

## Ethiopia Trademarking and Licensing Initiative: Supporting a better deal for coffee producers through Aid for Trade<sup>1</sup>

**Project/programme:** Ethiopia Trademarking and Licensing Project

**Aid for trade categories:** Trade development

**Donors:** DFID                      **Funding:** £375 000

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**Summary:**

The Ethiopian Trademarking and Licensing Initiative is an Aid for Trade initiative that has strong trade development and poverty reduction foundations: it aims to increase Ethiopia's coffee export income while ensuring a higher and more predictable income for Ethiopian coffee farmers and their households, by enabling them to capture a larger *share* of the final retail value of their coffee and more stable and predictable prices for their coffee. Given two parallel trends – high levels of poverty among producers of high quality Ethiopian coffee alongside increasing demand and retail prices for specialty coffee – this initiative is well positioned to have strong trade and poverty reduction impacts. It demonstrates how Aid for Trade has the potential to support positive trade and development outcomes simultaneously.

The initiative seeks to achieve its objectives by supporting the registration of trademarks for Ethiopia's three most famous high quality coffee varieties. This lays the foundation for the negotiation of licensing agreements with exporters and retailers, which in turn has provided coffee producers with greater ability to negotiate farm-gate and wholesale prices. Key features of the initiative are value chain analysis, trademarking and branding; licensing and brand management; and creating a transparent market.

**Key lessons for Aid for Trade programming:**

- **Intellectual property rights** can increase producers' share of the retail value of their products, but a coherent brand management strategy, along with producer capacity to deliver on the brand product, is critical.
- Managing an IP-based business strategy requires **legal and business expertise**, and capacity needs to be built in these areas.
- **Producers** need to be made aware of how to take full advantage of trademarking and licensing initiatives.
- **Institutional mechanisms** that guarantee the involvement of producer cooperatives in decision making are important. Supporting the outreach of producer cooperatives should be considered to ensure as many producers as possible have representatives in trademarking and licensing initiatives.
- A **transparent supply chain** is vital to guarantee higher export prices.

<sup>1</sup> Please cite this case study as ODI (2009).

# **1. Introduction**

## **1.1 Overview**

This case study reviews the Ethiopia Trademarking and Licensing Initiative from an inclusive growth and poverty reduction perspective. It contributes to a programme of work titled 'Aid for Trade: Promoting Inclusive Growth and Poverty Reduction', co-funded by the UK Department for International Development (DFID) and the Swedish Ministry for Foreign Affairs and commissioned on behalf of EU Member States to strengthen the quality and poverty focus of EU Aid for Trade Strategy implementation.

The Ethiopia Trademarking and Licensing Initiative seeks to capture a larger share of the final retail value of coffee for Ethiopian coffee farmers by supporting the registration of trademarks for Ethiopia's three most famous high quality coffee varieties. It is based on an approach pioneered by the non-governmental organisation (NGO) Light Years IP.

The case study is structured as follows. The introductory section sets out the trade, growth and poverty context in Ethiopia and highlights the centrality of coffee production to the Ethiopian economy. It then briefly outlines the Aid for Trade agenda and situates this case study within this agenda. Section 2 provides an overview of the Ethiopian Trademarking and Licensing Initiative. Key features of the initiative are also outlined, covering value chain analysis, trademarking and branding; license and brand management; and market transparency. Section 3 discusses the impact (and potential future impact) of the initiative and Section 4 discusses challenges faced by the initiative. Section 5 concludes, drawing out lessons for Aid for Trade programming.

This case study was conducted as a desk review. It is based solely on key informant interviews, available published literature and programme and project documentation.

## **1.2 Trade, growth and poverty: Ethiopia**

With a population of around 75 million, Ethiopia is sub-Saharan Africa's second most populous nation. It is also one of the world's poorest countries, with a per capita income of \$220, much lower than the sub-Saharan Africa average, ranking 169 out of 177 on the Human Development Index (HDI) rankings (UNDP, 2007; World Bank, 2009).

In recent years, Ethiopia has been one of the fast growing non-oil economies in Africa, with double digit growth and continued improvement in poor households' access to basic services. This has resulted in significant progress in key development indicators: poverty reduction has accelerated, with the number of people living in poverty falling from 46% in 1995/96 to 39% in 2004/05; child mortality has been cut in half. Robust growth performance and development performance are under threat, however, because of the twin macroeconomic challenges around balance of payments and high domestic inflation. These challenges have been made worse by high fuel and food prices, along with the impacts of the global financial crisis (World Bank, 2009).

Agriculture remains Ethiopia's key sector, contributing to 46.3% of gross domestic product (GDP) in 2007, with coffee, pulses and oil seeds and manufactures constituting the bulk of Ethiopia's exports (Table 1). However, services are increasingly important (40.3% of GDP) (World Bank, 2008a).

**Table 1: Ethiopian trade (\$ millions)**

	1987	1997	2006	2007
Total exports (fob)	391	599	1000	1185
<b>Coffee</b>	<b>253</b>	<b>355</b>	<b>354</b>	<b>424</b>
Pulses & oil seeds	9	23	248	258
Manufactures	74	75	94	105

Source: World Bank (2008a).

### 1.3 Coffee production in Ethiopia

Coffee production is one of the mainstays of the Ethiopian economy and Ethiopia is one of the major producers and exporters of coffee in the world.<sup>2</sup> Although the contribution of coffee to Ethiopia's foreign exchange has declined over the past decade, it still represents more than one-third of total export revenue (World Bank, 2007). Approximately one-third of the rural population and more than a quarter of the total population are estimated to be engaged in the production of coffee and coffee growers are estimated to number around 1 million (Amsalu, 2009). The main producers of coffee are small farmers, most of whom work on less than half a hectare of land. Small-scale farmers produce more than 90% of the total coffee output and purchased inputs are very rarely used (*ibid*). Ethiopian coffee farmers incorporate coffee production into their household's 'portfolio of livelihood strategies', with most also producing food for home consumption.

Despite their importance for the national economy, coffee farmers are no better off than the population as a whole. In 1999, poverty incidence among coffee producers was 40%, slightly higher than the national average of 38.5%. Since the collapse of the international coffee quota system in 1989, large price fluctuations and a general decline in the international coffee price have had damaging effects on the welfare of Ethiopian coffee farmers. In years when international coffee prices are high, the income of households producing coffee tends to be higher than that of those not producing coffee, but in years when the price of coffee dips, they tend to be poorer. This illustrates the impact of price variability and suggests that poor coffee producers and their families are likely to experience reduced wellbeing in years of low coffee prices. Income from coffee generates a substantial proportion of household income in most of Ethiopia's coffee growing areas (see Table 2), and a high proportion of coffee producing households rely on coffee revenue to meet household subsistence needs and contingencies (e.g. funeral costs). This means declining coffee prices adversely affects the livelihoods of coffee farmers and their families (Amsalu, 2009).<sup>3</sup>

The lack of a stable coffee price combined with high fixed investment costs reduces these farmers' ability to invest in needed quality improvements, which in turn further weakens their bargaining position vis-à-vis traders. In 2000/01, marketing margins were estimated at 50-60% of the final export price (World Bank, 2005).

It is important to note that Ethiopian women play an important role in the production and sale of coffee, whether they are in male- or female-headed households. In male-headed households, women will rarely have direct control over coffee-related income, despite their leading role in its production. This may have implications for the incentives women experience to increase either productivity or quality. Further, many women face pressure to meet multiple obligations (household, economic, community), which is intensified in many

<sup>2</sup> In 2005, Ethiopia was the sixth-largest coffee producer after Brazil, Columbia, Vietnam, Indonesia and India and the seventh-largest exporter worldwide (Petit, 2007).

<sup>3</sup> Amsalu (2009) finds that declining coffee prices discourage farmers from continuing to invest labour in their coffee production and instead encourages a shift to the production of food crops and other crops such as *khat*.

communities and households by the disabling effect on men of heavy consumption of *khat* (Eva Ludi, pers. comm.).

**Table 2: Annual household income from coffee, Jimma area, Ethiopia**

	Contribution of coffee to household income (%)
<i>Kebele</i> <sup>4</sup>	
Chidero-Suse	49
Genji-Ilbu	62
Haro	53
<i>Wealth category</i>	
Poor	54
Medium	51
Rich	63

Source: Amsulu (2009).

Further, coffee producers – whether women or men – face a range of constraints in raising productivity and quality. Many of these are not unique to Ethiopia (see Box 1), but it is likely that the historical requirement that all coffee be sold onto international markets through a state-controlled auction system did act as a disincentive: price signals from the international coffee markets were muffled and quality was not rewarded. The awarding of export licences is likely to have removed the muffling effect, but the implications will take time to be institutionalised or influence farmers’ decision making.

**Box 1: Constraints faced by Ethiopian coffee producers**

Named varieties of Ethiopian coffee have a reputation of high quality. However, not all Ethiopian coffee producers are able to capture the benefits associated with producing and marketing a premium quality product. This owes to constraints to production, processing, storage and both domestic and international market functioning.

**Production**

Coffee farmers around the world face challenges around labour (cost and availability), land (cost, availability, quality), water (cost, timeliness/seasonality), marketed inputs (availability, timeliness, cost, quality), access to affordable production credit, availability of appropriate (and tailored) technical advice – including timely and affordable response to pests and diseases.

Coffee farmers grow coffee as part of their household livelihood strategy, but in many areas in Ethiopia coffee is in direct competition with *khat*, a plant with mild narcotic effects that is popular in the region. *Khat* is preferred by many farmers as it is both more lucrative and provides a regular income stream throughout the year.

**Processing**

Post-harvest storage and processing are crucial to quality. Smallholder farmers, particularly poor smallholders who are commonly excluded from farmer associations and cooperatives, may struggle to store and process their coffee in such a way as to maximise quality, with implications for price, profit and income.

**Marketing**

Historically, all Ethiopian coffee was sold through state-controlled auction. This has changed recently, with the state issuing licences for direct export. The previous system did not provide an incentive for quality and was vulnerable to rent seeking and political control.

Source: Eva Ludi, pers. comm.

<sup>4</sup> *Kebeles* are the smallest administrative unit in Ethiopia.

It is important that we recognise that the challenging market environment experienced by Ethiopian coffee farmers does not correspond with the trends in consumer markets, where growth in the speciality coffee markets has been particularly strong and where retail prices have soared. Despite the high demand for Ethiopia's Arabica coffees in these gourmet markets, producers of high quality Ethiopian coffee have generally not received a premium price for their coffee beans and typically receive under \$1 per kg (farm-gate prices) (Light Years IP, 2008). Typically, export (FoB, or freight on board) prices range from \$1.10 to \$1.30 per kg, a premium of only 10-30c over prices for 'bulk' Arabica coffee at the New York coffee exchange. This represents only around 5-6% of final retail prices.

## **1.4 Aid for Trade: A brief introduction**

### *1.4.1 The origin and evolution of Aid for Trade*

The origins of the Aid for Trade agenda lie in World Trade Organization (WTO) negotiations and can be traced back to developing country concerns. These focused on the limited benefits they had already experienced from increased market access, and those they were likely to see as a result of the Doha Development Round – unless their supply-side capacity constraints were addressed and they were compensated for adjustment costs associated with multilateral trade liberalisation, notably preference erosion and reduced trade-related fiscal revenue (IMF and World Bank, 2005).

In response to these concerns, the WTO Ministerial Meeting in Hong Kong in December 2005 called on donors to increase Aid for Trade resources in order to 'help developing countries, (especially LDCs), build the supply side capacity and trade related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade' (WTO, 2005). This led to a number of multilateral and bilateral development agencies committing substantial funds under the Aid for Trade rubric.<sup>5</sup> The Hong Kong Ministerial Meeting also established an Aid for Trade Task Force to develop recommendations on how to make Aid for Trade operational and contribute to the development dimensions of the Doha Development Agenda (OECD, 2007). This Task Force identified five priority Aid for Trade activities: trade policy and regulations; trade development; trade-related infrastructure; building productive capacity; and trade-related adjustment. In October 2007, EU Member States adopted a joint Aid for Trade strategy to implement the WTO Aid for Trade Task Force Recommendations, supporting 'developing countries, particularly LDCs, to better integrate into the rules-based world trading system and to use trade more effectively in promoting the overarching objective of eradicating poverty in the context of sustainable development' (EU, 2007).

### *1.4.2 Aid for Trade, inclusive growth and poverty reduction*

Increased trade and economic growth can help deliver poverty reduction. The structure of economies and societies influences whether an increase in the volume and value of trade delivers economic growth and whether that growth, in turn, generates sustained poverty reduction and enhanced wellbeing. However, under the right conditions, trade and economic growth can be inclusive. Poor people can see their incomes, consumption and wellbeing rise. Trade can also support growth by enhancing a country's access to a wider range of goods and services, knowledge and technologies. It can stimulate entrepreneurship in the private sector. It can attract private capital, create jobs and increase foreign exchange earnings. Such positive trends in an economy can enable governments to increase tax take, enabling them to invest in the types of expenditure that reduce poverty, inequality and exclusion (WTO, 2008). Together, these factors can increase the likelihood that the Millennium Development Goals (MDGs) are met – not just at the aggregate level but for all socioeconomic groups.

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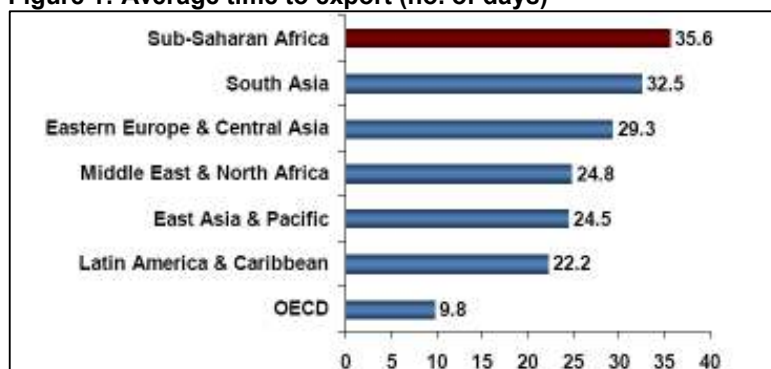
<sup>5</sup> For instance, the 2005 financial commitment by the EU entails €2 billion per year (€1 billion per year each for the European Commission (EC) and the Member States) of trade-related assistance (TRA) to partner countries by 2010.

Further, although there remain some differences of opinion on the direct causal relationship between trade, growth and poverty, we do know that countries that make trade a part of their development process have tended to grow, and reduce poverty, faster than those that have not (OECD, 2008; Prowse, 2009). Developing countries have almost doubled their share of non-oil world exports over the past 30 years and this has been accompanied by strong economic growth. More recently, developing countries have made important progress in accessing the markets of the industrialised world through the changed rules associated with WTO trade rounds (DFID, 2008).

But the gains from this have been unevenly spread, with the poorest countries being increasingly marginalised. For example, sub-Saharan Africa's share of world exports fell from 3.9% in 1980 to 1.9% in 2006 (OECD, 2008). In addition, there are signs that trade liberalisation in developing countries, while increasing aggregate growth, does not benefit everyone and can increase the poverty and ill being of some as well as contributing to higher levels of inequality. So, even where trade and growth are increasing, poor and marginalised groups may not be reaping the benefits of growth, or may be benefiting far less than other groups (DFID, 2008). This is widely recognised and it is these challenges, in part, that the Aid for Trade agenda seeks to address.

What we see is that developing countries have not been able to fully capture the benefits of trade, and that this is for a number of reasons. Although access to international markets is still an issue in some areas, for instance around agriculture, there are other 'behind the border' constraints. These include high transport costs, absent or unsupportive policies and regulations, cumbersome and slow export processing procedures, inadequate export and trade negotiating skills, poor product standards, low productivity and competitiveness, lack of export diversification and low added value production chains. Broader economic infrastructure issues also pose significant challenges: less developed countries are often poorly resourced in terms of energy, communications and transport infrastructure and markets in these often function poorly. These generate severe constraints for producers, workers, entrepreneurs and traders and stifle global competitiveness (see Figure 1).

**Figure 1: Average time to export (no. of days)**



Source: World Bank (2008b).

What this illustrates is that developing country governments and their international development partners have a huge opportunity to make positive changes. Changes that will reduce 'behind the border' constraints, smooth links between national and international markets and increase the ability of the full range of people to engage beneficially in trade. This is where Aid for Trade comes in – by helping developing countries maximise the growth and poverty reduction potential of trade. For example, Aid for Trade can promote an inclusive investment climate, enhancing the opportunities for a range of trading groups – including big business, small and medium enterprises (SMEs), entrepreneurs, informal traders, poor producers and workers – to participate in trade-related activities and benefit from trade. It can help trading groups overcome infrastructural barriers to benefiting from trade, by reducing the time and cost associated with transportation and border crossings. It can build productive

capacity, which enables households and traders across the income distribution to participate in and benefit from tradable sectors, and it can support the diversification of these sectors into higher value-added products. Where necessary, it can support policies and programmes to mitigate the adverse impacts of trade-related adjustment, by supporting regional-level adjustment facilities as well as social protection initiatives (Bird and Vandemoortele, 2009). In essence, Aid for Trade can help build the export potential of developing countries so that they are able to reap the benefits of global trade and it can help poor and excluded people to engage in domestic and international markets in a way that benefits them. It can do this by supporting improved market access, enterprise development and employment creation.

Through this range of entry points, Aid for Trade has the potential to contribute simultaneously to trade expansion and poverty reduction efforts through job creation and income generation.

### *1.4.3 Trade development and Aid for Trade*

Trade development, the Aid for Trade category under which the Ethiopia Trademarking and Licensing Initiative sits, is central to the Aid for Trade agenda. According to the WTO Task Force on Aid for Trade, trade development activities include 'investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development' (WTO, 2006).

Trade development is necessary to harness the growth and poverty reduction potential of trade. This entails seeking to improve the trade-related aspects of a country's investment climate as well as its enabling environment for private sector development. Trade development support should seek to enable countries not only to develop national market functioning but to link these national markets into international markets by extending and deepening those markets to enable informal traders, SMEs and often marginalised groups (i.e. ethnic minorities, poor women) to benefit from the advantages offered through trade (Bird and Vandemoortele, 2009).

## **2. Overview and key features**

As outlined above, the objective of the Ethiopian Trademarking and Licensing Initiative is to capture a larger share of the final retail value of coffee for Ethiopian coffee farmers. It also seeks to ensure a more stable and predictable price for coffee farmers. The initiative has strong trade development and poverty reduction foundations: it aims to increase Ethiopia's coffee export income, as well as ensure that coffee farmers and their households receive a higher and more predictable price for their coffee. Given the two parallel trends referred to above – high levels of poverty among the producers of high quality Ethiopian coffee alongside increasing demand and retail prices for specialty coffee – this initiative is well positioned to have strong trade and poverty reduction impacts. It demonstrates how Aid for Trade has the potential to simultaneously support positive trade and development outcomes.

The initiative seeks to achieve its objectives by supporting the registration of trademarks for Ethiopia's three most famous high quality coffee varieties. This lays the foundation for the negotiation of licensing agreements with exporters and retailers, which in turn has provided coffee producers with greater ability to negotiate farm-gate and wholesale prices. The key features of this initiative – value chain analysis, trademarking and branding, licensing and brand management and creating a transparent market – are discussed below.

### **2.1 Value chain analysis, trademarking and branding**

A large number of consumer products are dependent on inputs from low-income developing countries; however, most of the retail value is captured by companies in destination markets – the owners of the brands. The Ethiopia Trademarking and Licensing Initiative uses value

chain analysis, trademarking and branding in an attempt to retain more value at the production end of the coffee value chain. Trademarking and branding enable the identification and development of a market niche. In this case, consumers in the niche value high quality coffee. It is possible that they also welcome product characteristics associated with ethical consumption, and value the knowledge that their purchase of high quality coffee is benefiting Ethiopian producers. Consumers in this niche are likely to be willing to pay premium prices for these product characteristics and branding and brand management will ensure that a large and growing number of consumers are aware of the characteristics. Managing these intellectual property rights is more than just a form of protecting technological innovations: it is at the heart of developing a company's brand promise and distinguishing itself from its competitors. This illustrates the role that intellectual property rights can play.

The Ethiopia Trademarking and Licensing Initiative has registered trademarks in around 30 countries for Ethiopia's Harar, Sidamo and Yirgacheffe coffee varieties. By doing this, the initiative has secured the rights to these three high quality coffees in all the major consumer markets. With this, the first step towards securing a higher price for the producers of these Ethiopian fine coffees has been made. The fact that this step was (unsuccessfully) challenged by Starbucks, which had previously secured a trademark for Sidamo in the US, underlines the value attributed to this intellectual property, now held by the Ethiopian government and the farmers it represents.

## **2.2 Managing the ownership of the trademark: Licenses and brand management**

The process of registering a trademark requires the creation of an entity that can function as the legal owner of the trademark. In this case, this role has been temporarily assumed by the Ethiopian government, which has assigned the management of the trademark to the Ethiopian Intellectual Property Office (EIPO). Since the inception of the initiative, the EIPO has worked closely with the Ethiopian Fine Coffee Stakeholder Committee, composed of cooperatives, exporters and other government agencies (see Box 2), to acquire and manage the new trademarks. In the medium term, the ownership and management responsibility for the trademarks will be turned over to a corporate entity, where these stakeholders will act as the principal shareholders.

### **Box 2: Members of the Ethiopian Fine Coffee Stakeholder Committee**

- Ethiopian Coffee Exporters Association Board
- Ethiopian Intellectual Property Office
- Federal Cooperative Agency
- Ministry of Agriculture and Rural Areas Development
- Ministry of Foreign Affairs
- Ministry of Trade and Industry
- Sidamo Coffee Farmers Cooperative Union
- Oromia Coffee Farmers Cooperative Union
- Yirgacheffe Cooperative Union

Source: [www.ethiopiancoffeenetwork.com](http://www.ethiopiancoffeenetwork.com).

For now, the stakeholders continue to cooperate via the Ethiopian Fine Coffee Stakeholder Committee and have developed a strategy for developing and protecting the value of these newly acquired trademarks. The first measure was the establishment of the Ethiopian Coffee Network. This network of licensed coffee distributors includes exporters, importers, roasters and retailers who are interested in collaborating in the development of a brand management strategy and promotional plans to enhance and protect the value of the Sidamo, Harar and Yirgacheffe trademarks. A license agreement sets out guidelines for these collaborative marketing activities and is royalty free. In return for signing the agreement, only these licensed distributors can label their products with the Sidamo, Harar and Yirgacheffe



trademarks. Since the launch of licensing agreements in 2007, over 80 companies have joined the network, a number the initiative hopes to double.

In collaboration with these licensed distributors, the Ethiopian Fine Coffee Stakeholder Committee has created an umbrella brand to provide a coherent brand image for the three trademarked varieties (see Figure 2). This will be complemented with collaborative activities for the promotion of the brand in the respective retail markets.

**Figure 2: The new umbrella brand for Harar, Yirgacheffe, and Sidamo**



The goal is that, by stimulating demand for these branded coffee varieties, producers will increase their bargaining power and be able to demand a higher price. Moreover, this price would no longer be linked to the New York coffee exchange, implying a more stable and predictable price for farmers.

### **2.3 Creating a transparent market**

To ensure the functioning of this licensing and distribution model, a key requirement is traceability in the coffee market. To fulfil the brand promise to the final customer, distributors need to be assured that the products being marketed as Ethiopian Fine Coffee indeed represent the corresponding high quality coffee varieties. Similarly, in order to negotiate higher prices, farmers require a system that allows them to demonstrate the type and quality of coffee they are offering. In other words, quality control and traceability are essential for increasing farmers' share of the final retail price.

Fortunately, a trading system with these features has been established for a number of commodities in Ethiopia. Supported by government, but managed as an independent corporate entity, the Ethiopian Commodity Exchange (ECX) provides a transparent platform for the exchange of coffee. Coffee growers may deliver their coffee beans at a warehouse, where their coffee is registered on the ECX electronic inventory and its quality and type are determined. After this, any number of local traders may buy and sell the rights to the coffee being stored in the warehouse. However, only once an importer from outside Ethiopia has purchased the coffee will it be transported from the warehouse to its final destination. The ECX thus acts as an independent verification body and storage facility (reducing the costs for traders and the transactions costs for both farmers and traders), allowing farmers to be remunerated for the quality they have delivered to the ECX warehouse. Finally, ECX uses a variety of channels, such as local price display boards, radio and text messages, to provide real time price information to market actors, thus further strengthening the position of producers vis-à-vis traders.

## **3. Impact**

The Ethiopia Trademarking and Licensing Initiative's objective is simple: to increase and stabilise the prices that producers of Sidamo, Harar and Yirgacheffe are able to obtain for their coffee. There is already some evidence of this: according to the Oromia Coffee Farmers Cooperative Union, it has already able to secure export prices of more than \$2 per kg,

representing an increase of an estimated 50-100%.<sup>6</sup> This was achieved without a fully established licensing and enforcement system in place. According to Light Years IP (2008), as the Ethiopian Fine Coffee brand develops its standing in consumer markets, it should be feasible to more than triple the export price, to approximately \$6-8 per kg.

This is significant, and has the potential to have widespread impact, in terms of both trade value and household welfare. The linkage in this case between supporting trade development and the livelihoods of coffee farmers and their families is quite clear: given that the majority of Ethiopia's coffee farmers are smallholders, who rely on income from coffee to support a substantial proportion of subsistence household needs, higher and more stable coffee prices are likely to have a positive welfare impact.<sup>7</sup> Higher and more predictable prices will boost the incentive for coffee producers to invest in the cultivation and maintenance of their coffee plants, thus ensuring stable supply of high quality coffee for wholesalers and traders. It will also give producers the security to invest in critical assets – land, education, health – which will have positive human development impacts.

In addition to impacting the income component of poverty, the Trademarking and Licensing Initiative has the potential to improve several non-income components of poverty in Ethiopia, at both national and farmer level.

At farmers' household level, this programme has reduced the transaction costs involved in selling coffee for both farmers and traders. This increases the disposable income that can be spent on building the household's asset base, which may entail investing human (e.g. health and education), financial, social or natural capital. Reduced transaction costs also provide farmers with more time to engage in leisure activities. Limited time to rest undermines farmers' health and wellbeing.

The dissemination of information on the price of coffee also empowers farmers in price negotiations with traders. Given that a quarter of the total population is estimated to be engaged in the production of coffee (Amsalu, 2009), interventions that empower farmers (in negotiating prices) and that enable improvements in farmers' asset bases are likely to have a widespread impact on poverty in Ethiopia.

At the national level, the IP-based approach discussed here places control of the brand firmly in the hands of national stakeholders. This provides country actors with increased bargaining power and leverage to negotiate in the countries' interest, and consequently support sustainability of this initiative's brand and associated programme. It also protects the market from being controlled by international corporations whose interests lie more strongly in economic profits than in Ethiopia's poverty rate.

## 4. Challenges

While achieving some success, this initiative has also come up against a range of challenges that can undermine the trade and poverty impacts of the programme. An important challenge has been the legal dispute between EIPO (the legal owner of the trademark) and Starbucks, which filed an application for a trademark in 32 countries that included the word 'Sidamo'. *Pro bono* legal support from a major international law firm, and an advocacy campaign

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6 The range of the estimated price increase is based on a reported export price of \$1.10 to \$1.30 per kg before the launch of the initiative and recent reports of an export price of between \$2 and \$2.40 by the Oromia cooperative. An estimate of 50-100%, therefore, represents a fairly conservative figure.

7 The proviso being that intrahousehold decision-making processes will determine how coffee-related income is spent. Evidence suggests that Ethiopian women do not control this income – unless they are themselves household heads – and therefore increases in household income may not deliver welfare improvements for all household members.

supported by Oxfam, were key factors bringing this dispute to a successful close. It resulted in Starbucks signing a license agreement in 2007.

Ensuring higher export prices are translated into increased farm-gate prices presents another challenge. Increasing the bargaining power of farmers not only depends on building a strong brand in consumer markets, but also requires that farmers are aware of and know how to apply this added market power. One entry point for achieving this is working through producer cooperatives, such as the Oromia Coffee Farmers' Cooperative Union. Under the licensing initiative, producer organisations are able to sell directly in consumer markets, allowing them to help producers maximise their share of the export price.

However, only about 15% of farmers are members of cooperatives, leaving the vast majority without formal representation in the initiative and without immediate access to information on its progress. Additionally, a condition for the long-term success of the Ethiopian Fine Coffee brand is the predictable supply of high quality Harar, Sidamo and Yirgacheffe coffee. This has been identified as an issue: a report on lessons learned from the early stages of the initiative points out that quality management 'may need to be even more tightly regulated in order to maintain the integrity of trademarked coffee brands and licensed distributors' expectations of the agreement' (DFID, 2007a).

If higher export prices are not translated to increased farm-gate prices, the reputation and aim of the programme may be undermined – discouraging not only donors and international agencies from supporting the programme, but also farmers from participating in the initiative.

Finally, expanding the network of licensed companies presents a challenge. A crucial condition for success will be the expansion of the group of licensed coffee companies committed to promoting and selling Ethiopian Fine Coffee. According to a programme representative, the number of licensees will have to grow to approximately 200 to generate the level of demand for Ethiopian Fine Coffee to absorb existing supply. Reaching this target is essential for reaping the full reward of the trademark. As a first step, this would allow the EIPO (or the envisioned corporate entity) to make licenses exclusive, which would mean that only licensed companies would be able to sell Ethiopian Fine Coffee.<sup>8</sup> This would enhance the license value and strengthen the position of the stakeholder committee or the future Ethiopian corporate entity vis-à-vis the licensees. The stakeholder committee or the future Ethiopian corporate entity could yield greater influence over the licensees' promotional activities and could further raise export prices and ensure long-term sustainability of the initiative. Furthermore, reaching this critical mass of licensees is required for effective enforcement of license agreements in consumer markets. Only in cooperation with a sufficient number of license holders does the initiative stand a chance of effectively protecting the trademark against misuse.

## **5. Conclusions and lessons for Aid for Trade programming**

This case study demonstrates the real potential Aid for Trade has for achieving positive trade and development outcomes. A number of conclusions and lessons have been identified, which can inform the design and implementation of Aid for Trade programming.

### **5.1 Intellectual property rights can increase producers' share of the retail value of their products**

The Ethiopian Trademarking and Licensing Initiative clearly demonstrates that intellectual property rights can increase producers' share of the retail value of their products. At the same time, it reveals that reaping those benefits requires more than securing ownership of

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<sup>8</sup> Currently, unlicensed companies may still purchase Ethiopian Fine Coffee, but they may not advertise it as Harar, Sidamo or Yirgacheffe.

the relevant intellectual property rights by registering trademarks. It requires a coherent brand management strategy and the capacity among farmers to deliver on the brand promise, i.e. to deliver a consistent supply of a high quality and distinctive product. This case study shows how an IP-based approach can place control of the brand firmly in the hands of national stakeholders whereas, generally speaking, Fair Trade brands are 'owned' by businesses in industrialised countries.

Supporting initiatives to secure the IP rights of producers is a sound entry point for Aid for Trade support.

## **5.2 IP-based business strategy requires an important degree of legal and business expertise**

This initiative has made clear that effectively managing an IP-based business strategy requires an important degree of legal and business expertise. The stakeholder committee needs to be able to engage effectively with licensees and lead the management of their brand to ensure licensees are working in their best interest. To address this need, capacity building for national stakeholders as well as expert advice, particularly regarding legal matters, is necessary.

Additionally, producers need to be made aware of how to take full advantage of the newly acquired bargaining power they gain through this initiative. This requires building the capacity and awareness of farmers, who require information on how to negotiate a higher farm-gate price under the new market conditions. They also need to be made aware of the positive implications of maintaining coffee quality, and supported in terms of their ability to do this.

Aid for Trade support needs to consider a range of capacity and technical transfer issues when supporting trademarking and licensing initiatives. Ensuring stakeholders have the legal and business information, the ability and the agency to make the most of the opportunities created by the initiative is important. Supporting farmers to maintain quality, as well as informing them on how best to engage with and make the most of new market arrangements, is also critical. From a programmatic perspective, this means that, to maximise impact, Aid for Trade support may need to address a range of capacity constraints, ranging from agricultural extension through to IP law and business development.

## **5.3 Collaborate among national stakeholders and producer cooperatives**

### *5.3.1 Establish institutional mechanisms that guarantee involvement of producer cooperatives in decision making*

Governance arrangements of initiatives such as these are imperative, and consideration must be given to supporting collaborative arrangements and institutions that ensure the voices of producer cooperatives are heard.

The creation of an effective structure for facilitating continued collaboration among the members of the Ethiopian Fine Coffee Stakeholder Committee will be as important as managing relationships with license takers. In the medium term, the creation of an independent corporate structure, where the members of the committee act as equal shareholders, will be an important step towards institutionalising the collaborative nature of the initiative. Moreover, to ensure that the trademarks continue to be managed in the interest of farmers, the establishment of institutional mechanisms that guarantee the involvement of producer cooperatives in decision making will be essential.<sup>9</sup>

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<sup>9</sup> It is not clear that this process will be efficient, and it may impose a level of transaction costs that are too high for small or poor producer groups.

### *5.3.2 Embed Aid for Trade strategy into national development strategy*

Evidence shows that embedding Aid for Trade programmes into national development strategy enhances country ownership and sustainability of programmes, and is a necessity for policy coherence for improvements in trade and poverty reduction.

### *5.3.3 Monitor the impact of this engagement on the participating cooperatives*

The involvement of producer cooperates is important not only from the perspective of ensuring their interests are integrated into the initiative. It is important also because it has introduced these organisations to a novel form of engagement with the market. By involving the cooperatives in managing the new trademarks and related licenses, their role is being greatly expanded, extending well into consumer markets. Monitoring the impact of this engagement on the participating cooperatives may yield broader insights into the potential role of producer organisations in global supply chains.

### *5.3.4 Support the outreach of producer cooperatives to those farmers excluded from decision-making processes*

Critical for addressing poverty and inequality, an entry point for Aid for Trade may be to support the outreach of producer cooperatives so a greater proportion of coffee farmers are directly represented and engaged in these processes.

Engaging with coffee producers who do not belong to producer organisations matters, as they are currently excluded from these crucial processes. With only 15% of farmers being members of cooperatives, the vast majority of Ethiopian coffee farmers are without formal representation in the initiative and therefore without direct access to information on its progress. From a pro-poor perspective this is a concern, particularly if it is the case that those excluded from cooperatives are poorer or marginalised households (for example female-headed households). This highlights the importance of monitoring the impact of this initiative in a disaggregated way, identifying, for example, prices received by members of producer cooperatives vis-à-vis non-members (and within this building an understanding of the economic and social characteristics of members and non-members).

## **5.4 Support initiatives that encourage transparent supply chain management**

As important as branding and delivering a high quality and distinctive product is ensuring the transparency of the relevant supply chain. Only if products are traceable to their origin can consumers be assured that they are receiving the trademarked product they have purchased, and only then can the exporters demand that producers receive premium prices.

The ECX, organised as an independent public–private enterprise, offers an innovative model for providing such an open and transparent market. Its provision of market information and quality control coupled with a trading platform represents an essential service to the producers and exporters of the Ethiopian Trademarking and Licensing Initiative. By creating a transparent trading system, it eliminates the need for a track and trace system designed specifically for the trademarked coffee.

Clearly, the benefits of this system extend beyond the producers of trademarked products. Grading services and access to market information are essential for all commodity producers seeking to obtain the highest possible price for their produce. Providing similar trading systems elsewhere and for other commodities could provide farmers with increased bargaining power and help adjust (although not eliminate) prevailing imbalances in global commodity markets. Learning more thoroughly from the experience of the ECX, and supporting such initiatives in other countries and commodities, is an avenue the Aid for Trade agenda could beneficially explore.

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