STARBUCKS VERSUS ETHIOPIA

Each year, the world produces about seven million tons of coffee. Together, we drink five hundred billion cups of coffee annually. The profit potential from this massive coffee trade are obvious. The money to be gained (or lost) as a result of the intellectual property strategies employed by the multinational coffee purchasers and the coffee-producing countries that supply them is less obvious. This case study examines the dispute over the right to use the term “Sidamo” in describing coffee products between the government of Ethiopia and the coffee giant Starbucks.

The Making of a Coffee Titan

Starbucks opened its first shop in Pike Place Market in Seattle in 1971. It has now expanded to more than sixteen thousand locations in over fifty countries, the result of CEO and chair Howard Schultz’s desire to take the “quality coffee bean tradition of Starbucks and merge it with the charm and romance of the European coffeehouse.” Schultz’s idea was initially ridiculed as little more than a “West Coast Yuppie fad.”

Schultz proved to be a visionary. Under his inspired leadership, Starbucks has become one of the best-known
global brands. A book has been devoted to the task of “explor[ing] how Starbucks served as the apotheosis for the exploding meanings of buying in our possibly fading consumer saturated-culture.”\(^6\) As rock legend Alice Cooper remarked in 2009, “As Starbucks goes, so goes America.”\(^7\)

Part of Starbucks’ success lies in its brand appeal. When people talk about a firm’s brand, they are typically speaking of the “successes of a trademark in terms of contribution to market share, sales, profit margins, loyalty and market awareness.”\(^8\) Starbucks has succeeded, by and large, in branding itself as a socially responsible firm. The company’s Web site states that it is “committed to buying and serving the highest-quality, responsibly grown, ethically traded coffee to help create a better future for farmers.”\(^9\)

In 2009, Starbucks’ brand value was worth more than $3.2 billion.\(^10\) Like all firms, Starbucks works hard to cultivate and defend its brand as a matter of intellectual property strategy. As of August 2010, Starbucks had filed 241 trademark applications with the US Patent and Trademark Office.\(^11\) Moreover, the firm has not been shy about protecting its intellectual property in court, having once sued to prevent a woman named “Sam Buck” from calling her coffee shop “Sambucks.”\(^12\) Occasionally, however, vigorous defense of the firm’s trademarks backfires, as was the case in a trademark dispute with the government of Ethiopia over a specialty coffee called Sidamo.
Sidamo refers to a type of coffee grown in the Sidamo region of Ethiopia. Ethiopia, declared by some to be the birthplace of coffee, is one of the world’s poorest countries. Of its population, 44 percent lived below the national poverty line in 2000. Coffee is Ethiopia’s primary export. The economic performance of the country is heavily dependent on its coffee sector. Starbucks is a major global purchaser of specialty coffees, which often sell for a premium on the retail market.

Ethiopian farmers have not always been in a position to benefit from the high prices commanded by their superior coffees. For example, a pound of Starbucks’ roasted Shirkina Sun-Dried Sidamo sold for as much as $26 in 2007, while the average amount returned to the farmers who produced the coffee was $1.45. Struck by this disparity, the Ethiopian government began working with Lightyears IP as well as Arnold and Porter to register three trademarks associated with coffee-producing regions: Yirgacheffe, Harrar, and Sidamo. The idea was that the trademarks could help boost the price of specialty coffee and ideally allow the country to increase revenue from specialty coffees by an estimated $88 million per year.

To this end, the government created the Ethiopian Coffee Trademarking and Licensing Initiative, which seeks to trademark names like Sidamo in foreign countries. Regardless of whether the trademarks are successfully registered,
the initiative also attempts to convince major coffee retailers to sign trademark license agreements that recognize Ethiopia’s exclusive ownership of Sidamo and other coffee names. Since 2007, more than sixty companies have signed license agreements, and trademarks have been either registered or applied for in ten countries.\(^{18}\)

While Ethiopia was pursuing its own trademarking initiative, Starbucks had applied for trademark registration of Shirkina Sun-Dried Sidamo, a coffee blend produced as part of the company’s Black Apron Exclusives line of limited edition coffee.\(^{19}\) When Ethiopia attempted to trademark Sidamo, the US Patent and Trademark Office notified the government that its trademark was considered substantially similar to Starbucks’ application, and was suspended until its resolution.

Representatives of the Ethiopian government, no doubt displeased with this result, requested that Starbucks withdraw its application. Starbucks’ response was to attempt to persuade the Ethiopian government that a certification mark or geographic indication would be more appropriate.\(^{20}\) This was also the position of the Specialty Coffee Association of America, which argued that “the World Trade Organization recommends using certification marks for the protection of geographical indications of origin as a means of protecting the intellectual property rights of agricultural producers.”\(^{21}\) A certification mark informs purchasers that goods or services meet certain
standards, while a geographic indication marks a product as coming from a specific region. By trademarking Sidamo, however, Ethiopia does not need to certify every bag of coffee produced, as with a certification mark, nor is it restricted to producing the coffee only in the Sidamo region.

Perhaps most important, the registering of Sidamo as a trademark prevents others from using the name with respect to coffee without the permission of the Ethiopian government. Although Starbucks ultimately withdrew its application for Shirkina Sun-Dried Sidamo, the National Coffee Association filed a letter of opposition along with hundreds of pieces of evidence, claiming that Sidamo was a word for a generic type of coffee that came from a region in Ethiopia and thus unable to be registered as a trademark. The US Patent and Trademark Office then denied the trademark registration. Ethiopia appealed, ultimately winning the right to use Sidamo as a registered trademark.

Although Starbucks had legal grounds for attempting to trademark Shirkina Sun-Dried Sidamo, the company soon found itself faced with a barrage of negative publicity. Part of the backlash was directed against the coffee industry in general; consider the 2006 documentary titled Black Gold, an “eye-opening expose of the multi-billion dollar [coffee] industry.” Much of the public ire was directed at Starbucks. After the initial difficulties with Ethiopia’s Sidamo trademark, Oxfam got involved, running an advertisement in the Seattle Times that accused Starbucks
of refusing to “sign an agreement recognizing Ethiopia’s ownership of the country’s coffee—the same coffee that millions of poor farmers depend on to make a living.”

This criticism stung precisely because Starbucks had often touted its socially responsible business practices. An Oxford Business School scholar slammed Starbucks for “brand hypocrisy.” As another author observed, “Consumers paid Starbucks a little extra to absolve themselves of the sins of twenty-first-century globalization and alleviate their guilt over world-wide inequities. Would they still be willing to do this if it looked like the company wasn’t doing right by Ethiopia . . . ?”

Starbucks was further hampered by what seemed at first to be a tone-deaf media response. For example, after Dub Hay, Starbucks’ senior vice president for coffee and global procurement, told the Wall Street Journal that “the gift that Starbucks’ can bring to the coffee farmer is the guarantee of more business next year,” some commentators scoffed: “Starbucks seems to be saying that Ethiopian coffee farmers should be darn grateful for anything they get.”

Ethiopia’s supporters, on the other hand, arranged a remarkably successful grassroots campaign. On its Web site, Oxfam posted a “Starbucks Day of Action Toolkit” consisting of instructions for a day of protest and a petition supporting Ethiopia. Oxfam’s campaign resulted in over ninety thousand people signing petitions to Starbucks urging it to sign a trademark license agree-
ment with Ethiopia. Moreover, Arnold and Porter’s Bob Winter appeared on YouTube to explain exactly why Ethiopia was seeking a trademark, rather than a certification or geographic indicator.

Ultimately, Starbucks relented. The company and the Ethiopian government resolved their dispute in 2007. The Ethiopian government was awarded trademark rights for its specialty Sidamo coffee in the United States in 2008.