Over the past 15 years, there's been an explosion of specialty growers, who export everything from coffee beans grown without fertilizers and chemicals to coffee grown in wild bird sanctuaries. Coffee shops that offer these sorts of specialty coffee beans are now in virtually every large U.S. and European city.

Many specialty growers are in Latin America, where the coffee belt stretches from Mexico to Andean highland countries Peru and Bolivia. In recent decades, small coffee farmers in the Americas organized themselves into cooperatives, aided by U.S. and European nonprofit groups.

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The co-op model ‚Äö --- sometimes called the Fair Trade model because growers are collective owners who reap the full benefits ‚Äö --- allowed farmers to earn above-market prices during down times. They were less vulnerable to the middlemen, called coyotes, who supply big international coffee companies. Note, although the goal of the coops and the fair trade model is a noble one, the above-market prices mentioned during down times has still not been enough in most cases for the farmer to survive.

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Now, however, the coyotes offer better prices than some of the contracts the co-ops have entered into previously with foreign buyers. Some farmers are taking the higher offers, leaving the co-ops struggling to get sufficient supplies and at risk of defaulting on contracts.

"The co-ops are an underfinanced population. If they needed $1 million before to buy the harvest of their members, suddenly they need $3 million" to compete with the middlemen and pay current prices, this sums it up for Nathanael Yoder and Leland Ulrich from JavAlliance on their most recent coffee trip through C.A.

Coffee farmers are desperate to catch up on their losses over the past decade and to our criteria are making the mistake of forgoing a contract with a coop or coffee roaster who is consistently paying a fair price, farmers prefer going for a 1 or 2 time sale to the highest coyote bidder. We're afraid that is an unwise decision mid-long term. (I am a coffee farmer myself and as desperate as anyone to make up for many years' losses! But I am not going to stoop to a short term fix and then expect a kind roaster or coffee shop somewhere to lend a hand after I did not honor my obligations in their difficult times.)

Especially, since coffee-industry veterans blame financial speculators. They say they're taking advantage of global supply hiccups to drive up coffee prices by adding volatility to the trading of contracts for future delivery of coffee.
Experts say that global consumption of coffee is up, particularly in China and coffee-producing Brazil. There's also been a weather-related dip in production from coffee-rich Colombia. These underlying supply-and-demand factors do justify higher coffee prices, just not this high."It's definitely not purely supply and demand; it's way too volatile," says Shawn Hamilton, the vice president of operations and a veteran coffee buyer for Java City in Sacramento, Calif., a national wholesaler of coffee and a midsize regional coffee roaster.

The hiccup in production and rising demand set the stage for Wall Street speculators ‚Äö√Ñ√Æ many of them big hedge funds that invest for the ultra-wealthy ‚Äö√Ñ√Æ to flood into commodities markets and speculate on contracts for future delivery of coffee.

What's not in dispute is that from June 2010 through last December, coffee leapt from about $1.35 a pound on commodity exchanges to around $2.17, an increase of 61 percent in six months. It only got worse from there, peaking above $3 last spring.The net result distorts the price of coffee. The price of a futures contract for 37,500 pounds of coffee rose by more than 40 percent last year, and has gone up by more than 57 percent this year through Aug. 19.

Also telling is the volume of trading in the coffee futures market.

During the first week of August 1995, slightly more than 46,000 coffee futures contracts were traded. In 2001, the first year after investment rules were relaxed and Wall Street money poured into commodities markets, the number rose to almost 76,000 contracts a week. During the first week of August 2008, the month the U.S. financial system began a near-meltdown, 196,805 contracts were traded ‚Äö√Ñ√Æ actually down from a record 284,000 contracts traded in early March that year.

This all points to the entry of financial players who never intend to take delivery of coffee. Some are Wall Street banks and hedge funds; others are so-called "massive passives," big institutional investors such as pension funds that bet on rising prices.

The Federal Reserve's actions this year to encourage investment in anything other than Treasury bonds drove some of the money into commodities investment.


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