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慶應義塾大学大学院経営管理研究科修士課程

学位論文（ 2012 年度）

論文題名

A Study on the Factors Determining the International Competitiveness of Haiti's Coffee Industry

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論文要旨

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| (論文題名) | | | | | |
| A Study on the Factors Determining the International Competitiveness of Haiti's Coffee Industry. | | | | | |
| (内容の要旨) | | | | | |
| <p>This exploratory study attempts to identify ways to strengthen economic ties between Japan and Haiti through exports. This is done in three steps consisting of the following: a) identifying nations similar to Haiti in terms of "trade structure", (b) identifying Haiti's main exports to Japan, and finding nations within group "a" which export the same products to Japan, c) within Haiti's exports to Japan select one product in which Haiti is outperformed by the nations in group "b" in terms of volume and price, d) perform an industry analysis to determine the root cause of the discrepancy in performance.</p> <p>This highly methodical selection process led to a study of both Haiti and Jamaica's respective specialty coffee industries, in an attempt to identify the source of discrepancies in their export performances. Areas in need of further study are identified and finally recommendations are made at the end.</p> | | | | | |

A Study on the Factors Determining the International Competitiveness of Haiti's Coffee Industry

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Professor SAKAZUME Yu

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Abstract

Mario Joseph Depeine: A Study on the Factors Determining the International Competitiveness of Haiti's Coffee Industry.

(Under the direction of Professor Okada Masahiro)

This exploratory study attempts to identify ways to strengthen economic ties between Japan and Haiti through exports. This is done in three steps consisting of the following: a) identifying nations similar to Haiti in terms of "trade structure", (b) identifying Haiti's main exports to Japan, and finding nations within group "a" which export the same products to Japan, c) within Haiti's exports to Japan select one product in which Haiti is outperformed by the nations in group "b" in terms of volume and price, d) perform an industry analysis to determine the root cause of the discrepancy in performance.

This highly methodical selection process led to a study of both Haiti and Jamaica's respective specialty coffee industries, in an attempt to identify the source of discrepancies in their export performances. Areas in need of further study are identified and finally recommendations are made at the end.

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To everyone in the coffee industry whom I've interviewed, thank you for helping me gain a better understanding of the Japanese market and how Haiti, and other specialty coffee producing nations fit into the picture.

Finally, I appreciate and thank all those who came to watch my presentation and showed a genuine interest in the topic.

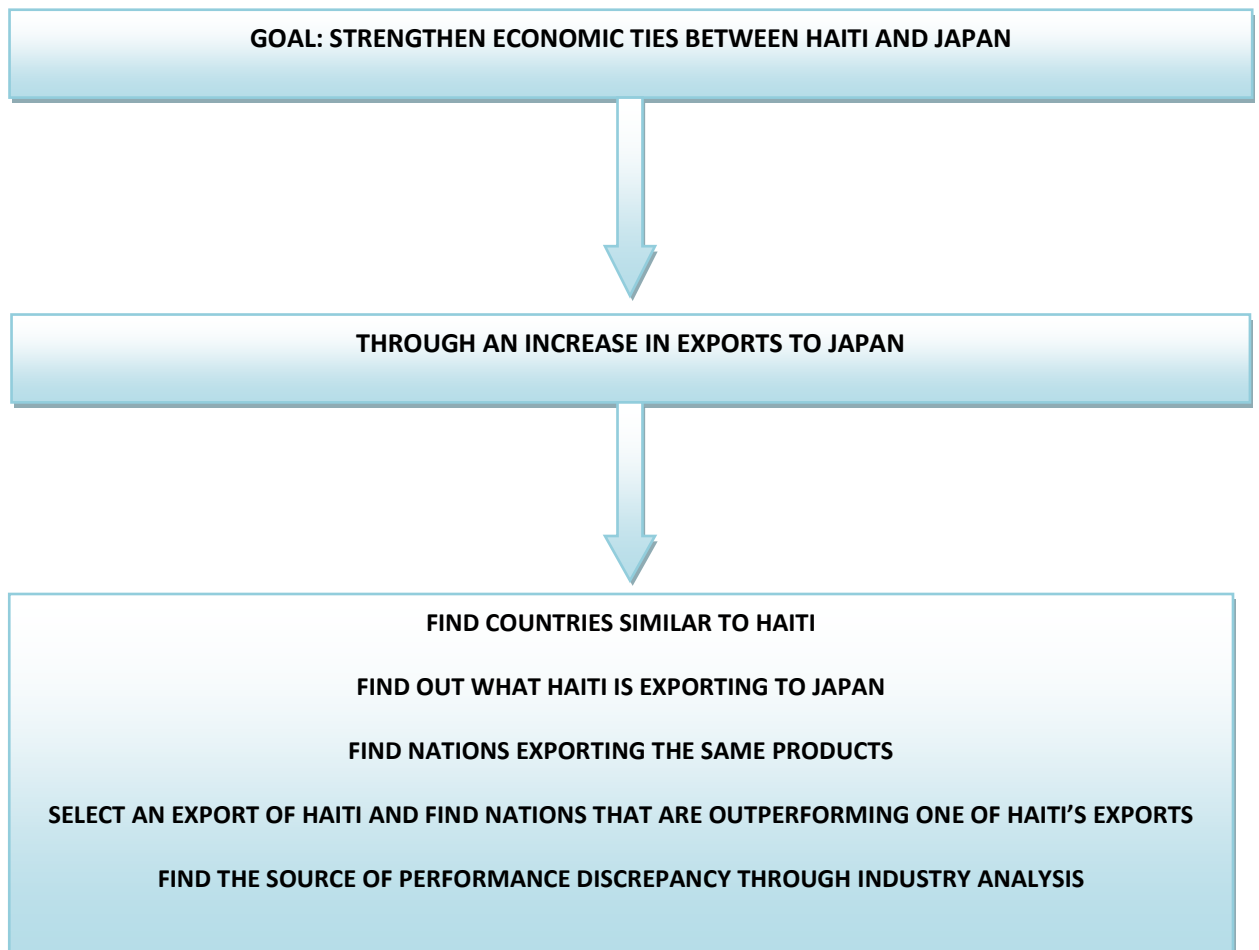
Outline

- Purpose and Significance
- Analysis

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| PART I –Country & product selection <ol style="list-style-type: none">1) Preliminary country selection<ol style="list-style-type: none">a. The variety and quality of a nation’s Exportsb. Preliminary exporter country selectionc. Preliminary product selection of strategic industry2) Product selection<ol style="list-style-type: none">a. Rationale behind selectionb. Export performance in Japan3) Final Country Selection | PART II-Market Trends <ol style="list-style-type: none">1) Japan coffee industry trends2) Specialty coffee market |
| PART III- The Blues- Haiti’s and Jamaica’s prime coffees in Japan <ol style="list-style-type: none">1) Price & Export Volume2) Value chain3) Domestic structure4) Exports over the years5) Industry player interviews6) Industry analysis- Porter Diamond framework | PART VI-Findings & Conclusion <ol style="list-style-type: none">1) Findings & Conclusion2) Significance3) Recommendations4) Bibliography |

Purpose and significance:

This study will attempt to identify ways to strengthen economic ties between Japan and Haiti through exports. This will be done in three steps consisting of the following: a) identifying nations similar to Haiti in terms of “trade structure”, (b) identifying Haiti’s main exports to Japan, and finding nations within group “a” which export the same products to Japan,. c) Within Haiti’s exports to Japan select one product in which Haiti is outperformed by the nations in group “b” in terms of volume and price d) perform an industry analysis to determine the root cause of the discrepancy in performance. These steps are outlined below.



PART I - COUNTRY AND PRODUCT SELECTION

Overview

This section attempts to find through a number of steps a single country's product in order to compare that country's export performance to that of Haiti. The goal is to find a comparable product from another country where the value of the good is achieving a "higher export performance" than Haiti in the Japanese market, either through a higher price, or a larger export volume.

This process is broken down into three steps (1) A Preliminary country selection where countries similar to Haiti in terms of export structure are selected using data from a 2005 study "The Variety and Quality of a Nation's Exports". (2) The second step involves further narrowing down the list of nations by choosing those with similar Japan-exports to those of Haiti's. This is achieved using data from Japan's MOFA website where individual countries' exports to Japan are listed. (3) Finally, after a qualitative study to select a product category of focus, one nation with a product similar to that of Haiti's is selected as the final study target, and an industry analysis is performed.

1. Preliminary country selection

a. The Variety and Quality of a Nation's Exports

The goal here is to narrow down the list of potential study targets from the 180+ nations of the world to a handful, providing a more realistic number of candidates based on an examination of existing trade patterns with Japan.

Various criteria could be used to select nations that could have commonalities with Haiti, such as geographical size, population, economic grouping and so on. For the purpose of this study however indicators of export performance are prioritized. The 2005 American Economic Review Study: "The Variety and Quality of a Nation's Exports" provides a good theoretical framework for assessing trade performance. The study rates each nation of the world based on the quantities and range of goods that it exports. Two indicators are defined and used. First, the Intensive Margin or IM which refers to quantities exported by an individual country and then, the extensive margin (EM) which refers to the range of products exported.

APPENDIX

TABLE A1

| Country | Overall | EM | IM | <i>P</i> | <i>X</i> | <i>Y</i> | <i>L</i> | <i>Y/L</i> |
|-----------|---------|--------|--------|----------|----------|----------|----------|------------|
| ALBANIA | 0.00017 | 0.0950 | 0.0018 | 0.6652 | 0.0028 | 0.00027 | 0.0006 | 0.4629 |
| ANGOLA | 0.00123 | 0.0872 | 0.0141 | 0.9452 | 0.0150 | 0.00040 | 0.0022 | 0.1825 |
| ARGENTINA | 0.01804 | 0.3507 | 0.0514 | 1.0298 | 0.0499 | 0.01055 | 0.0061 | 1.7285 |
| AUSTRALIA | 0.02085 | 0.5375 | 0.0388 | 1.0468 | 0.0371 | 0.01192 | 0.0038 | 3.1791 |
| AUSTRIA | 0.01432 | 0.5004 | 0.0286 | 1.3682 | 0.0209 | 0.00497 | 0.0016 | 3.1426 |

Source: David Hummels And Peter J. Klenow , *The Variety and Quality of a Nation's Exports*, American Review.Vol. 95, no. 3 (2005), p. 720.

The assumption of the study is that nations with intensive and extensive margins close to those of Haiti will display similar economic characteristics, or should have access to somewhat similar resources which may cause them to export similar goods. These characteristics will allow for a fairer and more realistic comparison of nations.

After ranking each nation in ascending order by their respective IM and EM margins, 30 nations were selected on the basis of the proximity of their scores to that of Haiti with fifteen ranking above and another fifteen for which lower numbers were registered. This process led to the selection of a "preliminary list" of 51 comparable nations as illustrated below.

| Country | EM | Country | IM |
|-----------|--------|--------------|--------|
| SENEGAL | 0.0463 | BOTSWANA | 0.0016 |
| NAMIBIA | 0.0479 | ALBANIA | 0.0018 |
| TANZANIA | 0.0495 | GRENADA | 0.0021 |
| NICARAGUA | 0.0503 | DOMINICA | 0.0022 |
| ICELAND | 0.0543 | SIERRA LEONE | 0.0023 |
| HAITI | 0.0593 | HAITI | 0.0027 |
| BOLIVIA | 0.0628 | NIGER | 0.0031 |
| JORDAN | 0.063 | GUINEA-BISS | 0.0037 |
| GHANA | 0.0636 | LESOTHO | 0.0037 |
| JAMAICA | 0.0643 | CYPRUS | 0.0038 |
| KENYA | 0.0698 | RWANDA | 0.0038 |

Source: David Hummels And Peter J. Klenow , *The Variety and Quality of a Nation's Exports*, American Review.Vol. 95, no. 3 (2005), p. 720.

b. Preliminary exporter country selection

| Proximity to Haiti | | | | |
|--------------------|-------------------|------------------|-------------------|------------------|
| 1st tier | Extensiveness | | Intensiveness | |
| | <i>Descending</i> | <i>Ascending</i> | <i>Descending</i> | <i>Ascending</i> |
| | Iceland | Bolivia | Sierra Leone | Niger |
| | Nicaragua | Jordan | Dominica | Guinea Bisseau |
| | Tanzania | Ghana | Grenada | Lesotho |
| | Namibia | Jamaica | Albania | Cyprus |
| | Senegal | Kenya | Botswana | Rwanda |
| 2nd tier | Niger | Madagascar | Cape Verde | Togo |
| | Yemen | Mauritius | | Central Afr. Rep |
| | Paraguay | Bangladesh | | Gambia |
| | Papua N. Guinea | Gabon | | Benin |
| | Nepal | Trinidad | | Belize |
| 3rd tier | Guinea | Angola | | Jordan |
| | Botswana | Honduras | | Burkina Faso |
| | Fiji | Zaire | | Barbados |
| | Luxembourg | Albania | | Macedonia |
| | Zambia | Congo | | Seychelles |

Source: Compiled from Japan’s Ministry of Foreign Affairs’ website data, MOFA’s “Regional Affairs” <http://www.mofa.go.jp/region/index.html>, accessed December 2012.

c. Preliminary product selection of strategic industry

The next step involves looking at each country’s individual exports to Japan in order to match them with those of Haiti’s to Japan. Export data from Japan’s Ministry of Foreign Affairs (MOFA) website can be used for that purpose. According to MOFA’s data Haiti’s main exports to Japan are the following: coffee, textiles and rum. The countries listed below were identified as exporters of at least one good that Haiti currently exports to Japan. They are nine in total.

| Nation: | Products |
|-----------------|---|
| Jamaica | Coffee, Alcohol |
| Tanzania | Coffee, Mineral, precious metal, sesame |
| Kenya | Coffee, tea, nuts, cut flower, fish fillet |
| Dominica | Clothes, leather goods, cigars |
| Lesotho | Clothes |
| Cyprus | Clothing, Frozen fish, fruit products |
| Rwanda | Coffee, Tea |
| Honduras | Coffee, sesame, ferrous waste |
| Barbados | Rum, technological optical instruments |

Source: Compiled from Japan’s Ministry of Foreign Affairs’ website data, MOFA’s “Regional Affairs” <http://www.mofa.go.jp/region/index.html>, accessed December 2012.

2. Product selection:

a. Rationale behind selection

with only nine countries left we can further trim down the list by selecting one product category out of the three that Haiti currently exports to Japan. Coffee was retained as the product of choice because over half of the nations selected are coffee exporters. Furthermore, with only 3% of forest cover remaining, Haiti has had a deforestation problem which according to the World Bank could be partly remedied through the growth of the coffee industry since it would involve large scale reforestation.¹ In addition, Haiti has been exporting gourmet coffee to Europe for years, and has a comparative advantage in that particular industry relative to its other exports. Finally, there is growing demand for specialty coffees in the world, to the point that the lack of supply is being referred to as “the coffee supply crisis”.²

Once coffee was chosen as the product of focus, MOFA’s export listings was compared to that of the United Nations’ (UN) export database, Trade Map in order to ensure that the data was comprehensive, up to date and as accurate as possible. The UN database had more countries listed as coffee exporters and a number of nations that were not listed on the MOFA website were added to the list of countries of interest. The differences in the two datasets were probably due to the fact that the MOFA data set may have been outdated.

| similar to Haiti + Exports Coffee to Japan | Designated Coffee Exporter on MOFA | NR-ND | R-ND |
|---|--|--------------------------------|-----------------------------------|
| Haiti | o (2009) | Consistent | 2008 |
| Belize | x | 40000 in 2004 | 2001-2004,2007, 2010 |
| Bolivia | X | o consistent & higher than Hai | X |
| Cape Verde | x | o (2007) | X |
| Congo | x | o (2007, 2010) | 2007 |
| Dominica | X | o (2001,2008,2010) | X |
| Honduras | o(2011) | Consistent | 2008-2011 |
| Jamaica | o(2010) | Consistent | All Except 2010 |
| Kenya | o(2008) | Consistent | All |
| Madagascar | x | o(2008,2010, 2011) | 2008-2010 |
| Nepal | x | Consistent | X |
| Nicaragua | N/A | Consistent & Very High | 2002, 2005-2009, 2011 |
| Papua N. Guinea | x | Consistent & Very High | 2002-2011 |
| Rwanda | o(2006) | 2004-2011 | 2005, 2007, 2008, 2010, 2011 |
| Tanzania | o(2010) | Consistent | 2001, 2004, 2005, 2007, 2009-2011 |
| Yemen | x | Consistent & Very High | All except 2011 |
| Zambia | x | Consistent | 2007 |

Source: Compiled from the United Nations Commodity Trade Statistics Database | Statistics Division , December 2012

¹ The World Bank (March 2010). Haiti Coffee Supply Chain Risk Assessment March, 2010.

² Kwast B. Hayden, (Aug. 2010). “The coming specialty coffee supply crisis”. The Fletcher School, Tufts University.

In the table above, the nations highlighted in blue are the ones that have exported consistently to the Japanese market from the period of 2001-2011. There are ten of them.

The list of countries to be considered was further reduced by classifying the coffees exported into the International Coffee Organization's (ICO) coffee groups. The ICO classifies the world's coffees into four groups: Colombian mild arabicas, other mild arabicas, Brazilian and other natural arabicas and robustas. Haiti's coffee falls into the "Other mild arabicas" category. Only the following six nations circled in red seem to export coffee which falls into the same grouping as Haiti.

Table 1.3 ICO quality groups

| Quality group | Producers |
|--------------------------------------|--|
| Colombian mild arabicas | Colombia, Kenya, United Republic of Tanzania |
| Other mild arabicas | Bolivia (Plurinational State of), Burundi, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, India, Jamaica, Malawi, Mexico, Nicaragua, Panama, Papua New Guinea, Peru, Rwanda, Venezuela (Bolivarian Republic of), Zambia, Zimbabwe |
| Brazilian and other natural arabicas | Brazil, Ethiopia, Paraguay, Timor-Leste, Yemen |
| Robustas | Angola, Benin, Cameroon, Central African Republic, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Ghana, Guinea, Indonesia, Liberia, Madagascar, Nigeria, Philippines, Sierra Leone, Sri Lanka, Thailand, Togo, Trinidad and Tobago, Uganda, Viet Nam |

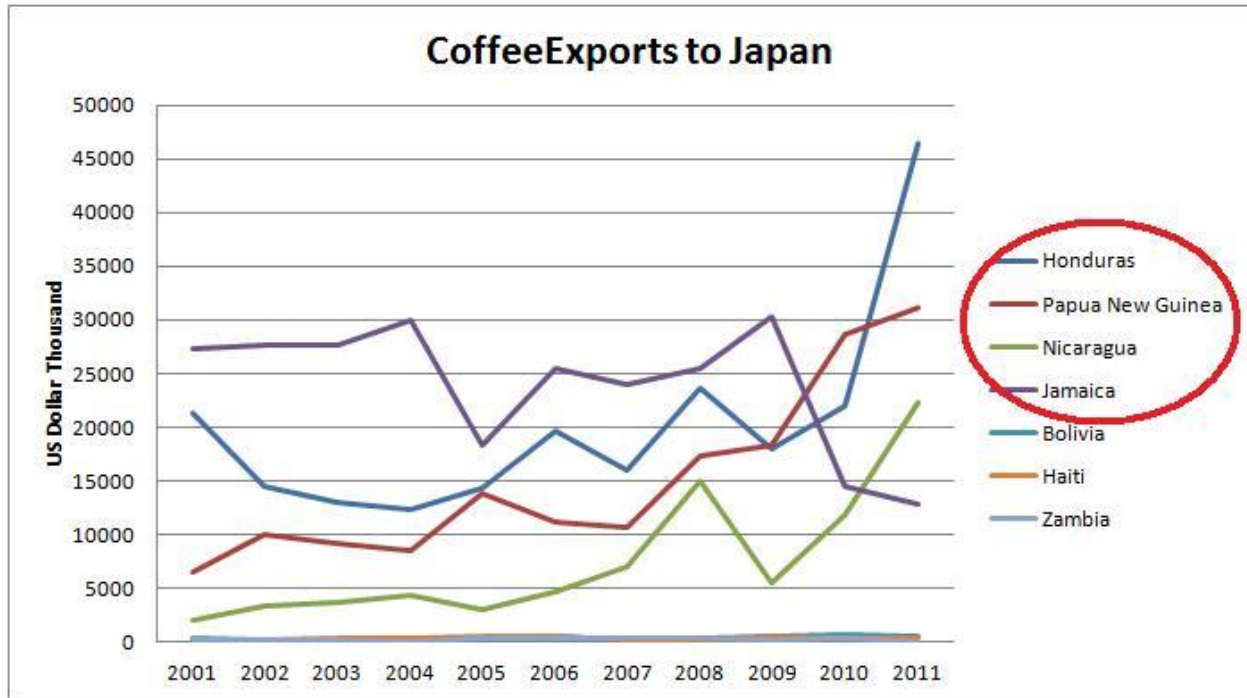
Source: International Coffee Organization (ICO) "World Coffee Trade An Overview"

<<http://www.google.co.jp/url?sa=t&rct=j&q=&esrc=s&source=web&cd=5&ved=0CE8QFjAE&url=http%3A%2F%2Fwww.intracen.org%2FWorkArea%2FDownloadAsset.aspx%3Fid%3D58068&ei=FEzqUKfhMYfMkgWNsYHYBw&usg=AFQjCNHABQQgvEXdjUGpCeknxNU5fi71TA&bvm=bv.1355534169,d.dGI&cad=rja>>, accessed December 2012.

b. Export performance in Japan

Graphing the export volume of the six potential candidates we can separate the coffee exporters of Mild Arabica into two groups, the high performance and low performance groups. The high performance group as illustrated by the graph below consists of the following four nations: Honduras,

Papua New Guinea, Nicaragua and Jamaica. Ultimately, one product from one of these nations will be compared with one product that Haiti is currently exporting to the Japanese market.



Source: Created using data from the Trade Statistics of Japan website, <http://www.customs.go.jp/toukei/info/>, accessed December 2012.

3. Final country selection

Haiti is currently exporting a *single origin specialty coffee* called Haitian Bleu to the Japanese market through the distributor Hamaya. Specialty coffees according to the ICO refers both to whole bean sales and to coffee beverages sold in coffee bars and cafés, as opposed to restaurants and other catering establishments. The range includes higher quality coffees, both *single origins* and blends. Additionally, “It is fair to say that specialty coffee has become a generic label covering a number of different coffees, which either command a premium price over other coffees or are perceived by consumers as being different from the widely available mainstream brands of coffee.”³

³ International Coffee Organization World Coffee Trade An Overview < <http://www.google.co.jp/url?sa=t&rct=j&q=&esrc=s&source=web&cd=5&ved=0CE8QFjAE&url=http%3A%2F%2Fwww.intracen.org%2FWorkArea%2FDownloadAsset.aspx%3Fid%3D58068&ei=FEzqUKfhMYfMkgWNsYHYBw&usg=AFQjCNHABQQgvEXdjUGpCeknxNU5fl71TA&bvm=bv.1355534169,d.dGI&cad=rja>>

The four country candidates all produce single origin coffees; however Jamaica seems to be the leading choice. Jamaica's popular Blue Mountain is not only grown a mere 200 kilometers from Haiti with similar climatic conditions, but was actually introduced to the island from Haiti in the late 1700s. This provides a direct link for comparison leading to Jamaica as the clear choice for the exploratory study.

Jamaica exports the Jamaican Blue Mountain Coffee whereas Haiti exports its Haitian Blue Coffee to the Japanese market. Both products will be discussed in detail in part III.

PART II – MARKET TRENDS

1) Japan Coffee Industry Trends

Two species of coffee, arabica and robusta are currently grown in the world. Robusta is believed to have originated from Ethiopia and robusta from the Atlantic coast around Angola and the Great Lakes region.

⁴Places of origin for green coffee beans are within latitude 25 degrees north and south of the equator. There are currently 70 coffee producing countries with 55% of the world's supply coming from Brazil, Vietnam and Columbia. ⁵

The Japanese climate is not suitable for growing coffee beans, therefore coffee consumption relies almost entirely on imports making Japan the third largest importer of coffee in the world after the US and Germany. Coffee is usually imported in the following forms: Green coffee beans, regular coffee, instant coffee or coffee extracts and essences. Green coffee beans are coffee seeds that have been prepared by removing their skins, regular coffee consists of roasted coffee ground or whole beans, instant coffee includes coffee in soluble powder prepared by drying extracts of roasted coffee beans, and coffee extracts are concentrated extracts of coffee beans used for industrial or processing purposes.

Japan's top coffee import partners are Brazil for both green beans and soluble Coffee, followed by Columbia and Indonesia respectively. Most of Japan's roasted coffee is imported from the USA and Brazil. Coffee consumption has seen 3.5% growth over the last 30 years compared to the world's 1.2% during the same period.⁶ The RTD (Ready to Drink) coffee segment is the largest in the beverage market in terms of sales value. In the Japanese coffee market, the most competitive factor is the reputability of the roaster followed by quality and price.

⁴ International Coffee Organization World Coffee Trade An Overview <
<http://www.google.co.jp/url?sa=t&rct=j&q=&esrc=s&source=web&cd=5&ved=0CE8QFjAE&url=http%3A%2F%2Fwww.intracen.org%2FWorkArea%2FDownloadAsset.aspx%3Fid%3D58068&ei=FEzqUKfhMYfMkgWNSYHYBw&usg=AFQjCNHABQQgvEXdjUGpCeknxNU5fl71TA&bvm=bv.1355534169,d.dGI&cad=rja>>

⁵ International Coffee Organization, <http://www.ico.org/>, accessed November 2012

⁶ Perez Adriana Roldan, (2010), "The Japanese Coffee Market", Waseda University

2) Specialty coffee market

Although most coffees are suitable only for blending into neutral or anonymous end products including soluble, others may be highly prized for their flavor characteristics and attract a premium as a result. Examples include Panama's Geisha coffee, Hawaii's Kona and Jamaica's Blue Mountain Coffee, the primary focus of this research.⁷

Specialty could refer to both whole bean sales and to coffee beverages sold in coffee bars and cafes as opposed to restaurants and other catering establishments. The range includes higher quality coffees such as flavored coffees and coffees with an unusual background or story behind them. Given the lack of precision in definition, it is extremely difficult to describe the market in a global way. The best approach appears to be to look at the specialty market from different countries or regional viewpoints. However, the very notion 'gourmet' or 'specialty' suggests some degree of exclusivity.

The Japanese specialty coffee market is believed to have taken off after Starbucks' entry into the market in 1996. However, according to the Specialty Coffee Association the Japanese have been drinking specialty coffee before World War II. The awareness however according to the association is just beginning to take off.⁸

The most demanded categories are rainforest alliance, fair trade certified, bird friendly and organic coffees. A few single origin coffees such as Esmeralda Special of Panama, single estate coffees from Mexico, and recently Kenyan specialty coffees are beginning to pose a real threat to established specialty coffees such as Jamaica's Blue Mountain Coffee.

Most of these coffees are introduced to the market by importers which also handle regular coffee as there are no dedicated specialty importers. Additionally, Japanese roasters and importers make up over half of the attendants to the single largest specialty coffee auction event in the world, "Cup of Excellence". It is there that they select coffees to bring back to the Japanese consumer.

Many traders also travel to the country of origin where they tour the farms before making a decision about on whether to or not to import. Although exact data isn't available yet, according to the Specialty Coffee Association of Japan, the specialty coffee roasters with greater market share in Japan are Maryuyama coffee, Horiguchi coffee and Café Bach. These roasters are usually not involved into any large scale marketing and rely mostly on word of mouth marketing.

Larger roasters however maintain their own coffee outlets within large department stores allowing them to achieve widespread exposure. It is very difficult to gain recognition for new individual coffees

⁷ International Coffee Organization World Coffee Trade An Overview <
<http://www.google.co.jp/url?sa=t&rct=j&q=&esrc=s&source=web&cd=5&ved=0CE8QFjAE&url=http%3A%2F%2Fwww.intracen.org%2FWorkArea%2FDownloadAsset.aspx%3Fid%3D58068&ei=FEzqUKfhMYfMkgWNSYHYBw&usg=AFQjCNHABQQgvEXdjUGpCeknxNU5fl71TA&bvm=bv.1355534169,d.dGI&cad=rja>>

⁸ Interview with Specialty coffee Association of Japan staff, in-person interview, Jan 17, 2013.

because of the cost and uncertainty involved in creating a stand-alone brand image for an individual coffee in the Japanese market.⁹

The specialty coffee market can be divided into three sub-segments: Exemplary coffees usually presented as single origin or single source, High quality coffees that may include blends, and average quality coffees that is presented differently, for example lattes. Both Jamaica's Blue Mountain Coffee and Haiti's Haitian Blue Coffee the subjects of this research fall into the first category of exemplary coffees as single origin coffees.⁹

PART III- THE BLUES- HAITI'S & JAMAICA'S PRIME COFFEES IN JAPAN

1. Price & Export Volume

Haitian Blue Coffee



Price: ¥ 10,000/KG

Exports/yr: 59,000kg

Blue Mountain Coffee



Price: ¥ 20,000/Kg

Exports/yr: 460,000kg

Blue Mountain Coffee despite having originated from Haiti sells for approximately 50% more than Haiti's Haitian Bleu Coffee. Furthermore, Blue Mountain with exports 10x higher than Haiti's Haitian Blue coffee is available everywhere in Japan from supermarket chains to select Starbucks shops where

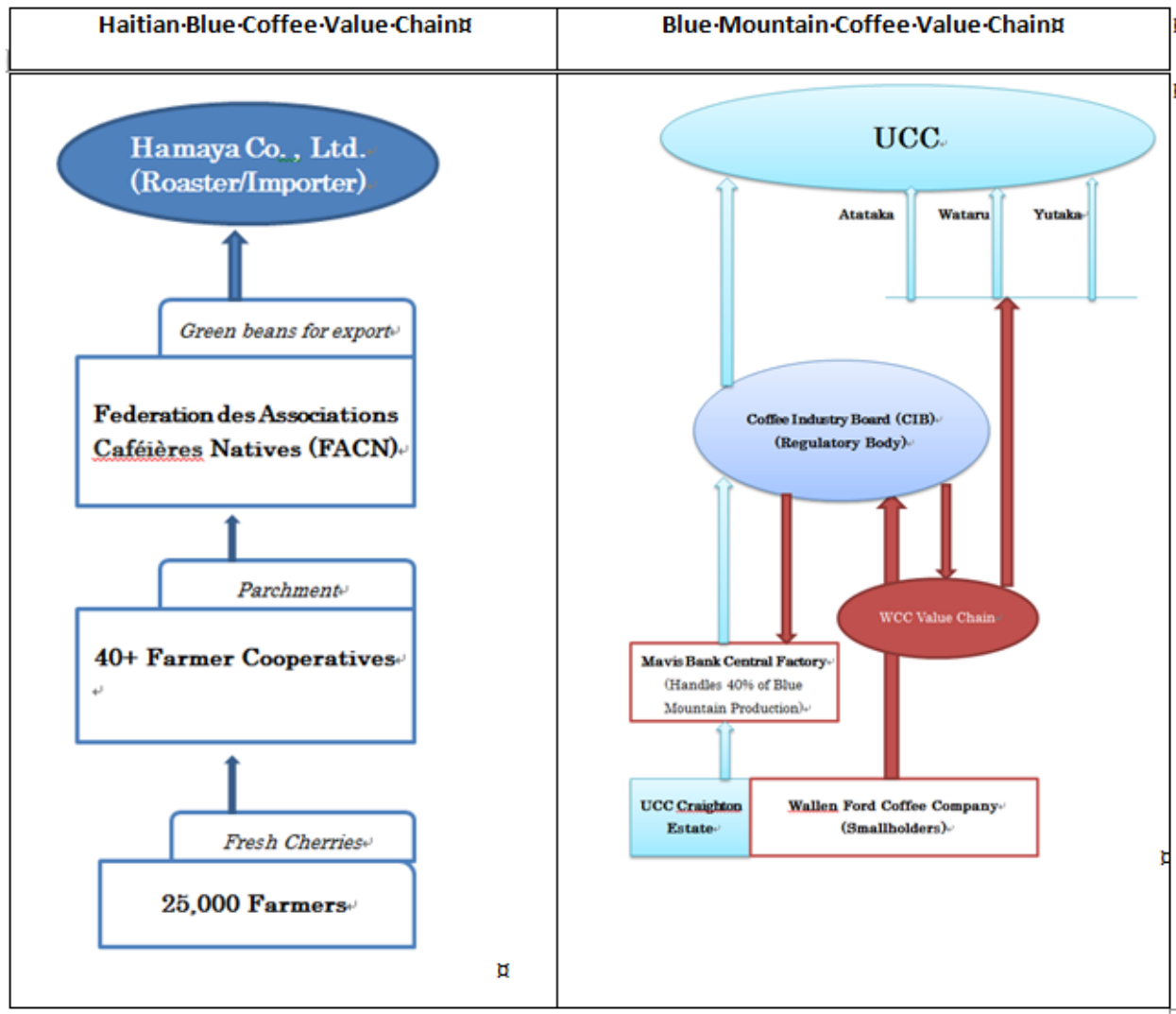
⁹ International Coffee Organization World Coffee Trade An Overview <

<http://www.google.co.jp/url?sa=t&rct=j&q=&esrc=s&source=web&cd=5&ved=0CE8QFjAE&url=http%3A%2F%2Fwww.intracen.org%2FWorkArea%2FDownloadAsset.aspx%3Fid%3D58068&ei=FEzqUKfhMYfMkgWNsYHYBw&usg=AFQjCNHABQQgvEXdjUGpCeknxNU5fl71TA&bvm=bv.1355534169,d.dGI&cad=rja>>

one cup sells for approximately 1000 yen. It would be important to understand the sources of competitive advantage of Blue Mountain Coffee which allow it to achieve such brand recognition and price premium.

2. The Value Chain

To gain insights on why Jamaica's coffee exports are outperforming Haiti in the Japanese market, we can start by looking at each coffee's respective value chain, compare their marketing and sale strategies, perform an industry analysis using Porter's Diamond framework, and end with the insights gained through interviews with industry players.



3. Domestic structure:

Haitian Bleu

Haiti's coffee value chain can be broken down into four parts entirely owned by a total of approximately 25,000 farmers.¹⁰ The coffee cherries move through the chain as follows: Farmers who are each part of a cooperative grow the coffee beans on plantations of 0.5-2 acres. These farmers then bring the cherries to their associations' wet processing centers either by donkeys or by foot where they undergo the first step in the green bean washing process. That step is labeled "40 + farmer cooperatives". After the beans have been turned into parchment, they are then bought by the FACN, a federation of the cooperatives in charge of both managing and governing the cooperatives which supply the coffee beans. The FACN at this step undertakes the final steps of milling, sorting and blending before exporting the beans directly to overseas buyers. The FACN owns the Haitian Blue brand.¹¹

The Haitian Blue business model is as follows:

Roasters agree to:

- long-term fixed –price contracts at an above market price, lacking any relation to the position of the NYBOT 'C' pricing.
- Only sell Haitian Bleu in roasted form, that is no sales of green coffee.
- Actively promote Haitian Bleu, building a client base for the brand.

Producers agree to:

- Deliver a premium quality washed Arabica that meets the cupping demands of the roasters.
- Guarantee geographic exclusivity to roasters.
- Long-term fixed price contracts above market price, irrespective of the position of the NYBOT 'C' pricing.

Blue Mountain Coffee:

The blue mountain coffee beans follow a significantly different path than Haiti's before making it to UCC in Japan. Coffee beans are harvested by both UCC's own Craighton Estate plantation, and sourced from various plantations either owned by the Wallen Ford Coffee Company or other certified plantations that supply coffee cherries to Wallen Ford's processing center. For the UCC route, UCC is integrated in the first step of the process, the harvesting and picking of the cherries before they are sent to the MCBF, a Jamaican privately own wet processing center. After UCC's cherries are processed

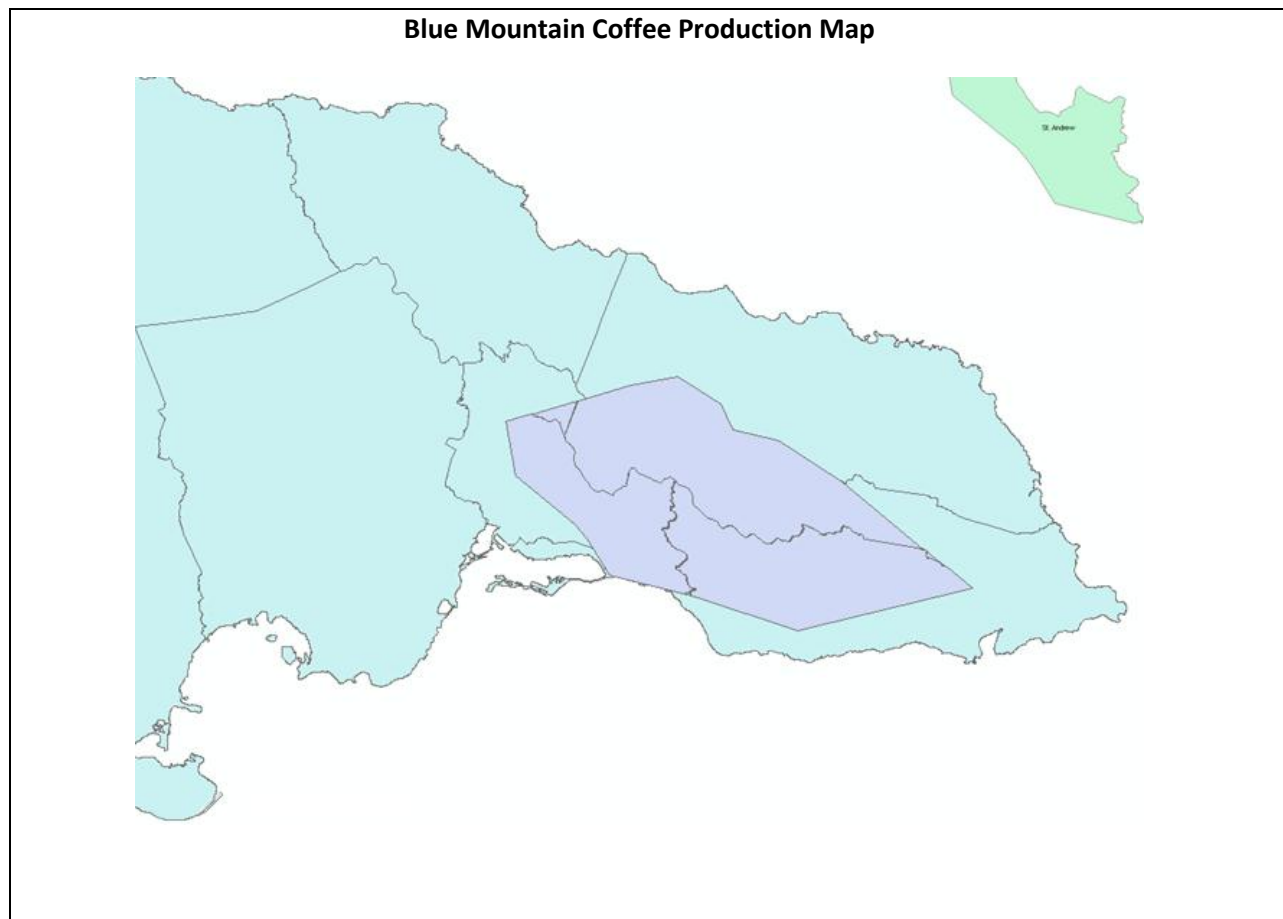
¹⁰ The World Bank (March 2010). Haiti Coffee Supply Chain Risk Assessment March, 2010.

¹¹ Lake Dunnington & Tom Lenaghan, (2004). "A Case Study in Brand- Creation with Small Holders- Haitian Bleu".

at the MCBF, samples are sent to the Coffee Industry Board for quality evaluation, classification and finally exports.

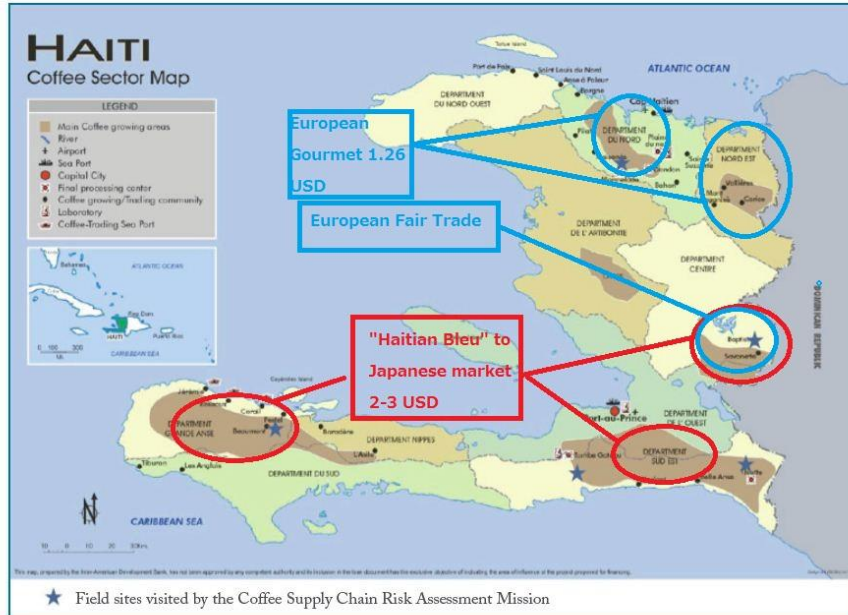
The beans that go through the Wallen Ford Coffee Company supply chain go through one of three importers before reaching UCC. Official importers of Blue Mountain Coffee are all members of the Association of Japanese Importers of Jamaican Coffee.

The differences also extend to the production areas of exported coffees as illustrated below. Jamaica's Blue Mountain Coffee is grown into a designated area whereas Haiti's Haitian Bleu Coffee is grown in the marked Southern locations on the map. Other gourmet coffees produced by the dry method are produced elsewhere in the country and are also exported to Japan under different brands and through other channels. These coffees may also be competing with the Haitian Bleu Brand.



Source: Jamaica Coffee Industry Board

Haitian Blue Production Map



(Source: IDB)

Source: Inter-American Development Bank

4. Haiti and Jamaica's exports over the years

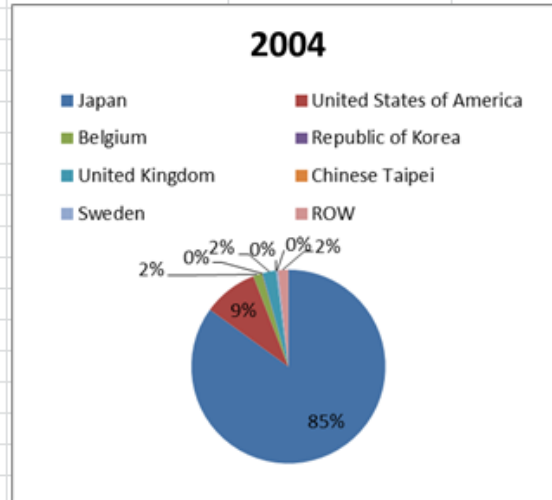
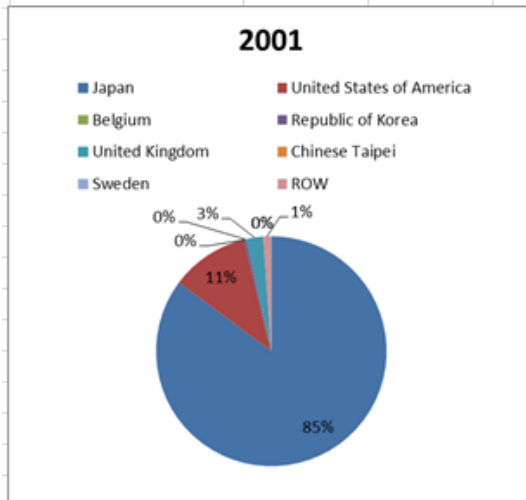
Looking at Haiti's and Jamaica's exports over the years, we can notice the following.

- Haiti's coffee exports are highly diversified while Jamaica until recently has consistently exported over 80% of its coffee to the Japanese market.
- Most of Jamaica's coffee is exported while Haiti's is consumed locally.
- Despite exporting smaller amounts of coffee than Haiti, Jamaica is receiving over 10x the amount of revenue for its coffee exports.
- Jamaica is trying to increase its share in the US market
- Haiti's share of exports to Italy has been consistently increasing

Jamaica's coffee exports

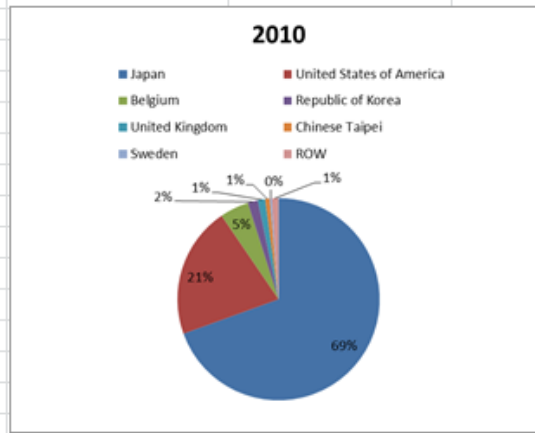
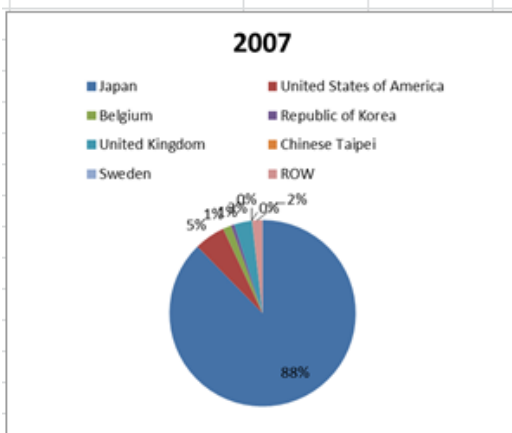
1 bag = 60 kg

| | | |
|-------------------|-----|------------|
| Blue Mountain | 84% | of exports |
| Non Blue Mountain | 16% | of exports |



| | | |
|------------------------|--------|---------|
| Total Production | 37,000 | bags |
| Total exported | 29,000 | bags |
| Blue Mountain | 24360 | bags |
| Non Blue Mountain | 4640 | bags |
| Total value of exports | 29.9 | mil USD |

| | | |
|------------------------|--------|---------|
| Total Production | 37,000 | bags |
| Total exported | 27,000 | bags |
| Blue Mountain | 22680 | bags |
| Non Blue Mountain | 4320 | bags |
| Total value of exports | 38.8 | mil USD |



| | | |
|------------------------|--------|---------|
| Total Production | 40,000 | bags |
| Total exported | 22,000 | bags |
| Blue Mountain | 18480 | bags |
| Non Blue Mountain | 3520 | bags |
| Total value of exports | 27.9 | mil USD |

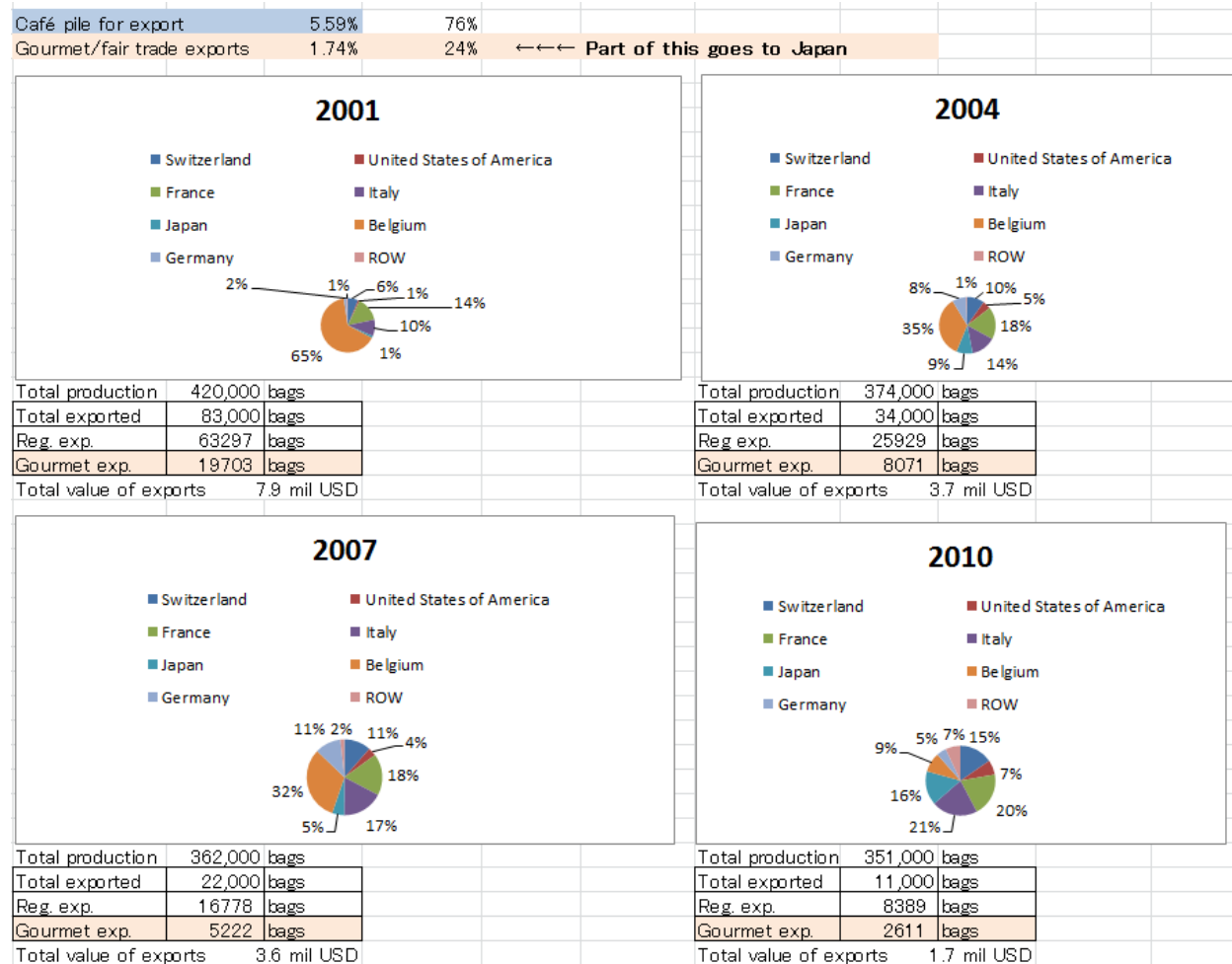
| | | |
|------------------------|--------|---------|
| Total Production | 25,000 | bags |
| Total exported | 16,000 | bags |
| Blue Mountain | 13440 | bags |
| Non Blue Mountain | 2560 | bags |
| Total value of exports | 19.2 | mil USD |

Source: Created using data from the International Coffee Organization, <<http://www.ico.org/>>

Haiti's Coffee Exports:

1 bag = 60 kg

Note: share movement represent green bean exports only/other types of coffee not included.



Source: Created using data from the International Coffee Organization, <<http://www.ico.org/>>

5. Industry Players Interview

Before moving on to the industry analysis, looking at the summary of interviews with industry players helps to gain a more comprehensive image of both nations' industries. Interviews were conducted with members of UCC, the primary distributor of Blue Mountain Coffee in Japan, Hamaya, the exclusive distributor of Haitian Blue Coffee in Japan, and members of the Japan Specialty Coffee Association (JSCA) including Mr. Ueshima's son. The summary follows:

Personal Interviews summary

1. UCC

What is the primary reason for Blue Mountain's success?

The introduction of Blue Mountain through the U.K. a little bit before WWII. We branded the coffee as "the best coffee drunk by the queen" it was an image easy to grasp for the Japanese who have an equivalent to the queen, the emperor.

The margin for chain participants is very high. It is a very profitable business.

The name conveys a beautiful image, and is rather easy to pronounce.

2. Hamaya

What should Haiti do to be more successful in the Japanese market?

Haiti's coffee industry needs the support of the government. "If the government has the strong will to improve the coffee industry, things will change".

Once there is a steady supply of coffee, it may be good to use a celebrity to promote Haitian coffee, since it is far behind other popular brands. You could use actors or performers for instance.

How about getting the American president to drink it and promote it. Of course there would be the preliminary requirement of making sure it is the best coffee in the region.

You also need a brand story; UCC has its own story, queen, Jamaica's image, tourism etc. Haiti needs a story to sell its coffee. The artistic images that they send us are not enough.

3. Specialty Coffee Association of Japan (SCAJ)

What in your opinion should one do in order to be successful in Japan's specialty market?

Make great coffee and invite either roasters or importers to the plantations.

Pick a name that is easy for Japanese people to understand and pronounce.

Participate in SCAJ fairs.

Participate in, and win at the "Cup of Excellence" auctions.

6. Industry Analysis-Diamond Framework

Performing an industry analysis using Porter’s Diamond Framework allows us to arrange all of the information gathered so far in a systematic fashion

| Firm strategy, structure and rivalry | |
|---|--|
| Haiti | Jamaica |
| Dispersed steps of the production chain | Centrally focused production |
| | Government certification body |
| Production chain owned by farmers | Production chain owned by various entities |
| Diversified export market | 80% of exports to Japan |
| Mixed tree cropping system | |

| Factor conditions | |
|------------------------|--|
| Haiti | Jamaica |
| Hurricane prone region | |
| Low production costs | One of highest production costs in region (over 2x that of closest competitor) |
| No public funding | Public funding by the Gov. |
| Lack of mgmt capacity | |

| Demand conditions | |
|---|------------------------------------|
| Haiti | Jamaica |
| Specialty coffee supply crisis | |
| 58% domestic consumption + Dominican Rep. (28%) | Less than 20% domestic consumption |
| | Tourist sales |

| Related and supporting industries | |
|-----------------------------------|------------------------|
| Haiti | Jamaica |
| No use of pesticides | Reliance on pesticides |

PART VI-FINDINGS & CONCLUSION

1. Findings:

Why is Haiti’s coffee selling for half that of Jamaica’s and exporting less than one tenth the amount that Jamaica exports to Japan despite having the same origins?

Haiti’s primary strength in the Japanese market is a taste profile similar to that of Jamaica’s Blue Mountain at a fraction of the price and cost of production. The non-use of neither fertilizers nor insecticides also gives Haiti an advantage, should farmer associations choose to apply for organic certification. Furthermore, Haitian coffee is already recognized in the U.S. as having a taste profile

similar to Jamaica's Blue Mountain Coffee. In Europe, especially in Italy, shops even use the "Haiti coffee" name when they may not be selling any Haitian coffee at all.

Nevertheless, from the analysis it is evident that there are a host of differences between the two nations' industries leading to Haiti's underperformance in the Japanese market. Those differences can be classified into two categories, quality related issues and supply related issues. Furthermore, Jamaica has a national export strategy clearly outlined on its governmental website, Jamaica Trade and Invest whereas Haiti's industry players are not only working without government support but, also in a non-coordinated fashion.

- *Supply Related Issues*

For supply related issues, to begin, Haiti is located in a hurricane prone region which sometimes can threaten as much as 50% of the nation's coffee supply. Furthermore, Haiti only exports about 5-10% of its coffee whereas Jamaica exports about 80% of production.

Haiti's production differs significantly from Jamaica in its use of the "Creole system", whereby farmers grow various crops on the same plot of land. This leads to lower crop yields.

In addition, given the lack of energy sources, the value of burned coffee trees is sometimes higher than the value of harvesting the coffee beans, leading farmers to sometime cut down and burn trees for fuel. Lastly, there seem to be serious managerial capacity weaknesses, leading to disputes within Haiti's farmer associations which apparently caused an abrupt suspension of supply to the Japanese market. This is definitely an area that needs to be further looked into.

- *Quality Related Issues*

For quality related issues, Haiti's coffee is mostly consumed domestically where there is a high demand for coffee processed using a "dry method" to remove the outer shell of the coffee beans. However, specialty coffee has come to be known primarily as coffee produced using a "wet method" which reportedly enhances and/or maintains the coffee's flavor profile. Only about 5% of Haiti's coffee is produced using the wet method which has only been introduced in Haiti in the late 1990s through a program funded by the USAID.¹² Reports by international organizations and interviews by importers have acknowledged that the recent introduction of the wet method in Haiti may be leading to quality variability. This issue is further exacerbated by the lack of a national quality certification body.

¹² Lake Dunnington & Tom Lenaghan, (2004). "A Case Study in Brand- Creation with Small Holders-Haitian Bleu".

Conclusion

The goal of this exploratory study was to find information that could help contribute to the strengthening of economic ties between Haiti and Japan through an increase of either exports to Japan or FDI to Haiti, and through the process identify areas in need of further exploration. First a set of similar nations was identified and then the list was narrowed down to a set of similar products for comparison.

Haitian Bleu despite arguably being the same product as Jamaica's Blue Mountain, has not been able to achieve the same performance. This could be attributed to a variety of factors discussed in the study such as the different paths that each coffee took to the Japanese market, including different exporting and marketing strategies, industry related factors as seen in our diamond analysis, or it could be as simple as the mere lack of an export strategy for the Haitian coffee industry.

Some of the potential reasons for the weaker Haitian Blue penetration in Japan have been uncovered through this research. However in order to obtain a comprehensive understanding of both nations' industries, actual field visits may be necessary. Some of the information provided to us by industry players for instance need to be corroborated by actual observations especially when there are conflicting accounts. Lastly, in order to better target the Japanese consumer; market research on the Japanese side would also be helpful to determine the specific reasons behind the willingness to pay such high premiums for the Blue Mountain brand.

2. Significance

In the first section, we were able to elaborate a methodology for selecting comparable nations using trade data. The process later facilitated the selection of various nations with exports similar to those of Haiti. These nations could be further compared for trade in other sectors for instance, textiles.

The country selection process itself could be further refined for application in other studies such as for the classification of nations into groups for comparisons with other similar nations based on a set of economic factors.

The two nations, Jamaica and Haiti are exporting virtually the same goods but Jamaica is outperforming Haiti in terms of price and export volume. Detailed study into any of the contributing factors for the gap in performance of the two nations could provide insight for other nations (and especially developing nations) as to how they could improve their exporting and trade promotion strategies to target markets that are vastly different from theirs.

3. Recommendations

Given the growing awareness for specialty coffee in Japan, there is a chance for Haitian coffee growers to differentiate themselves by qualifying for some of the various certification options mentioned earlier in this paper. Haiti could go for organic certifications since the industry uses virtually no pesticides nor fertilizers.

As far as addressing the quality issues, exporters and importers could form a sort of partnership with various organizations that specialize in capacity building for the coffee industry. Some examples are, Technoserve, an organization that provides financial help as well as equipment to farmers to help them upgrade their harvesting and processing methods. The Grameen Foundation could help with financing.

It would be worth exploring a direct trade solution for the industry which would allow farmers direct access to the consumers they are selling to. This would shorten the supply chain and improve farmers' returns, thus lowering the incentive to burn trees as soon as fuel prices rise. The direct connection to the consumer would also be an added incentive to improve quality.

The USAID which built the Haitian Bleu brand could work in cooperation with the private sector in helping farmers identify partners (i.e. roasters) to sell directly to. Such direct trade programs have already taken off in the U.S. with the so called "big three", Intelligentsia Coffee, Stumptown Coffee and Counter Culture Coffee leading the pack.

Finally, aside from the U.S. currently experiencing a "coffee supply crisis"¹³ there are a host of emerging Southeast Asian nations with rising middle classes that will be interested in differentiated products. As a country with limited resources, Haiti should probably select a selection and concentration strategy, targeting a few markets with growth prospects in the specialty segment.

¹³ Kwast B. Hayden, (Aug. 2010). "The coming specialty coffee supply crisis". The Fletcher School, Tufts University.

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