

CUBA STUDY GROUP 

**CUBA'S
COFFEE SECTOR
AND ITS
EXPORT
POTENTIAL
TO THE
UNITED STATES**

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EXECUTIVE SUMMARY

Export of Cuban coffee to the United States provides an opportunity to improve the lives of Cuban coffee farmers. Given the existing interest in and novelty appeal of Cuban coffee, there is potential for a substantial market in the U.S., and the quality of Cuban coffee is sufficiently high to command a price premium. However, coffee production in Cuba is relatively small, and government control of the export supply chain is so strong that it would be challenging to ensure that most coffee profits reach Cuban farmers, rather than the Cuban government alone.

To combat these challenges, we have examined models used by several successful coffee-exporting countries, highlighting best practices that can be applied to the Cuban market. Based on this research, there are several relevant takeaways for Cuba:

- **Lessons from Jamaica:** Utilize a central clearinghouse to maintain quality control standards, maximizing the yield of export-quality coffee, guaranteeing a premium product, and building a strong global brand around Cuban coffee.
- **Lessons from Nicaragua:** Encourage cooperative structures that promote best practices to improve coffee yields and quality, including shared educational resources and other community-wide tools and equipment.
- **Lessons from Costa Rica:** Consider fair trade certification to guarantee improvement of the lives of Cuban coffee farmers.
- **Lessons from Ethiopia:** Pursue trademark protection and create national coffee brands to ensure that the country as a whole, rather than international marketers or distributors, is able to capture the premium associated with selling Cuban coffee in the U.S.

Additionally, based on in-country observations, we believe the Cuban coffee industry could more effectively to generate revenue by:

- Creating additional in-country sales channels of coffee beans, given high levels of interest observed from tourists in Havana.
- Considering building a tour or museum experience for visitors to learn about Cuban coffee production and sample and purchase Cuban varieties.

- Pursuing partnerships with third-parties (e.g., Technoserve) to ensure fair and just interactions between the Cuban government, Cuban coffee farmers, and U.S. coffee purchasers.
- Implementation of the above initiatives would provide vast improvements to the Cuban coffee market, including the lives of local farmers.

INTRODUCTION

Effective April 22, 2016, the U.S. Office of Foreign Assets Control (OFAC) loosened policy restrictions previously included in the Cuban Embargo and the Cuban Assets Control Regulations (CACR).¹ These changes created an opportunity for Cuban coffee to be imported into the U.S. if certain requirements were met. This development has prompted an in-depth analysis of the potential market for Cuban coffee in the U.S. A strong market opportunity exists for Cuban coffee, which can be successfully branded and sold by leveraging high-quality, organic, and direct-trade models that command price premiums. Margin expansions, made possible through these premiums, can directly benefit coffee farmers through increased profits and the establishment of collective social programs such as communal education programs, scholarships, and environmental support. Analyses of coffee production and export models used in Jamaica, Nicaragua, Costa Rica, and Ethiopia have been used to provide recommendations to the industry in Cuba. Insights from these models, including branding strategy, intermediary partnerships, and fair trade certified cooperatives, provide a rich realm of feasible improvements to the Cuban coffee industry that will benefit the livelihoods of local Cuban coffee farmers.

OPPORTUNITIES FOR CUBAN COFFEE IN THE U.S.

Several factors indicate that Cuban coffee can be successfully marketed and sold in the U.S.

First, given the country's subtropical climate, the quality of coffee produced in Cuba is sufficiently high to command a premium price. As with many of its neighboring Latin American coffee exporters, such as Costa Rica and Nicaragua, Cuba has the

¹ <https://www.state.gov/e/eb/tfs/spi/cuba/515582/237473.htm>

altitude, rich soils, and warm, breezy climate necessary to produce a premium coffee bean.² Cuba is firmly located in the world's "coffee belt," which spans the entire globe along the equator.³ Despite this premium geography, experts believe that the relatively low altitudes of Cuba's mountains do not make for the absolute highest quality coffee bean within the premium range. However, the Vice President of Quality Control at Intelligentsia Coffee Roasters conjectured that Cuban coffee would most likely reach a sufficiently high quality standard to meet the needs of many market niches, particularly based on its novelty and branding potential. Therefore, an appropriate target seller of Cuban coffee in the U.S. may be a slightly cheaper premium roaster or brand, rather than the absolute premium, such as Stumptown and Intelligentsia.⁴ Nevertheless, Cuban coffee should be able to command a substantial global premium.

Second, despite the relatively small size of Cuban coffee production today, Cuba was historically a very large producer and exporter of coffee on the world market, indicating potential for sufficient production given U.S. consumer interest.

In fact, Cuba was once the world's largest exporter of coffee, surpassing Indonesia, Colombia, and even Brazil. At the very apex of the Cuban market around the 1950s, Cuba exported more than 20,000 metric tons of coffee beans per year—more than double its current amount of total coffee production.² During its peak coffee production era, Cuban coffee was exported primarily to European countries. While U.S. consumers were largely uninterested at the time, much has changed over the last several decades. First, premium coffees, such as those from similar climates and altitudes, have gained popularity and cultural significance in the U.S. Additionally, many experts believe that Americans' new, more "romantic" views of Cuba will increase the value of Cuban coffee, particularly as larger number of them visit the country.^{2,4} Despite the relatively small scale of coffee production in Cuba today, it remains one of the few Cuban products that has been cleared for export to the U.S., which could increase consumer interest given the low availability of other Cuban products. This could also incentivize the Cuban government to invest in the quality and production of coffee to earn higher margins.

² <https://www.craftbeveragejobs.com/100-cuban-coffee-is-it-coming-to-a-u-s-store-near-you-42015/>

³ <https://www.climate.gov/news-features/climate-and/climate-coffee>

⁴ <https://qz.com/709772/the-next-step-in-u-s-cuban-diplomacy-will-be-coffee-flavored/>

Third, there are several Cuban coffee features that can be leveraged to command price premiums in the U.S. market.

Many of these serve as important differentiators versus other high-end coffees. Certain segments of U.S. coffee consumers demand high-quality, ethical, and sustainably sourced coffee brands.⁵ A Mintel study found that these consumer segments are beginning to place greater attention on the treatment of the coffee bean before it is brewed. This includes an emphasis on sourcing, growing, working conditions, craftsmanship, and complex or artisanal roasting methods. Over a quarter of U.S. coffee drinkers are classified as “super spenders” who are willing to pay more for a variety of beverage factors and tend to be young, affluent, and urban. These consumers are usually members of households earning more than \$75,000 annually and are the key target market for high-quality brands. Cuban coffee has the potential to generate similar price premiums at retail because of the organic farming techniques employed by growers and the potential for integration with direct or fair trade buyers.

Cuban coffee is differentiated by its organic cultivation and traditional hand-picked methods in small mountain towns.⁶ These organic methods, including crop rotation, pest management, and soil conservation were involuntarily preserved by the U.S. embargo and the collapse of the U.S.S.R., which prevented many farming resources, including chemical fertilizers and pesticides, from reaching Cuba.⁷ As a result, Cuba has been identified by the World Wildlife Fund as the only country to have achieved “sustainable development.” These elements, along with bean quality, enable Cuban farmers to be well-poised to integrate supply chain models with U.S. roasters working to establish fair trade or direct trade partnerships. The organic, sustainable, and traditional cultivation methods and direct or fair trade potential of Cuban coffee will be key branding elements that will appeal to the “super spender” consumer segments in the U.S.

Fourth, many U.S. companies, including roasters, have indicated interest in Cuban coffee, suggesting market viability from a demand standpoint. Nespresso has already begun selling Cuban coffee in the U.S., beginning in the fall of 2016. The Cafecito de Cuba pods have sold out, even though the coffee is priced at nearly

⁵ Mintel Report—“Coffee US September 2016”

⁶ <http://espressocoffeeguide.com/gourmet-coffee/coffees-of-the-americas/cuban-coffee-coffees-of-cuba/>

⁷ HBS, Alvarez, Otazo, Knoop 2016

a 2x premium (\$1.25 versus an average of \$0.70 to \$0.75 per pod). There has also been interest among other companies. Sustainable Harvest is a socially-minded business based in Portland, Oregon, supplying roasters like Starbucks, Stumptown, and Green Mountain. Conversations have begun between Sustainable Harvest and European importers of Cuban coffee regarding how best to work with Cuban coffee producers.⁴ Additionally, companies such as GulfWise Commerce were formed specifically to engage in agricultural business relations with Cuba. GulfWise itself is exploring ways to import coffee to roast, package, and distribute in the U.S. In March 2016, it secured a license to sell agricultural equipment to Cuba in the form of \$100,000 worth of tractors.⁴ Similar initiatives have surfaced in England as well. For example, the Cuba Mountain Coffee Company is working on an agreement in which it will provide capital and equipment to Cuba, aiming to improve processing and coffee quality for rights to a proportion of the production in a specific area.⁸

BARRIERS TO SUCCESS

Despite a promising market landscape, there are substantial barriers to the success of Cuban coffee in the U.S. market. These barriers relate to producers' abilities to produce adequate quantities of high-quality coffee for large scale distribution in the U.S., limitations in the Cuban government's attention and resource support for coffee development, and hurdles with ensuring that farmers receive adequate benefits from coffee sales.

First, coffee production in Cuba is currently so limited that the country would be hard-pressed to meet U.S. demand on any substantial scale. In 2015, Cuban coffee production totaled 100,000 60-kg bags, or 13.2 million pounds, with 13,000 60-kg bags exported.⁹ In comparison, the U.S. imported 27.7 million 60-kg bags of coffee in 2015.¹⁰ The discrepancy between Cuban coffee production capabilities and U.S. coffee demand questions Cuba's ability to produce enough quality coffee to provide a single-origin or Cuban-branded coffee for U.S. consumers.¹¹

⁸ <http://www.lgc-capital.com/investments/cuba-mountain-coffee/>

⁹ http://www.ico.org/new_historical.asp

¹⁰ http://www.ico.org/new_historical.asp

¹¹ Single origin coffee is sourced from one geographic region, either a farm, region or country.

Cuban coffee production has decreased significantly over time. Between 1990 and 2015 alone, production declined 76% from a height of 414,000 60-kg bags.¹² The significant drop in production is the result of several decades of land degradation. In order to increase production to historic levels, there would need to be a large investment in Cuban agriculture either by the Cuban government, Cuban farmers, or a third party to mitigate poor infrastructure and equipment. Even an increase to 1950s levels implies that Cuba would be a relatively small player in the global market. Colombia, by contrast, harvested 14.5 million 60-kg bags of coffee in 2015, with exports totaling 12.3 million 60-kg bags.¹³

Second, not only is Cuban coffee production relatively small compared to that of other countries, it is also small relative to other areas of Cuban agriculture, lowering its place on the country's list of priorities. In 2014, Cuba exported \$1.74 billion of goods, but imported \$5.91 billion.¹⁴ Top agricultural exports included raw sugar (\$392 million) and rolled tobacco (\$236 million). Meanwhile, top agricultural imports included wheat (\$234 million) and corn (\$204 million). While no information is available on the annual revenue derived from Cuban coffee, in 2014 Cuba produced 19,800 metric tons of tobacco and 1.67 million tons of tubers and roots¹⁵ compared to 6,000 metric tons of coffee, implying that coffee is a very small portion of the Cuban agriculture sector.

In the other countries we will explore, coffee represents a far more substantial portion of their exports. In Nicaragua, coffee is the largest agricultural export at \$396.9 million (8.51% of total exports);¹⁶ in Costa Rica, it is the 7th largest export at \$313.9 million (3.28% of total exports);¹⁷ in Jamaica, it is the 6th largest export at \$32 million (2.54% of total exports);¹⁸ and in Ethiopia, it is the top export at \$1 billion (20.87% of total exports).¹⁹ It has historically been much easier for these countries to institute large programs to ensure high quality coffee production and appropriate trademark protections. Yet, government support is not necessarily helpful for entrepreneurial Cuban coffee producers.

12 http://www.ico.org/new_historical.asp

13 http://www.ico.org/new_historical.asp

14 <http://atlas.media.mit.edu/en/profile/country/cub/>

15 <http://www.one.cu/aec2014/09%20Agricultura%20Ganaderia.pdf>

16 <https://globaledge.msu.edu/countries/nicaragua/tradestats>

17 <https://globaledge.msu.edu/countries/costa-rica/tradestats>

18 <https://globaledge.msu.edu/countries/jamaica/tradestats>

19 <https://globaledge.msu.edu/countries/ethiopia/tradestats>

Finally, the Cuban government owns and controls the only Cuban exporting company, CubaExpo, which substantially limits the impact that coffee exports to the U.S. could have on the lives of Cuban farmers. U.S. policy changes eased restrictions

on imports of goods and services specifically from private Cuban entrepreneurs.²⁰ However, under Cuban law, individuals cannot independently import and export products or services.²¹ All goods from Cuba, including coffee, are exported by the state-run exporting firm, CubaExpo, which pays a government-regulated, fixed price to coffee growers and processors.²² In turn, CubaExpo interacts directly with U.S. trading companies.²³ There are substantial risks in working with Cuban government agencies. According to the Corruption Perception Index, Cuba scores 47 (in contrast, the U.S. scores 74 and the global average is 43).²⁴ The scale ranges from 0 (highly corrupt) to 100 (very clean). The Corruption Perception Index measures the extent to which corruption is believed to exist in each country.²⁵ While this index is not definitive, it highlights that there is no guarantee that most premiums on Cuban coffee in the U.S. market will make their way back to Cuban farmers.

As a proxy for potential coffee exports to the U.S., one can examine the recent deal between CubaExpo and Coabana Trading LLC, which successfully imported Cuban charcoal into the U.S. In this case, private cooperatives delivered charcoal to a local packager, who sold the product to CubaExpo,²⁶ presumably at the government-regulated fixed price, though this information is unknown. Coabana paid higher than market price for the Cuban charcoal,²⁷ an amount that went directly to CubaExpo. It remains unknown whether any of those additional profits trickled down to members of the cooperative that sold its product to CubaExpo. Given these barriers, we investigated other coffee-producing countries for potential solutions.

20 <http://www.chicagotribune.com/news/nationworld/ct-first-cuban-export-to-us-artisanal-charcoal-20170105-story.html>

21 <http://www.reuters.com/article/us-cuba-usa-export-idUSKBN14Q0DB>

22 https://www.ilfb.org/media/546435/fas_report_on_cuba.pdf

23 <http://www.reuters.com/article/us-cuba-usa-export-idUSKBN14Q0DB>

24 http://www.transparency.org/news/feature/corruption_perceptions_index_2016

25 <http://www.investopedia.com/terms/c/corruption-perception-index.asp>

26 <http://www.reuters.com/article/us-cuba-usa-export-idUSKBN14Q0DB>

27 <http://www.reuters.com/article/us-cuba-usa-export-idUSKBN14Q0DB>

KEY LESSONS FROM OTHER COFFEE-EXPORTING COUNTRIES

Given the market potential that exists for Cuban coffee in the U.S., specific measures should be taken to ensure that Cuban farmers are able to fully capitalize on this opportunity. As a proxy, one can examine other countries that have enjoyed success exporting specialty coffees, both globally and to the U.S. Based on these comparable models, there are several best practices that can be applied to Cuban coffee production and exports.

JAMAICA: INVOLVING INTERMEDIARY ORGANIZATIONS TO ENSURE HIGH-QUALITY EXPORTS

We explored Jamaica to understand whether Cuba can produce enough coffee to create a branded product, given current production constraints. While Jamaica only produces about 0.1% of the world's coffee each year, the country has been able to introduce a high-quality and well-respected premium coffee brand to the global marketplace. Cuba, by comparison, with its similar geographic location and topographical features, produces five times the amount of coffee as Jamaica.

Establishing the first Clearinghouse and Coffee Industry Board of Jamaica (CIBOJ). While Jamaican Blue Mountain coffee is prized for its taste and high quality, this was not always the case. After the slave trade was abolished in 1807, and following emancipation in 1838, the coffee industry experienced a rapid decline, largely due to the lack of available labor.²⁸ Throughout the 19th century, various efforts were taken to bolster the industry, including legislation passed in 1891 that proposed sending instructors to teach farmers better methods of cultivation and coffee production aimed at increasing quality. Those efforts met with mixed success. It was not until 1943 that quality actually improved after Canada (then Jamaica's largest purchaser of coffee) deemed Jamaica's coffee to be unacceptably poor and refused to repurchase.²⁹ As a result, in 1944, the government established a central clearinghouse where all coffee for export was sent to be cleaned and graded.

²⁸ <http://www.ciboj.org/index/brief-historical-background-coffee>

²⁹ <http://reggiesroastcoffee.com/about-us/jamaica-blue-mountain-coffee-history/>

A few years later, as a measure to further improve quality, the government set up a third-party entity, the Coffee Industry Board of Jamaica (CIBOJ). The purpose of the CIBOJ is to promote, regulate, monitor, and guide the development of the country's coffee industry and assure its quality.³⁰ As part of its mission, the CIBOJ receives all coffee for export, conducts sample testing, checks appearance, and sorts coffee into different grades on a three-point scale. Additionally, it also offers advisory services to farmers, such as providing technical advice, teaching pre- and post-harvesting techniques, and offering information about pest and disease control and environmental management. It is through these services, a stringent set of checks and quality controls and ideal growing conditions, that Jamaica is able to produce such a high-quality product for export.

Blue Mountain Coffee brand is highly protected. In addition to maintaining the high quality of Jamaican coffee, the CIBOJ also holds tight control over the Jamaican Blue Mountain coffee brand. It owns the Jamaica Blue Mountain® and Jamaican High Mountain Supreme® coffee trademarks and is responsible for the integrity of the brand. By owning the trademark, it is able to specifically license and monitor its network of dealers, processors, roasters, and other licensees, and pull their licenses if they do not meet all quality measures. Furthermore, the CIBOJ decides which coffee gets the distinction of being called “Blue Mountain Coffee.” To meet these requirements, the coffee must be “grown at altitudes between 2,000 and 5,000 feet in the Parishes of Portland, St. Andrew and St. Thomas and, most importantly, be grown on the estates of: Mavis Bank, Silver Hill, Moy Hall or Wallenford. Demand is high and supply is low. It is estimated that a mere 9000 acres which lie above the minimum requirement of 2000 feet above sea level within the Blue Mountains, are considered within the legal bounds for the growing of Blue Mountain Coffee. Additionally, it is extremely labor intensive as each cherry has to be individually hand-picked on dangerous mountainous terrain.”³¹

If coffee is grown elsewhere in the Blue Mountains or Jamaica, it cannot be called Blue Mountain Coffee. This tight control over the trademark and label of “Blue Mountain Coffee” helps maintain premium quality and prevent brand erosion by similar but inferior coffee beans. Finally, once the product is ready for export—

30 <http://www.ciboj.org/index/about-us>

31 <http://reggiesroastcoffee.com/about-us/jamaica-blue-mountain-coffee-history/>

75% of which is exported as green beans—it is shipped in fine and expensive Aspen wood barrels, which help preserve and maintain the characteristics of the beans prior to roasting.

NICARAGUA: COOPERATIVES AND THIRD-PARTY PARTNERSHIPS

We explored the Nicaraguan coffee sector to provide an example of how Cuban coffee producers could overcome obstacles related to potential profit-stripping in the form of unfair coffee prices from CubaExpo. Nicaragua has managed to share profits with smallholder coffee producers by utilizing a cooperative structure that provides non-monetary resources to farmers. Producers have also partnered with third party groups and nonprofits to provide similar benefits on a community-wide level. Smallholder coffee cooperatives provide benefits to Nicaraguan coffee producers in the form of connections to international specialty coffee roasters and other market players, a collective voice for smallholder coffee producers in the Fairtrade market, and numerous benefits related to the quality and production capabilities of the producers through training programs, community resources, and financial assistance programs. Similarly, nonprofits have improved conditions for smallholder coffee producers by providing training programs and educational resources.

Nicaraguan Coffee Cooperatives. Nicaraguan coffee cooperatives began to transform in 1990 when the government transitioned from a socialist model and began allowing for increased economic freedom. The shift from government-controlled to producer-controlled cooperatives provided coffee producers with greater power in the global marketplace and more resources for coffee quality improvement. Cooperatives formed direct connections to European Fair Trade organizations and U.S. specialty roasters, which provided producers with specialized agricultural processing infrastructure, strong quality assurance programs, and highly trained professional staff.³² Many cooperatives used Fair-Trade premiums to reinvest in their organizations and create social programs for their members, such as women’s savings and loans programs, to support income diversification projects and the building of member-owned dry processing plants.³² Rather than simply providing additional funds directly to the members, the cooperatives organized programs that increased the yield and quality of their coffee, which ultimately resulted in lower costs for the producers and higher sales volumes from improved yields.

³² <http://equalexchange.coop/history-of-coffee-in-nicaragua>

Cuban coffee production and export is different from the Nicaraguan system in several respects. While Cuba has cooperatives, they do not interact directly with buyers, as all goods for export are sold to CubaExpo. However, the best practices training programs and communal resources of the Nicaraguan model would greatly benefit Cuban farmers, as many of the latter's agricultural techniques are antiquated given the lack of investment over the past few decades. By improving quality, Cuban coffee would receive higher prices in the global marketplace, or at the very least, increase coffee yields and the percentage of sellable beans, which would provide higher revenues to coffee farmers.

Use of third parties to further farmers' capabilities. Many for-profit coffee roasters have incentives to provide farmers with skills and knowledge to produce higher quality products. However, procurement complications given CubaExpo's involvement would limit companies' abilities to work directly with Cuban coffee producers. Nonprofit organizations provide better alternatives for connecting with those producers to distribute educational resources. Technoserve is a nonprofit organization whose mission is to work with enterprising men and women in the developing world to build competitive farms, businesses, and industries.³² Technoserve has worked in Nicaragua on a four-year project called The Better Coffee Harvest Project (COSECHA) to reduce poverty and increase farm sales for coffee farmers in El Salvador and Nicaragua.³² So far, the project has trained 7,570 smallholders and farmers to improve productivity, quality, farm management, and financial literacy, and established 128 coffee demonstration plots to be used for training purposes. These projects are especially important because they improve the lives of coffee producers, not just by increasing yields and profits, but also by teaching best practices, which can improve efficiency. These benefits would directly impact the Cuban coffee producers, while limiting opportunities for state intervention.

COSTA RICA: FAIR TRADE COOPERATIVE STRUCTURES AND ASSOCIATED BENEFITS

The Coocafé coffee cooperative in Costa Rica transformed the lives of thousands of its coffee farmers after it was established in 1989. The attributes and outcomes could have plausible applications to Cuban coffee farms, largely because some of the most important benefits were not tied solely to increased farmer profits, but included additional economic and social outcomes. Similar programs could be adopted in Cuba without causing the government to relinquish control

of coffee prices, while simultaneously improving farmer livelihoods. Coocafé is a Fair Trade coffee consortium of nine primary-level coffee cooperatives.³³ Coffee farmers deliver their coffee to collection points belonging to a coffee processing plant, called a beneficio. The beneficio transforms cherries into coffee and stores it until it is ready for further processing.³³ While this consortium has increased profits for coffee farmers, it has also offered a variety of financial and social benefits that have positively impacted farmers' lives, including income security, credit access, and environmental education programs.

Income Security for Crops. Coocafé was established using the FLO (Fair Trade Labelling Organization) model, which stipulates that farmers receive a minimum price floor to cover the cost of production.³³ Coocafé specifies the commission on coffee transactions to which the beneficio, the exporter, the government, and Coocafé itself is entitled. This method of collection and processing allows for economies of scale in primary processing, and the fixed commissions protect producers. The cooperative also expanded exports to include yucca and plantain chips, thus providing a steady stream of alternative income to farmers, which is especially helpful during low-yield seasons. Certain groups of farmers, through their participation in the Fair Trade market enabled by Coocafé, enjoyed coffee incomes that were, on average, 39% higher than farmers in the area who were not involved in the program. Overall, 82% of respondents reported significant changes to their standards of living.³³

Credit Access. Fair Trade has played a role in easing the capital constraints of co-operatives as compared to their "private" competitors.³³ Prior to the establishment of this collective cooperative, many farmers lacked access to credit necessary to maintain crops and land. The Fair Trade premiums are divided into three separate funds: 15% to the Development Fund, 15% to the Social Capital Fund, and 70% to the Producer's Fund for distribution to producers by the primary level cooperatives.³⁴ The Development and Social Funds are used to provide credit for even the most marginalized members.

Environmental Education and Improvements. Coocafé invested over \$3.5 million in environmental protection and development programs, and helped convert thousands of producers to more

³³ "The impact of fair trade on producers and their organisations: A case study with Coocafé in Costa Rica." Loraine Ronchiprus Working Paper No. 11 June 2002 Poverty Research Unit at Sussex University of Sussex

sustainable agricultural practices.³⁴ It also provides environmental education to all producers, in which over 75% have directly benefited. Some important environmental effects include a ten-fold reduction in the amount of water used in processing to separate beans from cherry pulp and improvement in water treatment systems. Over 50% of farmers claim to have seen drastic improvements in bean quality after implementation of environmental practices learned in community education programs. Coocafé's funds have also been used to build solar panels, drying patios, and other eco-friendly tools used in the milling process.³⁵

Educational and Social Improvements. Some critics of fair trade suggest that farmers do not substantially profit from these programs, sometimes earning as little as \$1.30 per pound of coffee sold at Fair Trade price premiums of \$12 in the U.S.³⁶ However, Coocafé's Fair Trade system has far-reaching benefits to farmers, including community programs and educational funding for families. The cooperative provides a democratic, participatory structure to ensure farmers voice needs, concerns, and agendas. Scholarship programs have also been provided to help foster the education and livelihoods of farmers and their families.

Examination of the full spectrum of benefits offered by Costa Rica's Coocafé consortium indicates that many actions could be taken to improve the lives of coffee farmers outside of widening their profit margins. The current regulatory impact on fixed prices by CubaExpo and the Cuban government may create inflexibility and difficulties for U.S.-based coffee trading partners working to increase price thresholds for Cuban farmers. However, the Cuban government could be amenable establishing educational programs, environmental initiatives, credit unions, or even price floors. A combination of these actions could improve the quality of life of farmers, increase coffee crop quality and yield, and ultimately allow the government to benefit from higher price thresholds on the open market.

34 <http://globalexchange.org>

35 <http://fairtradeusa.org/producer-profiles/coocafe-cooperativas-cafetaleras-guanacaste-y-montes-oro>

36 <http://www.nytimes.com/2013/03/17/business/coffees-economics-rewritten-by-farmers.html>

ETHIOPIA: TRADEMARKS AND BRANDING

Ethiopian coffees are among the most diverse and distinctive, with many specific regional varieties ranking among the world's best.³⁷ Due to the high quality and strong reputation of Ethiopian coffees, they are able to command high retail prices in the international market. However, as of the early 2000s, only 5% to 10% of the retail price returned to Ethiopia. Most of the high price was captured by distributors with marketing capabilities, who would share the profit with other middlemen.³⁸ To combat this, the Ethiopian government employed a range of intellectual property protections in an attempt to ensure that more money returned to the country by first establishing trademarks and then building brands. This use of trademark protection and branding dramatically increased the revenue returning to the country from coffee exports, and ensured that Ethiopians benefited from premium sales of their coffee. As Cuba begins to explore coffee export to the U.S., we anticipate that they too will be able to sell at a premium. Proper trademark protection and branding will ensure that Cubans reap the benefits of that premium, rather than international marketers or coffee distributors.

Trademark Protection. The strategy behind Ethiopia's trademark protection program was two-fold. First, the government sought to differentiate Ethiopian coffee on the world market in order to "increase the size of the pie." Achieving broader recognition of the distinctive nature of Ethiopian coffee allowed the government to position its coffees strategically in the growing specialty market. Second, the government sought to protect Ethiopia's ownership of its coffee names to prevent international misappropriation. This would allow a greater share of the world market retail price of Ethiopian coffee to make its way back to rural producers.³⁹ To execute application for these trademarks around the world, Ethiopia launched the Ethiopian Coffee Trademarking and Licensing Initiative in 2004. This program was organized and run by the Ethiopian Fine Coffee Stakeholder Committee, which is composed of a group of cooperatives, private exporters, the Ethiopian Intellectual Property Office, and other relevant government bodies.³⁸ Once trademarks were acquired, Ethiopia initiated a roy-

37 <http://www.coffeereview.com/coffee-reference/coffee-categories/geographic-origins/coffees-from-africa-and-arabia/ethiopia/>

38 "The Coffee War: Ethiopia and the Starbucks Story": <http://www.wipo.int/ipadvantage/en/details.jsp?id=2621>

39 Coffee Annual (2016) from USDA Foreign Agricultural Service, Global Agricultural Information Network

alty-free licensing scheme, allowing licensees to sell Ethiopian specialty coffees using the registered trademarks free of charge. This boosted consumer recognition of and increased demand for Ethiopian coffees, raising the export premium.³⁸

Ethiopia's decision to register trademarks was a strategic choice that may be applicable to Cuba. Many countries, such as Colombia and Jamaica, decide to protect and capitalize on their coffee's geographic origin through the Geographical Indication (GI) Protection System.⁴⁰ GI indicates that a product not only comes from a specific area, but it also possesses specific qualities associated with that region. In Ethiopia, however, coffee is grown on over four million small plots of land spread throughout a remote landscape. Additionally, not all coffee in each region is produced under the same circumstances, and government oversight of coffee producers is nearly impossible, making GI certification difficult, expensive, and impractical.³⁹ Under trademark protection, however, coffee does not need to contain particular qualities connected with the region under which it is trademarked. This allows farmers all over the country to produce "specialty" coffees and benefit from price premium on the world market.

Branded Ethiopian Coffee. After establishing trademarks to prevent misappropriation, the government focused on developing a comprehensive marketing strategy to further promote Ethiopian coffee on the world market and ensure it fully leveraged the potential of the specialty its brands. In 2008, a total of four brands were created, including three under an umbrella brand, each with an artistically-designed logo. Ethiopian Fine Coffee was established to represent the group, covering Harar Ethiopian Fine Coffee, Yirgacheffe Ethiopian Fine Coffee, and Sidamo Ethiopian Fine Coffee.³⁸

Under the Ethiopian Fine Coffee branding initiative, demand for the country's coffee has increased in the world market. Coffee growers and exporters enjoy a stronger bargaining position, giving the country a "price-setting" position rather than price-taking. Sources indicate that, prior to these intellectual property protection initiatives, Ethiopia received only 6% of the final retail price paid for its coffees; while the final retail price could range from \$20 to \$28 per kilogram, farmers earned as little as \$1 per kilogram. However Yirgacheffe farmers' income in doubled in 2007 over the previous year, and Ethiopian producers saw income increase to between \$6 and \$8 per kilogram. Overall, Ethiopia's coffee exports more than tripled in value over the subsequent years.³⁸

40 <http://ageconsearch.umn.edu/handle/7866>

RECOMMENDATIONS FOR CUBA AND FINAL CONSIDERATIONS

A. LESSONS/SUMMARY FROM COUNTRY RESEARCH

To overcome the barriers discussed previously and ensure that export benefits reach producers, the following suggestions from the models of other coffee exporting countries should be considered.

Takeaways from Jamaica. First, Jamaica, which produces 20% as much coffee as Cuba, has been highly successful in creating a strong brand with global demand. Cuba should be able to achieve the same. Second, it took time and government intervention to improve quality, but with the CIBOJ serving as a central clearinghouse and main quality control checkpoint for the island's coffee beans, Jamaica was able to consistently produce a premium product for export. Third, CIBOJ took direct control over the island's trademarks, designating only the best beans "Blue Mountain Coffee." It was through that stringent process that Jamaica was able to build a strong premium brand recognized and prized around the world.

Takeaways from Nicaragua. While Cuban coffee cooperatives might struggle to command better prices in the marketplace due to CubaExpo restrictions, they can help farmers earn higher profits by increasing coffee yields and overall coffee quality with educational resources and shared equipment. Cooperatives can also help producers with specialized knowledge about navigating the regulatory environment. They can assist farmers by petitioning for land rights, increasing bargaining power with CubaExpo, and using collective profits to invest in infrastructure. If the producers sold a higher volume of coffee, even if prices remained constant and coffee production drove higher revenue for the government, the coffee sector would receive additional resources and support—as seen in Cuba's rum and tobacco sectors. While the impact would not be immediate, farmers would accrue long-term benefits. Similarly, nonprofit groups with insights into global coffee production practices could provide educational resources to Cuban coffee farmers on growing and drying techniques to improve quality and reduce risk. By focusing on non-monetary assistance and creating community-wide benefits for farmers, government intervention or profit stripping would be less likely to occur.

Takeaways from Costa Rica. There are a variety of programmatic initiatives the Cuban government could subsidize to improve farmers' livelihoods that are unrelated to shifting prices. Coocafé

gave producers greater access to credit to help them develop their farms. The consortium also actively distributed funds to support the education of farmers and their families. These programs helped improve crop quality and development, allowing both farmers and the consortium to reap benefits. The Cuban government could see similar growth, both in terms of its own profit margins and the well-being and investment of its coffee farmers, by replicating similar programs.

Takeaways from Ethiopia. Ethiopia’s strategic use of trademarks and branding allowed it to substantially increase the flow of coffee export revenue into the country. The use of trademarks, versus other forms of copyright, granted Ethiopia a necessary level of flexibility in its coffee production, ensuring that farmers in all regions would benefit from the brands created at a national level. Given Cuba’s poor infrastructure and the difficulty involved in ensuring production consistency, this is a very relevant strategy that could be used to command a high price premium for Cuban coffee on the world market. Additionally, controlling branding through trademarks would allow Cuba to tell the story of its farmers and people, thereby creating its own brand identity. This could further improve the appeal of Cuban coffee in the U.S. and enhance focus on the Cuban farmer.

B. LESSONS/SUMMARY FROM IN-COUNTRY EXPERIENCE

Based on observations from in-Cuba travel, there are three additional takeaways that could dramatically increase coffee sales in Cuba and exports to the U.S.

Create more retail outlets. Like cigars and rum, coffee is a culturally significant product in Cuba, and many tourists seek out coffee shops. At Café el Escorial, a government-owned coffee shop in Old Havana’s Plaza Vieja, tourists line up for hours to purchase coffee beans roasted on-site. This location seems to be the only place where tourists can currently buy coffee beans in Havana, and its broad appeal is evident. Given the substantial value of tourism that supports the Cuban economy, we believe the government would benefit from increasing the number of cafes and other outlets where coffee beans can be purchased. Not only would this opportunity increase awareness of Cuban coffee, but the distribution to tourists and subsequent consumption when they return to their countries would also help drive global interest. Furthermore, they would help create jobs at the various cafes and coffee outlets in Havana and other tourist destinations.

Build a coffee tour experience. During the course of our research in Havana, there were two attractions we identified as some of the city's most popular venues. The first, a tour of a Cuban cigar factory, offered multi-lingual tours of the building where some of Cuba's most famous brands of cigars are made. Tours run all day and are full of visitors watching Cohibas, Montecristos, Romeo y Julietas, and other well-known brands rolled before their eyes. Visitors are then invited to purchase cigars at retail outlets around the city. Buses filled with tourists also partake in tours that teach them the history and production process of Havana Club Rum. They conclude with a rum tasting and tour of the gift shop where visitors are invited to purchase their own bottles.

More than simply the sum of the profits they generate, these tours are important cultural artifacts and allow Cuba to tell its own history to tens of thousands of tourists each year. With the rise American travel to the island, and the increasing importance travelers place on having unique experiences during their trips, Cuba has the distinct opportunity to introduce Cuban coffee tours. They would build brand awareness, encourage increased domestic consumption, and help place Cuban coffee on the world map. Furthermore, if the model proves successful, opportunities exist to further build the brand with tours in the coffee growing regions of eastern Cuba, as is already done with cigar tours in Viñales.

Partner with third-parties to assist implementation. One of the challenges associated with operating through CubaExpo is that there are limited ways to ensure that the lives of Cuban farmers will be improved as a result of exporting premium Cuban coffee. Since CubaExpo pays a government-regulated, fixed price to coffee growers and processors (data that it does not share publicly), it will be challenging to track the trickle-down effect of exporting Cuban coffee to the U.S. Fortunately, through conversations with Technoserve, an international non-profit dedicated to helping promote business solutions to poverty in the developing world, we have identified a few possible solutions that may help encourage coffee farmers' prosperity. Technoserve has worked with farmers and agricultural cooperatives in other developing countries. While our contact, a former employee of the organization, openly acknowledged the challenges of working with the Cuban government, his recommendations were aimed at providing non-monetary goods and services as forms of payment. While monetary transactions can be falsified and are hard to track, payment in the form of physical goods such infrastructure improvements are more difficult to hide and provide a clear and tangible benefit to farmers. Other possible forms of payment included electrification, vaccination, and sexual health education.

It would be challenging to create a contract with CubaExpo that stipulated sufficient details around the transactions. A third-party organization such as Technoserve or another reputable organization already operating in the region could be used as a check to ensure that all provisions of coffee contracts are met. A challenge with measuring the impact of intangible goods such as education is that they require a constant supply of resources (such as teachers). One of the other stakeholders in this transaction is the final purchasing organization, such as a company like Nestle. For public relations reasons, Nestle would want to ensure that the contract they sign with CubaExpo would include stipulations ensuring that certain conditions are met regarding to the treatment of and payment to farmers, lest they become caught up in a deleterious news cycle like many other multinationals in recent years.

C. FINAL THOUGHTS

It is clear that recent executive branch changes to CACR provide a unique opportunity for the coffee community in Cuba. There exists a viable market for a premium Cuban brand in the U.S. The challenge, however, will be ensuring that revenue associated with Cuban coffee exports returns to Cuban coffee farmers, rather than solely to the Cuban government. We believe that mechanisms observed in comparable coffee-exporting countries can be used as examples of realistic options for the Cuban market—implementing quality control centers, promoting community-enhancing cooperatives, pursuing fair trade certification, seeking trademark protection, and utilizing branding—and that some combination of these best practices can directly benefit local farmers. Improving the in-country coffee experience for tourists could serve as an additional avenue to promote Cuban coffee and build brand awareness internationally. We hope that the Cuban coffee community, including farmers, roasters, and government exporters, will fully capitalize on this new opportunity.