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A Prince of the Coffee Bean

Honduras Becomes Central America's Top Producer, Helping to Fuel Its Economy

By JEAN GUERRERO



Agence France-Presse/Getty Images

Quality certifications have helped Honduran beans gain drinkers' respect. Above, a worker carried a sack of coffee beans in El Paraiso last December.

SAN PEDRO SULA, Honduras—The coffee equation in Central America has changed.

This year, Honduras passed Guatemala as the top coffee producer in Central America, the region that produces the bulk of the world's washed arabicas, the most expensive and sought-after coffee beans, which are used in gourmet blends. Honduras's harvest this season was 3.8 million 60-kilogram bags of coffee, compared with 3.5

million bags for Guatemala.



Honduran coffee farmers used to smuggle their beans across the border to sell in Guatemala — world famous

While Colombia remains the world's top single producer of washed arabica, the rise of Honduras provides the global coffee market with another top player, and a boost for the impoverished nation's economy.

For Honduras, a poor nation known more for coups than coffee, besting its neighbor is sweet vindication. That's because for years, many Honduran coffee growers smuggled their beans to Guatemala, where they would fetch a higher price due to Guatemala's reputation for quality coffee.

for its quality coffee. Now their beans are being sold with the "grown in Honduras" label. WSJ's Jean Guerro reports from Ocatepeque.

Call it one of the dirty secrets to the coffee trade: Some of Guatemala's beans were actually grown in Honduras. As Guatemala's coffee commanded ever higher prices, it only encouraged more smuggling,

creating a vicious cycle for Honduras's coffee industry.

"We've actually had bigger harvests than this, but it never showed because of how much coffee was getting smuggled," said Jorge Alberto Lanza, president of the National Association of Honduran Coffee Producers.

Things started to change a few years ago, when a government tax on coffee exports—which initially led to more smuggling—helped fund technical assistance to growers that boosted production and quality, helping local prices rise and make smuggling less attractive.

As a result, Honduran beans have averaged \$2.45 a pound this season, surpassing Guatemala's prices for the first time in a decade.

Also for the first time this year, Honduras placed above Guatemala in the Specialty Coffee Association of America's Coffee-of-the-Year competition, closely watched by connoisseurs. Colombia was the only country that placed above Honduras.

Major coffee chains such as Starbucks Corp. and Peet's Coffee & Tea Inc. have single-origin blends from Guatemala, Costa Rica and Colombia, but not from Honduras. Starbucks representatives declined to comment on future procurement plans.

Coffee traders, however, are keeping an eye on Honduras.

"Honduras was like a sleeping giant," said Willem Boot, a San Francisco-based coffee quality consultant. "Now the giant is up and running."

Javier Oliva used to number among the Honduran coffee smugglers. But encouraged by higher local prices and patriotism, he has abandoned the contraband trade and contributed to Honduras' emergence as one of the most important coffee producers in the region.

For years, Mr. Oliva would smuggle thousands of kilograms of coffee beans across the Honduran border to Guatemala after nightfall.

"I started with my own plantation, and in 1996 I started buying coffee from others to sell in Guatemala," he said. "That's how I discovered that the quality of the coffee in our region was very good. And even though we were paid better in Guatemala, it wasn't what our coffee deserved."

Guatemalan officials don't dispute that Honduran beans were being smuggled through the border and sold as Guatemalan grown, but say that wasn't the case with Guatemala's highest quality coffee.

Ricardo Villanueva, president of the Guatemalan Coffee Association, said all of its branded coffees are bought directly from plantations, so such a mix-up of beans would be impossible.

"Maybe (Honduran coffee) was being exported as volume, but not as any of our specialty coffees," he said. As to the quality of Honduras' coffee, Mr. Villanueva said Guatemala's brew is still better, and said Honduras' win at this year's tasting competition was a "one time" thing.

Honduran officials say coffee smuggling for a long time put a damper on the nation's economy, as coffee makes up 6% of the country's \$14 billion gross domestic product and 36% of agricultural output. Officials say at least 300,000 bags were getting smuggled, and some producer estimates are as high as 2 million bags—more than half the harvest.

But it was almost impossible to control because smugglers could evade capture by telling border agents they were transporting coffee to Honduran storage facilities near the border.

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"The transportation of coffee from one place to another isn't illegal, since coffee isn't a prohibited substance," said Kelsin Artiaga, head of public relations for Honduras' Ministry for Public Safety. "It makes it

hard to establish whether it's a case of smuggling or not."

The government assistance through the new tax slowly boosted both production and quality. Quality certifications have skyrocketed. One coffee cooperative said around 400 of its growers have been certified over the past four years by groups like Fair Trade, Rainforest Alliance and Utz to secure premium prices.

Following in Guatemala's footsteps, Honduras started marketing coffee from six distinct regions, each with a slightly different flavor.

In 2006, Mr. Oliva organized about 90 farmers under a cooperative. About 80% of them now sell their coffee with certification seals to clients in Europe and other parts of the world.

"It's a quality coffee, and we don't have the need to sell to Guatemala anymore," he said.

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