

## Kona Kai Scandal of 1996- from Gerald Kinro's "A Cup of Aloha" pub. 2003, pages 109-111

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The identity and reputation of Kona coffee, however, experienced a giant setback in 1996. It was discovered that Michael Norton of the Kona Kai Farms, a Berkeley, California-based distributor, had purchased inferior Panamanian and Costa Rican beans and sold these as Kona coffee at premium prices. The coffee would have sold at one-third to one-fourth that price if marketed honestly. Norton earned more than \$15 million through this scheme. According to court papers filed in the U.S. District Court in Northern California, Norton purchased 3.6 million pounds of coffee from a dealer in Costa Rica between 1993 and 1996.<sup>14</sup> Only 1 million pounds of that quantity was Kona. Norton then arranged for another agent to act as a buyer

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through the Nagoya Company, which Norton funded. He transferred coffee from Central America to bags labeled "Kona Kai Farms-Kealakekua, Hawai'i—Pure Kona Coffee—Product of the USA."<sup>15</sup>

Norton sold coffee several times to a business named Hawaiian Kona Coffee Company. Revenue totaled \$1 million for the year 1995. Norton arranged to have the money forwarded to two Hong Kong businesses, which in turn transferred the \$1 million to a Swiss bank account.<sup>16</sup>

When an informant in the U.S. Customs Service reported Norton's activities, several agencies stepped in to investigate, including the U.S. Customs Service, the Internal Revenue Service, the Food and Drug Administration, and California authorities.

Norton violated the federal Food and Drug and Cosmetic Act by selling a misbranded product. He was sentenced to two and a half years in a federal prison and was ordered to pay \$440,000 in back taxes in March 2002. The government seized \$5 million of Norton's assets with about \$500,000 going to the twenty-one coffee companies that purchased coffee from Norton.<sup>17</sup>

The real blow was that coffee *cuppers*, or taste-testers, claimed that the inferior grade of coffee Norton sold was better than pure Kona coffee. Prices for Kona coffee fell immediately, and many major distributors stopped purchasing Kona coffee.

As their predecessors had done a generation ago, Kona farmers circled the wagons. They lobbied the state legislature. In response to their concerns, the legislature passed a law that requires certification of Kona coffee. It mandated authentication of origin and grade before shipping.

Another effect of the Kona Kai scandal was the divisiveness it created. A group of growers favored litigation against Kona Kai, saying that the Kona name needed protection. They wished to be compensated for their efforts because all involved were to benefit.

On the other hand, some felt that litigation would further tarnish an already reeling industry. In the end, eighteen growers filed suit. They won a \$1 million judgment in civil court; in addition, \$225,000

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was paid to other defendants. In 2000, the Hawai'i Department of Agriculture received federal certification marks from the U.S. Patent and Trademark Office for coffees grown in Hawai'i, including 100 percent Kona coffee.<sup>18</sup> In another step toward protecting Kona's identity, the Hawai'i legislature passed a bill in 2002 that required coffee packages to list the exact percentage of Kona coffee in a blend.