reports that according to the Chamber of Restaurants, the Costa Rican food service industry is made up of an estimated 4,325 food service businesses (consisting of hotel restaurants, restaurant chains and franchises). There are many chain restaurants in the San Jose area and many upscale hotels on the Pacific Coast which cater to tourists.

Costa Rica was forced to temporarily close its borders in March of 2020. The Costa Rica Tourism Board (ICT) report that despite Costa Rica opening to visitors from all U.S. states on November 1 2020, the pandemic and entry requirements will limit passenger volume to 35%-40% of 2019's volume. Of the 3,139,000 international visitors to Costa Rica in 2019, more than half (1,666,571) came from North America. The Costa Rican travel industry has been slowly reopening in November 2020. Travel representatives report that flights between the United States and Costa Rica are operating at 50% capacity. Hotels and resorts in Costa Rica offer a wide range of accommodations. The government is developing a comprehensive travel and tourism plan with a special emphasis on cultural and eco-tourism.

During COVID-19 the food and beverage sector has been highly impacted by restrictions and social distancing regulations. Restaurants are innovating to gain the trust of consumers by the use of sanitary protocols such as scanning the QR codes to view the menu and reducing physical contact with the waiters.

In general, most of the finest restaurants are located in the San Jose metropolitan area. In recent years, neighborhoods east of San Jose have become attractive places for gourmet cooking establishments such as in old neighborhoods of Amon, Otoya, Aranjuez, Dent, Los Yoses and Escalante. In the Pacific Northwest tourist hub of Guanacaste, restaurants offer various gastronomic options. Costa Rican cuisine includes lightly seasoned fresh fish, chicken or beef, grilled plantains and a combination of black beans and rice called Gallo Pinto. The growth in restaurant operations in Costa Rica has been slow but there are still opportunities for U.S. exporters to supply the many international franchises in the San Jose area.

Competition is intense in the fast-food sector. In the first quarter of 2020, a franchise such as Tony Roma's, Hard Rock Café, Hooters and Applebee's closed. However, the Olive Garden opened its first two restaurants in the country and plans to open several others.

Distribution channels do not vary significantly for food/agricultural products. Private firms import consumer foods, while several wholesalers are dedicated to the food import business. The food product distribution chain to supermarkets and to medium and small stores is well developed. Some of the larger supermarket chains import directly. Costa Rican law provides for two main forms of representation – a representative and a distributor. It is possible for one person to be both a representative and a distributor simultaneously. The larger hotels, resorts and restaurants purchase their food and beverage needs through local importers, directly from U.S. suppliers. Some hotels have even positioned offices in south Florida to facilitate shipment Costa Rica ports.

Best Product Prospects:

Post advises that the list of popular imports from the HRI sector includes: french fries; snacks, frozen or ready-to eat food, dairy (cheese, yogurt, and butter), vegetable oil, frozen vegetables, dressings and marinades, bakery ingredients, beef, poultry, pork and rice.

Food Processing Sector:

According to Euromonitor, the demand for processed products increased during the first half of 2020 as buyers began to stockpile food with long shelf lives. As the pandemic lockdown continued, demand for these products began to drop, as buyers started to prioritize the purchase of fresh food. Overall, in 2020, U.S. agricultural exports remained roughly the same as in 2019.

Local processors are trending more towards natural additives, preservatives, thickeners, and sweeteners. In addition, consumers are increasingly more health consciousness, influencing the development of healthier choices for packaged/prepared foods. U.S.

producers of herbs, spices, superfoods, condiments, extracts, Omega-3 fatty acids, fibers, and antioxidant compounds can find an opportunity in this market and food processors are looking to add these ingredients to their recipes.

Corn, soybeans, and wheat are also in high demand by Costa Rica's animal feed manufacturers and integrators. Some larger food processors already import directly from the United States and many small processors rely on local distributors to import their ingredients. Most imported food ingredients are used for the manufacturing of confectionary and bakery products, sauces, dressings and condiments, sweet and salty premixes, dairy/by-products, and beverages.

The United States remains the main supplier of processing ingredients to Costa Rica. U.S. products have a good reputation in the Costa Rican market for quality and stable supply. Ingredients imported from the Central America, Netherlands, and South America is extremely competitive due to free trade agreement between Central America, South America, and Europe. Large multinational food ingredient companies have representation in Mexico and other CAFTA-DR countries.

Primary imported food ingredients are modified starches, thickeners, stabilizers, sweeteners, cocoa and fibers. While Costa Rica domestically produces dairy, poultry, table eggs, beef, pork, rice, and beans, it is not self-sufficient in the production of most food products, and thus relies on imports. Domestically produced products have certain competitive advantages, such as better understanding of the local industry and its needs, but small players face issues with quality consistency.

Best Product Prospects:

The best opportunities for suppliers of food ingredients are among those food and beverage manufacturing companies that offer high-value and new products to the consumer. Niches and opportunities continue to appear as the processing sector diversifies and consumer demand increases for healthy and high-quality ingredients. Post reports that the U.S. food ingredient exports with the best potential include:

- Corn
- Sugar, Sweeteners, and Beverage Bases
- Soybean oil
- Tree Nuts
- Distillers Grains
- Chocolate & Cocoa Products
- Condiments & Sauces