A painful hangover for sugar refiners

A couple of months ago, an executive of the country's largest sugar refiner, Amstar Corp., noted: "Americans have a very sweet tooth—and they're willing to pay for it." Apparently he was wrong.

Since November, deliveries of refined sugar have plummeted from 218,000 to 109,000 short tons a week. The price of sugar has fallen from 72c a lb. over the same period to 49.5c a lb. And sugar refiners from New York to California are finding that they have more sugar than they can sell or store. Not surprisingly, there have been worker layoffs and production cutbacks.

Amstar Corp., which processes more than a quarter of the 11.2-million tons of sugar Americans consume annually, concedes it is having "capacity problems." The company's five cane refineries closed down during the entire Christmas week, and for the past few weeks have been operating only four days a week, or less. And for most of January, five ships laden with cane have been kept from unloading their cargoes at Amstar's Baltimore, New Orleans, and New York refineries. Amstar Secretary Raymond C. Guth says the reason is that his company has but 15 to 35 days storage capacity for raw and refined product, and its warehouses are now "very close to capacity."

Meanwhile, California & Hawaiian Sugar Co., the second largest domestic producer, has decided to shut down refining operations at its Crockett (Calif.) plant from Feb. 5 to Feb. 10 and put 600 employees on temporary furlough because of slow sales and inventory pressures. Earlier this month, Calco cut its refining to 1,200 tons a day, less than half its normal seasonal rate, in an unsuccessful effort to avoid a plant shutdown.

Elsewhere, National Sugar Refining Co. has run its refinery on a four-day week during January; SuCrest Corp. is running production at its three refineries at about a 50% rate; and CPC International shut down its Flo-Sweet refinery in New York for a week to get inventories in better balance.

Sugar sales will only rebound, says C&H's marketing vice-president, Thomas H. Melohn, when housewives "exhaust their pantry inventories." But industrial demand for sugar, which constitutes 75% of refined product sales, also remains low partly because industrial users are buying sugar hand-to-mouth, anticipating a price decline. This will further hurt refiners because most of them have done little short selling.

Beet and cane sugar refiners are currently holding about 2.5-million tons of raw and refined sugar, according to the Agriculture Dept. But they cannot run down their inventories by cutting prices because they could take a huge loss if they sold their refined product for the current-price of 49c per pound, working from cane bought in the 50c to 60c range. Says Melohn: "You have to get your money out. If you lower the price of refined product to sell more, you would just lose more."

A strong market. After record profits in 1974, U.S. sugar refiners were anticipating anything but losses this year. Claude Petitt, senior vice-president of Great Western Sugar Co., which saw its earnings soar 2,500% last year, suggests that this short-term downswing in consumer demand will have no influence on the long-term sugar growing cycle or world prices. C&H Senior Vice-President Donald W. Hare agrees. Worldwide inventories, at 15% of annual production, are at "an all-time low," he says, and there has been a traditional increase in demand for sugar of 2-million tons a year, which should continue. The U.S. sugar beet industry also expects demand to continue to grow. It is expanding production by 22%, or by more than 700,000 tons of sugar beets, this year.

Short-term, however, this is no solution for refiners caught with huge stockpiles of sugar, refined from high-priced raw material. "The market for sugar is still very strong," says Ellsworth DeMasters, a sugar expert with the Agriculture Dept. "The problem is that it is very costly to ship refined sugar anywhere. And the product spoils easily. U.S. refiners would probably have worked most of the high-cost raw material out of their inventories by next fall." But he believes that consumer resistance may have made that impossible.

Why sugar inventories are starting to pile up

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Thousands of tons</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>250</td>
<td>200</td>
<td>150</td>
</tr>
<tr>
<td>1975</td>
<td>100</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

Data: Agriculture Dept.