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Report Highlights:

The coronavirus pandemic (COVID-19) has shaken the Costa Rican economy, and there is great uncertainty over about how quickly it will recover. Measures at the border and restrictions within the country have disrupted much of the retail industry, while digital online platforms, ecommerce, and delivery services have grown in popularity. There are market prospects for U.S. consumer-oriented products, including beef, pork (chilled/fresh), poultry, dairy, wine and beer, snack foods, ready-to-eat meals, frozen food products, condiments, natural/organic food products and cereals. These products have seen impressive growth in recent years, with U.S. exports reaching \$317 million in 2019.

Market Fact Sheet: COSTA RICA

Executive Summary

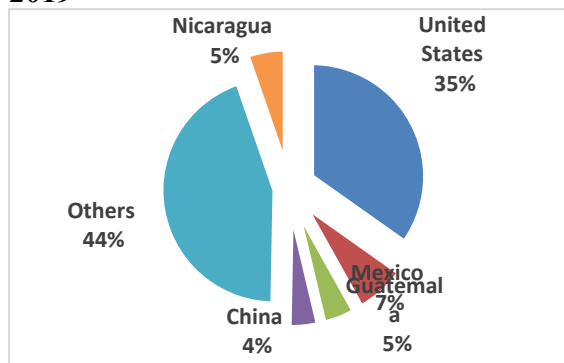
In 2019, U.S. agricultural exports to Costa Rica reached **\$735 million**. Proximity to the United States is a major advantage for shipping time and for U.S. exporters who wish to visit or communicate with potential customers.

Imports of Consumer-Oriented Products Market Situation

As part of CAFTA-DR, beginning on January 1, 2020 beef and pork exports from the United States do not have to pay tariffs or taxes on entry into Costa Rica.

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, cereals and pet food have increased in recent years with impressive growth, reaching a record high of **\$317 million** in exports to Costa Rica in 2019, which is 10% more than in 2018.

Agricultural Imports by Country of Origin 2019



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

Food Retail Industry

Costa Rica's retail sector consists of supermarkets, hypermarkets, mini-marts, and approximately 9,600 *mom-and-pop* shops. Many consumers prefer to buy groceries in smaller quantities from independent grocers. However, there is a demand for bulk products and consumers are price sensitive.

Quick Facts CY 2019	
Imports of Consumer-Oriented Products (US \$317 million)	
List of Top 10 Growth Products in Host Country	
1) Beef, Pork, Poultry	2) Snacks
3) Pet Food	4) Juices
5) Dairy Products	6) Tree nuts
7) Cereals	8) Processed fruits
9) Condiments	10) Wines and Spirits
Top 10 Host Country Retailers	
1) Walmart	6) Automercado
2) Fresh Market	7) Saretto
3) Mayca Retail Stores	8) Mega Super
4) PriceSmart	
5) Perimercados	9) Muñoz y Nane
	10) Pali
U.S. Food & Beverage Exports to Costa Rica	\$ 735 million
Costa Rican F&B Imports from the US	\$ 1.67 billion

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.

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SECTION I. MARKET SUMMARY

Before the pandemic, the Costa Rican retail industry growth had been modest. It was partially driven by promotional activities, credit access, and increasing presence of e-commerce platforms. As a result of measures imposed in response to COVID-19, many consumers changed their purchasing habits and social distancing measures led to emergence of a new commercial reality. There has been a decline in in-person visits to supermarkets and stores, and a sharp growth in home delivery services and the consumption of easy to cook meals. It is unknown whether consumers will return to prior habits as measures are relaxed.

Supermarkets investments had been continuing. In December 2019, the supermarket chain Grupo Gessa was purchased by the family of Kimling Yan Grou, a Chinese group. Walmart's earlier bid for Gessa had been blocked by the government out of concerns over forming a monopoly. In April 2019, Walmart began construction of four new stores located in Cartago, Bagaces and Goicoechea and other establishments under the Pali brand located in Desamparados. This last operation generated 54 new jobs. When all the stores are open, Walmart will have a total of 176 sales points in the country.

Retail sales fell between 60% to 80% between the end of February and the end of April. Health measures obligated all supermarkets to implement new safety and hygiene protocols, and delivery services became more popular. The large supermarkets had the opportunity to implement virtual platforms, which gave them a technological advantage over the smaller retail stores.

The Central American Free Trade Agreement (CAFTA-DR) with the United States has 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. CAFTA-DR member countries have promised further increased transparency in customs dealings, anti-corruption measures in government contracting and procurement, and strong legal protections for U.S. investors.

During this crisis, many in the retail sector have had to change their business to provide a better service to Costa Rican consumers. Independent grocery stores and small stores have had to struggle to compete with the virtual platforms of the big chain grocery stores.

As of May 2020, there was no reported shortages of food products. Even during the crisis, competition continues to drive retailers in Costa Rica to look for new ways to add value to their brands and attract more consumers. In particular, several stores such as Automercado, PriceSmart, Sareto and Mas por Menos have sought to secure larger economy-of-scale savings, free deliveries and cleaning areas to pursue more competitive pricing strategies and offer discounts. Those big chains and their small convenience formats also provide consumers an alternate option to visiting smaller markets during the week and avoid large quantities of people in the same area. This is an option that Vindis, Fresh Market and AMPM are offering to consumers.

Food prices are always a concern of Costa Rican consumers. Nonetheless, the demand for imported high-value processed food products is expected to continue increase in the coming years as consumers

search for healthy products and international flavors. Imported high-value food products are mostly sold in supermarkets located around the country. Costa Rica’s retail industry seeks to use e-commerce and monitor interests of consumer demand and new trends.

Auto Mercado, the Costa Rican owned chain, is known as a high-end supermarket chain with a wide range of imported products and 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.

In 2019, total exports of U.S. consumer-oriented products to Costa Rica reached a record \$317 million, which is 10% more than in 2018. 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, juices, 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, 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.

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 U.S. products including private label goods.	Lack of importer and retailer knowledge and 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.
Digital platforms and e-commerce allow retail stores to satisfy the consumers demand.	Maintaining inventories and keeping consumers' trust in products will be challenging during the COVID-19 pandemic.
As of January 1, 2020, beef and pork from the United States do not pay taxes on entry to Costa Rica due to the Cafta Free Trade Agreement.	Local meat processing plants and local competition.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

Strict health measures have already greatly affected the retail market, and it is unclear how soon the measures will be removed or relaxed. At the same time, e-trade in agricultural products - both on the Internet and on social networking sites - is on the rise. Importers are concerned about the impact of the pandemic on demand as economic activity contracts. Despite these turbulent times, it is still key for an exporter to be able to complete on quality and price. Fortunately, U.S. products have benefitted from lower or no tariffs on most processed food products under CAFTA-DR. Exports of U.S. processed meats, prepared meats, and preserved meats have expanded significantly. Moreover, since January 1, 2020, U.S. beef and pork have been able to enter the market without tariffs, and starting on January 1, 2022, U.S. chicken dark meat (thighs and wings) will be free of tariffs.

- 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.
- 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 like U.S. grocery stores. Costa Ricans generally make their major grocery store purchases every two weeks. However, before Covid-19 consumers were visiting large, new, bright stores with a large food selection and options from all over the world has turned into a family experience for many Costa Ricans. Behavior changes and now supermarket purchases are supplemented with smaller purchases or delivery options through other virtual platform sources.

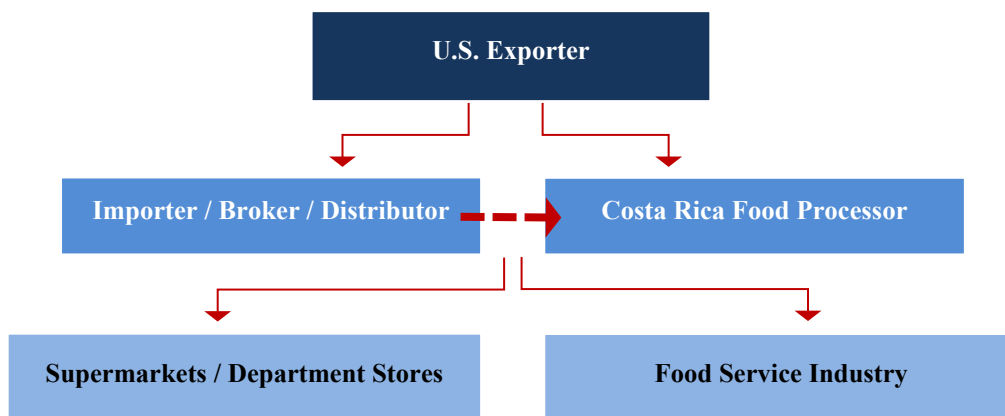
As a strategy to win new customers, Costa Rican retailers compete not only on price and selection, clean and safe deliveries.

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 and their digital ecommerce service, 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

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 with 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. Mexico, Nicaragua, Chile, Guatemala, and China export to Costa Rica a large variety of products such as fresh fruit and vegetables, liquor, juices, cereals and beans. Other major suppliers seeking to increase their exports to Costa Rica include El Salvador, Panama, Spain and the United Kingdom.

United States gastronomy and food industry companies, restaurants, and supermarket chains have been highly successful in Costa Rica and have a strong presence in the country. Many restaurants have closed or severely curtailed their activities due to strict health measures. As these measures are removed or relaxed, it is unclear how well the restaurant sector will recover.

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

In general, the most profitable prospects for U.S. exporters continue to be processed products, dairy products, snacks, sausages, condiments (or “sauces and condiments”), beef, poultry, wine and beer. 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.

Demand for healthy and/or gourmet snack items is increasing in Costa Rica. Snacks with natural ingredients, dried fruits, whole wheat, and high-quality ingredients are gaining popularity with health-conscious consumers. This trend is not limited to snack foods; the demand for niche food items, such as organic products or gluten-free goods, is also expanding, which provides opportunities for U.S. exporters.

Meat exports to Costa Rica in recent years have represented excellent opportunities for U.S. exporters. Now that CAFTA-DR has ended tariffs on U.S. pork and beef products, there is good export potential for those products, especially, for bacon and ham.

Product Category	Main	Competitors	%	Total US\$
Meat fresh or chilled				
HS Code: 0201:0210, 1601:1602	1	United States	54%	\$ 80,860
Imports in 2019: 44,206 tons	2	Nicaragua	23%	\$ 34,502
	3	Chile	12%	\$ 17,255
Total imports in 2019 US\$ 147,218				

Source: Treasury Ministry of Costa Rica - Customs Department – Statistics Census INEC

<http://sistemas.procomer.go.cr/estadisticas/inicio.aspx>

There are good opportunities for U.S. exports of dairy products, notably yogurts. U.S. exports have been growing quickly and present good export potential. U.S. yogurt products are popular amongst Costa Rican consumers, yet 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	United States	42%	\$ 21,038
Imports in 2019: 19,398 tons	2	Chile	14%	\$ 7,085
Total imports in 2019 US\$ 50,498	3	Panama	11%	\$ 5,519

Other relevant export sectors with strong levels of growth include breakfast cereals, nuts, pet food, condiments and spices, prepared 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 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 have been 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 2019 FAIRS Report

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20Report_San%20Jose_Costa%20Rica_3-21-2019.pdf

Attachments:

No Attachments