so fluid for such a long time that a list price is an anachronism.

"We have seen a steady influence. We're getting away from price-at-time-of-delivery contracts," says the purchasing executive of a big Eastern company. "People are now telling us they will hold a price for six months." Purchasing World magazine found in a survey of about 200 purchasing managers that 76% felt there was "price shading in at least a few areas," says John O'Connor, the editor. "I'm sure there's plenty of it going on out there," he adds, and he cites a dozen industries, including electronic components, electric motors, tires, paper products, and packaging materials.

Denials. However, some businessmen deny vehemently that their products are subject to price weakness. "Against the sort of costs we are incurring, it is extremely difficult to understand how a price decrease could be absorbed," says Cornell C. Maier, president of Kaiser Aluminum & Chemical Corp. Likewise, Aluminum Co. of America says there will be no price cutting or discounts. The present return on investment is too low, Alcoa contends, and lower prices would not help sales. The aluminum industry has cut production 10% to support the list price of $396 per lb. Production cutbacks have also shown up in sugar, plastics, inorganic chemicals, and rubber industries.

If there has indeed been an important turn in the prices of some industrial goods, it has yet to show up significantly in the price indexes. The volatile index for raw industrial commodities already has tailed off sharply, but the index for industrial commodities—probably a bit closer to reality—has only started to level off after a long rise. However, there are lags of at least half a year before these wholesale price index components begin to filter down to the consumer side, and, in any case, there are real questions among economists about the over-all accuracy of the index.

The issue is whether the WPI understates the amount of inflation on the upswing of an inflationary cycle, and overstates it on the downswing. If this is true, it would be overstating inflation even more dramatically now because of the situation with list prices. This would mean that the economy is under much less inflationary pressure than generally presumed.

Thomas Tibbetts, chief of the wholesale price index branch of the Bureau of Labor Statistics, maintains that the indexes are accurate, but he acknowledges that the BLS cannot really determine how much shading is going on in the marketplace at any given time. "My impression is that there is a lot of discounting going on, and we obviously do not know how much is going on unreported," Tibbetts says.

Some Washington officials concede that the present price situation is being distorted by fears of new controls. Says Albert Rees, director of the Council on Wage & Price Stability: "There is no question that companies are holding list prices up and resorting more to discounting and other kinds of price shading in that downturn than they have in the past. And there is no question that the reason is that they are afraid of controls."

**COMMODITIES**

**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 72¢ a lb. over the same period to 49.5¢ 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, C&H 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 one-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 49¢ per pound, working from cane bought in the 50¢ to 60¢ 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 Petit, senior vice-president of Great Western Sugar Co., which saw its earnings soar 2,500% last year, says sugar inventories are starting to pile up
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 world 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 any great distance. 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.

**SHIPPING**

**The U.S. may bail out Seatrian's tankers**

Until President Ford exercised a year-end pocket veto of a bill that would have required 30% of U.S. oil imports to be carried in U.S. flag tankers, prospects for Seatrian Shipbuilding Corp., a subsidiary of Seatrian Lines, Inc., were merely risky. Now they are desperate. This week a four-man team from the Federal Maritime Administration returned from a fact-finding trip to New York, where Seatrian builds tankers in the old Brooklyn Navy Yard. The yard is virtually shut down, following an announced four-week furlough last week of 1,800 workers that left only a few caretakers. The yard had already reduced its workforce by more than 1,000 employees since December.

The Maritime Administration's fact-finders, headed by Deputy Assistant Secretary Howard F. Casey, were looking after the government investment in two 225,000-dwt U.S. flag tankers under construction in the yard. One, scheduled for delivery next December, is about 82% complete, and the other, scheduled for December, 1977, delivery, is about 30% finished. Two earlier tankers built by the yard were delivered in December, 1973, and December, 1974, respectively. At the moment, however, the yard has no firm buyer or lessee in sight for the two tankers under construction.

The government has two major interests in the ships: It has paid out $31.3-million so far in construction subsidy progress payments, and it also guaranteed 75% of the private funds borrowed to build the ships. (Under a term loan agreement with its banks, Seatrian Lines was supposed to make principal payments on about $45-million outstanding at the end of January. However, a spokesman for Chase Manhattan Bank said this week that talks were under way to extend this date to the end of February.)

**The options.** The question facing Robert J. Blackwell, Assistant Secretary of Commerce for maritime affairs, is how best to protect the government's investment. Basically, his options boil down to whether the government should pay an additional $18-million to $20-million to finish the first tanker, and $40-million or more for the second, or whether it should end support now.

One factor affecting the decision is whether the world market for tankers, currently very depressed, is likely to improve by the time the vessels are finished. Another factor is the impact of the yard layoffs on the Brooklyn economy. The yard has been a pilot project in rehabilitating a depressed region by on-the-job training of the local work force to perform skilled tasks. A delegation of New York interests, including Congressional representatives, met with Blackwell last week to plead for government intervention to save the shipyard and jobs. About 85% of the yard workers belong to minorities.

The Maritime Administration has reserve funds to bail the shipyard out, Blackwell says, but he wants private investors in the ships to put up cash, too. "I can make the decision," Blackwell says. But, he adds, "I would clear it with Secretary of Commerce Dent and he might want to discuss it with the White House."

However the decision goes, it will be made soon. If the government bails out the ships, they would be sold when completed, and both the government and private investors would get their money back—assuming buyers could be found and the price was right. Because of cost overruns, Seatrian lost an estimated $13-million on the first two ships delivered.

**Hearings coming up.** The situation for American flag tankers is drawing new attention in Congress. The Senate Commerce Committee will hold hearings beginning Feb. 7 on the "depressed condition of the U.S. tanker industry and the impact of President Ford's energy proposals on that industry." There are Congressional rumors about a move to exempt oil carried in U.S. flag ships from any tariff levied on imported oil. Also, Congress seems likely to send the cargo preference bill back to the White House. Seatrian's Brooklyn operation is the yard hit hardest so far, but Newport News Shipbuilding & Dry Dock Co., a division of Tenneco, Inc., has laid off about 150 workers so far this year, and its president, John P. Diesel, expects the number to reach 2,000 by June. If massive shipyard layoffs spread, Congress will seek legislative relief. Says one congressman: "We will knock heads with the White House if necessary."

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