The Sugar Saga
Price Surge Is Running Out of Steam as Users Cut Back Consumption

Arab Buying & Psychology Of Shortage, Inflation Play Big Role in Run-Up

Sweet Shopping in Mexico

A WALL STREET JOURNAL News Roundup

Cynics say that by the time a government committee gets around to studying a problem, the problem is well on the way to resolving itself.

Such may be the case with sugar.

The new Council on Wage and Price Stability currently is holding a public hearing in Washington to find out why retail sugar prices have more than quadrupled in the past year and whether all the increases are justified. (See story on page 4.) Meanwhile, the wholesale and futures markets for sugar in London and New York seem to have reached their crest, at least for the time being; prices on both markets declined yesterday for the third consecutive trading session.

That's not to say prices won't go up any more or even that retail prices of sugar and products using sugar will drop soon. In fact, retail prices are expected to rise further in coming weeks to reflect higher wholesale costs that already have been posted. But the sugar-price surge does seem to be running out of steam, mainly because prices have shot up to the point that consumption is being reduced.

Experts who thought the sugar-price peak would have been reached long ago and who have watched the markets zoom past their wildest predictions now are loath to even guess when the general trend of prices will start to move down. But some think that the decline already has started and that it will be as spectacularly sharp as the run-up. In their view, this year's sugar woes will be just a bitter memory a year from now.

An 80% Decline, Sometime

Arthur B. Calcagnini, head of the sugar division in the Agriculture Department's Agricultural Stabilization and Conservation Service, recently predicted that rising world production and diminished demand could start retail prices moving downward next year. Ultimately, he says, the retail price could fall to around 20 cents a pound from about 80 cents currently (soon to be about $1 a pound), though he adds that he doesn't know when that would be. The price was 15 cents a pound or less before the run-up began. (Mr. Calcagnini formerly headed a New York sugar-trading firm.)

In a way, fathoming the future of sugar prices is easier than determining how the big surge came about in the first place. It's no trick to figure that what goes up so fast eventually will come down; But the reasons for the run-up are complex, and it is difficult to analyze them because a lot of the "experts" have vested interests in keeping prices rising or else forcing them down.

Underlying the run-up are the facts that world sugar production has fallen behind consumption and that this year's sugar-beet crop was hurt by bad weather in Europe, Russia and some other places. But production has fallen a bit short of consumption in each of the past four years and in the 1970-1971 season the shortfall was many times greater than it was in 1973-1974 season. There was no price surge then as there is now. Why?

For one thing, there was a bigger cushion of reserve stocks then. World reserves now have dropped nearly 25% to about a 10-week supply, compared to a supply sufficient for at least 12 to 13 weeks that the industry prefers to have on hand. Some dealers say that this stockpile is "dangerously low," while other analysts say that a two-week difference in supply isn't a big deal. In any case, three years ago there wasn't the combination of such factors as free-spending Arab nations and a world-wide inflationary psychology that has made a sweet tooth into a luxury.

Oil & Sugar

As industry sources tell it, some dealers got the idea late last year that they would get even with the Arabs for their oil embargo and petroleum price rises by charging them considerably more for their sugar. Flush with oil money, the Arabs unblinkingly paid the higher quotes, which dealers gleefully raised almost daily. The Arabs also countered with a move of their own, however: Instead of spacing their purchases throughout the year as usual, they bought enough sugar for a whole year within about three months (giving them, as it turned out, a considerable bargain).

This is where the psychology comes in. News of the Arabs' concentrated buying sparked interest in sugar futures markets in New York and London. A flurry of new supply-demand projections came forth from the big sugar dealers (who, of course, were involved in the Arab transactions), each more dire than the last. These were based in part on estimates that the Arabs were buying three million to four million tons of sugar; in fact, the Arabs bought only about two million tons—all they needed for consumption and an authority at an international sugar firm now says.

All this raised the specter of sugar shortages in a world that was primed for such a possibility by the succession of grain shortages, fertilizer shortages and petroleum shortages. This, in turn, triggered repercus-

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The Sugar Saga: Price Surge Is Running Out of Steam
As Bakers and Others Cut Their Use of the Sweetener

Declining Consumption
Sugar consumption has begun to drop noticeably. "Sure there is less sugar in the world than we had several years ago, and rising population does require larger production," one market analyst says. "But pricing it at 15 cents to hide is the fact that less sugar is used when the price is 50 cents a pound or more than was used when it was 10 cents."

Indeed, for all the apparent indications of great demand for sugar, reserve stocks declined only slightly in the 1974-75 season. F. O. Licht, a respected European sugar statistician, said that US reserve stocks on Aug. 31 at 15.6 million tons, down from 15.7 million the year before.

C. Czarnecki Ltd., a leading London sugar-brokerage house that has been emphasizing tight supplies in its statements, says that production has increased by 3% a year to satisfy consumer demand. The cost of a cold, wet autumn in Europe, the firm predicts a decline in world sugar output of nearly 2% in the 1974-75 season, which started Sept. 1, while consumption is expected to keep rising.

Some sugar-industry observers in the US think that such forecasts overstate the supply-demand squeeze. One of them thinks that cutbacks by confectioners, bakers and soda-pop makers, not to mention housewives, could reduce annual US sugar consumption by roughly 20% to less than 10 million tons.

Reports have started to circulate that US soft-drink makers have cut sugar use by at least 10%, both by substituting fructose to some extent and by simply cutting output as a result of mounting consumer resistance to a series of stiff price increases. "Higher prices have taken soft drinks out of the impulse class," says Rick Avery, executive vice president of Dr Pepper Co. in Dallas. "Shoppers now think twice about buying."

"Florida Maid" Bows Out
Sugar has gotten so high-priced that Rutherford Products, a Miami-based maker of "Florida Maid" brand fruit-punch concentrate, is going out of business at the end of this week rather than raise prices any further. Don Dutcher, who inherited the business from his father, says that each gallon of concentrate contains $4 of sugar at present prices and that he loses money every day he sells. The firm's main customers are schools, choral groups and other non-profit organizations that you just can't keep raising the prices on," he says.

Many bakers have cut sugar use by more than 30% and see further cutbacks ahead as recently announced industrial sugar price increases are put into effect. American Bakeries Co. and Club Muffin, for example, have reduced production of cakes, doughnuts and other products that use lots of sugar. "Housewives can put apples in their husband's lunch boxes," says Arthur Cushman, president of the company.

Candy makers, who must contend with rising prices of cocoa, corn syrup and other ingredients as well as sugar, say they have little choice but to raise prices—or else stop making candy. They have raised prices several times already and concede that further increases are on the way. But growing consumer resistance to price rises remains a major concern. "After all, how much can you charge for a two-cent dinner mint?" asks a spokesman for Beatrice Foods.

Curtiss Candy Co. says it plans to phase out its product and introduce a 25-cent counter bar and a 50-cent bar for vending machines. Some concession stands in the New York area have jumped the gun and have raised their candy prices to 20 cents, and to 25 cents in some cases, even though Curtiss and other candy makers have raised their prices yet.

Sugar for Christmas?
As for buying sugar itself, consumers haven't shown any signs of slowing down. Sales are holding steady in some stores and increasing in others. Some hoarding may be going on—some stores limit customers to one bag of sugar at a time to discourage this—but managers of big supermarkets figure they can't be held responsible for much of the steady buying pace.

"As soon as the holidays are over, we should see a big reduction in demand," one store manager in the New York area says.

Consumers in the Southwest have taken to driving into Mexico to buy their sugar, where 100-pound sacks of standard-grade sugar from government-imposed price ceilings on food staples. Some Mexican price-fixing authorities have grudgingly accepted 15 cents a pound for their sugar, but the Americans don't mind. The U.S. import quota is 100 pounds per month, but the Mexican government has yet to come up with a new limit of five kilograms—about 11 pounds—per customer.

Some U.S. stores actively discourage sugar buyers. Pathmark supermarkets in New Jersey post signs that read: "Warning. This product contains sugar. Save money. Use sugarless products." In Philadelphia, Food Fair Stores Inc. runs ads urging consumers to get your sweets from fruit and help bring sugar prices down.

Other antisugar campaigns are under way, too. This is "boycott sugar week" in Boston, by resolution of the city council earlier this month. In New York, a consumer action committee has been telephoneing consumers to urge them not to buy sugar.

Consumer activists are trying to stir the public's wrath in part by charging that sugar is "inefficiently allocated" to the consumer and non-profit organizations that you just can't keep raising the prices on," he says.

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But these are refiners of beet sugar, not cane sugar, and the distinction is important. Beet refiners contract with beet farmers for their supplies, agreeing to split profits from the sale of refined sugar. Cane-sugar refiners, on the other hand, have to pay the going market price for their raw material.

**Losses for Cane Refiners**

So cane refiners aren't doing nearly as well as beet refiners. After switching to the LIFO inventory-accounting method, SuCrest Corp. reported a $14.4 million net loss for its fiscal year ended June 30. Savannah Foods & Industries Inc., another cane refiner, wound up its latest period, the 39 weeks ended Sept. 29, with a net loss of $427,000. Most cane refiners say their profit margins are improving, but they won't say by how much.

But the beet-sugar refiners' profits are attracting attention to the whole industry. Great Western, which was on the verge of selling its beet-sugar refining subsidiary last fall, is now selling off a takeover attempt by Nelson Bunker Hunt and William Herbert Hunt, sons of Texas oil billionaire H. L. Hunt. Great Western directors contend that the Hunt offering price of $27.50 a share is inadequate in light of the expected profit of $32 a share in the year ending next May 31, up from $1.95 in fiscal 1974.

The Justice Department has been investigating the sugar industry for possible antitrust violations, mainly price fixing. Many major sugar refiners, brokers and others in the industry have appeared before a grand jury in San Francisco this year. The investigation began in December 1972 and was expanded to encompass the recent price boost.

The grand jury has completed its investigation and has submitted a report of several hundred pages to the Justice Department. Within the next few weeks the agency will make its own recommendations to the grand jury, presumably involving indictments. Meanwhile, the sugar companies vehemently deny charges of price fixing.

**A Long Legal Road**

Even if indictments are brought for price rigging, it would take months and perhaps years to reach trial. If the Justice Department wins, the result probably would be a prohibition against certain pricing practices, not a retroactive lowering of prices, legal observers say.

Government officials seem resigned that there is little they can do about the current retail-price surge. An official of the new wage-price council says there won't be any recommendations made to control sugar prices. "We tried controls once and that didn't work," he says. At the Agriculture Department, an economist says that the policy, as near as I can determine, is to do nothing about sugar except to provide information about supplies and prices."

That's just the way Agriculture Secretary Earl Butz wants it. He also isn't concerned about changes that he sees coming as a result of the expiration of the Sugar Act on Dec. 31—an expiration that had been scheduled before the current run-up. Without the assured share of the domestic market provided by the act, cane and sugar-beet producers will be competing against foreign growers and probably will lose ground. "I suspect we'll be getting more (of our sugar) from the rest of the world," he says.

For major beet-growing states such as California and Colorado, increased importation of foreign sugar makes it likely that production of cotton, wheat and other crops that can be grown on the same land would be expanded at the expense of beets, Mr. Butz believes. Thus, sugar-beet output gradually would become concentrated in other areas, such as Minnesota and North Dakota—a switch that would hurt companies with big sugar-beet refineries in the West.

But spokesmen for producers and mill operators are optimistic about sugar-beet production prospects in the next year or two. Richard Blake, executive vice president of the National Sugar Beet Growers Federation, estimates that domestic sugar made from beets will equal the 3.6 million tons produced in 1972, an increase of some 700,000 tons from this year. Even if prices decline to half their current level, beet growers will have ample motivation to expand to the industry's processing capacity of just under four million tons annually in 1976, Mr. Blake believes.