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The dark story of poverty in your coffee cup

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My local Starbucks sells a small coffee for $1.50; a simple latte starts at $2.50. That seems like a lot for a drink whose origin is the humble pit of a berry from a shrub in Ethiopia. Then again, we've come to believe a good cup of coffee, or even better, a latte, can make a bad day better or help with a moment of contemplation.

However soothing its image, coffee is the second most valuable exported legal commodity on the planet (after oil). Literally millions of people depend on the coffee industry for their livelihood. For its consumers, coffee minimally delivers the largest jolt of the world's most widely taken psychoactive drug (caffeine). At various times coffee has been claimed to be an aphrodisiac, enema, nerve tonic and life-extender.

Since the early '90s, coffee production has expanded beyond the traditionally dominant supplies, Brazil and Colombia, for example, to African, Asian and other Latin American countries. Unlike the case of oil, the world's supply of coffee beans has far exceeded demand. The result is that export prices in constant dollars are the lowest since 1900 and are even below those recorded during the Great Depression. Current figures suggest that the global revenue from coffee sales is about $55 billion, of which only $7 billion (13 percent) goes to the coffee-producing nations.

In a buyer's market, the share of the coffee trade enjoyed by producers has fallen by two-thirds in 10 years. The result is that the livelihoods of millions of peasant farmers and their families are threatened in a way that entire rural communities disappear and force desperate peasants into everything from crime to illegal migration.

It's a new paradigm in which both producers and consumers lose, what some analysts have called the coffee paradox -- the coexistence of a coffee boom in consuming countries and of a coffee crisis in producing countries.

Coffee cultivation has never emerged from the shadow of colonialism and empire into the sunshine of a more enlightened era. Local labor on subsistence wages produces coffee at the lowest possible price for markets in the developed world.

Producers have tried, but mainly failed, in the past to band together OPEC-style with the hope of maximizing, or even just stabilizing, prices. Coffee may be black and liquid but it's not oil.

Partly from cold war fears in Latin America, in the 1970s the United States supported the International Coffee Agreement, a kind of cartel, but which, unlike OPEC, required both exporters and consuming importer countries to submit to quotas.

By the late '80s, however, Cold War fears no longer provided a compelling reason for the United States to support the agreement and it folded. With the increasing openness of financial markets, the growing allure of deregulation for all industries and the free market atmosphere of the '90s, coffee became part of globalization, which included the steady expansion of hard currency-earning coffee production in other countries, especially Vietnam. Brazil, the world's biggest producer, also upped its output. And Indonesia and other exporters followed suit.

But it was Vietnam that made the difference. Financed by the International Monetary Fund and World Bank, Vietnam went from a very small producer to the second-largest producer of Robusta, the less flavorful, more acrid type of coffee bean. Arabica, the milder, more flavorful, more expensive coffee variety that Starbucks exclusively uses is pickier where it can grow and needs more care.

The resulting Robusta glut has been a source of record profits by the four giants; Proctor and Gamble, Kraft Foods, Sara Lee and Nestle together control about 50 percent of the world's coffee. Their stranglehold has been helped by new roasting technologies -- notably a steaming process that removes many of the unpleasant, acrid tastes from Robusta beans. New kinds of commodity-hedging contracts also have allowed the companies to keep smaller stocks of beans at any single time, allowing them to do most of their buying when prices are lowest.

The Big Four's shift toward Robusta-heavy blends has put thousands of Arabica farmers out of business, and this has brought Arabica prices up, along with prices at Starbucks. Yet Starbucks' sales have risen by an average of 20 percent per year during the past decade, and the average price of its primary coffee drinks has outpaced inflation. In part, Starbucks, and the specialty industry as a whole, has been able to raise prices because it has sold a premium product and marketed itself brilliantly.

The company has taught people to value high-quality coffee, and, of course, to pay a premium for it, along with the casual-but-hip store environment. Starbucks, of course, went public in 1992, and its shareholders, who are meeting here Wednesday for their annual meeting, are, to say the least, happy shareholders.

"But the more successful and high-profile Starbucks becomes," writes Anthony Wild in "Coffee: The Dark History," "the more visible and disturbing the problem its success reveals. The very economics of the coffee bar in general work to highlight the gross inequities of the globalized market." Those inequities are part of the journey of the bean to the cup, where growers, traders, shippers, roasters and retailers claim part of each retail dollar. The Colombia Coffee Federation estimates that of the average price of an upscale cappuccino or latte, less than one U.S. cent finds its way back to the farmers.

This has not gone unnoticed by Starbucks. Unlike the mainstream companies that appear to have staked their businesses on lower-quality, cheaper beans, Starbucks pays above-market prices for high-quality Arabica beans. And anyone who has gone into a Starbucks has seen the "Fair Price/Fair Trade" movement coffee offerings. The message is that your dollars have an impact far beyond the store where you purchase your coffee.

Less well known are Starbucks' laudable farm credit and social development programs in coffee growing areas.

There have been a wide variety of well-meaning proposals to help fix the coffee paradox. Many in the industry hope that the United States will rejoin the International Coffee Organization, giving the cartel the muscle it would need to preside over a short-term reduction in acreage devoted to coffee growing. The United States could reduce trade barriers to processed coffee, and the World Bank could encourage producer-nations to diversify their crops.

One inescapable conclusion is that the coffee paradox exists because what coffee farmers sell and what consumers buy are becoming increasingly "different" coffees. It is not material bean quality that coffee consumers pay for. It is mostly symbolic quality and in-person services. As long as coffee farmers and their organizations do not control at least parts of the "immaterial" production, they will keep getting low prices.

This is certainly the thinking of the National Federation of Coffee Growers in Colombia, which has opened retail coffee shops under the Juan Valdez name in Seattle, New York and Washington, D.C. The coffee shops, which have airy interiors of Colombian wood, and emphasize the quality of their coffee rather than a spot for social gathering, represent a belated effort by the Coffee Federation to grab a slice of the world retail market for specialty coffee. The Colombian group is, of course, tiny compared with Starbucks, which has more than 6,000 outlets.

But the logic of its efforts is an understandable gamble. Its stores in Colombia are profitable. If its U.S. stores succeed, the Coffee Federation has announced it will use those profits to restore some of its spending on rural development, which in recent years has suffered.

No matter how successful efforts are at coffee sales, either at the wholesale or retail level, the existing world coffee supply is far too large for any market adjustment to be easy, painless or fast.

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