

Country Profile: Costa Rica

Market Overview

Euromonitor reports that the economy in Costa Rica expanded in real terms in 2022, driven by increasing private consumption, capital investment, and external demand. However, the global economic slowdown, elevated inflationary pressures, and tightening financial conditions are set to raise uncertainty and weigh on the country's economic outlook.

- Following real growth of 4.5% in 2022, Costa Rica's economy is expected to expand at an average annual real gross domestic product (GDP) rate of 5.1% in 2023 and 3.6% in 2024.
- Inflation in Costa Rica is forecast to slow down to 4.1% in 2023 from 8.3% in 2022.
- While Costa Rica's merchandise exports increased by 13.7% and imports rose by 16.0% during 2022, the country remained a net importer of goods.
- Gross fixed capital formation (GFCF) continued to increase over 2022, accounting for 17.9% of GDP.
- The public debt-to-GDP ratio in Costa Rica fell to 66.8% in 2022, standing below the regional average of 67.1%.

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 that will gradually decelerate in the medium term. Between 2000 and 2030, the total population is expected to increase from 3.9 million to 5.5 million. In 2023 it was 5.2 million (CIA World Factbook Est.). Costa Rica's potential workforce (those between 15 and 64 years) will grow slightly faster than total population due to the prolonged population boom. As the growth of population slows, the percentage of elderly will rise. In 2023, 9.9% of all Costa Ricans were more than 65 years old, and the share will rise to 13.2% in 2030.

USDA's Office of Agricultural Affairs (OAA) in San José, hereinafter referred to as FAS Post San José, 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 2024. The U.S. is Costa Rica's largest trading partner and Costa Rica's largest foreign direct investor. 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 that cover about 90% of its exports. They include agreements with China, Singapore, and the European Union (EU), as well as the U.S.-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. 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 businesspeople in Costa Rica are bilingual, thus, they 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 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.

Costa Rica imports an abundance of U.S. processed foods, totaling US\$343.1 million in 2022, an increase of 5% and yet another record high level. For 2023, U.S. exports of processed foods to Costa Rica were up 3% to US\$354.5 million.

Top U.S. processed food exports to Costa Rica in 2023 included:

- Food Preparations & Ingredients – down 5%.
- Dog & Cat Food - down 19%.
- Snack Foods – up 11%.
- Prepared/Preserved Dairy Products – up 24%.
- Processed Vegetables & Pulses – down 3%.
- Prepared/Preserved Meats – up 20%.
- Condiments, Sauces Jams and Jellies – up 25%.

Market Opportunities and Key Issues for U.S. Processed Food Exporters in Costa Rica

Market Opportunities:

- U.S. geographic proximity provides logistical advantages for marketing and trade.
- U.S. exporters can supply different volumes according to local demand and maintain reliable supply throughout the year.
- Lower duties for almost all agricultural products under CAFTA-DR. Tariffs on nearly all U.S. agricultural products were phased out in 2020.

- The food processing industry requires a wide range of ingredients as well as high-value consumer-oriented and processed foods.
- U.S. food products are competitive in terms of price and quality.
- Costa Rica initiated a new online product registration system, which has reduced registration times for new imported products.
- A tourism sector (domestic and international) supports strong foodservice opportunities for U.S. exporters.
- Costa Ricans are beginning to consume higher quantities of frozen and prepared foods.

Key Issues:

- Increasing competition in the food processing sector from Central America, South America, and China.
- Costa Rican rice distributors and consumers prefer South American rice attributes, and 2022 tariff cuts increased South American rice availability.
- 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.
- Relatively high prices compared to regional tourism destinations and domestic transportation challenges.
- Chinese black beans compete with U.S. beans on price because of a Chinese tariff-rate quota (TRQ).
- Regional suppliers of prepared foods are price competitive, attuned to local flavor profiles.

Retail Sector:

Euromonitor reported that the retail sales value of packaged food will reach US\$4.3 billion in 2023. That represented a growth rate of 41.9% since 2019 and a dollar amount of nearly US\$1.3 billion. The forecast through 2028 is also promising. Euromonitor predicts an increase of 24.8% and a value of US\$1.1 billion for a market size of US\$5.8 billion from 2024. High growth products in the forecast include:

- Pet Food
- Ready Meals
- Processed Fruit & Vegetables
- Meals & Soup
- Soup
- Savory Snacks
- Edible Oils
- Breakfast Cereals

FAS Post San José reports that Costa Rica’s retail sector consists of supermarkets, hypermarkets, mini-marts, warehouse stores and approximately 22,000 mom-and-pop shops. Consumers are price sensitive, and the popularity of bulk formats continues to grow. Chinese grocery stores are increasing in number and in appeal to price-conscious

consumers, especially outside the San José metropolitan area. E-commerce sales growth reflects deeper consumer trust in online channels.

The Costa Rican retail sector continues to grow with an increasing number of modern supermarkets stocking a growing range of imported products. Many consumers are turning to private label products in response to economic and pricing pressures, while more affluent consumers have shown a steady interest in premium imported products. U.S. exports of consumer-oriented food and beverage products to Costa Rica reached a record high of \$420 million in calendar year 2022.

The year 2022 was a challenging for the Costa Rican retail sector as significant delays at ports of entry increased costs and extended typical shipping timelines from weeks to months. A massive April 2022 cyberattack incapacitated Costa Rica's electronic customs and taxation platforms for months, exacerbating supply chain challenges and caused a variety of imported products to temporarily disappear from retail shelves. Consumers continued to adapt product and platform preferences to the new post-COVID-19 "normal," as the pandemic finally began to recede into the background.

Annualized rates of inflation were above 6% through much of 2022 but have cooled considerably in 2023, due in part to the relative strength of the Costa Rica colón, which appreciated by nearly 25% against the U.S. dollar since the second quarter of 2022. Along with relatively high levels of unemployment, inflationary price pressures drove increased demand for lower-priced and private label products.

Retailers continued to rely on imported foods to fill their shelves and to help introduce new trends to Costa Rican consumers. U.S. Census Bureau trade data show U.S. consumer-oriented product exports climbing 7% by value in 2022 to a record high of US\$420 million. More than 50% of the products in major retail outlets are estimated to be imported, with 32% of those imports coming from the United States. Other leading exporters to Costa Rica include the Europe Union, Guatemala, El Salvador, Honduras, and Nicaragua.

The six major supermarket retailers in Costa Rica are: Walmart (U.S.), Gessa (Costa Rica), AutoMercado (Costa Rica), PriceSmart (U.S.), Pequeño Mundo (Costa Rica) and Megasuper (Colombia). The Costa Rican retail sector can appear more diverse than it is as U.S. retailer Walmart operates the Mas x Menos, Pali, Maxi Pali, and Walmart banners, which comprise nearly a third of all large format retail outlets. Small format stores, including pulperias and mini supers, remain the most numerous types of retail shopping outlets throughout the country, offering individual servings and smaller format products that cater to lower-income households.

Convenience stores AM/PM, Fresh Market, and Vindi are growing their presence. Costa Ricans are increasingly drawn to these stores, which are slowly displacing traditional pulperias that can still be found in lower-income neighborhoods and rural communities. There are more than 10,000 pulperias and mini-supers in Costa Rica, and these stores remain essential for lower-income households, as these outlets typically offer informal

credit terms to local customers. These traditional retailers are favored for daily shopping, especially by older consumers. Due to size restrictions, these stores work with importers to buy smaller volumes and often break up standard format packages into smaller quantities/volumes.

Rising inflation, erosion of the colon's value against the U.S. dollar, continuing ripple effects of global supply chain challenges, and the impact of the 2022 cyberattack on Costa Rican government systems have all contributed to increased price consciousness among consumers. Already popular private label products are expected to post continued strong sales in 2023. Some of the most common private label products are canned tuna, rice, flour, condensed milk, condiments, canned vegetables, and fruits.

Costa Rica imports a large variety of consumer-oriented products to support consumers' and processors' demands. U.S. exporters will face strong local competition in many areas, as well as increasing competition from other countries. Costa Rican producers are particularly competitive in meats (fresh and processed), dairy products, coffee, spices, condiments/sauces, vegetable oils, candies and chocolates, pasta, snacks, bakery and pastry products, soups, beverages (beer, bottled water, fruit juices), and, of course, tropical vegetables and fruits. Costa Rican imports of consumer-oriented food and agricultural products reached US\$420 million in 2022. Major suppliers include the United States, Mexico, and the European Union.

Best Product Prospects:

FAS Post San José reports that there are strong market prospects for U.S. value added products such as beef, pork, poultry, cheese, yogurt, ice cream, processed fruits, tree nuts, confectionary, frozen products, food preparations, wine, beer, snack foods, condiments, natural/organic food products, pet food and bakery goods/cereals/pasta. While these categories present excellent opportunities for U.S. exporters, FAS Post San José anticipates economic and pricing headwinds in 2024 could bolster prospects for private label and "value" products.

Demand for healthy and/or gourmet snack items has been increasing in Costa Rica. Snacks with natural ingredients, dried fruits, whole wheat, and high-quality ingredients have gained in popularity with health-conscious consumers. There is also growing demand for niche food items, such as organic, gluten-free, and ketogenic products, which provide new opportunities for U.S. exporters.

Foodservice Sector Highlights:

FAS Post San José reports that a steadily rising standard of living, a robust tourism sector, an expanding range of modern hotel, restaurant and institutional (HRI) outlets, and the increasing diversification of Costa Rican consumers' collective palette are expected to sustain demand for imported food products in the years ahead. However, despite the continued growth in sales, FAS Post San José views the 2023 foodservice outlook with caution as broader structural factors – including persistently high unemployment, persistently higher prices, rising costs of production and freight logistics,

and higher taxes to service Costa Rica's latest support package from the International Monetary Fund (IMF) – could inhibit economic growth.

FAS Post San José does not expect the expansion of Costa Rica's 13% value-added tax (VAT) to include tourism services (including tours, transportation, etc.) on July 1, 2023, will harm Costa Rica's regional competitiveness, as the recovery of inbound travelers to pre-pandemic levels appears possible in 2023, with total inbound visitors through August 2023 surpassing 1.9 million.

The foodservice sector is divided into commercial and non-commercial subsectors. The commercial foodservice subsector includes quick-service restaurants, full-service restaurants, caterers, and drinking establishments, representing 70% of total foodservice sales. The non-commercial subsector, mainly driven by the tourism industry, includes hotels and motels, health care facilities, universities, and schools, as well as grocery retailers offering hot prepared foods for dine-in or to-go.

Anticipating continued recovery in the tourism sector and increasing competition from new properties, older, established hotels are renovating and improving their offerings. Costa Rica's major hotels, particularly upscale brands, include high-end restaurants and their foodservice 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 hotel revenues. The Costa Rican Tourism Board provides a comprehensive list of hotels that can be sorted by location, price, and star-rating. According to the Costa Rican Tourism Board, six new hotels were scheduled to open between 2022 and 2023, representing an investment of more than US\$80 million and adding 578 additional rooms.

FAS Post San José estimates there are approximately 16,000 restaurants in Costa Rica, still below the pre-pandemic estimate of 19,000 establishments. While there have been new restaurant openings and reopening's during 2023, up-to-date statistics on the total number of restaurants were not available at the writing of this report. The Costa Rican Restaurants Association (CACORE) estimates restaurant sales could grow by 20% in 2024, due in part to local price inflation (about 10% in 2023), the stronger Costa Rican colon (which has made imported products less dear), and additional restaurant locations.

A recent CACORE survey indicated that only 42% of restaurateurs have an optimistic outlook for the sector, as new restaurants appear to be saturating local demand and as staff turnover continues to drag on individual outlet efficiency. FAS Post San José expects continued higher restaurant prices to result in fewer visits to foodservice establishments by local consumers as well as some trading down the value chain to more economical dining options.

As a result of Costa Rica's wide range of free trade agreements, U.S. food and beverage products face strong competition from third country suppliers, including Mexico,

Nicaragua, Canada, Guatemala, Brazil, Chile, Spain, and Honduras. Strong U.S. competitors in snacks and processed foods, include Guatemala, Mexico, and Colombia. U.S. wines compete with Chilean, Spanish, and Argentine offerings, and U.S. beef contends with products from Nicaragua. Strong demand for pork has benefitted U.S. exporters, but price competitive offers from Chile and Canadian suppliers continue to limit U.S. export growth.

Best Product Prospects:

FAS Post San José reports that specialty ingredients and products are regularly imported from the U.S. 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 Post San José 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 U.S. 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 2022, 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 U.S. 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.

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.

Most Costa Rican food processors import ingredients directly from exporters. Processors have their own distribution channels to wholesalers, distributors, and retailers, as well as hotels, restaurants, and institutional buyers nationwide. Distribution channels for local and imported products can differ and change frequently.

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 Central America, the Netherlands, and South America are extremely competitive due to free trade agreements 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 Post San José 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.