Costa Rica:
In Depth Coffee Report:
COFFEE INDUSTRY STRUCTURE

Coricafé

COSTA RICA COFFEE INDUSTRY STRUCTURE[1]

The Costa Rican Coffee Supply Chain

Unlike most countries, in Costa Rica farmers don't process their coffee. Instead most of them deliver their cherry for processing to a coffee mill, which will process it all the way to green, export grade coffee.

Processors in turn sell their coffee to exporters, who sort and consolidate parcels from different millers to provide the quantities and qualities required by the international buyer.

At the same time roasters acquire coffee from processors, local intermediaries and recently, importers to supply the local consumption.

Unique also to Costa Rica is how coffee is purchased. The price is not determined between farmer and processor at time of delivery. Instead the miller pays to the farmer an advance against delivery, this is not a credit, but instead becomes the minimum price. The final price is calculated at crop end and is the equivalent of total sales income, less milling expenses, coffee fund taxes and a 9% gross profit allowance to the miller. This places the bulk of the market risk on the millers hand since he doesn't hedge his coffee receipts as they come, instead it is with his physical sales, when the price is fixed that he begins to gradually cover his purchase. If the price goes up, the bulk of the benefit will go to the farmer, if the price goes down the miller faces the risk of his average sales price not providing a high enough level to cover the advance that he gave to the farmer, which can mean huge losses.

All this calculation is performed by ICAFE (Costa Rica Coffee Institute), a non-government organization which by law supervises the coffee activity in Costa Rica.

FARMGATE PRICE

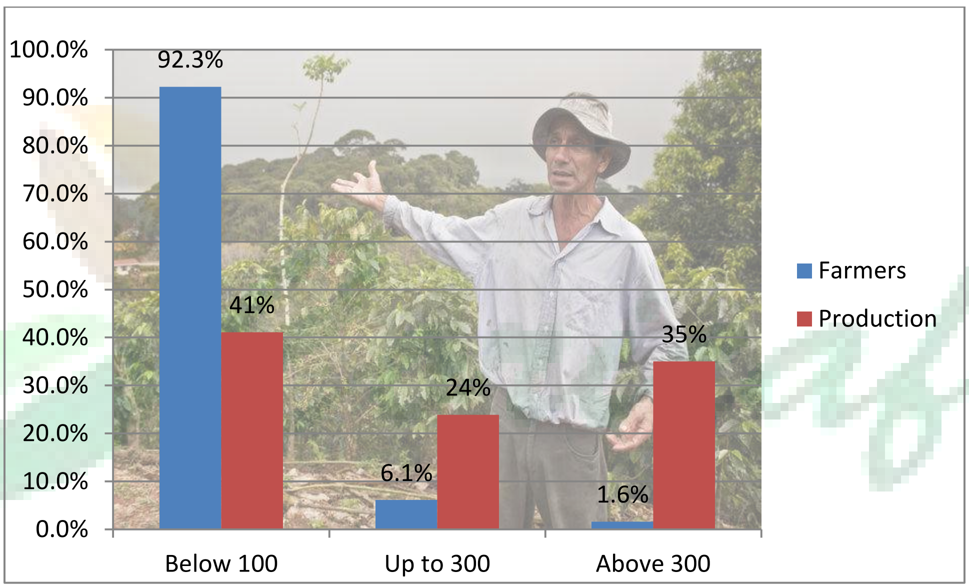
FOB Price	**to Exporter**
ICAFE Export Tax 1.5%	
Export Expenses Allowance	Assigned by ICAFE
Exporter Margin	
Rieles Internal Price (FOT Dry Mill)	**Paid by Exporter to Miller**
Milling Allowance	Determined by ICAFE
Coffee Fund $2.75	
9% Gross Margin	
Net Price to Farmer	
Transport to Purchasing Point	Covered by Farmer
Farmgate Price	

[1] Source for CR Coffee Data ICAFE

Farmers

According to ICAFE registers roughly 50,000 people delivered cherry to the coffee mills in the 2010/11 crop year. This number must be seen as an approximation to reality since the production of a single farm may be delivered on the name of several people, usually members of the same family; a practice that is common in small farmers. In the meantime in the upper end of the range, large producers who own more than one farm usually place each farm under a different legal name. What is a fact is that the current number represents a contraction of almost 1/3 during the past 10 years.

Costa Rica Farmer Distribution
Share of Total Farmers and Share of Total Production
(2010-2011)



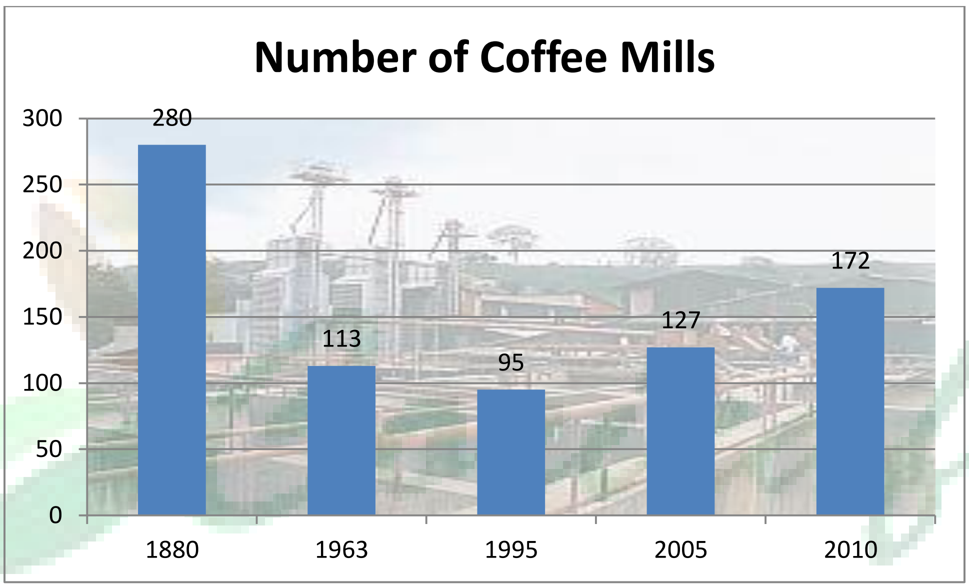
Only 1.6%, or 819 farmers produce more than 300 fanegas, roughly 200 69 bags of green coffee. This group however accounts for 35% of the total production. On the other hand 46,000 farmers, 92% will produce 41% of the total production with an average of just 18.5 fanegas, 12 bags of coffee.

Costa Rica planted area was last estimated at 90,000 Hectares 5 years ago, which gave an approximate average productivity of 26.5 fanegas (18 69 kg bags) per hectare. Ten Years ago the average productivity was 31 fanegas per hectare. While there is no current estimate of planted area (a new survey is taking place and will be available in 2012), current productivity is estimated as an average of 22.8 fanegas per hectare.

Millers

Since the XIX century Costa Rica opted for central milling. This in turn has allowed Costa Rica to offer a widely stable quality, since coffee is processed uniformly in a more professional way in large scale factories, the coffee mill, or beneficio.

The number of coffee mills has fluctuated widely with time.



The growth in the quantity of operating mills is due to the growing phenomenon of the micro-mill. As was previously explained the traditional supply chain in Costa Rica is based upon a central processing plant, with receiving stations on the countryside to which farmers deliver their ripe cherries on a daily basis. Some large estates kept their mills through time, but the volume that was required mostly limited this to a few mills.

A combination of several variables has allowed for the growth of this segment:

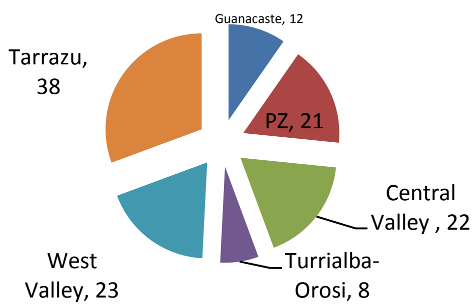
a- Demand: There are sectors within the Specialty Industry that assign great value to the identity and uniqueness that some of this micro-mills can achieve

b- Machinery: The import of the eco-mill machinery from Colombia decreased the required investment for a startup mill, since these modules are actually designed to operate with low volumes. Furthermore as the production crashed, a big surplus of used machinery at very low prices became available, reducing again the entry barrier.

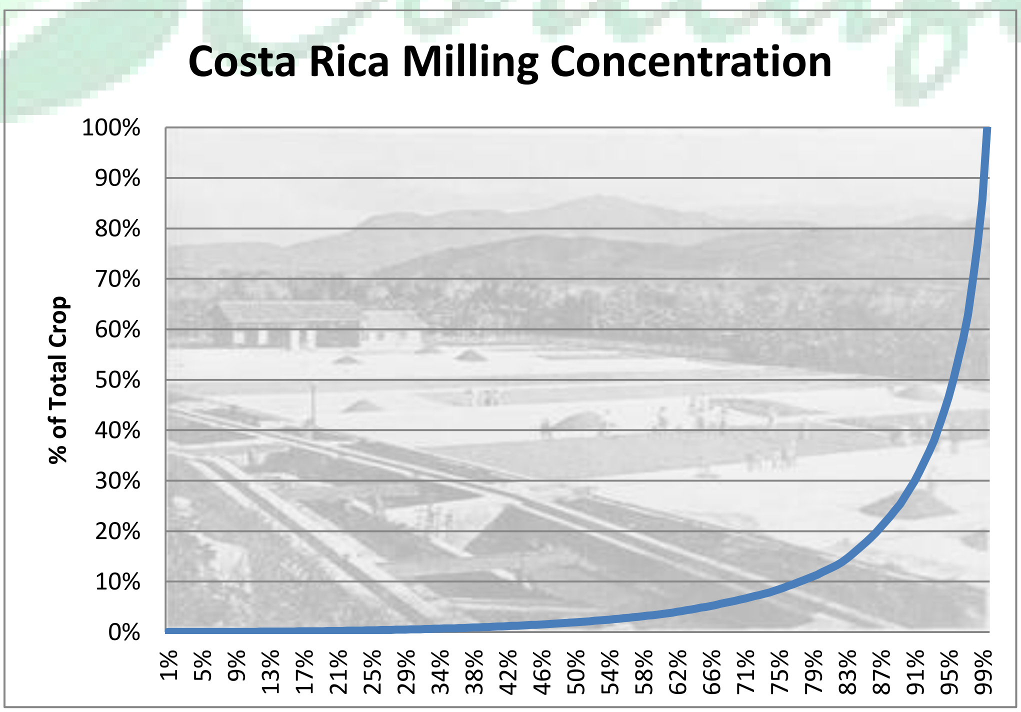
If we consider mills that process 5,000 fanegas (roughly 3300 bags) or less as micro-mills, 124 mills (out of the total of 172) are micro-mills, and process a total of almost 100,000 bags of coffee.

The geographical distribution of these mills is shown on the following chart

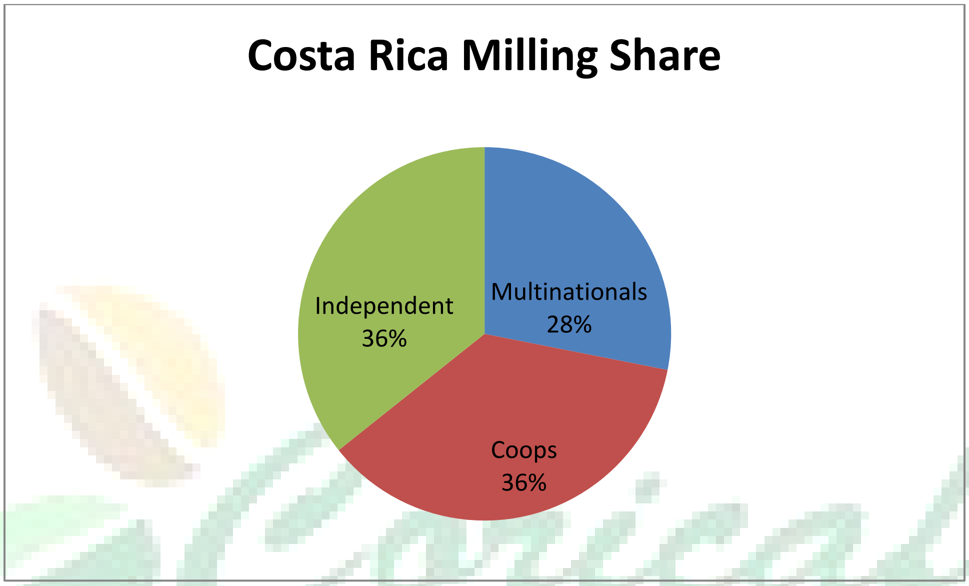
Micro-Mills Per Region



The following chart shows the milling concentration. With such a large number of micro-mills handling such a small percentage of the crop the concentration of the crop in few hands should come as no surprise. 80% of milling companies handle just 10% of the crop, anthe top 10% of the milling companies will process 70% of the crop.



The following chart shows how the crop is shared for milling between multinationals, Coops and Independent millers.



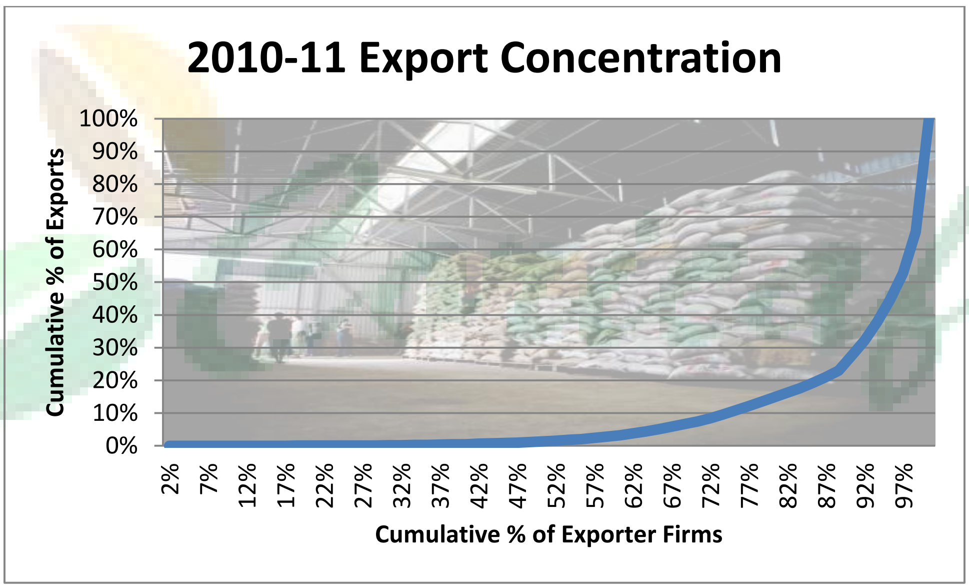
Volcafe (183k bags), Ecom (113k), Segafredo (45k) and Neumann (20k) are the four active multinational companies. Volcafe and ECOM rank as #1 and 2 in processed volume as millers, and are the only multi mill operations left in the country.

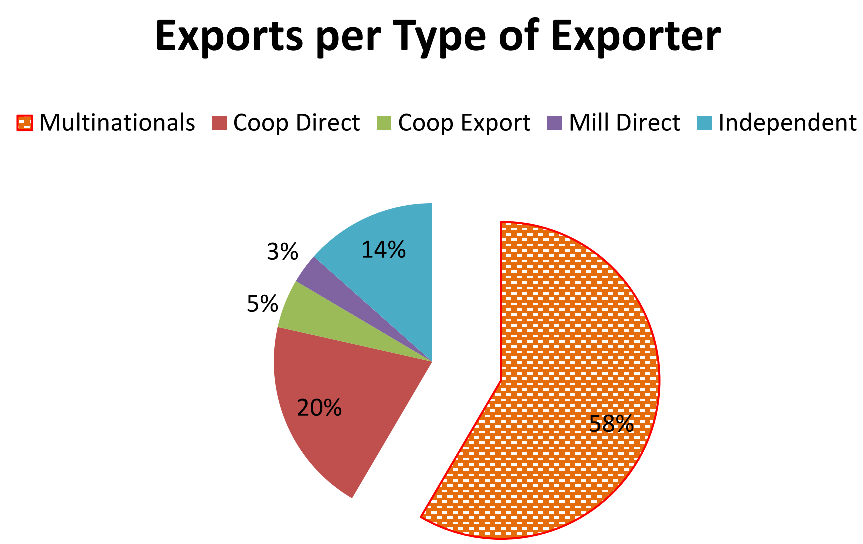
Exporters

Unlike other origin countries, exporters in Costa Rica do not need to be processors. Vertical integration has happened both ways, with multinationals owning milling operations and millers, mainly coops, exporting directly their coffee. Still a significant percentage of the volume is traded by mills to exporters, who act very much like any trading company in the world.

Coffee is sold locally already in green format. Exporters then take delivery of the coffee in dry mills, where they can sort and blend to match the demands of the foreign volume in both quality and quantity.

AS with milling, the export industry shows a significant degree of consolidation, with 13% of the exporter firms accounting for 80% of exports and the top 3% handling 40% of the coffee.




Exports per Type of Exporter
Multinationals
Coop Direct
Coop Export
Mill Direct
Independent
3%
14%
5%
20%
58%