



Agri-Food Past, Present & Future Report

Costa Rica

January 2006



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Overview

Costa Rica represents one of Central America's most attractive markets. Although it is the smallest of the Central American countries, Costa Rica is home to approximately 4.1 million residents and provides substantial opportunities as an international trading partner. This long standing liberal democratic country is considered one of the most peaceful and neutral countries in the world.

Being the most important trading partner in the region, Costa Rica has attracted more foreign investment than any other country in Central America. Costa Rica is strategically located right in the middle of Latin America, providing a gateway for Canadians to supply neighbouring Latin American countries. Many markets are emerging as Costa Rican lifestyles shift to require more convenience products and fast food services. An increasing importance on tourism is driving the economy and influencing the products and services demanded in the country.

Canada – Costa Rica Relations

Relations between Canada and Costa Rica are very strong and are highlighted by a number of agreements. One of the first agreements signed between Canada and Costa Rica was the Bilateral Commercial Agreement of 1950. Since 1950, several trade agreements have been reached, the most important being the Canada - Costa Rica Free Trade Agreement (CCRTA) which came into effect in 2002. The goal of the CCRTA is to progressively remove import tariffs over several years. Details of the CCRTA can be accessed at http://www.dfait-maeci.gc.ca/tna-nac/costa_rica-en.asp. In addition to trade agreements, Canada has also negotiated the bilateral Foreign Investment Protection Agreement (FIPA) with Costa Rica. These agreements have made Costa Rica the largest trading partner in the region for Canada.

Other agreements between the two countries of social and environmental importance include the Canada – Costa Rica Agreement on Environmental Cooperation (CCRAEC) and the Canada – Costa Rica Agreement on Labour Cooperation (CCRALC). Both agreements aim to strengthen the relationship between Canada and Costa Rica by showing good will and consideration of current world issues.

- Costa Rica accounts for 33% of Canada's bilateral trade with all of Central America.
- Approximately 94% of Canadian exports to Costa Rica benefit from lower tariffs under the CCRTA, enabling Canadian suppliers to gain a competitive edge over other countries exporting to Costa Rica.
- Canadian investment in Costa Rica is approximately US\$250 million, which is heavily concentrated in hotel & tourism, banking, news media, mining, and environmental technologies.
- Top Canadian exports to Costa Rica are newsprint and paper, fertilizers, machinery, prepared vegetables and malt.
- Top Canadian imports from Costa Rica include fruit (pineapples, bananas, and watermelons), electrical machinery, sugar, medical instruments and coffee.

Canada-Costa Rica Bilateral Trade (2005)	
Costa Rica Total Trade	US\$16.7 billion
Exports	US\$7.0 billion
Imports	US\$9.7 billion
Trade balance	(US\$2.7 billion)
Canada- Costa Rica Trade	\$440.3 million
Exports	\$84.7 million
Imports	\$355.6 million
Trade balance	(\$270.9 million)
Canada- Costa Rica Ag Trade	\$207.1 million
Exports	\$18.5 million
Imports	\$188.6 million
Trade balance	(\$170.1 million)

Agricultural Trade

Agri-food imports represent nearly 10% of total imports entering Costa Rica. Signifying substantial opportunity for Canadian agri-food exporters, 25% of raw materials used in food processing are supplied by foreign sources. Costa Rica's food processing industry produces nearly US\$1 billion annually. Most of this production is focused in meat and fish, prepared foodstuffs, dairy products, milling, and wines and spirits.

Shifts in the way Costa Rican's spend their time and money is increasing demand for packaged and prepared foods. The use of fast food services is also on the rise; this industry alone uses 36% of total agri-food exports destined for Costa Rica.

Canada's Top 5 Agricultural Exports to Costa Rica (2005)	
Potatoes, prepared or preserved	\$6.3 million
Malt, not roasted	\$3.7 million
Hams, shoulders and cuts	\$703,000
Oat groats and meal	\$685,000
Apples, fresh	\$648,000

Complete Statistical Summary available:
www.ats.agr.gc.ca/stats/costarica_e.pdf

- Canada is responsible for approximately 2.5% of total agri-food imports entering Costa Rica.
- Total Canada/Costa Rican agri-food trade was valued at nearly \$207 million in 2005. Agri-food trade represents almost 50% of the total trade between the two countries.

- 2005 bulk exports to Costa Rica totalled just over \$1.6 million, an increase of 90% over 2004, and is a result of a 100% increase in shipments of oilseeds. Intermediate exports totalled \$6.6 million in 2005, a 35% increase over 2004, driven by increased exports of grain products and vegetables. Consumer oriented exports were valued at \$10.3 million, a decrease of 6% due to significantly lower shipments of edible vegetables and meat products.
- 2005's top agri-food exports to Costa Rica were prepared or preserved potatoes, and non roasted malt, accounting for 34% and 20% respectively of Canadian agri-food exports to Costa Rica.
- Costa Rica also imports corn, soybeans, food preparations, wheat, and dried and shelled kidney beans from Canada.
- A significant increase in imports of jams, fruit jellies, marmalades, ice cream, beef, grains, and pork has been observed.
- Transgenic ingredients are also in demand as Costa Rica becomes a hot bed for biotech crop experiments.
- Top prospects in the Costa Rican agri-food industry include fresh fruit and vegetables, corn, wine and spirits, soybeans, pet food, bread, pasta, sausages and sauces.
- 2005's top Canadian imports from Costa Rica include fresh pineapples and fresh bananas, accounting for 39% and 27% respectively of agri-food imports from Costa Rica.

Economy

The Costa Rican government's long standing commitment to economic growth, sustainability and social development is leading to a substantial reduction in poverty, increased school enrollment and reduced child mortality. Other government goals include strengthening trade and competitiveness, and maintaining leadership on environmental issues.

With the second highest GDP per capita in the region, Costa Rica's greatest economic resources are fertile land, a well educated population and its location in Central America. Growing at an average of 15% each year since 1997, tourism has quickly become Costa Rica's largest and most lucrative industry.

Current conditions have made it difficult for Costa Rica's economy to grow quickly. The economic slowdown in the U.S., a decline in agricultural commodity prices (particularly in coffee and bananas), as well as increasing petroleum costs have slowed Costa Rica's GDP growth and kept inflation high. However, the prognosis is looking up, as 2006 is estimated to have the highest annual growth since 2003.

Gross Domestic Product (2005)	
GDP	US\$19.6 billion
GDP growth	(2005) 2.7% (2006e) 3.3%
GDP/ capita	US\$4,537
GDP/ capita (PPP)	US\$10,000

Current

- Overall GDP growth was approximately 2.7% in 2005, after a strong 3.7% growth surge in the 2nd quarter.
- In recent years Costa Rica averaged approximately \$795 million per year of additional foreign investment.
- Unemployment has been steady at 6.6%.

Forecast:

- 2006 GDP growth estimates are close to 3.3%, the highest annual growth since 2003.
- Inflation for 2005 was forecast to end in the 13% range, and is estimated to fall to 10.5% by the end of 2006.
- Domestic consumption is expected to continue to grow steadily at 2-3% annually.
- Government deficit is expected to widen to 6% of GDP as a result of high inflation and increasing costs to provide public services.

Consumer Market

The Costa Rican population is demanding more convenience from the agri-food sector. Households have increased disposable income to spend on convenience foods and services. The growing urban population (mostly residing in the greater San Jose area), increasing number of women in the workforce, and greater exposure to foreign products, are all factors increasing and influencing import demands.

Fast food restaurant visits among lower to middle class consumers are increasing and considered a cheap and convenient homemade meal replacement. Middle to higher class consumers are eating out on the weekends more frequently, spending up to 25% of their food dollars on restaurant services. Higher income consumers tend to take an interest in foreign cuisine and are fond of imported foods.

- The consumer market is comprised of an upper class (10%), middle class (60%), and a lower class (30%).
- Approximately 50% of the population is under the age of 20, creating a very impressionable consumer market that is readily adopting new products, and creating a demand for international products.
- Price is a major competitive factor for most products as Costa Ricans are very price conscious and savvy consumers.
- Consumers are willing to pay a small price premium for perceived quality, depending on budget constraints of the buyer.
- Costa Ricans are attracted to modern foreign products bearing brand names and competitive prices compared to their domestic counterparts.
- The demand for low-fat and sugar-free products is small, but gaining momentum as health awareness grows.
- Increasingly demanded grocery products include sauces, canned and frozen fruits and vegetables and packaged meals.
- Sauces, canned and frozen fruits and vegetables and packaged meals are becoming increasingly popular.
- Over half of Costa Ricans are considered to have a mid to high range of disposable incomes, creating a large segment with the ability to purchase higher cost import products.
- Shopping mall formats with groceries, clothes and entertainment under one roof are becoming increasingly popular, as well as supermarkets which account for 39% of all food sales.

- For the most part rural residents' consumer needs are served by general stores.
- Quality customer service is very important to the Costa Rican consumer.
- The hotel and restaurant industry accounts for approximately 12% of GDP and is growing at a rate of close to 10% annually.

Competitors

Costa Rica has prided itself on its international relations and agreements with neighbouring countries. In the past decade Costa Rica has signed numerous trade agreements, including the Central American Free Trade Agreement with the U.S. Costa Rica is also a member of the Cairns group since 1999, and has an agreement with the Caricom group of Caribbean countries. Other trading partners include Mexico, Chile, Guatemala, Trinidad, Tobago, Panama and the Dominican Republic. Due to the large number of free trade agreements Costa Rica has signed with international partners recently, total imports to Costa Rica have doubled since 1996.

Canada can gain market share by exploiting its similarity to the United States in this highly competitive market. Costa Ricans perceive U.S. products to be of superior quality and price. Those characteristics are also attributed to Canadian products.

- Costa Rica's principal import sources (total imports) and Canada's top competition is the United States (46.1%), Japan (5.9%), Mexico (5.1%) and Brazil (4.2%).
- The United States exports the most agri-food products to Costa Rica, accounting for approximately 62% of all agri-food products imported into the country.

Access Issues

In an attempt to ease the challenges of Costa Rican access issues, Canadian exporters are encouraged to establish a physical presence or a business partner in Costa Rica. Working with a local partner is considered to be essential. A local partner will be able to give insight into business practices, market characteristics, strategies, and inform Canadian suppliers about legal and financial procedures.

Canadian exporters are encouraged to register with the Virtual Trade Commissioner Service (<http://www.infoexport.gc.ca/ie-en/MarketReportsAndServices.jsp>), to gain easy access to Canada's embassy's and posts abroad. Canadian exporters are also encouraged to use the services of Export Development Canada (EDC) and the Department of Foreign Affairs, both of which offer trade information and financial and risk management services to Canadian exporters. In addition, there are several associations and chambers set up to facilitate flow of agri-food imports to Costa Rica including the Chamber of Representatives of Foreign Firms and the Chamber of Food Industry in Costa Rica. The services of the Canadian Embassy to Costa Rica are also available for use www.dfait-maeci.gc.ca/latin-america/sanjose/.

- Costa Rica does not enforce extensive barriers to prevent the entrance of agri-food imports. However, several commodities such as dairy, poultry, onions, potatoes and beans are of substantial local interest and are protected by high import tariffs.
- Most import food products must be registered at the Ministry of Health's Department of Registers and Controls.

- Meat plants producing goods destined for Costa Rica must be inspected and approved by the Costa Rican Ministry of Agriculture or meet equivalent requirements.
- Agri-food product labelling is heavily monitored and controlled, with hefty fines for noncompliant products. The most significant of the regulations being that all labels must be in clear Spanish, and not misleading.
- Along with product labels, product catalogues and brochures should be in Spanish for more manageable communication to potential buyers.
- Canadian companies are strongly advised to employ the services of a qualified Costa Rican attorney when setting up business transactions.
- Costa Ricans put a great importance on personal contact with suppliers, so exporters should be prepared to travel to Costa Rica periodically to follow up with buyers.

Business Travel Tips

- Women representatives are very well respected in Costa Rica, as they have made significant gains in the workplace and public domains.
- It is recommended drivers keep doors locked and windows shut as some areas of Costa Rica are not as secure as others.

Agriculture Sector & Policies

Costa Rican agriculture, next to tourism is considered to be one of the sectors responsible for Costa Rica's steady economy, although it has yet to reach high levels of efficiency. Generally, Costa Rican agriculture is characterized by numerous small farms, mostly less than 5 hectares in size, with less than half of farmers using tractors or modern seeds. Yields per farmed acre are significantly less than countries with modern machinery and technology.

- Agriculture accounts for approximately 8.5% of Costa Rica's GDP, and employs almost 15% of the workforce.
- Top agricultural products include bananas, coffee, beef, sugarcane, rice, dairy, vegetables, fruit, and ornamental plants.
- Costa Rican coffee exports were up 24% and bananas down 15% (due to flooding) in the first 7 months of 2005.
- Deforestation and land clearing for cattle ranching and agriculture are top environmental issues affecting the country.
- Costa Rica has set aside approximately 25% of land as protected areas and has implemented policies to pay citizens for good environmental practices, including electricity surcharges and reforestation credits.
- Land base is divided into arable land (4.41%), permanent crops (5.88%) and other (89.71%).
- Current food processing facilities range from large, modern installations to small, mom and pop operations. Manufacturers are currently modernizing facilities by purchasing high-tech processing and packaging equipment.

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