USDA United States Department of Agriculture
Foreign Agricultural Service

GAIN Global Agricultural Information Network

Voluntary Report – Voluntary - Public Distribution **Date:** August 25, 2023

Report Number: CS2023-0010

Report Name: Costa Rica Rice Situation Update

Country: Costa Rica

Post: San Jose

Report Category: Agricultural Situation, Agriculture in the Economy, Grain and Feed, Country/Regional FTA's

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Report Highlights:

U.S. rough rice exports have plummeted and the decline of Costa Rican rice production has accelerated sharply following the Government of Costa Rica's August 2022 tariff rate reduction on imported rice from all origins. FAS/San Jose projects local marketing year 2023/24 production to drop to 65,000 metric tons, a nearly 60 percent drop from marketing year marketing year 2021/22.

Executive Summary

Exports of U.S. rice to Costa Rica have fallen 98 percent year-to-date through June 2023 after the Chaves Administration reduced the tariff on rough and milled rice in 2022 (see FAS/San José GAIN Report CS2022-0016 for more information). The United States had been losing market share to South American-origin rice (Brazil, Uruguay, and Argentina) for years as fairly regular, time-limited duty-free import windows allowed South American-origin rice to circumvent 35 percent import tariffs during times of Costa Rican domestic shortage. Costa Rican importers have historically preferred South American origin rice due to high percentages of chalky grains in U.S. rice and to consumer preferences for rice that is 'less sticky' than U.S. rice. However, the United States had been exporting $25 - $30 million of rough (or unmilled) rice annually to Costa Rica prior to 2022 as a duty-free tariff rate quota under the Dominican Republic – Central American Free Trade Agreement (CAFTA-DR) made U.S. rice supplies price competitive and consistently available. As tariffs on South American-origin rice fell to 5 percent in August 2022, purchases of U.S. rice all but stopped.

Increased competition with South American-origin rice along with the dissolution of a long-standing price floor mechanism significantly hastened a long-term trend towards declining Costa Rican rice production. The 2022 policy change drove marketing year (MY) 2022/23 production down to 95,000 metric tons (MT), down nearly 40 percent from 153,000 in MY 2021/22.[1] As domestic production declined, imports rose to meet demand reaching an estimated record 200,000 MT milled rice equivalent in calendar year 2023.

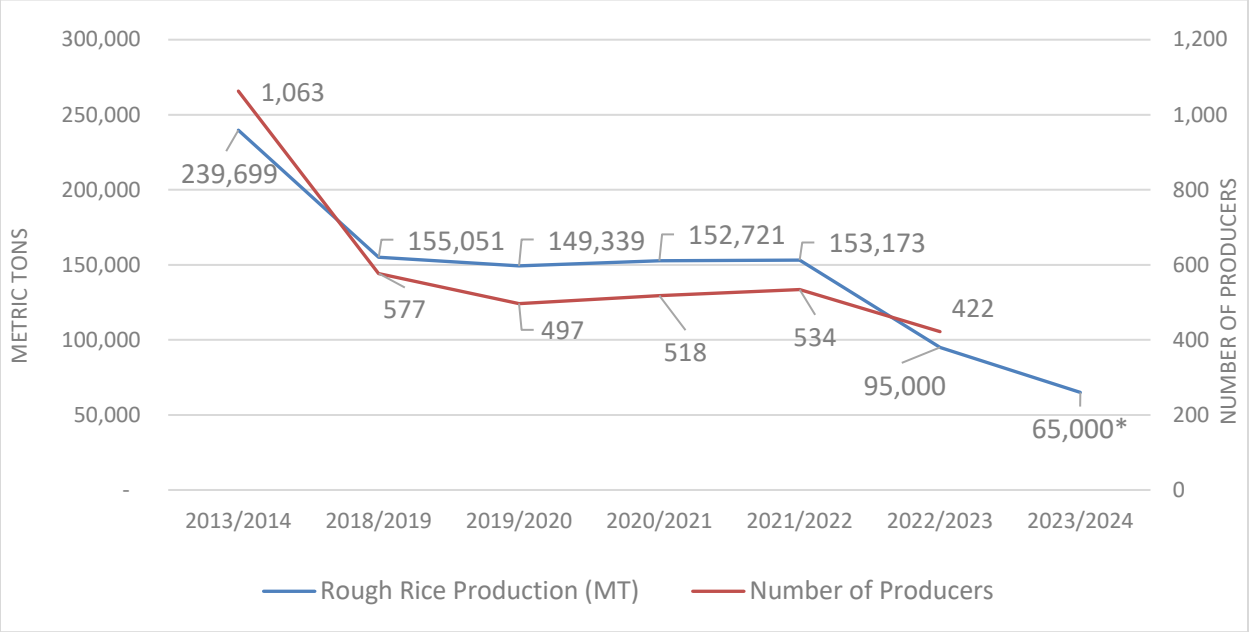
Production

FAS estimates MY 2023/24 rice area planted will fall to between 12,000 and 15,000 hectares (ha), generating 52,000 – 65,000 MT of rough rice. The uncertainty of international prices as the basis for production decisions – after decades of producing under a fixed price system – has reportedly made many of the remaining smaller rice producers hesitant about whether to plant the first, primary crop in MY 2023/24. The Costa Rican national rice producers and millers' association (CONARROZ) expects MY 2022/23 production to decline to 95,000 MT, falling 38 percent from 153,173 MT in MY 2021/22.[2]

[1] The local Costa Rican rice marketing year starts in July at the outset of planting of the primary / first rice crop, which is typically harvested from November to January.

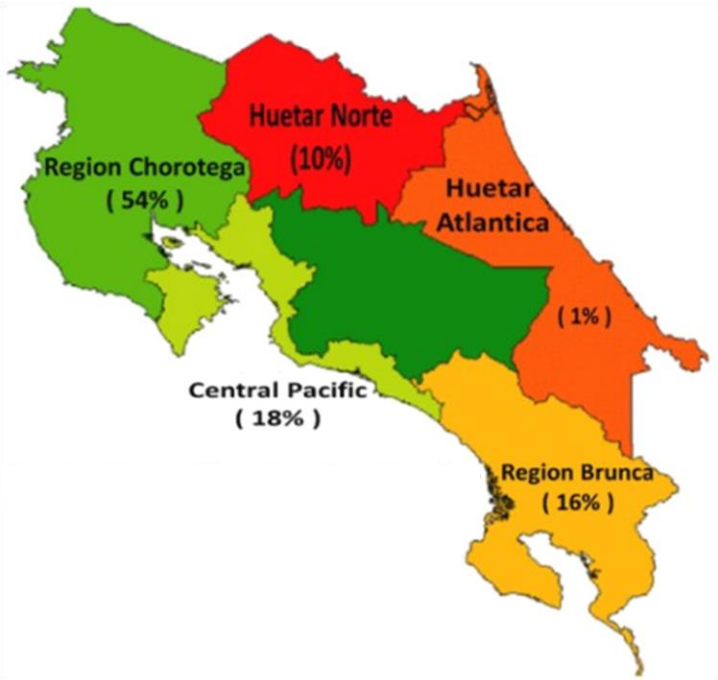
[2] Final MY 2022/23 data should be available later in calendar year 2023 as information from some rice mills was still being collected at the time of publication.

Figure 1. Annual Rough Rice Production Volume and Number of Producers



Source: *CONARROZ.*
* Higher-end of FAS/San José projected production range.
Please note the table above includes MY 2013/14 data as a point of comparison to demonstrate the extent of the industry's decline over the last 10 years.

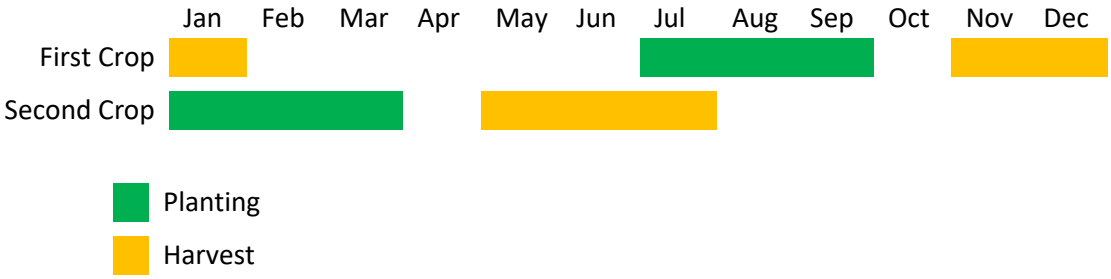
Figure 2. Percentage of Rice Production by Socio-Economic Region MY 2021/22



Source: *CONARROZ.*

Forty-three percent of the rice area planted in MY 2021/22 was irrigated (primarily in Chorotega, see map above), with the remainder dryland production. The primary crop is planted July through September, allowing dryland and irrigated producers to capitalize on rainy season (May to October) moisture. Most irrigated rice land produces two crops per marketing year, while producers without irrigation risk much lower yields or losing a second crop altogether in the absence of sufficient moisture. In the Brunca region, which tends to get more rainfall during the dry season, dryland growers have traditionally planted two crops.

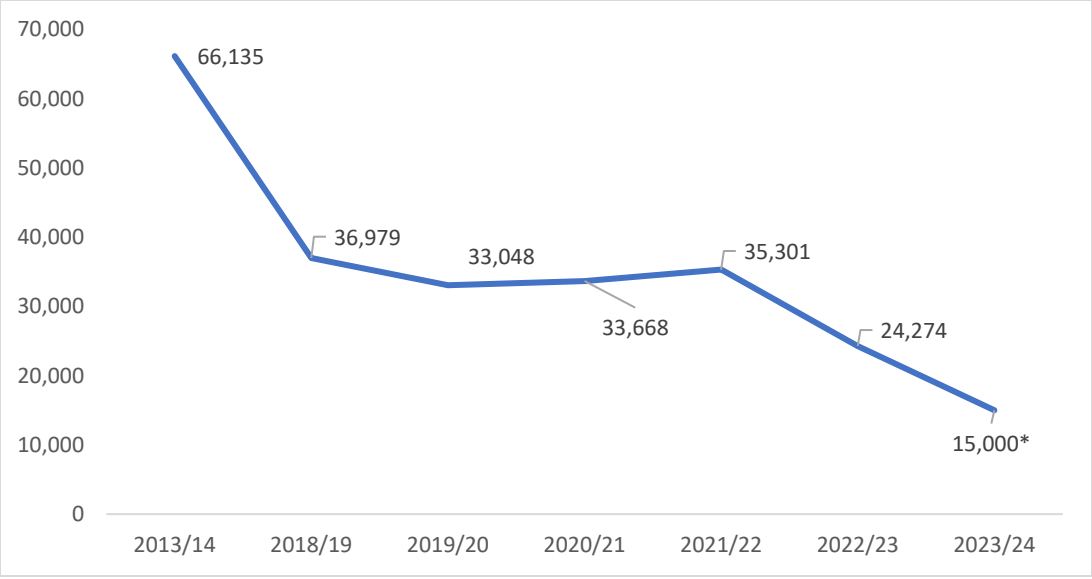
Figure 3. Costa Rica Rice Crop Calendar



Source: *FAS/San José.*

Total marketing year area planted represents the sum of first and second crop area (e.g., irrigated land producing two crops would be counted once for each crop planted, resulting in the same irrigated area appearing 'twice' in the total area planted figure).

Figure 4. Rice Area Planted by Marketing Year (ha)

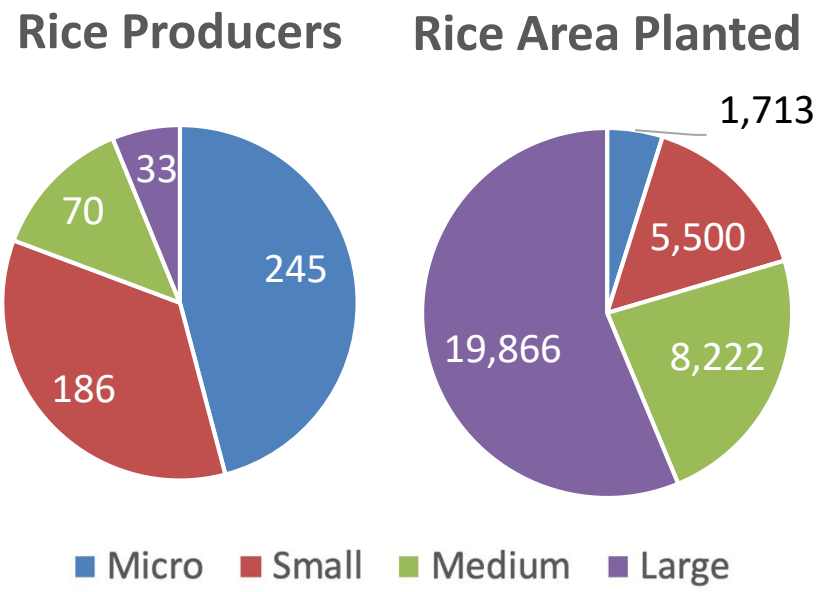


Source: *CONARROZ.*
* Higher-end of FAS/San José projected production range.
Please note the table above includes MY 2013/14 data as a point of comparison to demonstrate the extent of the industry's decline over the last 10 years.

Rice area planted has been steadily declining since MY 2013/14, when it reached 66,135 ha. Though rice is a cornerstone of the national diet, area planted has been declining for years as costs of production have continued to rise and the pre-2022 fixed price system often failed to adequately cover variable production costs. The El Niño weather system began in mid-2023, ahead of the MY 2023/24 planting season, and could drive production area lower than expected. As El Niño systems are correlated with hotter, drier conditions in Costa Rica and have contributed to intense drought conditions in the past, dryland farmers may opt not to risk planting even the first, rainy season rice crop in MY 2023/24

Four rice mills have been shuttered over the last ten years as production has fallen within certain regions, and milling ceased to be economical with reduced volumes. In the Central Pacific and Brunca regions (see production map above), rice area has gradually been converting to oil palm production, while in Chorotega rice area has transitioned into cattle production or sometimes out of agricultural production all together. Industry sources anticipate only the largest and most efficient producers will eventually continue planting rice in Costa Rica. Vertically integrated operations that produce, process, import, and distribute rice appear to remain profitable under current market conditions.

Figures 5, 6, and 7. Number of Producers and Area Planted (MY 2021/22)



Producer Size	# of Farms	Area Planted (ha)
Micro	245	1,713
Small	186	5,500
Medium	70	8,222
Large	33	19,866
Total	**534**	**35,301**

Source: *CONARROZ.*

Consumption

FAS/San José expects rice consumption to range between 235,000 MT and 240,000 MT in MY 2023/24. While relatively high at 45.8 kilograms (kg) in MY 2021/22, FAS/San José expects per capita annual rice consumption to remain steady in MY 2023/24, having ranged between 45.8 kg and 48.4 kg over the previous five marketing years. Marketing year 2021/22 milled rice consumption rose 1 percent to 236,630 MT, roughly keeping pace with population growth.

And though the consumption level has not varied much, Costa Rican consumers have increasingly opted for higher quality rice offerings in retail formats. In MY 2018/19, 43 percent of retail rice purchases were 80/20 blends (80 percent whole grains and 20 percent broken grains), but by MY 2021/22 80/20 sales had fallen to just 25 percent of sales, while 99/1 blend sales had doubled to 30 percent in MY 2021/22. Industry sources speculate that continued economic growth and increased at-home dining during the pandemic helped push more high-earning Costa Ricans toward higher quality rice. The prominence of whole grain content as a marketing tool is evident in the packaging pictured below.

Source: *FAS/San José*.

Rice millers are also providing a wider range of options at the higher end of the quality spectrum with 99/1 organic and 99/1 brown rice options as well as a 95/5 parboiled option in smaller, higher-unit-price formats.

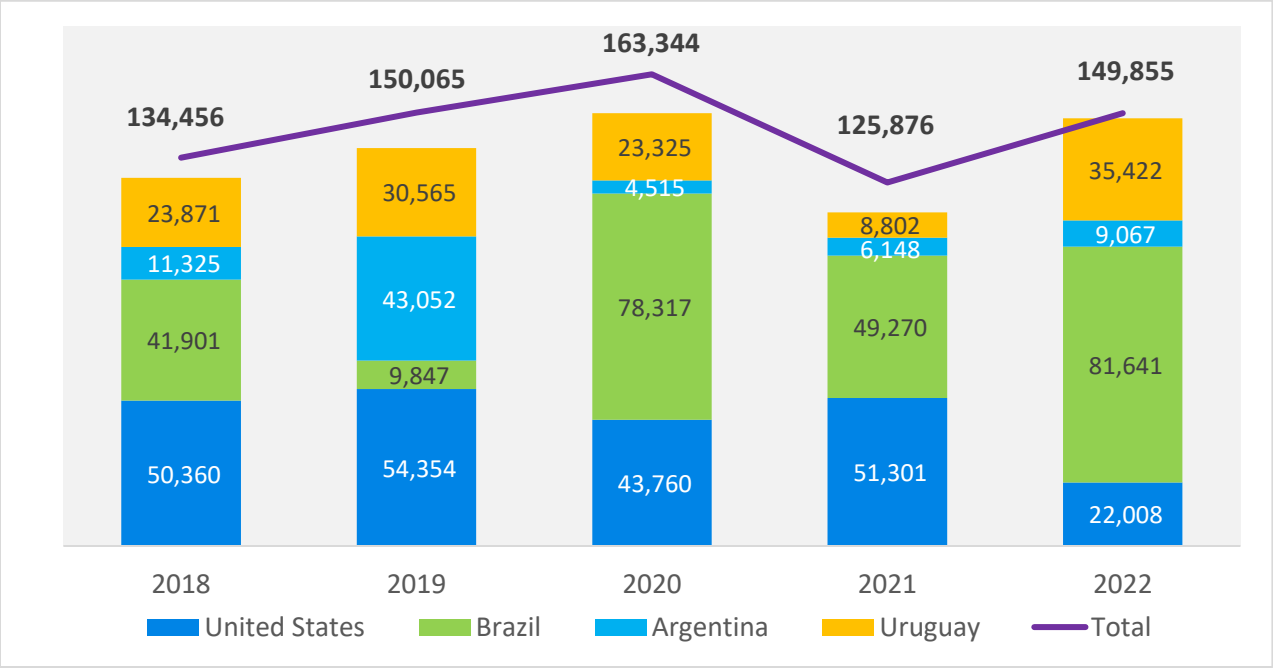
Source: *FAS/San José*.

Trade

Additional South American-origin rice volumes have virtually replaced all imports of U.S. rice since the government of Costa Rica reduced the import duties on rough and milled rice from all origins to 3.5 and 4 percent, respectively, from 35 percent in August 2022.[3] According to local millers, the combination of price and quality makes rice from Brazil, Argentina, and Uruguay more attractive than U.S. rice despite the longer shipping times. Local millers generally import rough rice to maintain milling operations after all the locally produced rice has been milled and sold. Rice by-products – such as husks, semolina, and broken grains – are sold to the local animal feed industry, providing additional income. Imported South American origin rice typically has a higher milling rate (i.e., a higher percentage of whole grains), which helps millers more easily achieve the various quality blends available on retail shelves. FAS/San José is aware of at least one local miller marketing 100 percent U.S. origin rice.

Costa Rica imported 121,587 MT milled rice equivalent in MY 2021/22, the final year marketing year before the tariff rate change. In that year, importers purchased 28,221 MT of milled rice and 167,575 MT of rough, of which 64,859 MT was U.S.-origin rice entering under the CAFTA-DR duty-free tariff rate quota; imports of U.S. rice in MY 2021/22 were 60,428 MT rough and 4,862 MT milled. However, total Costa Rican imports of U.S. rice in MY 2022/23 were 8,256 MT / less than 10,000 MT, a decline of more than 90 percent from the previous year.

Figure 8. Costa Rica Rice Imports by Origin by Calendar Year (MT milled rice equivalent)



Source: *Trade Data Monitor, LLC.*

[3] Virtually all imported products are assessed a 1 percent ad valorem import tax, which raises the effective rice import duty to 4.5 percent for rough rice and 5 percent for milled rice – the rates commonly used in local media. The tariff rates for imported rice from all origins are 3.5 percent for rough rice and 4 percent for milled rice.

Total calendar year 2022 rice imports from Brazil, Argentina, and Uruguay were 126,130 MT, and year-through-May data for 2023 show that import volumes from South American origins had already reached 133,324 MT. According to U.S. Customs data, U.S. rice exports to Costa Rica were 285 MT during the same period, down from 15,947 MT in January-May 2022, highlighting the significant change in import market dynamics.

CONARROZ estimated the price for U.S. rough rice imported duty free under the CAFTA-DR tariff rate quota and delivered to a Costa Rican mill was $544/MT on June 28, 2023. By comparison, similar grade rice from South American shippers could have been booked that week at $490/MT.

Figure 8. Costa Rica Rice Import Volume – Rough & Milled Breakout (MT)

Calendar Year	Total Imports	Rough Rice	Milled Rice	Total Imports Milled Rice Equivalent
2018	179,276	128,049	51,227	134,456
2019	201,952	148,245	53,707	150,065
2020	227,983	184,681	43,302	163,344
2021	178,930	151,580	27,350	125,876
2022	213,847	182,830	31,017	149,855
2023	*144,535*	*131,420*	*13,115*	*98,538*

Source: *Trade Data Monitor, LLC* (2018-2022), and *Costa Rican Customs Department* for 2023.
Note: 2023 data is for January – May.

Production, Supply, and Distribution Table

Rice, Milled	2023/24
Market Year Begins	**Jul - 2023**
Costa Rica	
Area Harvested (1000 HA)	15
Beginning Stocks (1000 MT)	71
Milled Production (1000 MT)	42
Rough Production (1000 MT)	65
Milling Rate (.9999) (1000 MT)	6500
MY Imports (1000 MT)	220
TY Imports (1000 MT)	220
TY Imp. from U.S. (1000 MT)	0
Total Supply (1000 MT)	333
MY Exports (1000 MT)	20
TY Exports (1000 MT)	20
Consumption and Residual (1000 MT)	245
Ending Stocks (1000 MT)	68
Total Distribution (1000 MT)	333
Yield (Rough) (MT/HA)	4.333

MY = Marketing Year, begins with the month listed at the top of each column
TY = Trade Year, which for Rice, Milled begins in January for all countries. TY 2023/2024 = January 2024 - December 2024

Attachments:

No Attachments.