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AGRICULTURAL ECONOMICS NO.2

FACT SHEET

The Sugar Situation

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During the first 6 months of 1963 the price of sugar almost doubled. Retail prices for 10-pound quantities rose from 9-10 cents per pound in January to 17-18 cents in June. Then prices began to fall and are expected to continue decreasing throughout summer and autumn. However, they may level out 1 or 2 cents above the average price of the past few years.

But why the sudden rise and fall of sugar prices, after they remained nearly steady for many years? Let us examine the U.S. sugar situation.

Background

Sugar is traded on the world market and is used worldwide. It is obtained primarily from sugar cane and sugar beets. Few countries produce enough sugar for their own needs, so they import from the few commercial exporters. The world's population is growing so the total demand for sugar is increasing. Also, as people in less developed countries acquire a higher standard of living, their per person demand for sugar increases.

Since the total demand for sugar is growing greater each year, and we rely on just a few countries to produce most of the sugar, upsetting the sugar production in one or two key areas can drastically affect the world supply.

The phrase "short supply means high prices and large supply means low prices" gives us a clue on how to approach a price fluctuation problem. Let us look at the sugar supply to see if we can determine causes for price variations.

Principal changes in sugar supplies occurred in 1960:

1. This was a year of extra large production of sugar in many countries; in order to sell sugar, producers accepted low prices.

2. The United States stopped buying sugar from Cuba which supplied about one-third of all sugar used in the United States. Cuban sugar was then available to other buyers in the world, primarily the Communist bloc countries.

3. Cuban stocks of sugar formerly held for U.S. emergency needs were marketed. This additional amount, added to the large 1960 production, had the effect of further reducing prices.

Then, in 1961 and 1962:

1. Large 1960 supplies lasted into 1962, keeping prices low. The low prices discouraged some growers from producing sugar.

2. Two years of bad weather reduced the European sugar beet crop below expectations.

3. Cuba shifted part of its production resources from sugar to other commodities.

Toward the end of 1962 not enough sugar was being produced to meet world needs. When buyers could not get all of the sugar needed, they bid prices higher and higher.

Sugar in the United States

Extreme fluctuations in sugar prices during the 1920's led to congressional action concerning sugar production and import. The Sugar Act, passed in 1937, incorporated measures from earlier legislation. This bill was designed to maintain an even sugar supply and steady prices at a level which is not excessive to consumers and which will provide domestic growers an adequate return.

Each year the Secretary of Agriculture determines how much sugar will be required the following year. He then extablishes quantities for sugar from domestic and foreign-producing areas. Approximately 60 percent of the sugar used in the United States is domestically produced.

Prior to 1962 all sugar designated to be supplied by foreign producers was assigned to specific countries. The proportion assigned to each country was set by law. U.S. buyers could only buy foreign sugar that came from a country with a U.S. quota. Until 1960 almost all production was assigned to Cuba. But when the U.S. stopped buying Cuban sugar, Cuba's quota was reassigned. Quotas were increased for other foreign producers and domestic production restrictions were removed.

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In 1962 the Sugar Act was revised so that all quotas will not be assigned to specific countries. Instead, part of our foreign-produced sugar will be bought on the open world market -- at world market prices. This quantity is called the "global quota."

The purposes for establishing a global quota were: (1) to permit greater flexibility in the U.S. purchase of foreign-produced sugar, and (2) to take advantage of the world price which usually is below the U.S. price. The difference between the world price and the U.S. price was assessed as a variable import fee and paid into the U.S. treasury. This import fee was cancelled last winter when world sugar prices rose above the U.S. level.

The price paid for sugar by U.S. users is usually higher than foreign suppliers can receive from selling to any other country. Foreign countries are therefore anxious to sell to U.S. buyers; they lobby vigorously when Congress is allocating quotas. When the price on the world market is below the U.S. price, we are not affected by price changes on the world market. But when the world price of sugar is higher than the price paid by U.S. buyers, out prices can be affected. This is what happened last winter because of the short supply of sugar.

U.S. industries that use large quantities of sugar were not prepared for the price increase. These large users began to fear future price increases and bought more sugar than they needed. The excessive buying only further increased prices. At the same time the longshoremen on the East and Gulf Coasts were on strike, cutting off sugar imports, creating an additional upward pressure on prices.

Mid-1963 U.S. Sugar Situation

The world sugar supply remains tight but the U.S. price has begun to fall. This may seem contradictory -- that the price should fall while the supply remains short. However, some other causes of the price rise have been alleviated.

Anticipation of a poor European sugar beet crop this year caused fear of a further shortage, but now the outlook is better. And U.S. sugar users have now stopped their excessive buying because the U.S. Department of Agriculture assured them of sufficient sugar for the rest of the year. The Secretary of Agriculture contacted countries with 1963 quotas to determine whether or not they could meet their commitments. Adequate supplies have been assured from these countries or by reassignment of quotas to other countries.

The Global Quota System

There has been both criticism and defense of the change to the global quota system. It is difficult to compare the present situation with the past because of the many influencing factors. The previous stability of the supply and price of sugar has been credited to the huge Cuban stocks and the system of quota allocation to specific countries. But the previous quota system was never subjected to an upheaval in the world sugar situation as we recently experienced.

Critics of the previous system object to foreign lobbyists pressuring Congress. These lobbyists are paid according to the quota size assigned to their country. (The House is presently developing rules designed to reduce these objectionable activities.)

The global quota has been defended as providing flexibility to obtain sugar from nonquota countries; this would not have been permitted under the previous system. But critics claim it leaves the United States open to world price fluctuations and does not provide adequate guarantee for the quantity of sugar needed.

What Consumers Should Do

The most reasonable course for consumers to follow is just to buy what is needed. Have you ever heard anyone say, "I want to hurry up and buy before the hoarders start buying?" Such excessive buying serves to increase prices more and more. In times of high prices, conserving on use -- reducing the amount of the product normally used -- may actually help stabilize or decrease prices. We have seen this effect in the case of sugar. Once the large volume buyers stopped their stockpiling and began to use the sugar they had on hand, the price fell.

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