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Costa Rica

Food Processing Ingredients

2018 Costa Rica Food Processing Ingredients Report

Approved By:
Anita Katial, Agricultural Counselor
Prepared By:
Laura Calzada, Marketing Specialist

Report Highlights:
Costa Rica's food processing sector continues to grow, in response to the demand for ready-to-eat meals and convenience foods. Millennial consumers are considered the greatest driving force of this sector, as they have more expendable income. Costa Rica's retail and food service sector is under modernization, as it tries to catch up with international trends. Thus, there are more private sector efforts to develop Costa Rica's food and beverage manufacturing sector. Local processors are trending 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 in particular 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 for animal feed manufactures.

Post:

San Jose

Executive Summary:

SECTION I. MARKET SUMMARY

Costa Rica's food processors are increasing their production capacity and food quality as they aim to enter penetrate the U.S. market. Such desires open a window of opportunity for US exporters of ingredients such as herbs, extracts, condiments, spices and of course new trend ingredients such as gluten free flour, fibers, organic seeds and acids, fibers, and antioxidant compounds used in food and beverage processing in Costa Rica.

Costa Rican consumption of organic and natural products has been on the rise and ingredients for beverages, juices, teas and confectionaries are increasing in the market. These sectors are now seeing expansion and exploring suppliers that provide to consumer nutrition, health and wellness. The use of spices has increased following a gourmet trend in the preparation of homemade meals and desserts. Restaurants and food institutions are also expanding their use of spices in cooking that is traditionally simple in its use of spices in recipes. Local processors are trending 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 in particular 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 for animal feed manufactures. 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 is used for the manufacturing of confectionary and bakery products, sauces, dressings and condiments, sweet and salty premixes, dairy/by-products and beverages.

Some larger processors already import directly from the United States and many of the small processors rely on local distributors to import their ingredients. Most imported food ingredients is 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 in Costa Rican 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, dry meats, dairy pre-cooked meals, ready to drink coffees and other dry products for their foodservice branch); Chiquita, Dole and Del Monte (fruits, purees and concentrates); Unilever (processed foods); Riviana (flour, cereals, dried fruits, tree nuts among other bakery ingredients).

SECTION II – ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

There are various ways to introduce food ingredients into the local market depending on the profile of the company and the food ingredient involved. The following are a few recommendations to consider:

Larger companies usually have a new products division that interacts actively with their Marketing Division, especially if the ingredient is a novelty product. Other smaller companies receive proposals of new ingredients through their Purchasing Division.

Besides presenting the product to the industry, it can be simultaneously promoted in specialized magazines and social media (focused on food, nutrition and health), trade and technical events (seminars, conferences, workshops), and/or trade shows and segment festivals. Food processing professionals with a high technical expertise typically attend these events.

The advantage that food processors find in buying their raw materials directly from local suppliers or distributors is better technical assistance provided and more options for financing. Local distributors/importers are willing to establish long-lasting business relationships with U.S. suppliers that can offer good credit terms, customer service and marketing support.

U.S. suppliers interested in the Costa Rican market must comply with local regulations for imported products to avoid delays.
For information on products, registration requirements refer to the Food and Agricultural Import Regulations and Standards (FAIRS) Country Gain Report for Costa Rica. https://cr.usembassy.gov/wp-content/uploads/sites/248/Food-and-Agricultural-Import-Regulations-and-Standards-Certification_San-Jose_Costa-Rica_12-20-2017.pdf

With a high-degree of trade, especially with the United States, Costa Rican importers are accustomed to international business dealings. Many business people in Costa Rica are bilingual and have some level of English, thus facilitating business negotiations. However, the business culture in Costa Rica can be slower-paced than in the United States and those wishing to do business in the country should be prepared for this difference. U.S. exporters should also be prepared to be patient with export procedures and processes, as Costa Rica has many levels of bureaucracy that can at times slow the importation of food products.

B. Market Structure

Distribution Channels for Processed Food Products in Costa Rica

Most of the food processors in Costa Rica import all of their ingredients directly; a few, however, rely on importers and distributors. They also have their own distribution channels to wholesalers, distributors and retailers, as well as to hotel, restaurant and institutional industries nationwide.

Distribution channels can be different between local and imported products and are constantly changing. The purchase of raw materials for food processing represents a significant portion of the cost of the final price of products.

In Costa Rica, there are many small companies with low sales volumes and if they try to import directly would face high costs, as the conditions and procedures for importing can be difficult. Therefore, they typically use a local wholesaler who can take care of necessary import procedures. For large food processing companies, they usually have their own distribution chain.

C. Sector Trends

Costa Rica's economy is dominated by tourism, agriculture, technology, and services. Costa Rica's agricultural sector represented 1.8 percent of its GDP and is forecast to increase to 2.6 percent in 2017 and 3.2 percent in 2018 as demand for agricultural export products such as banana and pineapples and is expected to increase.

The United States remains Costa Rica's largest trading partner and Costa Rica's largest foreign direct investor.

Market prospects for U.S. consumer-oriented products include beef, pork, poultry, dairy, wine and beer, snack foods, ready-to-eat meals, frozen food products, condiments, and pet food.

In dairy production, according to the Costa Rican Foreign Trade Promotion Office (Procomer), there is a growing trend the consumption of UHT milk. Moreover, domestic production of lactose-free yogurt is being marketed under different brands. In the segment of flavored beverages, some companies are manufacturing drinks made with natural medicine plants, vegetables, spices, cereals, organic seeds and fiber to add that provide to the consumer additional wellness effects. The supply of lactose-free cheeses is much more limited.

Local companies that are expanding their production as a result of the free trade agreement and declining duties, which stimulates production for exports.

At present, Costa Rica's population follows the trend towards more ready-to-eat foods, so demand for this type of product has increased domestically. The local processing industry is taking advantage of this niche market and products like refrigerated tacos, tortillas, instant soups and noodles, and desserts, among others, have good market potential in Costa Rica.

Healthy, natural and organic foods also have a niche in the market. There is strong local development of these products in Costa Rica since these imported products can be high for mid to lower incomes.

Gluten-free and sugar-free products such as chia seeds, chocolate, blueberries and sunflower seeds, sesame to made products without gluten, lactose, soy and dairy-free, ingredients that support consumers with various allergies and digestive intolerance.

There is expanded demand for functional foods, such as milk containing Omega 3 and added calcium.

Craft beer production and consumption is on the rise. Thus, there is greater demand for beer ingredients, such as grains and raw material. The country is preparing to set us a local brand suitable for export to the United States and is seeking new ingredients and training.

The demand for sport nutrition food and beverage products is increasing in Costa Rica. Also a growth population of fit-conscious millennials is driving domestic production of these products. US ingredients are needed to add value to this type of manufacturing.

Increased production of foods for export is increasing demand for inputs such as oils, grains, and Mechanically Deboned Meat (MDM).

The local dairy industry is continuously launching novelty products, including cheeses, yogurts, and ice cream for the domestic and international markets.

Bakery products, dry pasta and canned foods have expanded significantly.

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III. COMPETITION

Ingredients imported from the EU are competitive due to value of the Euro relative to the dollar and due to the free trade agreement between Central 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 produced dairy, poultry, table eggs, beef, pork, rice, beans etc. it is not self-sufficient in the production of most food products, and thus relies on imports.

Given its stable economy, Costa Rica is able to import its needs to keep the population is food secure.

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Non-alcoholic Beverages (ex. Juices, water) HS: 1302 & 2201-2202 Net imports: 85,363 tons	1. USA 30% 2. Guatemala 17% 3. El Salvador 8%	Proximity	Local brands are well positioned in the market at competitive prices.
Dairy HS: 0402:0406	1. USA 31%	USA is strong in milk products and cream, cheese and cottage cheese, buttermilk, butter and	Local companies produce high quality liquid milk, ice cream,

Net imports: 21,858 tons	2. Panama 19% 3. Chile 13%	other fats derived from milk, dairy spreads and yogurt. Panama is price competitive, geographically close and has developed a long-standing reputation in the market. Chile is strong in branded processed cheese and cottage cheese.	yogurt, cultured milk drinks.
Nuts HS: 0801-0802 Net imports: $2,022 tons	1. USA 53% 2. Guatemala 12% 2. Vietnam 8%	Variety, marketing and high quality.	All local production is consumed.
Processed Fruits & Vegetables HS: 2001-2008 Net imports: 33,983 tons	1. USA 50% 2. Canada 14% 3. Guatemala 9 %	USA dominates the market with its products, mainly to the food service market.	Local processors are major exporters, but local supply is limited.
Red Meat HS: 0201:0204 Net imports: 34,372 tons US$38,894,580 million (CIF)	1. USA 47% 2. Nicaragua 29% 3. Chile 21%	Variety, marketing and high quality	Local brands are well positioned in the market at competitive prices.

Source: Costa Rican Ministry of Commerce (COMEX)

SECTION IV. BEST PRODUCT PROSPECTS

The best opportunities for suppliers of food ingredients are among those F&B manufacturing companies that offer high-value and new products to the consumer.

Top U.S. Ingredient Prospects to Costa Rica
(in US$ millions)

Description	2016	2017
Corn	114.5	**137.0***
Wheat	36.5	**29.2**
Sugar, Sweeteners, Bev. Bases	4.2	**2.6**
Eggs & Products	2.1	**2.3***
Tree Nuts	9.2	**9.8***
Chocolate & Cocoa Products	15.7	**15.1**
Condiments & Sauces	9.9	**9.6**

Source: U.S. Census Bureau Trade Data
*Denote the highest export levels
www.fas.usda.gov/GATS

Top U.S. Process Products to Costa Rica (in US$ millions)		
Description	2009	2017
Beef & Beef Products	$ 2.0	**$ 15.1***
Pork and Pork Products	$ 1.0	**$ 14.3***
Poultry Meat & Products (eggs)	$ 4.0	**$ 28.6***
Dairy products	$ 4.0	**$ 20.4***
Processed Fruits	$ 2.0	**$ 4.2***
Prepared Food	$ 15.0	**$ 34.5***
Distilled spirits	$ 1.0	**$ 2.1***
Juices non-alcoholic beverages	$ 2.0	**$ 8.3***
Pet Food	$ 7.0	**$ 19.6***

Note: The Dominican Republic – Central America Free Trade Agreement (CAFTA-DR) entered into force in 2009.

SECTION V. POST CONTACT AND FURTHER INFORMATION

If you have any question or comments regarding this report or need assistance exporting to Costa Rica, please contact the

Foreign Agricultural Service in San José at the following address:
Phone : (506) 2519-2285 / 2333
Fax: (506) 2519-2097
Email: AgSanJose@fas.usda.gov
ebsite : www.fas.usda.gov
http://costarica.usembassy.gov/fas.html

US Department of Commerce │Global Market Agency/ Global Markets
Phone: (506) 2519-2203
web: http://redirect.state.sbu/?url=www.buyusa.gov/costarica

U.S. Department of State – Economic Section

Fax: (506) 2519-2364
Website: www.sanjose.usembassy.gov/economic

Market Fact Sheet: COSTA RICA

Executive Summary

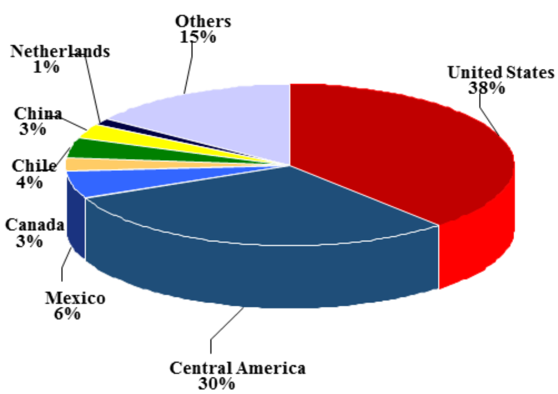
The United States is Costa Rica's largest trading partner and Costa Rica's largest foreign direct investor. Market prospects for U.S. consumer-oriented products such as beef, pork, poultry, dairy, wine and beer, snack foods, ready-to-eat meals, frozen food products, condiments, and pet food continue to increase with impressive growth, reaching $278.6 million in exports to Costa Rica I 2017. Costa Rican consumers trust and enjoy the excellent reputation of U.S. food, beverage and ingredients products, and demand has increased since the implementation of the Dominican Republic - Central America Free Trade Agreement (CAFTA-DR) in 2009. The proximity of the United States to the Costa Rican market is a major advantage for shipping time and for U.S. exporters who wish to visit or communicate with potential customers. In 2017, U.S. agricultural exports to Costa Rica reached a record $731.1 million and Costa Rican agricultural export were valued at US$1.6 million. It is important to note that nearly all Costa Rican agricultural exports are made up of tropical products (bananas, pineapple, cassava, ornamental plants) not produced in the United States.

Costa Rica's Agricultural Imports by Country

2016 total Bilateral Trade

US$ 2.4 billion **Volume 3.1. million tons**

(percentage share)



Source: Ministerio de Hacienda de Costa Rica

Food Processing Industry

Most of the food processors in Costa Rica import all of their ingredients directly and a few rely on importers and distributors. They also have their own distribution channels to wholesalers, distributors and retailers, as well as to hotels, restaurants and institutional industries nationwide. Distribution channels can be different between local and imported products and are constantly changing.

Food Retail Industry

Costa Rica's retail sector is made up of supermarkets, hypermarkets, mini-marts, and *mom-and-pop* shops. Many consumers prefer to buy their groceries in smaller quantities from independent grocers. At the same time many consumers buy bulk products. . In addition, consumers are price sensitive.

QUICK FACTS CY 2017

U.S. Food Exports to Costa Rica **$731 million**

List of Top 10 Growth Products in Costa Rica

1) Beef, pork, poultry
2) Wine and beer
3) Prepared/frozen Foods
4) Pet Food
5) Chocolate and cocoa products
6) Ingredients for food/beverage mfg.
8) Dairy
9) Juices
10) Tree Nuts and Snack products
11) Processed fruit and vegetable

Food Industry by Channels in 2017

A) Food Industry Output	**N/A**
B) U.S. Food Exports to Costa Rica	**$719.6 million**
C) Costa Rican Imports from all sources	**$2.4 billion**
D) Domestic Market Consumption Processed Foods	**$4.4 billion**
E) Total Value of Costa Rica's Retail Market	**$ 1.68 billion**
F) Total Value of Costa Rica's Food Service	**$ 4.18 billion**
G) Total Value of Costa Rica's Wet Market/Feria	**N/A**
H) Food Industry Gross Sales	**$13.96 billion**

Top Costa Rican Retailers:

1. Walmart
2. AutoMercado
3. Fresh Market
4. MegaSuper
5. PriceSmart
6. Saretto
7. Mayca
8. Grupo Empresarial Gessa
9. Muñoz y Nane

<u>GDP/Population*</u>

Population of Costa Rica	5 million (4 million)
GDP (billions USD)	57.5* (preliminary data)
Per capita GDP	$11,635
Exchange rate	575 colones per 1 US$

Sources:** ***Central Bank of Costa Rica, 2017 BICO data

Opportunities	Challenges
Local processors are slowly increasing their production capacity and level of food quality to export to the United States.	Countries such as Mexico, Argentina and Colombia can offer competitively priced food ingredients.
Costa Rican consumers are becoming sophisticated in their food preferences.	Costa Rica's strategy is to continue negotiating free trade agreements with other countries.
The United States is Costa Rica's main trading partner. U.S. food ingredients are well-known and considered of high quality and reliable.	Business culture in Costa Rica can be slow paced than in the United States and those wishing to do business in the country

	should be prepared for this possible difference.
Since 2013, Costa Rica initiated a new on-line product registration system, which eventually will reduce registration times for new imported products.	U.S. exporters should also be prepared to be patient with export procedures and processes. Costa Rica has many levels of bureaucracy that can at times slow the importation of food products.

Data and Information sources: **U.S. Department of Agriculture (USDA) Foreign Agricultural Service AgSanjose@fas.usda.gov**
Website: http://sanjose.usembassy.gov/fas.html