

# The Sydney Morning Herald

Business Companies [Commodities](#)

This was published 3 years ago

## Coffee prices slump but drinkers won't pay less for lattes

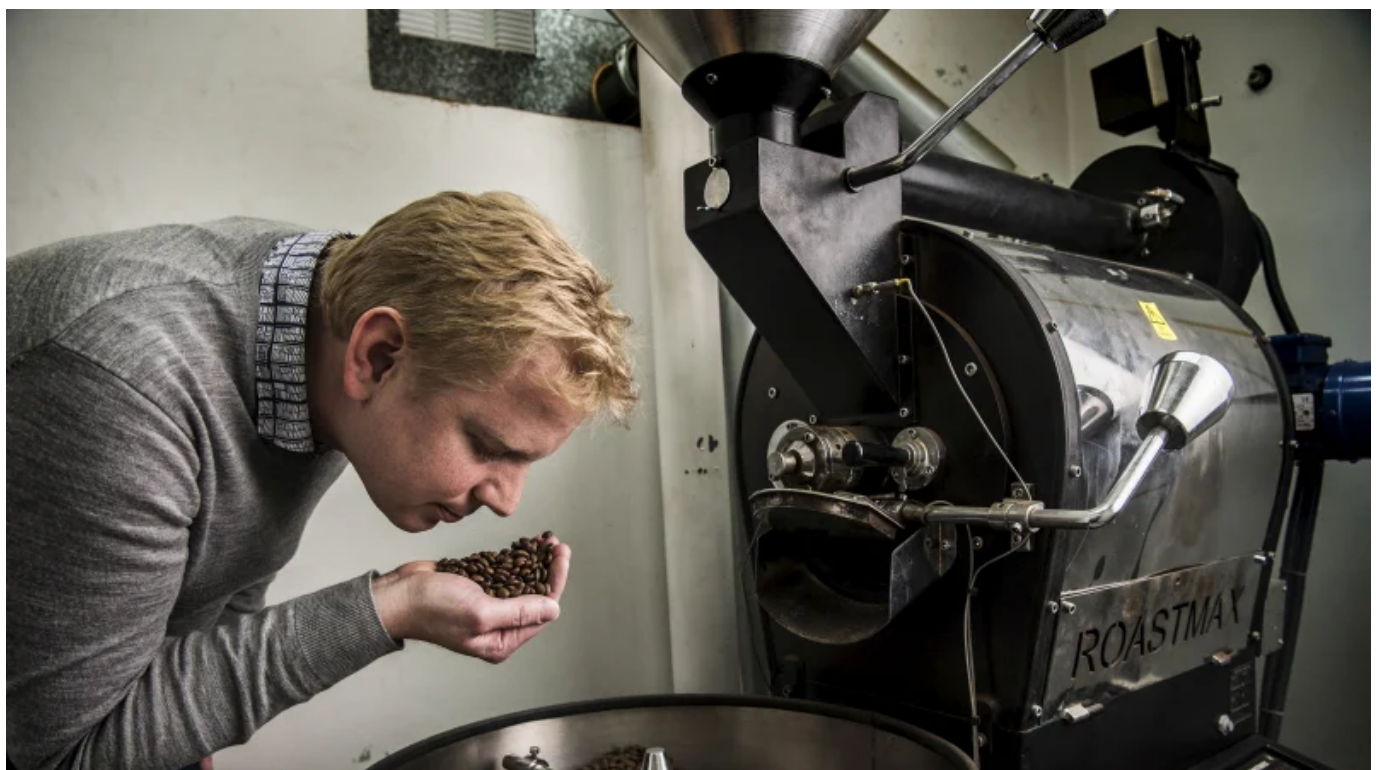
By **Lucy Battersby & Garreth Hanley**

September 30, 2018 – 1.10pm

Raw coffee beans are at the lowest price for 12 years due to a bumper crop and soft Brazilian currency, but Australian coffee aficionados won't be getting cheaper flat whites.

Perhaps spare a thought, however, for coffee farmers in developing economies who are facing poverty until prices rise back above \$US1 per pound (455 grams). While demand for coffee is high, prices on open markets are under pressure and speculators are taking advantage of the situation by betting on further falls.

Senior commodity analyst with Rabobank, Carlos Mera, says coffee prices are low because of big crops in both Brazil and Vietnam this season. The speculators are exacerbating the declines, he added.



Even if raw beans are cheaper, labour, rent, electricity and gas costs are rising, Adam Carr says. STEVEN SIEWERT

And Brazil is heading into elections and its economic instability is pushing down its currency, the Real, against the US dollar.

“Coffee farmers in Central America, Africa, India - they have much stronger currencies which means they are not competitive and they are going to be facing poverty conditions,” Mr Mera said.

"I don't think prices are going to stay this low for longer than one year."

Central American farmers may leave their crops on trees "especially in those areas that are steeper and more inaccessible", Rabobank's latest coffee outlook report notes. Specialty and high quality beans are unlikely to be affected by the lower commodity prices.

Brazil-sourced coffee may cost less in supermarkets, particularly in the United States and Europe, but here in Australia most coffee comes from other countries and is often higher quality.

"We source from 14 different origins," says Adam Carr from Seven Miles coffee roasters in Sydney.

"Although the index is really low, that is not representative of coffee from specific regions. Sumatran coffee is up about 20 per cent against the price a year ago. There was large scale crop damage and buyers bought up what was available. It is a good quality coffee and in high demand."

Even if raw beans are cheaper, Seven Miles' other costs, such as labour, rent, electricity and gas, are rising, Dr Carr added.

"The 32 per cent bean price drop roughly translates to about 2 cent per cup price drop in a cafe in Australia," he said. Fairtrade coffee has a minimum purchase price, which is currently \$US1.40 per pound, or \$40c higher than the current market price.

Tom Mahon co-founder of Wild Timor Coffee Co. is in Timor sourcing specialty beans for the company's direct trade coffee.

He says the current low prices are not affecting the farmers Wild Timor work with. But low prices are "having a pretty big effect on the ground" for farmers who sell to commodity traders.

Mr Mahon says changes in the bean price won't have any have an impact on the rest of the supply chain, "a lot of people forget that the coffee doesn't just appear ready to drink in the cafe, there are importers, shipping companies, freight forwarders, truck drivers, quarantine inspectors and so many more."

And he says there is little room for cafes to drop their prices either. "It would be nice to see the price of a cup of coffee drop, but cafes already run at such a small margin I can't see that happening anytime soon."

A spokeswoman for The Australian Coffee Traders Association (ACTA) says that while the Intercontinental Exchange (ICE) price is a benchmark for the industry, it is also "an index price from one of 20 countries of origin. Individual coffees trade with premiums or discounts against the benchmark depending on their grade." and that the December 2020 futures are trading 26 per cent higher than the current lows.

Brazil is the world's largest coffee producer and has had a bumper coffee crop this year, expected to be about 3.6 million tonnes, about 30 per cent of the world's production. The global price of arabica green beans bought on the open market is down 32 per cent in the past year at \$1.35 per 454 grams. This compares to a high price of \$2.48 in November 2016.

A spokeswoman for global giant Nestle says it buys about 850,000 tonnes of green coffee beans annually for its Nescafe and Nespresso brands, "In some instances we source coffee directly from farmers and cooperatives, in others, from exporters and global suppliers, but generally we try to shorten the supply chain wherever possible," she said.



**Lucy Battersby** has covered trends, technology and telecommunications since joining The Age in 2008. Connect via [Twitter](#) or [email](#).

---