

# C A R I B B E A N **EXPORT**

## DOING BUSINESS WITH COSTA RICA



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## **TABLE OF CONTENTS**

GENERAL INFORMATION .....	3
THE ECONOMY .....	5
Structure of the Economy .....	5
Recent Economic Performance .....	5
Balance of payments .....	5
Overview of Trade .....	5
Exports .....	6
Imports .....	6
Costa Rica's Trade with CARICOM .....	6
GENERAL MARKETING FACTORS .....	7
Distribution and Sales Channels .....	7
Use of Agents/Distributors .....	7
Franchising.....	8
Promotion.....	8
Transportation .....	8
MARKET ACCESS CONDITIONS .....	10
Customs Tariffs.....	10
Free Trade Agreements.....	10
Internal Taxes.....	11
Non-Tariff Barriers .....	12
Import Documentation .....	12
Labelling and Marking Requirements .....	12
Sanitary and Phytosanitary (SPS) Measures.....	12
Prohibited and Restricted Imports .....	13
Warranty and Non-Warranty Repairs .....	13
Standards.....	13
Product Certification .....	13
INVESTMENT PROFILE.....	14
Investment Incentives Schemes .....	14
Foreign Investment Regime .....	14
Free Trade Zones .....	14
Investment Agreements .....	16
ESTABLISHMENT OF BUSINESSES .....	18
Right to Private Ownership.....	18
Establishing an Office .....	18
Work Permit Requirements.....	19
Intellectual Property Rights .....	19
Conversion and Transfer Policies .....	19
CULTURAL PRACTICES .....	20
Business Customs .....	20
Entry/Exit Requirements:.....	20

## GENERAL INFORMATION

**Official Name:** Republic of Costa Rica

**Capital:** San José

**Area:** 51,100km<sup>2</sup> (19,730 square miles)

**Population:** 4.2 million (2005 est.)

**Population growth index (2004-2005):** 1.32%

**Population density:** 82.5 inhabitants per square kilometer

**Official language:** Spanish. English is used at a professional and business level

**Currency:** The colon (¢)

**Exchange rate:** 520.00 colones per US\$ (Sept 2006)

**Climate:** In general terms, the Atlantic and South Pacific have a tropical weather with undefined seasons. The rest of the country has a rainy season from May to November and a dry season from December to April.

The average temperature is 22 C (72F) in the Central Valley. Temperature in the coasts and beaches oscillate between 21C-32C (70F-90F).

### Principal Cities and Population: (2005 est.)

San José (capital)	1,480,140
Alajuela	793,746
Cartago	475,536
Guanacaste	391,358
Heredia	292,438
Limon	382,835

Puntarenas 399,516

**Airports:** Aeropuerto International Juan Santamaria (Alajuela) and Daniel Odubar Quirós (Guanacaste). There are regional airports in Pavas (Tobías Bolaños) and Limón

**Ports:** Puerto Limón and Moin in the Caribbean. Puerto Caldera in the Pacific

### Holidays:

New Year's Day:	January 1
Holy Thursday, Good Friday:	March or April
Juan Santamaria's Day, National Hero:	April 11
International Workers Day:	May 1
Annexation Day:	July 25
Our Lady of the Angels	August 2
Mother's Day	August 15
Independence Day	September 15
Cultures Encounter Day	October 12
Christmas Day	December 25

**Quality of Life:** Literacy Rate: 96%  
Life expectancy at birth: 78.7 years

### Local Time:

Local time for Costa Rica is minus 6 hours Greenwich Mean Time (-6 GMT). Costa Rica is one hour behind Eastern Standard Time (EST), and two hours behind Eastern Daylight Time (EDT).

### Business Hours:

Typical working hours are 8:00 am to 12:00 pm and 2:00 pm to 6:00 pm  
Generally, the Costa Rican Government

offices have a continuous working schedule from 8:00 am 4:00 pm. Most public banks are open from 9:00 am to 3:00 pm, while private banks are usually opened until 6:00 pm

**Telephone Codes:**

Country code: 506. There is no local code system.

**Health:**

In general, medical services are good. All Costa Rican workers and their dependents are covered by a public health care system administered by the Costa Rican Social Security Fund (Caja Costarricense de Seguro Social, or CCSS).

## **THE ECONOMY**

### **Structure of the Economy**

The sectoral composition of the Costa Rican economy has been relatively stable since 2001. Services, taken as a whole, continue to account for the largest share of GDP, with commerce, restaurants and hotels being the most important single contributor. Of the goods-producing industries, manufacturing continues to be the largest contributor to GDP. The agriculture and livestock sector remains a significant employer, accounting for 14.7 per cent of employment in 2005, the second highest percentage after trade and repair.

During 2001-2005, the Costa Rican economy expanded at an average annual rate of 4.9 per cent in real terms, showing particularly robust growth since 2003 in spite of the impact of oil prices. The growth rate has been sustained mainly by increased investment and exports. Net exports, however, have been negative as a result of structural factors in the national economy and the deterioration in the terms of trade. The unemployment rate has remained broadly stable.

### **Recent Economic Performance**

Costa Rica's annual economic growth averaged around 4.9 per cent during 2001-2005, and is estimated to have been almost 6 per cent in 2006. Growth has been particularly strong since 2003, reflecting mostly the strong performance of investment and exports. GDP per capita was slightly above US\$4,600 in 2005. The fiscal deficit has been decreasing since 2003, but achieving and

maintaining a balanced fiscal position remains a challenge especially considering high pension and other specific payments mandated by law as well as the relatively heavy public debt (55% GDP). Monetary and exchange rate policies have undergone major changes, with a crawling peg regime having been replaced by a crawling band in October 2006. The change is aimed at better controlling inflation, which reached 14.1% in 2005 but is estimated to have fallen below 10% by late 2006.

### **Balance of payments**

The balance-of-payments current account has been in deficit over the period 2001-2005, mainly as a result of a deterioration in the balance of goods. Preliminary estimates for 2006, indicate that both exports and imports continued to expand rapidly, in spite of which the trade deficit inflated. The deterioration in the balance of trade can be partly explained by higher oil prices, which contributed to a worsening of the goods trade deficit. This deterioration has, however, been partially offset by a continuous expansion in the services balance surplus, a surplus largely attributable to the favourable development of tourism, computer and online data-processing services and business support services.

### **Overview of Trade**

Costa Rica's total trade has continued to increase, albeit at slower rates than during the second half of the 1990s. Exports in the period 2001-2005 grew at an average annual rate of 3.7%, import growth rates were 9%. Imports have

seen a continuous upward trend, while exports have recovered from their fall in the year 2000, mainly as a result of the good performance of companies operating in the free zones. Exports have been expanding rapidly since 2002 and there has been a diversification of the export base.

## **Exports**

Almost two thirds of exports are manufactured goods and one third comprise agricultural products.

The main manufactured goods are:

- electronic products (mainly microprocessors)
- chemicals (including pharmaceuticals)
- medical devices
- made-up articles.

The main agricultural export items are:

- bananas
- pineapples
- flowers
- Other exports (coffee, melons, sugar and manioc).

The main destination for Costa Rican exports is the United States. Exports to this country grew steadily during 2001-2005. The other countries of the American continent, taken together as a group, are the second destination for Costa Rican exports, representing 24% of the total in 2005, with the European Union ranking third that same year, with a share of 17%.

The share of Asian countries increased significantly from 7.3% in 2001 to 14.5% in 2005. Almost 10% of 2005 exports went to the six East Asian

traders, and almost 3.4% to China, as compared with 0.3% in 2001. The upswing in Costa Rican exports to China was driven mainly by sales of integrated circuits and computer parts.

## **Imports**

Almost 80% of imports are industrial goods, such as integrated circuits, petroleum oils and medicines. Fuel imports have grown steadily, doubling in value between 2001 and 2005, which is mainly a reflection of the rise in fuel prices.

With regard to imports, the US is Costa Rica's main supplier. Other suppliers are Asian (mainly China and Japan), the European Union. Costa Rica imports petroleum oils mainly from Venezuela (23 per cent of total imports of this item in 2005).

Costa Rica has traditionally recorded a trade-in-services surplus. The most important export item is travel, followed by other business services, transport, and computer and information services. Transport and travel top the list of the country's major services imports.

## **Costa Rica's Trade with CARICOM**

In 2004, CARICOM's imports from Costa Rica were in excess of US\$26 million, while exports totalled a mere US\$7 million leading to a trade deficit of over US\$18 million.

## **GENERAL MARKETING FACTORS**

### **Distribution and Sales Channels**

The retail distribution sector closely follows U.S. practices. Seventy-five percent (2.5 million people) of the country's consumers live in the Greater San Jose area known as the Central Valley. They are accustomed to large shopping centers and malls that house retail stores, kiosks, food courts, theaters, and supermarkets.

Franchise outlets, smaller mixed-use commercial centers and hypermarket-type operations are proliferating rapidly due to increased pressure and competition from big retail stores such as Price Smart and Hypermas. In recent years, retail outlets have undergone a mayor consolidation. There are currently five large department store chains, six supermarket chains, and countless small and medium-sized family-owned firms that compete with the larger retailers. Rural areas are served by the "general store", locally known as a "pulperia".

Distribution channels do not vary significantly for food/agricultural products. Some products (for example, fresh fruits and frozen foods) require technical knowledge regarding handling due to their shelf-life requirements and need for refrigeration. Private firms import consumer foods, while several wholesalers are dedicated to the food import business. The food product distribution chain to supermarkets and to medium and small stores is well developed. Some of the larger supermarket chains import directly.

Although it is possible to export directly to Costa Rica, firms will find it is beneficial to find a local representative and/or establish a local sales office. A local representative is a requirement for those companies wishing to sell to the public and private sector.

### **Use of Agents/Distributors**

Costa Rican law provides for two main forms of representation – a representative and a distributor. It is possible for one person to be both a representative and a distributor simultaneously. The following are the requirements to be a representative/distributor:

- May be a Costa Rican or a foreigner, permanently or legally established within the country for at least ten years
- Must have at least 3 years experience engaged in any form of commerce within Costa Rica
- Must be sufficiently knowledgeable in commercial matters and recognized as being solvent and of honourable character
- Must be duly registered as such in the Mercantile Registry of Costa Rica

Law 6209 tends to favour the local distributor and makes it very expensive for the manufacturer to end a relationship with a local distributor for reasons other than non-payment or royalties. Under this law, a foreign

company that revokes a contract with its Costa Rican distributor, agent or representative against its will or fails to renew a contract after its expiration for reasons apart from the Costa Rican firm's will, could find itself obligated to compensate its Costa Rican partner.

Companies wishing to do business in Costa Rica are therefore advised to seek the counsel of a Costa Rican Legal firm with expertise in this area of law before signing a contract.

### **Franchising**

Franchising has been spurred by the rise of tourism to Costa Rica. Approximately half of the thirty franchise retail businesses in operation are fast food/specialty food enterprises.

A key factor for success in franchising in Costa Rica is the careful selection of the potential franchisee and location of the outlet.

Opportunities exist for growth and expansion of franchising outside of the fast food sector. Entrepreneurs continue to appreciate the mature business systems and proven track record that many franchises offer. Effective franchise marketing normally entails sensitivity to the need to adapt to the local culture, such as translating manuals/catalogues into Spanish.

Owing to Costa Rica's relatively small size, an exclusive territorial contract is often preferred. Some successful franchise operations involve investor groups who have purchased master franchise rights for the entire Central

American region. In many cases, a local franchisee will own several different types of franchisees in different industry sectors as a way to diversify their investments.

### **Promotion**

The concept of customer service is very important in Costa Rica. TV, radio, print and billboard advertising and discounting are widely accepted practices.

Costa Rican newspapers are among the best ways to promote sales of products and services. Some of the major newspapers are La Nacion, La Republica and La Prensa Libre.

Purchase decisions by Costa Ricans are generally based on price, quality, technical specifications, convenience and the availability of local product support or after sales service. Sales catalogues and brochures should be translated into Spanish. Products must be price competitive.

### **Transportation**

There are more than 7,000 kilometers (4,400 miles) of principal highways and roads, and some 16,000 kilometers (9,600 miles) of rural roads. All overland cargo, except bananas from the Pacific ports, is transported via truck.

Twenty international passenger airlines and fifteen cargo airlines serve San Jose's principal airport, Juan Santamaría International Airport.

Regional airports offer regularly scheduled domestic flights to Golfito, La Fortuna, Liberia, Samara, Tambor,



Tortuguero, Puerto Jimenez, Punta Islita, Nosara, Quepos, and Tamarindo. Nature Air now operates a flight to Grenada, Nicaragua.

There is good taxi and public bus service in the capital city of San Jose. Official taxis are red and are the recommended means of travel for business visitors. The official taxis have the name of the taxi company written on a yellow box on the top of the car.

Car rental service is also available from Avis, Hertz, and other well-known companies.

## **MARKET ACCESS CONDITIONS**

### **Customs Tariffs**

Costa Rica has taken measures to modernize its trade regime by simplifying and computerizing customs procedures and adopting new regulations on customs procedures and valuation. The tariff is Costa Rica's main trade instrument. Applied customs duties range typically from 1 to 15% ad valorem on the CIF value. Duties on imported raw materials, bulk grains, and oilseeds have been 1% since 1996. Periodically, Costa Rica reduces the applied tariff on rough rice and beans to meet local demand. Duties on imported capital goods and most finished products are one percent and 15%, respectively.

The Government of Costa Rica agreed in the Uruguay Round of trade negotiations to eliminate all import quotas and to reduce tariffs progressively. The current maximum tariff is 46% on most goods, excluding selected agricultural commodities of substantial local interest which are protected, or "safeguarded," 150% tariff are currently imposed on poultry products, dairy products, 65% tariff.

In order to determine the applicable duty for your products visit the website [www.hacienda.go.cr/tssac/arancel.asp](http://www.hacienda.go.cr/tssac/arancel.asp)

### **Free Trade Agreements**

As a member of the Central American Common Market (CACM), Costa Rica applies a zero tariff to almost all products originating in the CACM. In

Costa Rica's case, the products excluded from free trade are coffee whether or not

roasted, raw or refined cane sugar and ethyl alcohol, the latter product only in the case of El Salvador. Restricted products are subject to payment of import duties (coffee, whether or not roasted) or an import permit (sugar, ethyl alcohol). In the case of products subject to import permits, the countries may grant import permits at their discretion, in which case the products enter under the free-trade regime; if no permit is granted, the products are subject to the MFN tariff.

Costa Rica has signed a Free Trade Agreement (FTA) with CARICOM countries. It provides over a period of four years as of the entry into force of the Agreement, for 94.5 per cent of the products imported by Costa Rica to enter duty free. Some agricultural products will receive seasonal access treatment. Costa Rica has excluded from tariff reduction products such as rice, sugar, beer, chicken, pig meat (except for hams and shoulders), liquid and powdered milk, paints and varnishes. The Agreement is currently in effect with Barbados, Guyana and Trinidad and Tobago.

Under the Costa Rica-Canada FTA, Costa Rica allows duty-free entry for around 65% of Canadian products following the entry into force of the FTA, with the remaining 34% subject to a reduction timetable over eight to 15 years.

Under the Costa Rica-Chile FTA, Costa Rica's tariff reduction involves four reduction phases with periods of zero, five and 12 years (for food industry, plastic, engineering and other products), and 16 years for some products (pig meat, root crops, avocados, beer, salt, and paper and printing products).

Under the Costa Rica-Mexico FTA, Costa Rica provided for an immediate reduction of tariffs on 73% of products. A reduction timetable over five years was agreed for 12% of products; 13% had a timetable over 10 years; 0.4% over 15 years; and 1.9% of products were excluded from the reduction programme.

The FTA between Costa Rica and the Dominican Republic allows free trade in both directions for the majority of products. The exceptions include some products that were contained in a reduction timetable for the period 1999-2004, vegetable oils of Chapter 15 of the HS, for which differential treatment was agreed, and products excluded from the reduction programme.

Costa Rica has a Free Trade and Preferential Exchange Agreement with Panama under which it grants tariff preferences to less than 25% of the products listed in the HS.

Costa Rica is also beneficiary of the US Caribbean Basin Trade partnership Act (CBTPA). Through this programme Costa Rica receives duty free treatment for most exports to the US.

### **Internal Taxes**

Imports receive national treatment in the application of domestic taxes except in certain cases such as the tax of the

Institute for Municipal Development, which is levied at 10% on imported beer and at 3% on domestic beer. The tax of the Institute for Agrarian Development is applied at a rate of 5% on carbonated soft drinks from national brands and at 10% on similar products produced in Costa Rica by subsidiaries of international brands or imported drinks

A 13 % value-added (sales) tax is paid upon purchase of most goods and services, including imported goods, not destined for official use by central or local governments. Certain basic products (staple foods, school uniforms, etc.) are exempted. It is levied on the total of the CIF value, ad valorem duty and the consumption tax.

Selective consumption (excise) taxes for many imported and domestic products have been reduced or eliminated. However, excise taxes, ranging from 5% to 75%, apply to about half of all products imported. Among the highest taxed items are arms and munitions (75%), costume jewelry (50%), fireworks (50%), whiskey (50%), new and used vehicles (varies), and wine and beer (40%). This tax is levied on the CIF value plus the ad valorem duty.

Certain imports are also subject to Central Bank surcharges, generally also paid on goods manufactured in Costa Rica or in the rest of Central America, unless purchased by the Central Government or Municipalities. In the latter cases, the goods would be tax exempt.

A one-percent surcharge is imposed on most imports, except medicines and raw materials for human consumption and

industry. This is charged only on the CIF value.

### **Non-Tariff Barriers**

There are no significant trade barriers affecting the entry of most goods and services into Costa Rica. Costa Rica continues to unify and lower its tariffs in compliance with its commitments to its Central American neighbors and its World Trade Organisation obligations.

### **Import Documentation**

Costa Rica's Custom [www.aduanas.go.cr](http://www.aduanas.go.cr) require no special documentation for entry of goods other than commercial invoices, bills of lading and airway bills for shipments.

Pharmaceuticals, drugs, cosmetics, and some chemical products, such as solvents, agricultural inputs and precursor chemicals used to produce narcotic drugs, require an import permit and registration in the Ministry of Health, which are valid for five years.

Food products require registration when imported for the first time. The Ministry of Agriculture and Livestock (MAG) requires phytosanitary and animal health certificates. The Costa Rican importer must obtain the permits.

The Costa Rican Institute of Social Security ([Caja Costarricense de Seguro Social- CCSS](http://Caja Costarricense de Seguro Social- CCSS)) Procurement Department will require a bar code system be incorporated in all purchases of medicines and medical supplies upon entry in the Costa Rican market. This requirement will be included in the specifications of all public and private tenders issued by the CCSS for the

acquisition of medicines and medical supplies.

Costa Rica does not require pre-shipment inspections.

### **Labelling and Marking Requirements**

There are no general requirements in Costa Rica for marking the origin of general merchandise. However, Costa Rican food labeling regulations follow the Codex Alimentarius and require that all domestic and imported food products contain labelling in Spanish with the following information:

- product name
- list of ingredients in order of quantity
- country of origin
- nutritional content
- name, and address of importer
- expiration or best-used-by date
- metric weight

Although expiration dates are required to be on all food product labels, Costa Rican importers are of mixed opinion regarding their utility, and the Government of Costa Rica is inconsistent in enforcing this requirement.

Special labelling requirements apply to pharmaceuticals, fertilizers, pesticides, hormones, veterinary preparations, vaccines, poisonous substances, and mouthwashes.

### **Sanitary and Phytosanitary (SPS) Measures**

Costa Rica has been active in adopting sanitary and phytosanitary (SPS) measures and technical regulations. Costa Rica is carrying out a programme

to rationalize the number of technical regulations, which offers an opportunity to ensure that technical regulations do not become unjustified obstacles to trade.

Sanitary and phytosanitary certificates are required for importing bulk grain and horticultural products. Zoosanitary (USDA/FSIS) certificates are required for importing fresh and frozen meats. Most processed food products (canned, boxed, pre-cooked) do not require phytosanitary or zoosanitary certificates.

### **Prohibited and Restricted Imports**

The Government of Costa Rica prohibits the importation of used tires without rims because mosquitoes carrying yellow fever or dengue fever breed in water accumulated in rimless tires.

The importation of weapons is closely regulated; only the Government may import automatic firearms.

### **Warranty and Non-Warranty Repairs**

Costa Rican law does not exempt replacement parts from duties or taxes even if the parts are used in warranty repairs. Equipment used to make repairs can be admitted temporarily for a three-month period, renewable once, upon depositing with Customs the amount of duty that would be charged if the item were imported. The deposit is refunded upon re-export of the equipment.

### **Standards**

Costa Rican law requires the exclusive use of the metric system but, in practice, accepts U.S. and European commercial and product standards.

The Costa Rican Ministry of Economy, Industry and Commerce (MEIC) [www.meic.go.cr](http://www.meic.go.cr) is responsible for the formulation and implementation of the requirements and standards that local and foreign companies must follow in order to sell their products in the local market. However, these regulations are mostly related with labelling and usage instructions.

Certification of ISO standards is voluntary. The Government of Costa Rica does not require that foreign companies be certified with ISO (9000 and 14000) standards in order to export to Costa Rica. Likewise, Costa Rican companies are not required to be certified under ISO standards to sell their products in local and foreign markets.

### **Product Certification**

The Costa Rican Ministry of Health is responsible for the registration and authorization of import permits for food products, chemical products, cosmetics, and drugs and other pharmaceutical products imported into Costa Rica. The Costa Rican Ministry of Agriculture and Livestock (MAG) [www.mag.go.cr](http://www.mag.go.cr) is responsible for the registration and authorization of import permits for fertilizers and agricultural products imported into the country.

## **INVESTMENT PROFILE**

### **Investment Incentives Schemes**

Costa Rica has a generally open international trade and investment regime, with the exception of a few sectors that are reserved for state companies. Costa Rica also has a number of tax incentive schemes or official financing programmes that are not linked to export.

Costa Rica has several programmes granting tax exemptions to exporting enterprises. It has informed the WTO that the free zone and inward processing regimes provide export subsidies. The free zone regime is the only one that allows exemption from income tax (30%) and is the most important export promotion scheme, accounting for just over half of Costa Rica's exports of goods in 2005.

### **Foreign Investment Regime**

Costa Rica does not have a special foreign investment law or specific administrative regulations governing foreign investment. Article 19 of the Constitution stipulates that foreigners have the same individual and social duties and rights as Costa Ricans, with the exceptions and limitations established by the Constitution itself or by law.

The State reserves exclusive rights in the following branches of activity: the importing, refining and distribution of petroleum and petroleum products; alcohol production; insurance services; railways, seaports and airports; some postal services; and sole concessions in some electricity and telecommunications

services. Concessions may be granted in connection with some of these activities under the applicable legislation. In October 2006, the Government introduced in the Legislative Assembly draft laws on opening up certain telecommunications and insurance sectors to private investment.

### **Free Trade Zones**

#### **Free Zone Regime**

Free zones are the most important export promotion instruments in Costa Rica. There are various laws which legislate the free trade zones.

The Free Zone Regime includes benefits given to companies that make new investments, provided that they meet the requirements and obligations laid down in the Law on the Free Zone Regime. The purpose of this Law is to promote socio-economic development by attracting both foreign and domestic investment and by promoting exports.

In order to be eligible for the Free Zone Regime, companies must be engaged in handling, processing, manufacturing, producing, repairing or maintaining goods or supplying services intended for export or re-export. The Free Zone Regime only applies to companies whose new initial investment in fixed assets amounts to at least US\$150,000 within the free zone industrial park and US\$2 million if it is outside the park. Likewise, the establishment of satellite plants outside the free zone industrial park in which the main plant has been authorized is allowed on an exceptional basis.

Companies eligible for the Free Zone Regime may introduce into Costa Rican customs territory up to 25% of their total sales, subject to compliance with the requirements laid down in the Law. The percentage is up to 50% for companies exporting services. Trading companies may not sell in Costa Rican territory.

The benefits available may be for an indefinite period or for the time-limits. The Foreign Trade Corporation of Costa Rica (PROCOMER) [www.procomer.com](http://www.procomer.com) is responsible for supervising the Free Zone Regime and for dealing with applications by companies to be accepted for the Regime and benefit from the relevant incentives.

Incentives under the Free Zone Regime include:

- (i) exemption from all taxes and consular fees on imports of raw materials, spare parts, packing materials and other products, machinery, equipment, replacement parts, fuel and oil;
- (ii) exemption from all tax relating to the export or re-export of products;
- (iii) exemption from payment of tax on capital and net assets and payment of the land tax;
- (iv) exemption from sales and consumption tax on purchases of goods and services;
- (v) exemption from all taxes on profits;

(vi) exemption from any municipal or business tax. Companies situated in relatively less-developed areas, which came under the Free Zone Regime prior to 8 October 2003, also have the right to a credit of 10 per cent of the amount paid as salaries during the year immediately preceding; this percentage falls by two percentage points per annum until the benefit expires in the fifth year, i.e. in 2008.

(vii) Export processing companies which, on completion of four years of operations, reinvest in Costa Rica may be given an additional exemption from payment of income tax for a percentage corresponding to the ratio of the reinvestment to the original investment.

### **Inward Processing Regime**

The purpose of the Inward Processing Regime is to promote production, employment and foreign and domestic investment and, as a result, to increase exports and domestic consumption.

The Inward Processing Regime allows goods to enter national customs territory with suspension of all kinds of tax and subject to provision of security. It does not include income tax-related benefits. The goods covered by this Regime must be re-exported within the time-limits laid down in the regulations, after undergoing processing, repair, reconstruction, installation, assembly or after being incorporated in systems, machinery, transport equipment in

general or appliances with a higher degree of technological or functional complexity or after being used for other similar purposes. The goods must be re-exported within a non-renewable period of one year, with the exception of machinery and accessories, which may remain for an indefinitely renewable period of five years.

In order to be eligible for this Regime, companies must choose one of the two options available:

- (i) the 100 per cent direct or indirect re-export option, which does not allow the sale of products in the domestic market; or
- (ii) the direct or indirect re-export and domestic sale option, which allows goods to be sold in the domestic market or re-exported. Companies operating under the domestic sale option are required to pay the full tax applicable to the definitive import of the inputs. On the entry of machinery and equipment under the Regime, they must also pay the proportion of tax corresponding to the percentage of sales in the domestic market as a ratio of the company's total sales.

The Regime's benefits apply as from the date of issue of the authorization to commence activities and the corresponding authorization from the Directorate-General of Customs. Except

in the event of revocation of the authorization under the Regime by the Ministry of Foreign Trade or relinquishment by the company covered by the Regime, the benefits are granted indefinitely subject to an application for extension made to the COMEX every five years.

### **Investment Agreements**

Costa Rica gives guarantees and protection to foreign investment through the following free trade agreements currently in force: Canada, CARICOM, Chile, Mexico and Dominican Republic. Costa Rica has ratified the Agreement establishing the Inter-American Development Bank's Inter-American Investment Corporation and is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

At the end of January 2006, Costa Rica was party to agreements on the reciprocal promotion and protection of investment with 14 trading partners<sup>1</sup> and four new agreements<sup>2</sup> were in process of passing through the legislative approval process.

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<sup>1</sup> Argentina (Law No. 8068 of 2 March 2001); Canada (Law No. 7870 of 25 May 1999); Chile (Law No. 7748 of 23 March 1998); Chinese Taipei (Law No. 7994 of 29 March 2000); Czech Republic (Law No. 8076 of 2 March 2001); France (Law No. 7691 of 4 November 1997); Germany (Law No. 7695 of 5 November 1997); Korea (Law No. 8217 of 7 May 2002); Netherlands (Law No. 8081 of 5 March 2001); Paraguay (Law No. 8069 of 5 March 2001); Spain (Law No. 7869 of 21 May 1999); Switzerland (Law No. 8218 of 7 May 2002); United Kingdom (Law No. 7715 of 26 November 1997 – not in force); and Venezuela (Law No. 8067 of 2 March 2001).

<sup>2</sup> Belgium and Luxembourg, Bolivia, Ecuador and Finland.



Most favoured nation treatment is guaranteed to foreign investors under the provisions of bilateral investment treaties, free trade agreements and the GATS. Foreign investors are eligible for the same incentives as those granted to Costa Rican enterprises.

## ESTABLISHMENT OF BUSINESSES

### Right to Private Ownership

The incorporation of companies is governed by Law No. 3284 (Commercial Code) of April 30, 1964. This Law allows four types of commercial company to be set up: general partnerships, limited partnerships, limited liability companies and public limited companies. Other legal entities may be set up in accordance with special rules.

A public limited company is the most popular form of commercial structure. Two partners are required in order to set one up. It is incorporated through a document drawn up by a notary, public issue of shares or as a closely held corporation, the latter being the most common form. A public limited company is administered by an executive board or board of directors composed of a minimum of three members, who may or may not be partners, and are entitled the chairperson, secretary and treasurer.

The articles of incorporation, the extension, modification and winding up of commercial companies, as well as documentation referring to mergers or transformation of a company, must be registered in the Register of Legal Persons. The average time required for registration formalities is between 15 and 30 days.<sup>3</sup> Ten days after its registration, the company must be

registered by the Directorate-General of Taxation as a taxpayer. In addition, it must be registered with the Costa Rican Social Security Fund (*Caja Costarricense de Seguro Social* – CCSS) and the INS and obtain a sanitary operating permit from the Ministry of Health. The latter three requirements are usually conditions for obtaining a municipal licence, which is required for all profit-making activities. The municipal licence is subject to payment of a tax.

Only the commercial revenue earned in Costa Rica is taxable. There is no capital gains tax, but the profits earned from selling capital goods are taxed as commercial income.

### Establishing an Office

The first step in establishing a business in Costa Rica is to obtain the assistance of a Public Notary, the only professional authorized by law to register a company (in Costa Rica, almost all lawyers can act as a Public Notary). Companies must be filed in the Costa Rican Mercantile Registry in order to be a legal, authorized entity.

At registration, all information related to the new company and the persons who will manage the company must be submitted. This information includes full name, nationality, occupation, marital status, domicile, the legal form of the business being organized, purpose of the company, amount of initial capital and the manner in which this capital is to be paid, time limits for payments,

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<sup>3</sup> See *Manual de Inversionista – Registro Nacional*, consulted at: <http://www.tramites.go.cr/manual/espanol/frame.htm>.

domicile of the company, and any other agreements made by the founders.

An extract of the registration is then published in "La Gamete", the official legal journal.

Individuals interested in establishing a business in Costa Rica are encouraged to contact CINDE (Costa Rican Coalition for Development Initiatives) [www.cinde.or.cr](http://www.cinde.or.cr) and/or PROCOMER. Both organizations are involved in providing support and information for prospective investors to Costa Rica. Each organization maintains extensive information databases that are useful to potential investors in evaluating operating costs; taxation issues; availability of employees; and related investment questions.

### **Work Permit Requirements**

Depending on the type of business, the company may have to acquire a municipal license or permit. A foreign company that has or intends to open branches in Costa Rica must appoint and retain a legal representative with full Power of Attorney concerning the business or the branch. Foreigners must become residents in order to work in Costa Rica.

### **Intellectual Property Rights**

The Industrial Property Register and the Copyright and Related Rights Register, both part of the National Register of the Ministry of Justice and Pardons, administer the corresponding intellectual property rights.

The Ministry of Justice, the Public Prosecutor's Office and the Ministry of Finance are responsible for enforcement of intellectual property rights; the bodies enforcing these rights are the Register of Industrial Property, the Register of Copyright and Related Rights, the Inspectorate for Miscellaneous Offences and the Directorate-General of Customs

Costa Rica is a party to the Paris Convention for the Protection of Intellectual Property; Patent Cooperation Party; Washington Treaty of Intellectual Property in respect to Integrated Circuits; WIPO Copyright Treaty (WCT); Lisbon Agreement for the Protection of Appellations of Origin and their International Registration; and the WIPO Convention.

### **Conversion and Transfer Policies**

There are no restrictions on receiving, holding or transferring foreign exchange. There are no delays for foreign exchange, which is readily available at market clearing rates and readily transferable through the banking system. Dollar bonds and other dollar instruments may be traded legally.

No restrictions are imposed on reinvestments or on the repatriation of earnings, royalties, or capital except when these rights are otherwise stipulated in contractual agreements with the government of Costa Rica. Royalties are taxed at rates varying from 10 to 25 %.

# CULTURAL PRACTICES

## Business Customs

Costa Rican business executives place great importance on personal contact with foreign suppliers. Appointments should take place in the hosts' facilities instead of a hotel room unless a special room has been arranged for the meeting.

Handshaking is the common greeting used by visiting businessmen. Gifts are often exchanged on special occasions.

Companies should have business cards, proposals, and other material printed in both English and Spanish. Titles are important and should be included on business cards. At least initially, you should address a person directly by using his or her title only.

For persons who do not have professional titles, it is common to show respect by calling a gentleman “*Señor*” (plus his first name) and a lady “*Señora*” (plus her first name). Children and subordinates refer to adults in this manner, and it is a sign of courtesy for people doing business with each other to refer to each other in this way unless otherwise requested by the person you are addressing.

Men should wear a conservative dark suit. In warmer climates, a jacket is optional. Women can wear a dress or skirt and blouse for formal business meetings, but it is far more common for women to wear pants to work. Costa Ricans are much more formal and serious than other Latin Americans. Therefore, you should keep jackets on during business meetings.

## Entry/Exit Requirements:

Tourists who stay over ninety days without receiving a formal extension can expect to pay a higher departure tax at the airport or land border. Persons who have overstayed previous visas may be denied future entry into Costa Rica. A surcharge called a passenger facility fee of US\$5.50 has been included in airline tickets. If the airline has not included this charge, then the traveler can pay it at the ticket counter. The departure tax is US\$26 for short-term visitors.

All visitors must have a round-trip ticket as an entry requirement.