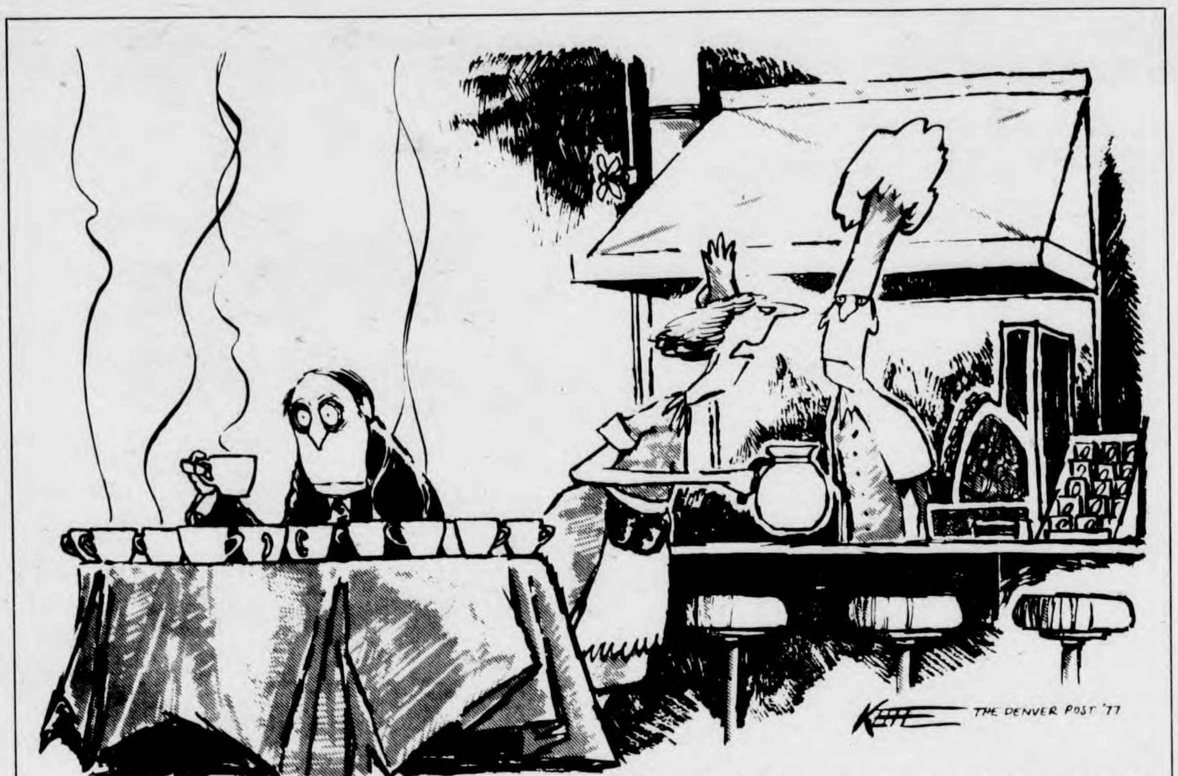

'...SAYS HE'S STOCKPILING AGAINST THE NEXT PRICE INCREASE!'

International instability spurs coffee price rises

By KEVIN KELLEY

NEW YORK (CUP) — A 50-cent cup of coffee in your local luncheonette?

It could happen, maybe even in 1977. A pound of the US's favorite beverage now sells for $3 in many supermarkets. Some commodity traders are forecasting a hike to $4 per pound before the end of the year.

Why has the retail price of coffee soared more than 100 per cent in one year? Who or what is behind the sudden increase? And can - or should - anything be done about it?

Still smarting from the petroleum price boosts of recent years, many US consumers are quick to blame a "coffee cartel" for the unforeseen inflation. But as much as the producing countries may desire it, there is no international price - fixing body at work in the coffee industry. Instead, the demise of the cheap cup of coffee is the result of a complex chain of events.

A series of natural calamities and political disruptions in key coffee - producing nations last year did much to drive up the price of green (unroasted) beans. A pound of these imported beans cost 85 cents on the dock in New York City 12 months ago, $2.25 today.

A large portion of this $1.40 per pound jump can be attributed to: a frost that devastated three-quarters of Brazil's 1976 crop; floods that ruined about 40 per cent of Columbia's beans; the earthquake in Guatemala which caused a 70 per cent drop in the anticipated harvest, the war in Angola that resulted in an 80 per cent cut in that nation's coffee supplies; Ethiopia's attempt to destroy the Eritrean liberation movement, halving coffee crops there, and the on-again-off-again rail link between Uganda and Kenya's seaport that has meant a 25 per cent drop in Ugandan coffee exports.

Most significant among these problems was the July 1975 frost in Brazil, the country which usually supplies between one-third and one-half of the world's coffee. Brazil's coffee fields were ravaged by the cold. Only six million 132-pound bags were harvested last year - less than a quarter of the normal crop.

OLIGARCHY

But the Brazilian government and the indigenous oligarchy that owns most coffee plantations moved quickly to turn adversity into advantage. The country's surplus of perhaps as much as 40 million bags was tapped in order to meet a steadily increasing international demand. With the other leading coffee producers (Columbia and Angola) also suffering very poor 1976 harvests, Brazil swiftly capitalized on its enormous reserves which were at least double the other producers' combined surplus.

Brazil had an added incentive besides sheer profiteering, for manipulating the coffee price upwards. With its much-touted "economic miracle" now more of an "economic morass," Brazil decided to partially return to its "pre-miracle" days when coffee accounted for about 80 per cent of its export earnings.

The decision to exploit the worldwide coffee supply shortage by depleting its reserves and raising its coffee export tax 100 per cent to 83 cents on the pound paid handsome dividens. In 1975 Brazil recorded $980 million in coffee sales. In 1976, it reported $2.4 billion sales on a slightly smaller volume.

The Brazilian coffee boom will not benefit the Brazialian worker, however. The chief result of the estimated 150 per cent hike in Brazil's coffee profits will be to postpone the country's day of reckoning on the international trade markets. The government will use the coffee windfall to shore up the sagging economy and subsidize the cost of domestic coffee consumption.

The working class in Brazil, which relies on heavily sugared cups of coffee to provide the energy lacking in other components of typical worker's diet, will probably continue to drink a dozen or so inexpensive cups a day.

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 artifically 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.

US INDUSTRY

US 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.

About 10 to 15 cents in profit accrue to these corporations 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 US had declined by 35 per cent since 1964, due primarily to the increased popularity of soft drinks and growing consumer awareness that coffee lacks nutritional value.

US supermarket chains are also generally upset by current coffee prices. Some combines have endorsed a move by some consumer groups to organize a coffee boycott. Supermarkets have traditionally used coffee as a "loss leader," an item that they priced near wholesale levels in an effort to lure shoppers into the stores. The value of coffee as a loss leader has all but been lost as consumers begin turning away from pound cans priced even near the $3 wholesale cost.

Commodity traders have been the biggest profiteers in the US 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 US 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 withold 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 US 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.