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Issues and Policies

CAFTA-DR Sets Stage for Increased High-Value Sales to Costa Rica

By Luis Solera

The United States exported \$311.5 million worth of food and agricultural products to Costa Rica in fiscal 2006, of which two-thirds was bulk commodities. U.S. products accounted for 44 percent of all agricultural and 25 percent of food and beverage products imported by the country.

A thriving economy and implementation of CAFTA-DR (the U.S.-Dominican Republic-Central America Free Trade Agreement) promise much higher sales of consumer-oriented items for U.S. suppliers.

A primary objective of the CAFTA-DR negotiations was to make trade a two-way street between the United States and these trading partners. Upon implementation, U.S. exporters can expect greater access to Costa Rica, becoming more competitive with countries like Chile, Canada, Mexico, and other Central American countries that have trade agreements with Costa Rica.

At this time, the average allowed tariff on U. S. agricultural products is 42 percent. Applied tariffs may be lower on specific products, but in many cases these tariffs restrict U.S. exports. Conversely, over 99 percent of the agricultural products from Costa Rica enter the United States duty-free.

Market access provisions of CAFTA-DR include all products and will be accomplished via tariff reductions, tariff-rate quota expansion, and combinations of these and other approaches. A comprehensive list of covered products can be found at: <http://www.fas.usda.gov/info/factsheets/CAFTA/overall021105a.html>

Increased Tourism, Good Economy Raise High-Value Sales

While tourism expansion drives demand for imported food and beverages in Costa Rica, its 4.3 million relatively affluent citizens have also helped up demand for imports, spending more money on convenience foods and eating out.

Economy Supports Investment

Tourism expanded an average 14 percent per year from 2002 to 2005, with 10-percent annual growth predicted for the next six years. While tourists enjoy local foods, they also want meats, pastas, vegetables, and seafood not available domestically.

Costa Rica does not keep official statistics on imported foods for just the HRI sector, but industry estimates that the total value of

Economy Supports Investment

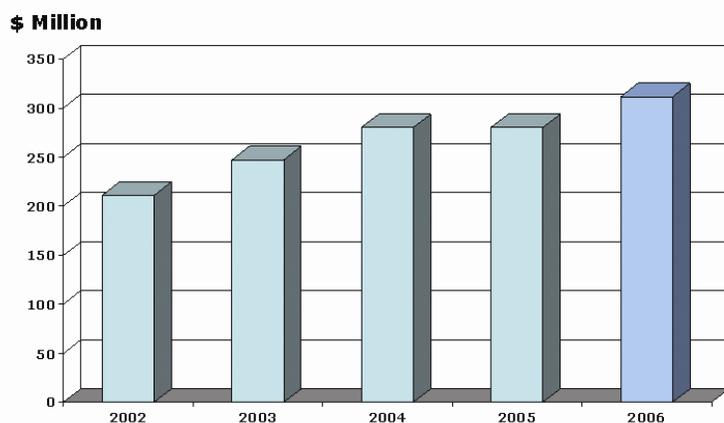
As Central America's most politically and economically stable nation, Costa Rica has already achieved a high level of economic development. Attracted by prosperity and an educated citizenry, foreign investors have flocked to establish technological, pharmaceutical and medical industries, and financial and administrative services in the country. Though the economy has some problems, they have not kept growth at bay. With a GDP (gross domestic product) totaling about \$20.8 billion in 2006, Costa Rica's recent growth has been in the 4-5 percent range annually, reaching 4.7 percent last year. Supported by tourism, agriculture, and electronics exports, the country's 2006 per capita GDP climbed to \$12,000. Upon approval and implementation of CAFTA-DR, further economic reforms and an improved investment climate promise to boost the economy further.

imported consumer-oriented foods for the sector is close to \$60 million in 2006 and could grow 15 percent per year over the next three years. Estimates for imported alcoholic beverages for HRI are \$12 million for 2005, with annual growth averaging 10 percent.

Upscale, Fast-Food Outlets Prefer Imports

In 2005, 390 hotels were open for business in Costa Rica. The top quality hotels that buy imports are few as yet, but are on the drawing board. Unless they are high-end, hotels tend to buy local products with lower

U.S. Food and Agricultural Exports to Costa Rica Increased 48% From Fiscal 2002 to 2006



prices. Most hotel restaurants rely on food service companies for their supplies, whether local or imported. Demand is also seasonal, peaking from November through March.

High-end restaurants, concentrated mostly in the Central Valley and highly visited regions like Guanacaste, offer varied international menus. Fusion cuisines (blending of ethnic products) are in high demand. Upper level restaurants are trending toward healthy, fresh, and natural products, preferring local seafood, beef, poultry, vegetables, and fruits. Imports are usually items not produced locally, but high-end restaurants often opt for imports that are viewed as higher quality than local origin items.

Fast-food restaurants, accounting for one-third of the restaurant market, offer mostly hamburgers, fried chicken, pizza, and local foods. Most chains buy imported food products.

With total food and beverage purchases around \$59 million per year, the local institutional market consists of private cafeteria caterers and public institutions like schools, hospitals, public security institutions, the justice system, and energy sector. Imported products make up an estimated \$3.8 million of the yearly purchases of this sector.

Distribution in Costa Rica

The high-end hotels and restaurants that buy imported food products expect timely delivery of quality products. Consequently, it is important for U.S. suppliers to choose importers or wholesalers that can meet these service requirements.

Exports are often consolidated by state-side brokers because of the small size of the market. The largest importers own warehouses and transportation systems, making their products available country-wide. Smaller importers tend to focus on importing well-known brands, or specialize in supplying specific customers. Supermarket chains often import directly through U.S. brokers.

Import Regulations

Imported foods must be registered prior to import. This registration costs \$100 per product and is valid for five years.

Products must meet the country's food labeling law, which requires labels in Spanish (they can be stick-ons) that disclose this information:

- product name
- net content and drained weight in international system units
- artificial colors and flavors
- ingredients listed in decreasing order, by weight
- importer's name and address
- lot number and expiration date
- country of origin
- preservation and use instructions ■

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