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Report Highlights:

Competition continues to drive retailers in Costa Rica to look for new ways to add value to their brands and attract more consumers in 2019. The top challenge for Costa Rica's retail industry this year is the expected 13% value added tax (VAT), which will be implemented on July 1, 2019, for food products that were previously exempted, and other services such as health care, rent and construction. In contrast, market prospects for U.S. consumer-oriented products include beef (meat), pork (chilled/fresh), poultry, dairy, wine and beer, snack foods, ready-to-eat meals, frozen food products, condiments, natural/organic food products, and pet food. These products continue to increase with impressive growth and reached \$288.6 million in exports to Costa Rica in 2018.

Market Fact Sheet: COSTA RICA

\$ 743 million
U.S. Agricultural Exports 2018

Export Growth (72%)
2009 - 2018



35 Among U.S.

Agricultural Export
Markets, 2018

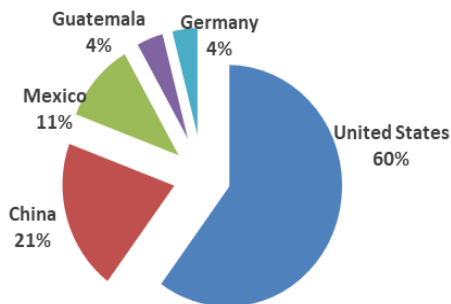
\$431 million 2009

Source: FAS Global Agricultural Trade System (GATS) Bico HS-10

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 a record high of **\$288.6 million** in exports to Costa Rica in 2018. Costa Rican consumers trust and enjoy the excellent reputation of U.S. food, beverage and product ingredients and demand has increased since the implementation of the Dominican Republic - Central America Free Trade Agreement (CAFTA-DR) in 2009. Exports of feed grains, wheat and other ingredients also climbed in 2018, having a combined value of \$445 million. Proximity to 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 2018, U.S. agricultural exports to Costa Rica reached **\$743.1 million** while Costa Rican agricultural exports to the United States were valued at **US\$1.67 billion**. *Note: Costa Rican agricultural exports consist of tropical products (bananas, pineapple, cassava, ornamental plants, coffee, and sugar) typically not produced in the United States.*

Costa Rican Imports of Consumer-Oriented Products



Source: Ministerio de Hacienda de Costa Rica

Food Processing Industry

Most Costa Rican food processors import ingredients directly from exporters and few rely on importers and distributors. These processors have their own distribution channels with wholesalers, distributors and retailers, as well as hotels, restaurants and institutional industries nationwide. Distribution

Quick Facts 2019

List of Top 10 Growth Products in Costa Rica

- | | |
|------------------------|------------------------------------|
| 1) Beef, pork, poultry | 6) Ingredients for food/beverage |
| 2) Snacks | 7) Fish Products |
| 3) Pet Food | 8) Juices |
| 4) Dairy Products | 9) Tree Nuts |
| 5) Chocolate and cocoa | 10) Processed fruit and vegetables |
| | 11) Prepared and Frozen Products |

Top 10 Host Country Retailers

- | | |
|------------------------|-----------------|
| 1) Walmart | 6) Automercado |
| 2) Fresh Market | 7) Saretto |
| 3) Mayca Retail Stores | 8) Mega Super |
| 4) PriceSamrt | 9) Muñoz y Nane |
| 5) Perimercados | 10) Pali |

U.S. F&B Exports to Costa Rica **\$ 743 million**

Costa Rican F&B Imports from the US **\$ 1.67 billion**

Costa Rica GDP/Population*

Population	5 million
Unemployment rate	12%
GDP (billions USD)	57.5
GDP (per capita)	\$12,017
Exchange rate	612 colones per 1 US\$

*Source: Central Bank of Costa Rica

Strengths/Weaknesses/Opportunities/Challenges

Opportunities	Challenges
Local processors are steadily increasing their production of processed foods.	Countries such as Mexico, Argentina and Colombia offer competitively priced food ingredients.
Costa Rican consumers are becoming more sophisticated in their food preferences.	Costa Rica's trade 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 are considered to be high quality and reliable.	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.
Costa Rican retailers and chefs are looking to introduce new trendy foods and are open to new market promotion concepts.	U.S. exporters must be patient with export procedures and processes. Costa Rica has many levels of bureaucracy that can slow the importation of food products.

SECTION I. MARKET SUMMARY

The Costa Rican market of 5 million people is dynamic, evolving and uniquely challenging for U.S. exporters. Known for its adventure sites, beaches and mountain resorts, the country hosts nearly three million tourists per year and is home to thousands of affluent expatriate retirees, who make up a large consumer base for Costa Rica's retail food market every year. Given the country's small population, future growth depends upon foreign direct investment (FDI) and access to international markets.

In Costa Rica, about 27% of supermarkets identified in a national study by the National Institute of Statistics and Census in Costa Rica (INEC) are in the province of San Jose, another 23% in Alajuela and Heredia, and the remaining points-of-sale are distributed in other areas of the country.

In July 2018, Walmart officially announced interest in purchasing Gessa retail stores. This purchase integrated 52 new points-of-sale (supermarket chains such as Perimercados, Super Compro and Saretto owned by Grupo Empresarial de Supermercados). However, in December 2018, the Ministry of Economy, Industry and Commerce (MEIC) and representatives from the Commission for the Promotion of Competition (Coprocom) denied Walmart's proposed purchase due to potential risks to prevent price monopoly.

Competition continues to drive retailers in Costa Rica to look for new ways to add value to their brands and attract more consumers in 2019. Pricing strategies, brand loyalty registrations, cash back cards and regular discounts for shoppers are some growth strategies implemented by local retailers. Online shopping is expected to become more popular especially among mid to high income consumers and millennials seeking discounts and best savings online.

Costa Rica ratified the Central American Free Trade Agreement (CAFTA-DR) with the United States in 2009. This free trade agreement eliminated most of the tariffs for non-agricultural imports and has made both trade and investment in the region more attractive to U.S. companies. The remaining tariffs on virtually all U.S. agricultural products will be eliminated by 2020. CAFTA-DR member countries have further promised increased transparency in customs dealings, anti-corruption measures in government contracting and procurement, and strong legal protections for U.S. investors.

The retail sector is one of the most versatile sectors in the Costa Rican economy. During the recent economic crisis, demand for independent grocery stores and small suppliers increased as consumers preferred to buy smaller quantities. In times of recovery and economic boom, revenues from large chain grocery stores increase.

Costa Rica has a range of supermarkets with a variety of items and brands. Increasing competition continued to drive retailers in Costa Rica to look for new ways to add value to their brands and attract more consumers in 2019. In particular, several stores such as Automercado, PriceSmart, Sareto and Mas por Menos sought to secure larger economy-of-scale savings to pursue more competitive pricing strategies and offer discounts to shoppers on a regular basis. Opening of small convenience stores also provides consumers an alternate option to visit smaller markets during the week and avoid vehicle traffic. This is an option that Vindis, Fresh Market and AMPM offer to consumers.

Food prices are always a concern of Costa Rican consumers. However, based on the market and consumer behavior, the demand for imported high-value processed food products is expected to continue increasing in the coming years as consumers search for new trendy products and international flavors.

Imported high-value food products are mostly sold in supermarkets located around the country. Due to the increase of tourism and expats retiring to the coastal regions of Costa Rica, there has been an increase in the number of supermarkets popping up in those areas.

The top challenge for Costa Rica’s retail industry this year is the expected 13% value added tax (VAT), which will be implemented on July 1, 2019, for food products that were previously exempted, and other services such as health care, rent and construction. Quality and price vary among local supermarkets. Auto Mercado is a Costa Rican owned store that is known as a high-end supermarket with a wider range of foreign products and as a selection of trendy gourmet products. Mega Super and Mas X Menos (owned by Walmart) carry some foreign products. Pali, a supermarket chain also owned by Walmart, is a very basic market with limited imported goods. Maxi Pali is the larger supermarket chain equivalent of Pali.

In 2018, total exports of U.S. consumer-oriented products to Costa Rica reached a record \$288.6 million. Imports from other countries such as Mexico, Nicaragua, Chile, Guatemala and China include a large variety of products such as fresh fruit and vegetables, liquor, cereals and beans. Other major suppliers seeking to increase their exports to Costa Rica include El Salvador, Panama, Spain and the United Kingdom.

Marketing campaigns such as discounts, social media promotions and giveaways are a useful tool to support local importers to introduce new products.

Costa Rican food retailers encourage U.S. food manufacturers and suppliers to:

- Promote private label brands/products,
- Promote novelty food and beverage items (marketed to tourists and expat retirees),
- Implement e-retail and marketing intelligence promotion strategies to capture more consumers with new promotions.
- Demonstrate greater interest in ‘tropicalizing’ products for the Costa Rican market*
- Demonstrate greater interest in providing environmentally friendly packaging,
- Demonstrate greater interest in Central America’s smaller but viable markets.

**‘Tropicalizing’ refers to characteristics/concepts such as packaging appropriately to address concerns related to the heat of the tropics (i.e. package in smaller volumes with appropriate materials), incorporating popular local flavors (i.e. tropical fruits, etc.), etc.*

Advantages and Challenges for U.S. Exporters in Costa Rica

Advantages	Challenges
A high disposable income among a large percentage of the urban Costa Rican population.	High level of bureaucracy and regulatory weaknesses negatively affect importers and U.S. exporters.
High and middle income consumers demand quality U.S. consumer oriented agricultural products.	Import duties on processed/packed food and agricultural products.
The retail industry is interested in carrying more	Lack of importer and retailer knowledge and

U.S. products including private label goods.	training in purchasing, handling, and merchandising U.S. products.
A willingness amongst Costa Rican importers and retailers to trade with U.S. exporters attributed to a sense of reliability and quality of service.	Free trade agreements with China and EU may increase competition.
A strong tourism sector (residential and traditional) providing opportunity for the food retail sector. More high-end grocery stores in tourist areas outside the San Jose metropolitan area.	Registration of consumer-ready products process is slow and can be challenging.
More dual income Costa Rican households are looking for shortcuts using frozen and prepared foods	Some major retailers and importers have their own cattle farms, meat processing plants, bread processing facilities, etc., reducing the need for some imports.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

U.S. products possess an outstanding reputation for quality and price competitiveness. Lower tariffs on most processed food products attributed to the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) has resulted in higher imports of these products from the United States for the last decade. Imports of these products are expected to continue growing in the near future (or “short term”).

- Supermarket chains are best situated to be the main market for imported food products whose target customers are high and middle-income consumers. U.S. exporters should contact large importers, wholesalers/distributors or supermarkets directly.
- U.S. exporters can approach gas station mini-marts, grocery stores and convenience stores through major local suppliers (wholesalers/distributors).
- Exporters should be diligent when selecting a partner (local importer agent or legal representative) in Costa Rica. Personal visits/meetings with prospective partners are highly recommended, and exporters should conduct a background check of the prospective partner before signing a permanent contractual agreement.

The local partner should be able to provide updated information on consumer trends to identify niche markets, current market development (i.e. merchandising, point-of-sale and promotional activities), and local business practices.

B. Market Structure

The setup and layout of most of Costa Rica’s new supermarkets are similar to U.S. grocery stores. Costa Ricans generally make their major grocery store purchases every two weeks. Going to the large, new, brightly-lit stores with a large food selection and options from all over the world has turned into a

family experience for many Costa Ricans. Supermarket purchases are supplemented with smaller purchases at traditional neighborhood stores called 'pulperías' or 'mini-supers'.

As a strategy to win new customers, Costa Rican retailers compete not only on price and selection but also by providing additional services under the same roof such as ATM/banking, utility payment services, cafes, and dry cleaning. Most large supermarkets also offer a combination of 'loyalty points,' store credit cards and a number of other amenities to further entice and win new customers.

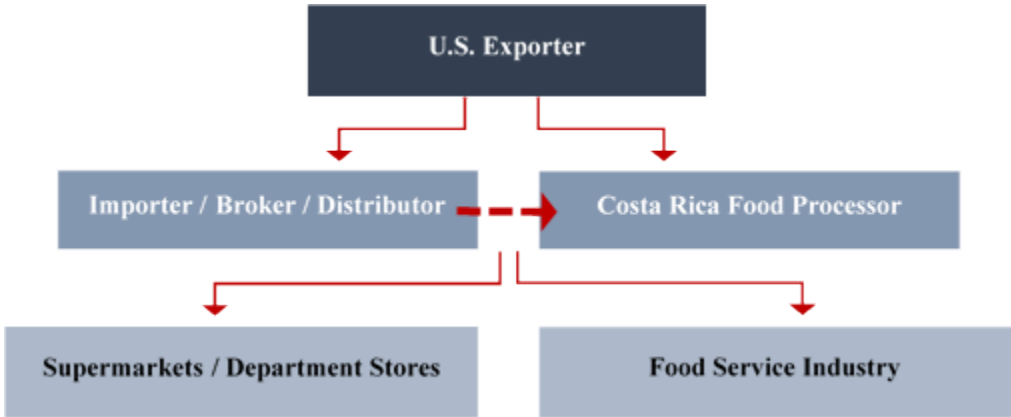
Online shopping is an increasing trend in Costa Rica. Several supermarket chains offer the option to order online such as Automercado and PriceSmart and have products delivered. However, many people are still unfamiliar with the technology and are hesitant to buy online due to the possibility of fraud.

C. Channels of Distribution in Costa Rica for Major Supermarkets and Food Service Providers

Suppliers to major supermarkets and the food service industry have a wide range of distribution channels in Costa Rica. U.S. exporters can work directly with local importers/distributors or Costa Rican food processors. Major food importers/distributors supply all major supermarket chains, provincial retailers, and local processors. Processors directly supply supermarkets and the local food service industry.

Distributors and wholesalers constantly sponsor in-store promotional activities. They have personnel support in all stores and distribution channels.

Channels for Distribution Flow Chart



As retail supermarkets expand their reach and consumer base, they represent an excellent opportunity for increased exports of agricultural products and processed foods. More than 50% of the products in these outlets are estimated to be imported, with 32% of these imports from the United States. The five major supermarket retailers in Costa Rica are: Wal-Mart (United States), Gessa (Costa Rica),

AutoMercado (Costa Rica), Price Smart (United States), and Megasuper (Colombia).

AMPM, Fresh Market and Vidi stores, similar to 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.

SECTION III. COMPETITION

The United States is Costa Rica's main trading partner and Costa Rican consumers are receptive to imported U.S. products. Locally produced products that present competition to U.S. exporters include: meats (processed), dairy products, coffee, spices and condiments (sauces), vegetable oils, candies and chocolates, pasta, snacks, bakery and pastry products, soups (powder), beverages (beer, bottled water, fruit juices), and, of course, tropical vegetables and fruits.

American food companies, restaurants, and supermarket chains have been highly successful in Costa Rica and have a strong presence in the country.

In general, the most profitable prospects for exporters continue to be processed products, dairy products, snacks, sausages, condiments (or "sauces and condiments"), beef, poultry, wine and beer. However, high-value products also continue to offer good market opportunities. Recent trends in consuming more convenience and health foods has resulted in good prospects for U.S. exports of fresh fruit (mainly apples, grapes, peaches and pears), processed fruits and vegetables (especially canned fruits), and snack foods (including chips, cookies and candies). Processed fruits and vegetables, especially mixed fruits, mixed vegetables, yellow and sweet corn, peas, mushrooms, and garbanzo beans generate strong import demand.

Snack foods continue to gain popularity and exhibit positive consumption trends. In particular, bakery and confectionary products are showing impressive levels of growth as are savory chips and snacks. The United States, Mexico, Guatemala and domestic production represent competition in the snack food market.

However, domestic production of snack foods--particularly of confectionary goods--also presents opportunities for U.S. exporters of food ingredients. Domestically produced snack foods are widely distributed throughout the country but are consumed principally by middle to lower-income consumers. Imported snack foods are targeted most directly at higher-income customers, and while they too enjoy wide distribution throughout the country, are found mainly in supermarkets and larger

retail outlets.

Demand for healthy and/or gourmet snack items is increasing. Snacks with natural ingredients, dried fruits, whole wheat, and high-quality ingredients are gaining popularity with health-conscious consumers. This trend towards healthy products is not limited to snack foods, the demand for niche food items such as organic shelf products or gluten-free goods is also expanding providing increased opportunities for U.S. exporters wishing to capitalize on this trend.

Meat exports to Costa Rica also represent excellent opportunity for U.S. exporters. Pork products in particular stand out as having great export potential; bacon, ham, and pork leg (especially during the winter months) are popular imports. Exports of processed meats, prepared meats, and preserved meats have expanded significantly, and consumption of prepared meats continues to grow.

Product Category	Main	Competitors	%	Total US\$
Meat fresh or chilled				
HS Code: 0201:0210, 1601:1602	1	United States	26%	\$ 26,162
Imports in 2018 : 29,549 tons	2	China	25%	\$ 24,627
	3	Nicaragua	16%	\$ 15,765
Total imports US\$ 98,138				

Source: Treasury Ministry of Costa Rica - Customs Department – Statistics Census INEC
<http://sistemas.procomer.go.cr/estadisticas/inicio.aspx>

Exports of dairy products, notably yogurts, are growing quickly and present superb export potential. Yogurt is especially gaining favor amongst Costa Rican consumers, and imports of U.S. yogurt are high. However, room exists in the market for new brands including specialty varieties such as Greek yogurt.

Product Category	Main	Competitors	%	Total US\$
Dairy Products				
HS Code: 0401:0406	1	Guatemala	37%	\$ 50,650
Imports in 2018 : 86,279 tons	2	Panama	18%	\$ 24,790
Total imports US\$ 137,888	3	Dominican Republic	13%	\$17,852

Other export sectors with impressive levels of growth include breakfast cereals, nuts, pet food and alcoholic beverages.

Pet food exports to Costa Rica are expected to continue to grow. Many established U.S. pet food importers are in Costa Rica and consumers are increasingly willing to spend more on pet food products as income levels rise. Costa Rican pet food manufacturers also import a high percentage of their ingredients directly from the United States, representing yet another potential market for U.S. entry. Wine and beer imports have also been making a splash in Costa Rica. The Costa Rican public is particularly receptive to U.S. beers. Although they only make up a small percentage of the market, U.S. beers are rapidly gaining visibility in recent years. Costa Rican beer importers continue to seek high-

value high-quality U.S. beers to introduce to the public at large.

SECTION V. POST CONTACT AND FURTHER INFORMATION

Contact Information for FAS Office in Costa Rica

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

Email: AgSanjose@fas.usda.gov

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

For further details on exporting please see our FAIRS Report

https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_San%20Jose_Costa%20Rica_12-19-2017.pdf

Attachments: No Attachments