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Costa Rica

Food Service - Hotel Restaurant Institutional

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Report Highlights:

Costa has a well-developed tourist sector and is ranked as one of the most visited international destinations. Not surprisingly, one of Costa Rica's main sources of income is tourism, which relies on the HRI sector to support it. Costa Rica is often considered an attractive country for investment, offering potential for the establishment of operations of multinational companies, due to well-educated population, a sufficient standard of services and social and political stability. The government is active in promoting the concept of sustainability as a model of development that seeks to meet the current demands of society without compromising future well-being.

Post:

San Jose

Executive Summary:**I. General Overview**

Tourism is one of Central America's top areas of economic opportunity for 2010-2015, and Costa Rica's natural beauty extends from the Pacific Ocean to the Caribbean sea, yet it occupies only 20 thousand square miles. For such a small country, Costa Rica is one of most highly sought after tourist destinations in the region. This small piece of land includes all of the necessary components to satisfy the taste of thousands of travelers visiting each year.

Costa Rica is a small country (pop. 4.8 million); most of its future growth depends upon foreign investment and access to international markets. Costa Rica's territorial division includes 7 provinces: San José, Alajuela, Cartago, Heredia, Guanacaste, Puntarenas, and Limón. Together they offer an attractive tourist destination that include extensive rainforests, volcanoes, rivers, expansive beaches and natural resources safeguarded by an organization of national parks and forest reserves.

Costa Rica's Central Bank estimates that GDP grew 3.5 percent in 2014 and it is forecasting 3.4 percent growth for 2015. Inflation reached 5.1 percent in 2014, and it is forecast at 4.7 percent in 2015.

In 2013, the total contribution from travel and tourism to GDP represented 12.1 percent of Costa Rica's GDP. The total contribution from tourism to employment, including jobs indirectly supported by the sector was 241,600 jobs (11.5 % of total employment). The Central Bank also plans to increase its foreign exchange reserves, which now represent about 14 percent of the GDP, by \$800 million over a 23 month period by purchasing dollars in the market.

Foreign currency revenue from tourism**2011-2014 Arrival of tourist to Costa Rica**

Year	Arrivals (x1000)	Income from tourism USD billion
2011	2,192	1.99
2012	2,343	2.09
2013	2,428	2.43
2014	2,526	2.64

Sources: Costa Rican Tourism Institute, Department of Statistics and BCCR, Macroeconomic Department.
http://www.visitcostarica.com/ict/pdf/estadisticas/Anuario_de_Turismo_2014.pdf

Total foreign direct investment in Costa Rica amounted US \$2.18 billion in 2014 and it is forecast to reach US \$ 2.22 billion in 2015. Half of that investment has come from the United States. According to the Costa Rican Tourism Board, 55 percent of international tourists who visited the country in 2012 engaged in activities related to ecotourism, including trekking, flora, fauna, bird watching, and visits to rural communities. Tourism is one of the main economic sectors of Costa Rica, representing an important source of foreign currency for Costa Rica's economy and has generated more income than the production of the traditional crops banana, pineapple and coffee.

Costa Rica likes to be seen as a global leader in progressive climate change, agriculture, and food security initiatives. Aiming to be carbon neutral, Costa Rica promotes sustainable innovation and collaboration in all of its sectors, including agriculture.

Costa Rica's water access systems are very close to the world average. A report from the nation's water laboratory published in 2012 from the Laboratorio Nacional de Aguas indicates a 90 percent coverage rate of potable drinking water. San José is the province with the most coverage (92.1 percent), followed by Heredia (88.1 percent), Cartago (82.6 percent), Alajuela (78.1 percent), Puntarenas (77.5 percent), Guanacaste (76.2 percent) and Limon (76.0 percent). However, Guanacaste, the main tourist destination within Costa Rica, has most recently suffered from drought conditions, and it is affecting sectors in the region, including agriculture.

Several sectors and authorities have raised their voices about alternatives that will provide an urgent solution to the demand for water in Guanacaste. The tourism sector is concerned and is planning to request that government take specific actions to build the necessary infrastructure to solve the water shortage problem. Hotels and Restaurants are aware of the situation and are considering different options to guarantee the water supply.

The continuous growth of American, Canadian and European retirees living permanently or part-time in Costa Rica is contributing to increasing immigration numbers. Medical tourism is increasing in popularity as foreigners travel in an attempt to receive medical treatments at more reasonable prices compared to other countries.

The large conglomerate of different nationalities that either visit or live in Costa Rica also creates the framework for a wide variety of restaurants. There are restaurants offering different kinds of specialties with an ample offering of international and ethnic foods. According to the Costa Rican Tourism Institute, in 2015 approximately 86 percent of tourists will travel to Costa Rica for vacation and recreation, while almost 14 percent of travel is business related.

Costa Rica ranked 79 out of 189 countries in the 2015 World Bank's Ease of Doing Business Index citing improvements in process efficiency for obtaining electricity and making it easier to pay taxes at two of Costa Rica's highlights. This rating has hampered the flow of investment and resources badly needed to repair and rebuild the country's public infrastructure, an infrastructure which has deteriorated over the years from a lack of maintenance and new investment. Infrastructure, in an overall sense (e.g., roads and bridges, water/wastewater, electricity generation, airports and ports) is in substantial need of improvement. In many instances, deteriorated infrastructure will need to be improved if Costa Rica is to remain competitive in the regional and world economy.

Costa Rica started a very aggressive promotional campaign to position itself as a tourist destination and efforts are being made to improve infrastructure to accommodate the expected increase in visitors. The Ministry of Tourism implemented a program seeking the categorization and certification of tourism companies according to the level its operation comes closer to a model of sustainability. To this effect, four fundamental aspects are constantly evaluated:

- Physical-biological interactions between the company and its surrounding natural habitat.
- Infrastructure and services, including the evaluation of management policies and operational systems within the company and its infrastructure.
- External clients and inviting them to participate in the company's sustainability policy.
- Socio-economic environment and evaluating the company's interaction with local communities and population in general. If possible, most vegetables and fruits should be provided by the local community.

There are two international airports in Costa Rica, Santamaria Airport in Alajuela and the Liberia Airport, Daniel Oduber (LIR) in Guanacaste which is located the Pacific coast. U.S. airlines, such as American, Delta, Continental, arrive at both airports. The Liberia airport serves as a tourism hub for those who visit the Pacific coast and Western Costa Rica.

II. Market Summary

Hotels and Resorts in Costa Rica offer a wide range of hotel accommodation for the growing business and tourist industry. Presently the hotel sector is made up of one 5-star hotel, five 4-star hotels, and a significant number of 3-star 2-star, 1-star hotels and bed and breakfasts in the country. The government is developing a comprehensive travel and tourism policy with a special emphasis on cultural tourism and eco-tourism. It is also implementing aggressive marketing campaigns. However facilities and basic infrastructure still need to be developed considerably to attract large scale tourism.

Fast Food: The Costa Rican Chamber of Restaurants reported a saturation of fast food restaurants in the west side of the country, particularly in the commercial centers. Approximately 244 new fast food locals were opened from 2010-2014, totaling 679 new fast food restaurants since 1962. Sixty-four percent of the restaurants are located in San Jose, the metropolitan area.

The fast food subsector is a labor-intensive industry that provides employment, for over 28,000 employees; almost 7,000 people are employed by local franchises. Investments for international franchises vary from US\$100,000 to US \$250,000 according to the Costa Rican Franchise Center (CENAF). The Burger King Corporation which began operating in Costa Rica in 1990 announced the closure of 29 restaurants in in October 2015. The closures will increase competition amongst other franchises specializing in hamburgers. Other franchises restaurants that closed operations in early 2015 include Wendy's and Bagelsmen's. Wendy's closed 10 restaurants and Bagelsmen's, which had been operating in the country for fourteen years, closed seven.

Restaurants: The non-fast food restaurant subsector is experiencing rapid growth, and is primarily frequented by professionals. New, upscale and specialized restaurants serving both local and continental

cuisines are springing up in the major urban centers. There are no statistics as to the current number of restaurants, but due to increased tourism and immigration, and that the Costa Rican middle and high income population has sophisticated dining tastes, the selection of restaurants is ample with cuisine specialties such as: Argentine, Colombian, Chinese, Spanish, Mediterranean, Italian, Indian, Japanese, Seafood and Mexican. In Guanacaste, restaurants offer various gastronomic options. Costa Rican cuisine generally includes lightly seasoned fresh fish, chicken or beef, grilled plantains and a combination of black beans and rice called gallo pinto. The most commonly found restaurants are inexpensive, casual and open-air cafés called sodas, slang for the packaged soda crackers that accompany everything from fresh ceviches to blue-plate specials called casados. The growth in restaurant operations in Costa Rica offers U.S. exporters the opportunity to supply international franchises from Peru, Colombia and other countries such as Segundo Muelle, Juan Valdez, Incoco, and Joe Fresh among others.

The wine sector has been growing in Costa Rica and new wine brands are constantly being offered in supermarkets and on restaurant menus. Chilean and Argentine wines continue to be top sellers due to the price points at which they are available. There is also a new market for craft beer that is an emerging trend.

There is also a growing trend towards healthy eating and lighter meals. The consumption of chicken and fish consumption has grown considerably due to the expansion of the fast food subsector. The demand for fresh produce and foods without preservatives has also increased. There is a growing segment of the tourism population that demands special foods like organic, gluten-free and kosher products. These recent trends are highly increasing in the tourism food and beverage industry.

Institutional: There is no official data on number of institutional food service contractors in Costa Rica. These contractors provide catering services for social gatherings such as weddings, parties, and funerals. Government regulation of this sector is minimal.

ADVANTAGES	CHALLENGES
Political stability, high level of education and literacy (+94%)	Import restrictions are of increasing concern to the union of importers.
U.S. products in Costa Rica have a reputation for being high quality and consumers follows U.S. market trends.	Customs clearance is not easy or as fast and straightforward as in other countries in the region.
Import duties are being lowered as a result of the CAFTA-DR trade agreement	There can be significant delays with product registration and renewals.
Market prospects are excellent in the following sectors: building products, hotel and restaurant equipment, renewable energy, franchising and cosmetics as well as in the food processing and packaging sector.	Infrastructure, in an overall sense (e.g., roads and bridges, water/wastewater, electricity generation, airports and ports) is in need of improvement. This represents both challenges and opportunities.

III. Market Entry

A. Entry Strategy:

One of the most common market entry options is to use an agent or distributor or to find a local partner who can provide market knowledge and contacts. Licenses or franchises are popular in Costa Rica. General commercial law will govern contracts or relations between vendors or suppliers and the local company, person or distributor. Distribution services are mostly governed by private agreements among the parties. Local laws also allow companies and individuals to import directly with no intervention from agents or distributors. Most Costa Rican importers are fully bilingual, and business practices in Costa Rica are very similar to those in the United States. It is advisable to have a distributor and/or a customs broker with experience. The exporter should coordinate with the importer on issues such as the registration of products and/or trademarks.

It is worth noting that price is an important factor to consider in the Costa Rican market. Even though there is a small percentage of the population more interested in quality and trend-setting goods, price is still an important factor for the great majority of the population.

Television and newspaper advertising are the best promotion tools for the promotion of U.S. products. E-mail marketing is also becoming increasingly popular. Trade shows, seminars and exhibitions are also very effective tools for trade promotion.

The strong tourism sector has provided an opportunity to increase hotel/restaurant/ institutional (HRI) sector sales, including the opening of more high-end grocery stores in tourist areas outside San Jose metropolitan area. According the Costa Rican Tourism Institute, the tourism sector took off in 1987, growing from \$329 million in 1988 to a historical record of \$2.646 billion in 2014.

B. Market Structure

Because the food service sector relies on importers to purchase their food products, there are many companies dedicated to the HRI food service sector.

The retail distribution sector follows U.S. practices. Most of the population is accustomed to shopping centers and malls that house retail stores, kiosks, food courts, theaters, and supermarkets. Franchises and smaller mixed-use commercial centers are increasing rapidly due to growing competition from big retail stores such as Price Smart and Walmart, among others. There are currently large department store chains, supermarket chains, and countless small and medium-sized family-owned firms that compete with the larger retailers. Rural areas are served by the "general store," locally known as a "pulperia." 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.

Although it is possible to export directly to Costa Rica, firms will find it beneficial to work with a local experienced representative and/or establish a local sales office. A local representative is a requirement

for those companies wishing to sell to the public and private sector. 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.

Importers and distributors of U.S. ingredients and products in Guanacaste are well-known local distributors for the metropolitan area. These distributors are increasing their transportation services to get closer to their hotel and restaurant customers in Guanacaste.

III. Competition

Major competitors for U.S. products may be divided by product and/or better tariffs due to Free Trade Agreements signed with other countries such as Canada, Chile, Mexico, China, and Panama. Strong U.S. competitors for snacks and processed foods are Central America and China; fruits and other products: Chile, Peru, and Spain; grains and oils: Argentina, Canada, and Brazil; meat: Nicaragua, Chile, and New Zealand.

Because of its strategic location in Central America and its proximity to the United States, Costa Rica has always been an attractive destination for U.S. goods and food products. However, local producers are increasingly providing hotels and restaurants with vegetables, fruit and processed foods, poultry, pork and seafood to be consumed by the tourism sector. Most frozen foods are produced abroad. Other typically imported products are baked goods, bakery and confectionery ingredients, some fruits and fruit juices, and cooking oils.

IV. Best Prospects

High value products offer good market opportunities in Costa Rica, especially ready-to-eat or convenience foods, wholesome and healthy products. As a whole, best prospects are in the consumer oriented category. Processed products and high value goods are growing in the tourism sector. Fresh fruits such as apples, grapes, peaches, nectarines and pears, organic foods, processed fruits and vegetables, such as canned mixed vegetables, mixed fruits, yellow sweet corn, peas, mushrooms, and beans are also very popular in the Costa Rican market.

A list of favorite imports from the HRI sector include: French fries; snacks, frozen or ready-to eat food, dairy foods (cheese, yogurt, butter), vegetable oil, frozen vegetables, dressings and marinades, bakery ingredients, beef, poultry, rice.

As far as hotels and restaurants are concerned, San José, the capital, is well developed, but new restaurants and ideas are always welcome and generally successful. New opportunities may be found at the beaches/resort areas and smaller towns in the country side that still need to be developed and offer good prospects of growth.

GUANACASTE

Guanacaste is located in the Pacific northwest of Costa Rica and includes a total area of 9,529 km² (about 3,679 square miles) and more than 700 kilometers (about 434 miles) of coast. The Guanacaste

region includes the border with Nicaragua up to the mouth of Bongo River in the Nicoya Peninsula, the Gulf of Papagayo, from Ocotol to Culebra Bay, resorts and investment are increasing along the coast line, particularly at Coco and Hermosa. The Daniel Oduber Quirós International Airport in Liberia provides a direct route to the Guanacaste area.

The Gulf of Papagayo is most famous for its exclusive beaches and its accommodations range from five stars and all-inclusive resort complexes to small intimate hotels and bed and breakfasts. Budget travelers will find their options sparse, as the Gulf of Papagayo mostly caters to visitors seeking mid-range and luxury accommodations.

In addition to its beaches, the region's dry tropical forests and the volcanic landscape of the Guanacaste Mountains provide for a wide range of ecotourism options. In close proximity to the gulf are a number of national parks, including Santa Rosa, Marino las Baulas, Guanacaste, and Rincón de la Vieja, which provide visitors opportunities to explore the natural inland terrain.

U.S. and international hotel chains present in Guanacaste include the JW Marriott Costa Rica, Secrets Resorts, Andaz, Riu, Casa Conde Hotel, Westin Hotel and Resorts, Four Seasons Resort, Punta Islita Autograph Collection, and Barceló Hotels to mention a few. Relatively new tourism resorts are also being developed along the Costa Rican coasts. The B&B/boutique hotels sector is growing rapidly.

Other International franchises are opening restaurants also in Guanacaste like Hard Rock Café in Coco Beach.

Interest in organic, gluten free and kosher products is increasing and is forcing the hospitality sector to make changes and to adapt their menus to these requests from their customers. Executive Chefs from most of the hotels and restaurants are interested in bringing in more variety of products at reasonable prices.

For further details on exporting please see our 2015-16 FAIRS Report <http://fasintranetapps-gain.fas.usda.gov>

V. **Contact List**

1. **U.S. Department of Agriculture (USDA)/ Foreign Agricultural Service (FAS)**

Email: AgSanjose@fas.usda.gov

Website: <http://sanjose.usembassy.gov/fas.html>

U.S. Department of Commerce

Commercial Service (CS)

Website: www.buyusa.gov/sanjose/en/

