Sugar—Sweet, but Now Expensive

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WINDSOR, Colo. (AP) — Sugar farmers and processors are reaping record prices and profits. But in a time of spiraling costs for everything sugar men use, from pumps to potash, don’t expect the price of the scarce sweetener to go down soon.

No Relief

Relief, if it comes at all, looks months or even more away. For the short term, expect still higher prices.

Increasing worldwide demand for sugar the last several years combined in 1974 with massive sugar purchases by Arab countries and a concentration of disastrous weather that harmed sugar cane and sugar beet crops in virtually every sugar-producing country.

As clamor for sugar outpaced available stocks, the price zoomed upward in a classic example of the economic law of supply and demand at work.

The increase in costs at farm and mill indicate, however, that sugar prices won’t ever return to their previous lows. If they did, producers and processors would operate at big losses — and presumably go out of business.

The price of sugar this year has more than tripled in grocery stores and for such big sugar-users as soft drink and candy manufacturers.

No softening of those prices seems likely until another cane and beet crop is planted and harvested next year — and then only if the crop is big enough to cut the demand gap.

Right now, however, sugar prices are going up so fast that, ironically, sugar at the grocery store costs less than imported raw sugar. This is because today’s grocery shelf was purchased days or weeks ago by refiners for processing, when the raw sugar price was lower.

So it can be sold for perhaps 55 cents a pound, while the raw product is bringing more than 60 cents a pound.

Raw sugar is partly processed crystal product with some molasses content which is produced from the cane or beet. When refined, 106 pounds of raw sugar will produce 100 pounds of pure sugar.

Imports

United States depends on foreign sources for more than half its sugar.

Refiners who process raw sugar have had to meet worldwide competition to get their supplies, and thus have paid higher and higher prices.

The producers and processors of sugar grown in the United States, in turn, get about the same market price for their output as the foreign sellers.

Sources

The sources of sugar — beets and cane — differ in a number of ways. But similar cost pressures affect the growers of each, reducing what might have been a bonanza year for them into simply a good one.

Domestic beets yield about 30 percent of the sugar consumed in the United States. They’re grown in more than half the states, mostly in the upper Midwest, the Rocky Mountain states and the Far West.

Sugar cane is the source of about 10 percent of the sugar consumed in this country. It’s grown in Louisiana, Florida and Texas.

Manuel Pineda and Jack Boegel are typical beet growers in northern Colorado, a state which has 10 of the nation’s 52 sugar beet processing mills.

Because beets should be grown on the same land only once every three or four years, each man also farms other crops such as corn, flax, beans and alfalfa. Each feeds cattle.

Each man estimates production costs for beets this year at between $500 and $550 an acre, 50 cents per pound higher than the previous year.

“Gasoline and diesel fuel doubled this year,” said Boegel.

“When we were a quarter of the way through this year, we were up to all of last year’s fertilizer bill,” said Pineda.

Boegel said tractors this year cost 35 cents more per acre than a year ago, and repair parts are up 55 to 60 percent.

“And there’s a parts shortage,” he added. “You better have your parts ahead of time.”

Pineda complained that “the government stops a wheat sale to Russia, but it takes a year to get a tractor because they’re being shipped to Eastern Europe. I’d like to see the government stop the shipping of equipment and fertilizer abroad.”

Late Payment

Although their 1974 beet crops are already harvested and delivered for processing, farmers like Pineda and Boegel won’t know until nearly a year from now how much they’ll be paid.

Their contract with Great Western Sugar Co., the nation’s largest beet sugar processor, provides that the payment to growers will be a percentage of the price Great Western receives for the sugar made from the beet crop.

Processing of the 1974 crop began in October and will continue for about four months. But the sugar produced will be sold until next September, when another harvest begins.

In a time of rising prices, this payment system works in the farmers’ favor. Had they been paid in the autumn of 1973 for the value of their crop when it was delivered, they would have received far less than they eventually got as a result of the rising 1974 sugar price.

Thus, while sugar at the time of the 1973 harvest was selling in grocery stores for about 16 cents a pound, the beet farmers wound up getting about 15 cents per pound of sugar produced from their beets as the price escalated.

Initial Payments

Initial payments right after the harvest are made on a basis of projected sugar prices. Subsequent payments are made during the year as actual prices unfold.

Beet sugar companies like Great Western process the beets directly through the raw sugar stage and into refined sugar, ready for consumption.

Sugar brokers act as middlemen between the sugar company and the wholesale purchasers.

If 100 pounds of sugar were sold for $50, or 50 cents a pound, the sugar broker’s commission would be about 12 cents.

Other sales costs for the sugar company — including such post-manufacture items as freight, taxes, sales staff salaries, insurance and any special packaging costs — might total $2.25 to $2.50.

If $4.75 remained from the price after deduction of these costs, about 64 per cent would go to the farmer. The sugar company would retain the rest to cover its production costs.

As the sugar moved to the retail grocery shelf, it would pick up added freight and administrative costs plus perhaps 1 per cent for the grocery’s profit. It would wind up in the store in bags selling at the $2.79-$2.89 range seen on some suburban Washington, D.C., stores shelves this week.

About 20 per cent of sugar is sold for direct use by consumers, while the rest is used in the manufacture of foods.

If the price stayed at the current level through the rest of the crop sales year, the farmers would get a healthy return on double his direct costs.

But for diversified farmers like Pineda and Boegel, profits this year from sugar are being used to cancel losses from cattle feeding. At the same time that sugar prices were hitting record highs, Boegel said he was selling cattle at a loss of $150 a head.

He also figures he used $75,000 worth of specialized equipment to farm his 119 acres of beets. Pineda said he cut 14 days of work out of a $10,000 beet harvester on his 160 acres.

“We’ve waited all our lives to have a good crop. The public gets one dandy raise in sugar prices and they blow their tops,” said Boegel. “They forget about years when we got 7 or 8 cents a pound for refined sugar.”

Profits

For the sugar processors, high prices have brought profits measured by hundreds and even thousands of per cent increases over the previous year.

While acknowledging the quantum jumps, the companies quickly say that previous profits were often marginal at best.

Michigan Sugar Co., a Saginaw beet processor, for example, announced profits for the past 12 months that were 20 times as high as the year earlier.

But the year earlier, the company earned a loss of 1 per cent on its total sales. This year, the profit was 8.68 per cent of sales.

Great Western’s profits are up too, enabling the company to pay three years of back dividends to holders of certain preferred stock.

Great Western United, parent of the sugar firm, had been ready until recent months to sell the sugar business to a beet growers’ cooperative. But as prices rose, that deal fell through and now the firm is the target of a takeover attempt by members of the wealthy Hunt family of Texas.

Costs

Despite mill profits, costs are up too. F. A. Graungard Jr., a sugar cane grower and also general manager of a mill owned by canoe-growers in St. James, La., said costs “are going up faster than we can keep up. We don’t have the luxury of asking prices. It’s ‘do you have it and can we get it?’”

Graungard said all prices froze at their present levels, sugar producers and processors could break even at a sales price of perhaps 30 cents a pound.

“‘But we’re not in business to break even,’” he observed. And there’s no indication other prices will hold even.

Despite the rapid rise in sugar prices, there are no indications of mass movement into growing either cane or beets in this country.

In recent years, beet production has drifted downward. In Colorado, for example, a number of beet men pulled out after a freeze disaster wrecked much of their 1969 crop.

Even if the raw product was grown at record rates, additional refining capacity would be needed. Sugar mills use a process which hasn’t changed much since early this century, so many plants are fairly old, though their equipment has been modernized in part.

‘Mother Nature’

The best bet for improved sugar supplies may hinge on Mother Nature.

Hurricane Carmen knocked out part of Louisiana’s cane crop this year, weather devastated sugar production in Europe and the Soviet Union, and a string of typhoons wrecked the Philippines’ cane.

Less disaster next year could mean more sugar and more sugar could mean lower prices.