



# Starbucks vs. Ethiopia

## Corporate Strategy and Ethical Sourcing in the Coffee Industry

Donald DePass

In March 2005, Ethiopia filed with the U.S. Patent and Trademark Office to trademark the names of Yirgacheffe, Harrar and Sidamo, three coffee producing regions within the country. In doing so, the Ethiopian government hoped to force coffee buyers into potentially lucrative licensing agreements. However, Starbucks had already applied a year earlier to trademark Shirkinia Sun-Dried Sidamo. Until a decision was made on Starbucks' application, Ethiopia's claim could not be processed. Ethiopia requested that Starbucks drop its claim, but Starbucks was reluctant to do so, and suggested that Ethiopia apply for a different type of certification. This led to public criticism of Starbucks and questions regarding its supposed dedication to selling ethically grown and traded coffee.

This case highlights the complexity surrounding global certification programs, the difficulty inherent in balancing corporate and shareholder interests with responsible corporate citizenship, and the challenge to preserving economic value for the producers of consumer goods grown in developing nations.

The case text and teaching notes for this case were completed under the direction of Dr. Rebecca Dunning, the Kenan Institute for Ethics

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## Introduction

In March 2005, Ethiopia filed with the U.S. Patent and Trademark Office to trademark the names of Yirgacheffe, Harrar and Sidamo, three coffee producing regions within the country. A trademark represents any name, word, symbol, design, or combination, that is used to distinguish the goods of one manufacturer or seller from the goods manufactured or sold by others, and it also indicates the source of the goods.<sup>1</sup> Ethiopia's decision to protect its agricultural products with this type of mark was an unusual one, since corporations, not geographic areas, typically use this type of protection. In filing for the trademark, the Ethiopian government hoped to force coffee retailers into potentially lucrative licensing agreements, and thereby to retain a larger portion of the coffee sales within Ethiopia. Ethiopian farmers received just a fraction of the value that coffee retailers, such as Starbucks, obtain on the market.

Unbeknownst to the government, Starbucks had applied a year earlier to trademark Shirkina Sun-Dried Sidamo. Attaining trademark certification would confer Starbucks with a number of benefits including nationwide notice of its trademark ownership, possible trademark registration in foreign countries, and exclusive use of the trademarked name.<sup>2</sup> In essence, it would establish a brand name and create a significant obstacle for any competitor. Until a decision had been made on Starbucks' application, Ethiopia's claim could not be processed. Hoping to expedite the process, Ethiopia requested that Starbucks drop its claim, but Starbucks was reluctant to do so, and suggested that Ethiopia apply for a different type of certification. This led to intense criticism about Starbucks' position and questions regarding its supposed dedication to selling ethically produced and traded coffee. Starbucks had built its image on being a model company committed to the environment and the well-being of its coffee growers and had been at the vanguard of establishing ethical trade standards for coffee. Nevertheless, the company, often hailed as a titan of Corporate Social Responsibility (CSR), found itself in a potential public relations nightmare, as it opposed an economic strategy devised by one of the world's poorest countries.

## Background

### Consolidation of the Coffee Supply Chain

Over the past two decades world coffee production and distribution has become dominated by a small number of transnational corporations (TNCs). As such, it represents just one of a number of commodities whereby retail chains have immensely increased the geographical reach of their sourcing systems and expanded the power that they exert over their supply chains, which include their employees, suppliers and distributors.<sup>3</sup>

Transnational corporations have the power to determine what goods are produced, how they are produced, who produces them and how they are marketed and distributed.<sup>4</sup> By the early 1990s, four major manufacturers and eight major trading companies controlled the majority of coffee being traded in the major consuming markets of North America, Europe, Japan and Australia. These four companies combined to account for more than 60% of total coffee sales across all major consuming markets and have used their influence to derive additional profits out of producing regions.<sup>5</sup>

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1 2010. "Small Business - Trademark Protection - How to Trademark Your Name - USPTO Stopfakes.gov." *United States Patent and Trademark Office*. Accessed December 5, 2010 at <http://www.uspto.gov/smallbusiness/trademarks/>

2 2010. "Trademark FAQs." *United States Patent and Trademark Office*. (August 12, 2010). Accessed December 5, 2010 at <http://www.uspto.gov/faq/trademarks.jsp#Basic002>

3 Ibid. 374.

4 Ibid. 367.

5 Talbot, John M. 2004. *Grounds for Agreement: the Political Economy of the Coffee Commodity Chain*. Lanham, MD: Rowman & Littlefield. Page 102.

In the coffee value chain, it is the laborers or farmers from these regions who occupy the bottom tier of the industry. They are tasked with planting seeds, picking coffee cherries, processing the cherries, drying the beans and removing defective beans.<sup>6</sup> In Starbucks' chain, all of this labor earns a farmer an average of \$1.45 per pound, while the end product may retail for as much as \$26 per bag in a Starbucks shop.<sup>7</sup> The vast majority of these workers has little to no bargaining power and has few protections from abuse by their employers.<sup>8</sup>

Some scholars argue, however, that even being located at the bottom of a firm's value chain can bring significant, tangible benefits to a host economy. Often, to ensure high quality products, companies will readily offer technological transfer to local vendors.<sup>9</sup> This in turn, can help these vendors to improve efficiency and increase output. Moreover, being located in the value chain of a transnational corporation offers workers predictable income, greater accessibility to foreign markets, an easing of financial constraints and the potential for the diffusion of the firm's knowledge and expertise.<sup>10</sup>

Middlemen occupy the space between farmer and retailer. These collectives and firms are charged with exporting and further processing the coffee before it is ready to sell. They enjoy considerably more authority than the farmers.<sup>11</sup> Nonetheless, most of the power remains with retailers, who have the ability to dictate the prices, delivery and quality of the products.<sup>12</sup> Some local organizations, such as the Oromia Coffee Farmers Cooperative Union have emerged to advocate on behalf of farmers and their families; however, their ability to negotiate higher prices and fairer conditions is remains limited compared to the power of TNCs. In addition, dues to these organizations cut into whatever profit farmers are able to secure from the fruits of their labor.<sup>13</sup>

### The National Coffee Association

Founded in 1911, the National Coffee Association (NCA) represents the interests of the U.S. coffee industry.<sup>14</sup> Domestically, the NCA has defended the interests of the industry before both the legislative and executive branches of government, including the U.S. Department of Agriculture, U.S. Trade Representative's Office, U.S. Food and Drug Administration and Congressional committees.<sup>15</sup> For example, in 1958, the NCA sent a delegation to meet with the Assistant Secretary of State for Economic Affairs to express concerns regarding the Latin American coffee market. The NCA feared that rising economic instability would severely disrupt supply lines of green coffee.<sup>16</sup>

6 2010. "Ten Steps To Coffee - National Coffee Association." *Home - National Coffee Association*. Accessed November 4, 2010 at <http://www.ncausa.org/i4a/pages/index.cfm?pageid=69>

7 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 1. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lebelp/.../SFarisStarbucksEthiopia.pdf>.

8 Dicken, Peter. 2007. *Global Shift: Mapping the Changing Contours of the World Economy*. New York: Guilford. Page 363.

9 Blalock, Garrick. 2003. Technology from Foreign Direct Investment: Strategic Transfer Through Supply Chains." Ithaca, NY: Cornell University. Page 3.

10 Krüger, Paul. 2010. "Transnational Corporations, Agricultural Production and Development." *United Nations Conference on Trade and Development*. Page 15.

11 Jaffee, Daniel. 2007. *Brewing Justice: Fair Trade Coffee, Sustainability, and Survival*. Berkeley: University of California, 2007. Page 53.

12 Dicken, Peter. 2007. *Global Shift: Mapping the Changing Contours of the World Economy*. New York: Guilford. Page 373.

13 2010. "OCFCU, a union of small coffee farmers." *Oromia Coffee Farmers Cooperative Union*. Accessed on December 1, 2010 at <http://www.greendevelopment.nl/progreso/ocfcu/#>

14 2010. "About the NCA - National Coffee Association." *Home - National Coffee Association*. Accessed October 29, 2010 at <http://www.ncausa.org/i4a/pages/index.cfm?pageid=33>

15 Ibid.

16 Talbot, John M. 2004. *Grounds for Agreement: the Political Economy of the Coffee Commodity Chain*. Lanham, MD: Rowman & Littlefield. Page 60.

More recently, the NCA has funded a number of studies primarily concerned with consumer research, new product trends and the U.S. coffee market.<sup>17</sup> The NCA also offers its members quarterly statistical reports concerning the U.S. and world coffee production and trade.<sup>18</sup>

Internationally, the NCA has been very active in advancing U.S. coffee industry interests. It has served as the voice for the industry, representing American coffee before international trading organizations, as well as among 50 different coffee growing nations.<sup>19</sup> John McKiernan, former president of the NCA, played an integral role in the drafting of the International Coffee Agreement (ICA), which negotiated prices for both producing and consuming countries. In the period 1962-1965, he appeared at all Congressional hearings on various drafts of the legislation to voice strong support of the ICA. This legislation helped guarantee reliable supplies of coffee for U.S. companies, and helped facilitate special deals between Brazilian and Columbian suppliers and large, national, U.S.-based firms.<sup>20</sup>

Starbucks is an active member of the NCA and a significant player in the U.S. coffee industry.<sup>21</sup> However, its size pales in comparison to that of large TNC manufacturers. While Starbucks represents over 85% of the U.S. coffee market in terms of the number of retail stores, four other U.S. based companies account for the vast majority of coffee sales.<sup>22</sup> Nestlé, Phillip Morris, Sara Lee, and Procter & Gamble combined account for 60% of sales in major consuming markets.<sup>23</sup> The NCA's 2009 committee roster lists forty companies, and of the seventy-four individual members listed, five are from Starbucks, two of which occupy leadership positions within the NCA.<sup>24</sup>

### Fair Trade and the Rise of Global Certification Programs

In response to the globalization of trade, markets, and communications, sources of non-governmental market regulation have arisen to supplement or subsume government regulatory structures. These new modes of governance include voluntary, self-regulatory and shared governance structures.<sup>25</sup> One such non-state regulatory structure is Fair Trade certification.

As described by scholars Steven Bernstein and Benjamin Cashore, non-state, market driven systems such as Fair Trade “attempt to ameliorate global problems that, in their absence, firms have little incentive to address.”<sup>26</sup> Such problems include fisheries depletion, harmful environmental impacts from forestry, tourism, food production, and mining, rural and community poverty and inhumane working conditions.<sup>27</sup>

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17 2011. “NCDT Main Page - National Coffee Association.” *Home - National Coffee Association*. Accessed March 14, 2011 at <http://www.ncausa.org/i4a/pages/index.cfm?pageid=38>

18 2010. “Coffee Trade Statistics - National Coffee Association.” *Home - National Coffee Association*. Accessed on March 14, 2011 at <http://www.ncausa.org/i4a/pages/index.cfm?pageid=39>

19 2010. “About the NCA - National Coffee Association.” *Home - National Coffee Association*. Accessed October 29, 2010 at <http://www.ncausa.org/i4a/pages/index.cfm?pageid=33>

20 Talbot, John M. 2004. *Grounds for Agreement: the Political Economy of the Coffee Commodity Chain*. Lanham, MD: Rowman & Littlefield. Page 60.

21 For example, Howard Schultz, Starbucks President and Chief Executive Officer will deliver the keynote address for the NCA's Centennial Convention in March, 2011. <http://www.ncausa.org/custom/headlines/headlinedetails.cfm?id=733&returnto=1>

22 Lazich, Robert S. 2010. *Market Share Reporter 2011: an Annual Compilation of Reported Market Share Data on Companies, Products, and Services Volume II*. Detroit, MI: Gale Cengage Learning, 2010. Page 682.

23 Talbot, John M. 2004. *Grounds for Agreement: the Political Economy of the Coffee Commodity Chain*. Lanham, MD: Rowman & Littlefield. Page 104.

24 2010. “NCA Committees Membership - National Coffee Association.” *Home - National Coffee Association*. Accessed on October 14, 2010 at <http://www.ncausa.org/i4a/pages/Index.cfm?pageID=371>

25 Bernstein, Steven, and Cashore, Benjamin. “Can non-state global governance be legitimate? An analytical framework.” *Regulation & Governance* 2007(1): 347-371. Page 347.

26 Ibid. 350.

27 Ibid. 348.

Businesses have the incentive to become associated with certification systems such as Fair Trade because of the benefits which they provide.<sup>28</sup> Business has come to realize that operating in alignment with certification programs create value.<sup>29</sup> Potential consequences for failing to adhere to the norms of certification programs may be considerable and include a loss of market share as consumers refuse to buy the products of “bad” firms, loss of financial resources as investors turn elsewhere, litigation costs as advocates bring their issues into the legal system, and increased electoral support for potentially costly regulation of corporate behavior.<sup>30</sup>

The development of the Free Trade certification system can be traced to a combination of rising Western incomes and increasing consumer concerns with food quality, safety and fair treatment of farmers and growers.<sup>31</sup> In developed economies, like those of the U.S. and Western Europe, the proportion of income spent on food has dropped markedly in the past half century. Whereas 50-60 years ago one-third of income was spent on food, food now only accounts for one-tenth of household expenditures. Increasing affluence and more disposable income have fueled the growth of an ethical consumer movement.<sup>32</sup>

Supporters of Fair Trade and other certification systems point to their potential to redistribute value across the production value chain, away from retailers and toward farmers. Systems like Fair Trade may also serve to reaffirm trust between producers and consumers.<sup>33</sup> Internationally, Fair Trade Labelling Organizations International (FLO), which covers such internationally traded commodities and specialized goods as coffee, tea, cocoa, sugar and bananas, governs the system.<sup>34</sup> In the U.S., TransFair USA, a member of the FLO, is the body that designates the Fair Trade certified label.<sup>35</sup> To date, roughly 5 million farmers and workers are covered by the Fair Trade scheme, which offers farmers a guaranteed price covering basic costs, in addition to a surplus to reinvest in further development.<sup>36</sup>

## Starbucks Coffee Company

The first Starbucks opened its doors in 1971 in Seattle’s Pike Place Market (see the timeline in Appendix A).. In 1982, eventual Starbucks chairman Howard Schultz joined the company as the director of retail operations and marketing. In just five years, he facilitated Starbucks’ expansion outside of Seattle opened stores in Chicago and Vancouver. After five more years, he decided to take the company public and in 1992 Starbucks completed its Initial Public Offering (IPO). On its way to becoming internationally renowned as an ethically conscious company, Starbucks partnered with Conservation International in 1999 to promote environmentally friendly growing methods and Starbucks began selling Fair Trade certified coffee in 2000.<sup>37</sup> Recently, the company was voted the ‘Most Ethical Company’ in the European industry for the second consecutive year.<sup>38</sup> 2010 also marked the fourth straight year in which Starbucks was recognized on *Ethisphere Magazine*’s list of the globe’s most ethical companies.<sup>39</sup>

28 Ibid. 361.

29 Avant, Deborah D., Martha Finnemore, and Susan K. Sell. 2010. *Who Governs the Globe?* Cambridge, UK: Cambridge UP. Page 106.

30 Ibid. Page 113.

31 Dicken, Peter. 2007. *Global Shift: Mapping the Changing Contours of the World Economy*. New York: Guilford. Page 351.

32 Dicken, Peter. 2007. *Global Shift: Mapping the Changing Contours of the World Economy*. New York: Guilford. Page 359.

33 Ibid. Page 351.

34 Bernstein, Steven, and Cashore, Benjamin. “Can non-state global governance be legitimate? An analytical framework.” *Regulation & Governance* 2007(1): 347-371. Page 350.

35 2010. “Fair Trade USA | About Us.” *Fair Trade USA | Home*. Accessed November 3, 2010 at <http://www.transfairusa.org/content/about/about-us.php>

36 Dicken, Peter. 2007. *Global Shift: Mapping the Changing Contours of the World Economy*. New York: Guilford. Page 359.

37 2010. *Starbucks Company Timeline*. January 2010. Accessed October 31, 2010 at <http://assets.starbucks.com/assets/starbucks-timeline-basic-jan2010.pdf>.

38 2010. “Starbucks Newsroom: Starbucks Honored With ‘Most Ethical Company in Europe’ Award for the Second Year Running and ‘Best Branded Coffee Shop Chain in Europe’ Award.” *Starbucks Newsroom: Home*. Accessed on March 12, 2011 at <http://news.starbucks.com/news/starbucks-honored-with-most-ethical-company-in-europe-award-for-second-year.htm>

39 2010. “Company Information.” *Starbucks Coffee Company*. Accessed December 6, 2010 at <http://www.starbucks.com/about-us/company-information>

Starbucks' mission, as presented in its corporate materials and on its website is "to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time." In the spirit of living that mission daily, Starbucks has sought to adhere to principles consistent with that mission. In terms of coffee, Starbucks is committed to selling a quality product, ethically sourced from "the finest beans" and roasted "with great care." It has also pledged accountability to its shareholders, holding to the belief that in balancing these interests, Starbucks, and everyone with whom it comes into contact will endure and thrive. For shareholders, this means that they will be rewarded financially as Starbucks enjoys success from its operations.<sup>40</sup>

As a result of Starbucks' commitment to ethical sourcing, it has a clear incentive to seek Fair Trade Certification, as this system is more in line with the company's espoused values. Its stated goal is to have 100% of its "coffee certified or verified by an independent third party," such as TransFair USA.<sup>41</sup> Additional objectives of Starbucks include doubling purchases of Fair Trade certified coffee in 2009, and to invest further in communities by doubling loans to farmers by 2015.<sup>42</sup> According to Starbucks, "responsibly grown, ethically traded coffee means working with farmers to produce coffee in ways that help provide benefits to their business, their communities and the environment."<sup>43</sup>

The Coffee and Farmer Equity (C.A.F.E.) Practices buying guidelines represent a specific initiative set up by Starbucks in order to adhere to its strategy of purchasing ethically sourced coffee. In 2003, in conjunction with Conservation International, Starbucks established the guidelines, which focused on four main areas: product quality, economic accountability, social responsibility and economic leadership.<sup>44</sup> Scientific Certification Systems (SCS), "a global leader in independent certification and verification of environmental sustainability, stewardship, food quality, food safety and food purity claims" oversees the evaluation of C.A.F.E. practices.<sup>45</sup>

Thanks to its voluntary and eager participation in certification systems, Starbucks has earned a reputation as a leader in Corporate Social Responsibility. After increasing its Fair Trade purchases from 19 million pounds in 2008 to 39 million pounds in 2009, it is now the largest purchaser of Fair Trade certified coffee in the world.<sup>46</sup> In addition, 81% of the 367 million pounds of coffee purchased by Starbucks in 2009 was purchased from C.A.F.E. approved suppliers.<sup>47</sup>

Starbucks has also established Farmer Support Centers in Africa and the Caribbean to provide local farmers with the resources and expertise to help lower the cost of production, reduce fungus infections, improve coffee quality and increase the production of premium coffee.<sup>48</sup> In the African center, farmers are taught how to implement more environmentally responsible growing methods, improve the quality and size of harvests, and to ultimately earn better prices.<sup>49</sup>

The impact of Starbucks' efforts can be felt directly by workers, such as those who farm in Fero, a village located in southern Ethiopia. Coffee originating from Fero is part of Starbucks' premium line. The added revenue garnered

40 2010. "Mission Statement." *Starbucks Coffee Company*. Accessed September 29, 2010 at <http://www.starbucks.com/about-us/company-information/mission-statement>

41 2010. "Coffee." *Starbucks Coffee Company*. Accessed September 29, 2010 at <http://www.starbucks.com/responsibility/sourcing/coffee>

42 2010 "Farmer Support." *Starbucks Coffee Company*. Accessed October 1, 2010 at <http://www.starbucks.com/responsibility/sourcing/farmer-support>

43 2010. "Coffee." *Starbucks Coffee Company*. Accessed September 29, 2010 at <http://www.starbucks.com/responsibility/sourcing/coffee>

44 2010. "Coffee." *Starbucks Coffee Company*. Accessed September 29, 2010 at <http://www.starbucks.com/responsibility/sourcing/coffee>

45 2010. "About SCS." *Scientific Certification Systems*. Accessed November 12, 2010 at [http://www.scs-certified.com/about\\_scs.php](http://www.scs-certified.com/about_scs.php)

46 2010. "Coffee." *Starbucks Coffee Company*. Accessed September 29, 2010 at <http://www.starbucks.com/responsibility/sourcing/coffee>

47 2010. "Coffee." *Starbucks Coffee Company*. Accessed September 29, 2010 at <http://www.starbucks.com/responsibility/sourcing/coffee>

48 2010 "Farmer Support." *Starbucks Coffee Company*. Accessed October 1, 2010 at <http://www.starbucks.com/responsibility/sourcing/farmer-support>

49 2010. "Coffee Purchasing | Starbucks Shared Planet Goals & Progress 2009." *Starbucks Coffee Company*. Accessed September 29, 2010 at <http://www.starbucks.com/responsibility/learn-more/goals-and-progress/coffee-purchasing#open>

from the company's Fair Trade prices--\$15,000 annually-- helped bring electricity to the village from a nearby power grid.<sup>50</sup> On a per farmer basis, however, the extra earnings for these producers of a "premium line" of Starbucks coffee are extremely small. The \$15,000 breaks down to only an additional \$6.20 annually for each of Fero's 2,432 farmers.<sup>51</sup>

As with any corporate giant, does have its detractors. Some critics claim that as the company continues to expand, it is destroying communities and livelihoods. Others, like Chris Grimshaw of Corporate Watch, charge that Starbucks merely gives off the image of ethics and is solely committed to increasing shareholder profits.<sup>52</sup> The company has also taken heat from investors concerned about the reputational, financial and legal implications of the use of genetically engineered foods.<sup>53</sup>

### **Starbucks Battles Ethiopia over Trademark Certification**

Ethiopia ranks in the bottom ten on the United Nations' human development index for income, health and education. Eighty percent of Ethiopians live on less than \$2 per day. Coffee represents almost half of the country's export income.<sup>54</sup> Despite Starbucks' commitment to offering Fair Trade prices and other farmer empowerment initiatives, Ethiopian farmers do not get much money for their labor. There is approximately a \$25 per pound difference in what Starbucks sells the coffee for and what farmers collect as payment.<sup>55</sup> In 2005, the Ethiopian government formulated a plan to reduce this discrepancy.

The Ethiopian government estimated that Ethiopia could increase coffee earnings by \$80 million per year by trademarking specialty coffee names.<sup>56</sup> It devised a two-pronged development strategy, using tools generally reserved for corporations, to capture more of the value generated by sales of Ethiopian coffee. First, the government attempted to get companies to enter into licensing agreements, in the hopes of eventually obtaining a larger share of the sales revenue. Starbucks refused this request, arguing that it was legally onerous and would not assist Ethiopian growers in securing more money.<sup>57</sup> In March of 2005, the government implemented the second phase of the plan when the Ethiopian Intellectual Property Office (EIPO) filed to trademark the names of three coffee producing regions, Yirgacheffe, Harrar and Sidamo. The country's efforts were successful in Europe, Canada and Japan; however, they hit a roadblock in the United States.<sup>58</sup>

### **Starbucks Disagrees with Ethiopia's Stance**

Starbucks had applied with the U.S. Patent office a year earlier to trademark the name of Shirkina Sun-Dried Sidamo. For Starbucks, the exclusivity of a trademark would give it an advantage over its competitors within the coffee retail market, while for the Ethiopian government and its farmers, trademarking could potentially increase visibility in the market and ultimately result in higher export premiums and profits from the sale of coffee beans. Until Starbucks' application had been resolved, Ethiopia could not move forward with its own. Thus, it requested

50 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 5. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lebelp/.../SFarisStarbucksEthiopia.pdf>.

51 Ibid.

52 2005. "Starbucks Under Fire in Europe for Greenwashing." *Organic Consumers Association*. Accessed on March 14, 2011 at <http://www.organicconsumers.org/starbucks/underfire012605.cfm>

53 <http://news.bbc.co.uk/2/hi/business/1844618.stm>

54 2006. "The Starbucks Bully." *America* 195(19): 4. Page 4.

55 Ford, Holly M., and Bryce J. Maynard. 2007. "Starbucks and Ethiopia Settle "Brewing" Dispute." *The Licensing Journal* 27(8): 29-30. Page 29.

56 Ford, Holly M., and Bryce J. Maynard. 2007. "Starbucks and Ethiopia Settle "Brewing" Dispute." *The Licensing Journal* 27(8): 29-30. Page 29.

57 Adamy, Janet. 2007. "Starbucks, Ethiopia Agree on Licensing." *The Wall Street Journal* (June 21, 2007).

58 Ford, Holly M., and Bryce J. Maynard. 2007. "Starbucks and Ethiopia Settle "Brewing" Dispute." *The Licensing Journal* 27(8): 29-30. Page 29.

that Starbucks withdraw its claim. Again, the coffee corporation was resistant and its response suggested that Ethiopian representatives talk to Starbucks' lawyers.<sup>59</sup>

Starbucks expressed concerns that Ethiopia's trademark effort would not in fact help workers. Rather, it would introduce legal complexities that could deter companies from purchasing Fair Trade coffee, and consequently end up harming farmers.<sup>60</sup> Some have sided with Starbucks, arguing that the Ethiopian government is simply trying to profit off of the situation. It is possible that granting the government a trademark for the names would give it complete control over the use of the marks, and enable it to prevent non-favored farmers from benefiting from the trademark.<sup>61</sup> Thus, some suspect that the government was simply trying to boost its own revenues, with little money being allocated to help coffee growers.<sup>62</sup> Others have argued that the government should have instead focused on "creating a business-friendly legal system, with meaningful property rights, to give Ethiopians a better shot at escaping poverty through their own efforts." Ethiopia ranks 97th in the World Bank's "ease of doing business" index and 130th in Transparency International's corruption-perceptions index.<sup>63</sup>

Starbucks claimed that the regions seeking a trademark should instead pursue geographical certification marks. The company publicly offered to assist the EIPO with establishing a national system for such marks.<sup>64</sup> A geographical certification mark certifies that products bearing the mark originated in a certain country or region, but allows others to use the name in their branding.<sup>65</sup> This strategy of geographical certification is used to certify Idaho potatoes, Florida oranges, and Roquefort cheese. It has also been used successfully for both Blue Mountain and Kona coffees. In contrast a trademark gives the holder the exclusive ability to use the name in branding, but does not place any restrictions on the product.<sup>66</sup> In a statement, Starbucks claimed "these [geographical certification] systems are far more effective than registering trademarks for geographically descriptive terms, which is actually contrary to general trademark law and customs."<sup>67</sup> According to Dub Hay, Starbucks' vice president for coffee and global procurement, he couldn't "name one case in where there are trademarks for coffee."<sup>68</sup>

In June 2006, Starbucks dropped its application for Shirkina Sun-Dried Sidamo. This came two weeks after the NCA had filed a letter of protest to the U.S. Patent and Trademark Office, opposing the trademarking of all three of Ethiopia's regions. The NCA, whose Government Affairs committee was chaired by Starbucks vice president, Dub Hay, argued that the names could not be trademarked because they were commonly used to refer to coffee.<sup>69</sup> The office approved trademarking Yirgacheffe but refused registration of Sidamo because its name was generic and

59 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 5. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lehelp/.../SFarisStarbucksEthiopia.pdf>.

60 2006. "Starbucks v Ethiopia: Storm in a Coffee Cup | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. (March 30, 2006). Accessed October 21, 2010 at [http://www.economist.com/node/8355026?story\\_id=8355026](http://www.economist.com/node/8355026?story_id=8355026)

61 Ford, Holly M., and Bryce J. Maynard. 2007. "Starbucks and Ethiopia Settle "Brewing" Dispute." *The Licensing Journal* 27(8): 29-30. Page 30.

62 2006. "Starbucks v Ethiopia: Storm in a Coffee Cup | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. (March 30, 2006). Accessed October 21, 2010 at [http://www.economist.com/node/8355026?story\\_id=8355026](http://www.economist.com/node/8355026?story_id=8355026)

63 2006. "Starbucks v Ethiopia: Storm in a Coffee Cup | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. (March 30, 2006). Accessed October 21, 2010 at [http://www.economist.com/node/8355026?story\\_id=8355026](http://www.economist.com/node/8355026?story_id=8355026)

64 2010. "The Coffee War: Ethiopia and the Starbucks Story." *WIPO - World Intellectual Property Organization*. Accessed December 6, 2010 at <http://www.wipo.int/ipadvantage/en/details.jsp?id=2621>

65 Ford, Holly M., and Bryce J. Maynard. 2007. "Starbucks and Ethiopia Settle "Brewing" Dispute." *The Licensing Journal* 27(8): 29-30. Page 29.

66 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 3. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lehelp/.../SFarisStarbucksEthiopia.pdf>.

67 2010. "The Coffee War: Ethiopia and the Starbucks Story." *WIPO - World Intellectual Property Organization*. Accessed December 6, 2010 at <http://www.wipo.int/ipadvantage/en/details.jsp?id=2621>

68 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 4. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lehelp/.../SFarisStarbucksEthiopia.pdf>.

69 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 6. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lehelp/.../SFarisStarbucksEthiopia.pdf>.



demanded that Ethiopia prove that Harrar did not refer to a generic name for a type of coffee. Justifying its decision, the office claimed that consumers were likely to view the names as generic indicators, rather than as the trademarks identifying the source.<sup>70</sup> Despite the coincidental timing of the petition and Hay's position in the NCA, Starbucks has denied any direct involvement in the NCA's actions. For its part, the NCA has claimed that the situation "was not brought to the attention of the NCA by any of its members."<sup>71</sup>

## Ethiopia and its Supporters' Counterarguments

Ethiopia claimed that its beans routinely sold for three times that of ordinary coffee and its decision to trademark was aimed at capturing some of that value.<sup>72</sup> Country representatives argued that geographical certification, as suggested by Starbucks, would prove ineffective because it would not give the Ethiopian government control over coffee produced under the designation and would subsequently undermine its ability to increase the prices paid to farmers.<sup>73</sup> Furthermore, the EIPO insisted that the Ethiopian coffee industry was ill equipped to take on the burden required to regulate the use of its product.<sup>74</sup> Getachew Mengistie, general director of the EIPO explained that "setting up a certification system would have been impracticable and too expensive," and that trademarking was more appropriate for Ethiopia's needs.<sup>75</sup> The government was not requesting royalties for its trademarked products, rather, it simply wanted to promote the names of its coffee-growing regions, in order to increase demand, and ultimately negotiate higher prices.<sup>76</sup>

Several non-governmental organizations (NGO's) involved with labor rights issues came to Ethiopia's defense. Of these organizations, Oxfam, an international relief and development organization, was the most prominent. Supporting Ethiopia's strategy, Oxfam stated, "Specialty coffees in other regions of the world can get up to 45 per cent of the retail price, compared with the 5 to 10 per cent Ethiopians are currently receiving." The EIPO also gained the support of scholar, Douglas Holt. Holt, the L'Oréal Professor of Marketing at Oxford University's Saïd Business School, claimed that "With a certification mark, Starbucks and other Western coffee marketers would still have full control over Ethiopian coffee brands." Contrastingly, by requiring licenses for companies wanting to use the names, trademarks would provide Ethiopian coffee producers with a commercial asset that they could control. He also warned that Starbucks risked damaging its brand and alienating its customers, stating: "In their rash attempt to shut down Ethiopia's applications, [Starbucks] have placed the Starbucks brand in significant peril. Starbucks customers will be shocked by the disconnect between their current perceptions of Starbucks' ethics and the company's actions against Ethiopia."<sup>77</sup>

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70 Ford, Holly M., and Bryce J. Maynard. 2007. "Starbucks and Ethiopia Settle "Brewing" Dispute." *The Licensing Journal* 27(8): 29-30. Page 29.

71 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 6. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lebelp/.../SFarisStarbucksEthiopia.pdf>.

72 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 3. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lebelp/.../SFarisStarbucksEthiopia.pdf>.

73 Ford, Holly M., and Bryce J. Maynard. 2007. "Starbucks and Ethiopia Settle "Brewing" Dispute." *The Licensing Journal* 27(8): 29-30. Page 30.

74 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 4. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lebelp/.../SFarisStarbucksEthiopia.pdf>.

75 2010. "The Coffee War: Ethiopia and the Starbucks Story." *WIPO - World Intellectual Property Organization*. Accessed December 6, 2010 at <http://www.wipo.int/ipadvantage/en/details.jsp?id=2621>

76 Faris, Stephan. 2007. *Starbucks vs. Ethiopia*. Fortune Magazine. Page 4. Accessed on September 24, 2010 at <http://netdrive.montclair.edu/~lebelp/.../SFarisStarbucksEthiopia.pdf>.

77 Acey, Madeleine. 2006. "Ethiopian Coffee Trademark Dispute May Leave Starbucks with Nasty Taste - Times Online." *The Times | UK News, World News and Opinion*. (November 27, 2006). Accessed on December 1, 2010 at <http://business.timesonline.co.uk/tol/business/markets/africa/article650824.ece>

Consumers did respond as well. More than 70,000 people faxed letters of complaint to Jim Donald, a Starbucks chief executive, as part of Oxfam's protest of the company.<sup>78</sup>

### Post-Script

In 2007, Starbucks and Ethiopia agreed on a trademark settlement brokered by Howard Schultz, Chairman of Starbucks.<sup>79</sup> For its part, Starbucks has agreed to promote Ethiopia's coffee in its stores. In addition, it will recognize Ethiopia's ownership of Yiracheffe, Harrar and Sidamo, regardless of any decision by the U.S. Patent and Trademark Office. Lastly, Starbucks will open up a new agronomic center in Ethiopia, helping farmers to improve the profitability of their crops. In exchange, the company will not be subject to any royalties or licensing fees emanating from its use of Ethiopian brand trademarks.<sup>80</sup>

Starbucks has continued to be at the forefront of CSR efforts. In 2009, in partnership with Tranfair USA and the FLO, it launched the Small Farmer Sustainability Initiative (SFSI). Through the initiative, Starbucks and the FLO have committed to working together to offer a greater range of small-scale farmer support and capacity-building services.<sup>81</sup> 2010 marked the fourth consecutive year that Starbucks was recognized on *Ethisphere Magazine's* list of the world's most ethical companies. This designation recognizes companies who "demonstrate real and sustained ethical leadership within their industries."<sup>82</sup>

Starbucks vice president for coffee and global procurement, Dub Hay, went on to become the Chairman of the Board of Directors of the NCA.<sup>83</sup>

After initially being denied trademarks for Harrar and Sidamo, the EIPO filed rebuttals against the USPTO's decisions. It successfully argued that the terms Harrar and Sidamo had acquired distinctiveness. In August 2006, the USPTO approved Ethiopia's trademark of Harrar, and in February 2008, it approved the Sidamo trademark.

Following approval, Ethiopia implemented a royalty-free licensing scheme, which required the licensee (coffee retailers) to sell Ethiopian specialty coffees using the registered trademarks and to promote Ethiopian fine coffee by educating their consumers. According to the EIPO, this strategy will boost the reputation of Ethiopian fine coffee and increase its visibility in the market. This will allow the government to raise the export premium for specialty coffee.

As of mid-2009, nearly one hundred license agreements had been negotiated with coffee importers, roasters and distributors in Europe, Japan, South Africa and North America. Prior to the trademarks, Ethiopia was retaining just 6 percent of the final retail price for its coffee. Whereas U.S. retailers were receiving up to \$28 per kilogram, farmers were receiving as little as \$1 per kilogram. However, in Yirgacheffe, since the agreements, the price collected by farmers has increased substantially. They now collect up to \$4 per kilogram, with estimates that

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78 Ibid.

79 Ford, Holly M., and Bryce J. Maynard. 2007. "Starbucks and Ethiopia Settle "Brewing" Dispute." *The Licensing Journal* 27(8): 29-30. Page 30.

80 2010. "Ending Dispute, Starbucks Is to Help Ethiopian Farmers." *The New York Times*. (November 29, 2007). Accessed October 21, 2010 at <http://www.nytimes.com/2007/11/29/business/29sbux.html>

81 2010. "Coffee Purchasing | Starbucks Shared Planet Goals & Progress 2009." *Starbucks Coffee Company*. Accessed September 29, 2010 at <http://www.starbucks.com/responsibility/learn-more/goals-and-progress/coffee-purchasing#open>

82 2010. "Company Information." *Starbucks Coffee Company*. Accessed December 6, 2010 at <http://www.starbucks.com/about-us/company-information>

83 2010. "NCA Committees Membership - National Coffee Association." *Home - National Coffee Association*. Accessed on October 14, 2010 at <http://www.ncausa.org/i4a/pages/Index.cfm?pageID=371>

suggest farmers could secure up to \$8 per kilogram over the coming years. Ethiopia's total coffee exports are expected to increase to \$1.2-\$1.6 billion from the \$400 million the country garnered annually prior to the existence of the trademarks.<sup>84</sup>

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<sup>84</sup> 2010. "The Coffee War: Ethiopia and the Starbucks Story." *WIPO - World Intellectual Property Organization*. Accessed December 6, 2010 at <http://www.wipo.int/ipadvantage/en/details.jsp?id=2621>