

Country Market Profile: Costa Rica

Euromonitor reports that in 2021, Costa Rica's economy expanded in real terms, driven by increasing domestic consumption, public investment and external demand. However, the persisting pandemic-related risks, supply constraints and global inflationary pressures raise uncertainty and weigh on the country's economic outlook.

- Following real growth of 4.7% in 2021, Costa Rica's economy is expected to expand at an average annual real rate of 3.3% over the medium term.
- The unemployment rate is expected to fall by 3.4% reaching 13% in 2022 - above the pre-pandemic level and higher than the average of 11.5% in Latin America in 2022.
- Inflation in Costa Rica is forecast to increase to 2.5% in 2022 from 1.7% in 2021.
- While Costa Rica's merchandise exports increased by 24.9% and imports rose by 36.3% during 2021, the country remained a net importer of goods.
- Gross Fixed Capital Formation (GFCF) in Costa Rica rose in real terms over 2021, as a result of economic recovery, improving business confidence, fiscal stimulus measures and favorable financing conditions.
- The public debt-to-GDP ratio in Costa Rica rose to 67.8% in 2021, compared to the regional average of 69.8%.

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.

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. In 2022 it was 5.2 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 2022, 8.7% of all Costa Ricans were more than 65 years of age and the share will rise to 13.2% in 2030 (CIA World Factbook Est.).

USDA's Office of Agricultural Affairs, OAA, in San Jose, tells us that with a stable democracy, predictable business climate, and economic growth fueled by a resurgent tourism industry, Costa Rica presents excellent export opportunities for U.S. food and beverage exporters in 2022. After record-setting exports in 2020, shipments of U.S. agricultural and related products to Costa Rica were 35% higher in 2021, with nearly all product categories showing double-digit growth.

The U.S. 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%.

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 2021, U.S. agricultural exports to Costa Rica grew 35% and reached an all-time high US\$980.8 million, a record high. 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 2021, U.S. Consumer-oriented exports increased 36% to US\$399.3 million, another record high. Costa Rica also imports an abundance of U.S. processed foods, totaling US\$320.8 million in 2021, an increase of 33% and yet another record high level. Top U.S. processed food exports to Costa Rica in 2021 included:

- Dog & Cat Food
- Food Preparations & Ingredients
- Processed Vegetables & Pulses
- Snack Foods
- Prepared/Preserved Dairy Products
- Fats & Oils
- Prepared/Preserved Meats

Market Opportunities and Key Issues

Market Opportunities

- 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.
- The food processing industry requires a wide range of ingredients as well as high-value consumer-oriented and processed food.
- 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.
- A strong tourism sector (domestic and international) supports strong food service opportunities for U.S. exporters.
- Costa Ricans are beginning to consume higher quantities of frozen and prepared foods.

Key Issues

- 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.
- Increasing competition in the food processing sector from Central America, South America, and China.
- 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.
- Costa Rica requires facility registration for dairy, seafood, lamb, and egg products. The plant approval process generally takes several months.

Retail Sector:

Euromonitor reported that the retail sales value of packaged food will reach US\$3.5 billion in 2022. That represented a growth rate of 23.3% since 2018 and a dollar amount of US\$675 million. The forecast to 2026 is also promising. They predict an increase of 19.8% and a value of US\$706.2 million for a market size of US\$4.2 billion from 2022. High growth products in the forecast include:

- Savory Snacks
- Ice Cream & Frozen Desserts
- Ready Meals
- Edible Oils
- Soup
- Sweet Spreads
- Confectionery

FAS San Jose reports that 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.

Competition continues to drive retailers to look for new ways to add value to their brands and attract more consumers. Large supermarket chains such as Automercado, PriceSmart, Sareto, and Mas por Menos have sought to use their economy-of-scale to implement competitive pricing strategies and offer discounts. The sector's marketing campaigns include discounts, virtual cooking classes, storytelling with Instagram, virtual tastings, virtual contests, live interviews in social media, promotions and giveaways are useful tools to support imports and to introduce new products

Retailers have expanded despite the pandemic. Walmart inaugurated four new stores located in Cartago, Bagaces and Goicoechea. With these new stores, Walmart has a total of 176 stores in the country.

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.

AM/PM, Fresh Market and Vindi stores, like 7-Eleven convenience stores, are increasing their presence. Costa Ricans are increasingly drawn to these stores, which are slowly displacing the traditional pulperias that can still be found in working-class suburban neighborhoods and rural communities.

There are more than 20,000 pulperias and mini-marts in Costa Rica, but many are being displaced by the growth of supermarkets--particularly by Pali and Mas x Menos (owned by Wal-Mart) --and new convenience stores. Older generation Costa Ricans still remember the joys of being sent to the pulperia on an errand and walking out with free candy courtesy of the shopkeeper. However, pulperias are essential for low-income families as they can buy groceries on credit. The retail sector in Costa Rica is rapidly expanding into multiple markets in the region, and major retailers offer a wider variety of products with competitive pricing, and convenience stores remain popular. Importers may also act as wholesalers and have national distribution channels.

Best Product Prospects:

FAS San Jose reports that there is demand for poultry meat, dog and cat food, processed vegetables, dairy products, food preparations, bakery goods, cereals and pasta, pork and pork products, condiment's and sauces, beef and products and tree nuts from the U.S. 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 Highlights:

FAS San Jose reports that demand in Costa Rica's hotel, restaurant institutional (HRI) sector has declined to historic low levels during the pandemic. National health measures continue to prohibit gatherings of more than 150 people and limit hotel occupancy to 75%. According to the Hotel & Restaurant Associations and Chambers of Costa Rica, recovery in the sector will be prolonged after pandemic restrictions are lifted.

Despite COVID-19 related challenges, demographic trends support U.S. agricultural export opportunities in the Costa Rican HRI sector. A steadily rising standard of living, a young population, the growth of modern HRI outlets, and expansion of Costa Rican consumers' collective palette are expected to sustain demand for imported food products in the years ahead. New technologies and mobile applications will also accelerate and reinforce these consumption trends.

Over the last decade, Costa Rica strengthened its position as a key tourist destination. In 2019, tourism was a leading driver of economic growth, with 3 million in-bound tourists (1.3 million from the United States) constituting more than 8% of Costa Rica's GDP. By contrast, only 435,000 American tourists arrived in 2020. Costa Rican Tourism Board (ICT) data showed July 2021 was the best single month since the pandemic began, with nearly 150,000 internationals (almost 110,000 originating from the United States).

The availability of international flights will be essential to the sector's recovery. With the expectation of a rebounding economy and increased travel in 2022, the outlook for imported foods and beverages post-COVID-19 looks positive. Despite local price sensitivities, the hotel sector has long invested in high-value, premium food, and beverage products to enhance guest experience, especially in four- and five-star hotels and their high-end specialty restaurants.

Costa Rica's major hotels, particularly upscale brands, include high-end restaurants and their food service options aim to provide guests with onsite dining selections, especially in more secluded beach and eco-hotels, where other local dining options may not be available or easy to get to without a car. Rising discretionary income and increasing inbound and domestic tourism have boosted revenues in this sector. The Costa Rican Tourism Board provides a comprehensive list of hotels that can be sorted by location, price, and star-rating.

According to the Chamber of Restaurants, before COVID-19 the Costa Rican food service industry was made up of an estimated 4,325 food service businesses (consisting of hotel restaurants, restaurant chains and franchises). With estimated losses to the tourism sector of \$1.3 billion through May 2021, economically significant number businesses have closed temporarily or permanently. Bars and pubs recorded the largest decline in sales, followed by restaurants, caterers, and fast-food restaurants.

Online ordering and delivery of meals has helped many outlets avoid closing down permanently, but this format has not been able to sustain anything close to pre-COVID sales. Costa Rica's economic export development agency expected e-commerce sales in Costa Rica to grow by 70% in 2021. Following government-mandated COVID-19

measures, most restaurants in Costa Rica have limited their services, reducing hours and occupancy levels. In some cities around San José, these requirements limited operating hours and restricted service to takeaway or online ordering for delivery. Most restaurants located in shopping malls, normally a major social and business lunch destination for Costa Ricans in the area, have been forced to close. This has also negatively impacted many quick-service restaurant chains that typically fill shopping areas.

Quick service restaurants, high-end restaurants, as well as larger hotels and resorts purchase their food and beverages through local importers. There are well-developed distribution chains for smaller restaurants and coffee shops that source inputs from wholesale and retail outlets. Some hotels have even positioned offices in south Florida to facilitate shipment Costa Rica ports.

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:

FAS San Jose reports that specialty ingredients and products are regularly imported from the United States. These products include wine, beer, distilled spirits, dairy products, beef, pork, fruits, frozen potato products, sauces, condiments, sauces, drink mixes, and ingredients for foreign cuisines such as Italian, Thai, Japanese, Chinese, Peruvian, and Mexican.

Food Processing Sector:

FAS San Jose reports that though relatively small, the Costa Rican food processing sector relies on U.S. exporters to maintain critical supply chains. Proximity, reliability, and familiarity help make the United States the preferred supplier for a wide range of food processing ingredients, including wheat, corn, and animal proteins. U.S. agricultural and related products exports to Costa Rica climbed to a record high of nearly US\$1 billion in 2021, despite global logistics challenges and associated increased shipping costs.

Compared to neighbors Guatemala and Colombia, Costa Rica has a relatively small food processing sector, but boasts several homegrown companies with global reach. 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.

According to Euromonitor, the demand for healthier food options is leading processors to expand offerings of healthier packaged / prepared foods, and growth in this segment is driving demand for organic and sustainable ingredients, including spices as well as

natural additives, preservatives, thickeners, and sweeteners. U.S. producers of herbs, spices, superfoods, condiments, extracts, Omega-3 fatty acids, sources of fiber, and antioxidant compounds can find opportunities in this market as food processors are looking to add these ingredients to their recipes.

Costa Rica's top food processors include: Cargill (poultry, processed meat, eggs, pork and animal feed); Del Monte (whole fruits, juices and canned fruits); Bimbo (bakery ingredients); Nestlé (dairy, confectionary); Demasa (corn and raw material for snacks); Sigma Alimentos (processed meats, dairy, pre-cooked meals, ready to drink coffees, canned and other non-perishable foods); Chiquita, Dole and Del Monte (fruits, purees and concentrates); Unilever (processed foods); Riviana (flour, cereals, dried fruits, tree nuts among other bakery ingredients); INOLASA (Central America's largest soybean processor and user of USSEC's Sustainable U.S. Soy trademark).

Costa Rican food processors often source raw, semi-processed and processed ingredients from several different supply chains, including importers/distributors, vertically integrated supply chains, and local sources. Multinational food processors operating in Costa Rica often maintain a global procurement office as well as a local procurement office to identify and manage supplies for Costa Rican operations. These global brands leverage vendors along their global supply chain to provide them their ingredients. Small- and medium-sized Costa Rican food processors generally source ingredients from a network of Costa Rican brokers and distributors. If production / input volumes are high enough, some processors import directly from U.S. exporters.

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:

FAS San Jose expects the Costa Rican food processing sector to continue to grow, providing opportunities for U.S. ingredients to satisfy the demand of local food and beverage manufacturers. Products with significant sales potential include pulses, soybean meal and oil, essential oils, dairy (for further processing), dextrin's/peptones/proteins, processed fruit, processed vegetables, pet food ingredients, and condiments and sauces.