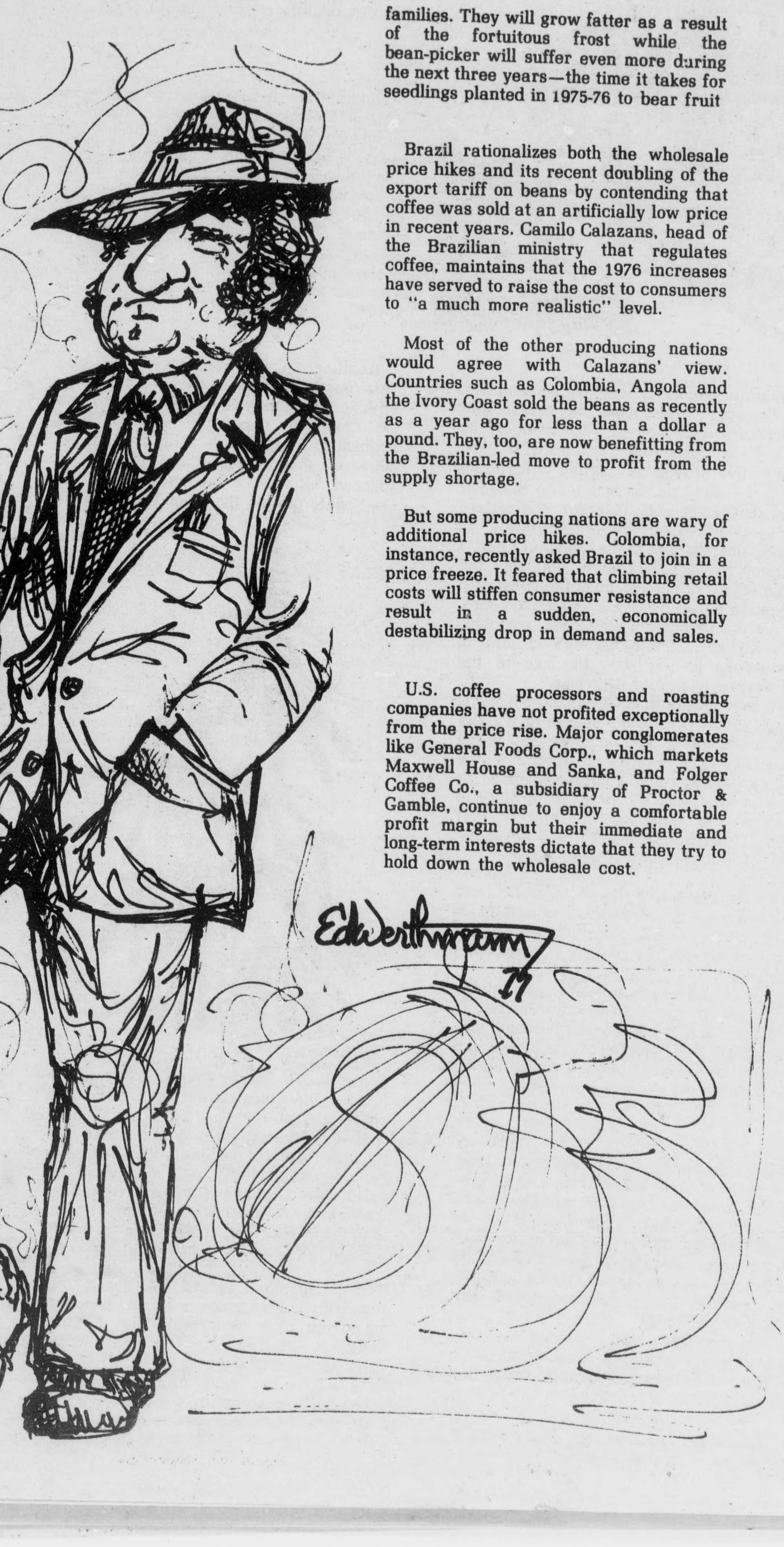
Coffee: Brazil or General Foods?



families. They will grow fatter as a result of the fortuitous frost while the bean-picker will suffer even more during the next three years—the time it takes for seedlings planted in 1975-76 to bear fruit

Brazil rationalizes both the wholesale price hikes and its recent doubling of the export tariff on beans by contending that coffee was sold at an artificially low price in recent years. Camilo Calazans, head of the Brazilian ministry that regulates coffee, maintains that the 1976 increases have served to raise the cost to consumers to "a much more realistic" level.

Most of the other producing nations would agree with Calazans' view. Countries such as Colombia, Angola and the Ivory Coast sold the beans as recently as a year ago for less than a dollar a pound. They, too, are now benefitting from the Brazilian-led move to profit from the supply shortage.

But some producing nations are wary of additional price hikes. Colombia, for instance, recently asked Brazil to join in a price freeze. It feared that climbing retail costs will stiffen consumer resistance and result in a sudden, economically destabilizing drop in demand and sales.

U.S. coffee processors and roasting companies have not profited exceptionally from the price rise. Major conglomerates like General Foods Corp., which markets Maxwell House and Sanka, and Folger Coffee Co., a subsidiary of Proctor & Gamble, continue to enjoy a comfortable profit margin but their immediate and long-term interests dictate that they try to hold down the wholesale cost.

U.S. Coffee Market

About 10 to 15 cents in profit accrue to these monoplies on each pound of coffee. The processors and roasters are seemingly content to maintain this rate for the time being. They realize that any increases in their sector, on top of the higher prices being charged by exporting countries, will badly damage coffee sales. Coffee consumption in the U.S. had declined by 35% since 1964, due primarily to the increased popularity of soft drinks and growing consumer awareness that coffee lacks nutritional value.

Commodity traders have been the biggest profiteers in the U.S. as skyrocketing terms for "future contracts" have fed speculative scheming. But even in this area, the traders are making money through a situation they are not directly controlling.

Coffee drinkers in the U.S. can meanwhile do little more than bemoan the passing of the "good old, dollar-a-pound days." Even a well-organized nationwide consumer boycott would probably only mean that Brazil will withhold supplies and fall back on its profits until buyer resistance weakens. Other supplier nations, in a less advantageous position than Brazil, would not be able to weather a U.S. boycott as easily, especially if the growing market in Europe, Japan and the Soviet Union were to simultaneously contract. These smaller exporting countries cannot juggle their reserves as adeptly as Brazil and their relatively constant supply would not significantly curb prices in an industry essentially controlled by Brazil.

The price hikes of 1976-77 can be seen then as basically a struggle between Brazilian capitalists and western consumers, with some significant benefits gained by more progressive third world nations. Coffee growing nations, admittedly led by the reactionary Brazilian regime, are asserting their rightful control over their own resources. They are forcing their former colonizers to pay a more equitable price for their product.

As one U.S. broker asked recently, "Where is it written that the rich industrial nations should always enjoy cheap commodities produced by dollar-a-day labor and at the same time pass on their higher wages and other costs to the poor countries in the form of ever more expensive manufactured goods?"

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