

Current Events in Sugar

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The kind invitation of Dr. Stewart to address you made me both thankful and fearful. You people who understand what goes on in a test tube and who know about genes and moments of inertia always fill me with awe. Nevertheless, those of you attending this meeting are never satisfied until your scientific advances are brought into practical application so as to increase the efficiency of sugar production and to improve the sugar economy as a whole. Therefore, you may be interested in a review of a few of the recent developments in other aspects of the sugar economy.

Ever since the end of World War II those interested in the world sugar economy have been hopeful that a method could be developed for preventing a repetition of the depression in world sugar such as the one that started in the late 1920's and that reached bottom in the early 1930's. It was for this purpose that the major sugar exporting and importing countries of the world entered into the International Sugar Agreement. That Agreement went into effect on January 1, 1954, with 24 member countries. Today the membership has increased to 43 countries. The member countries now account for roughly 85 percent of the world's production of sugar.

The bulk of the world's sugar export trade, therefore, is supposed to be carried on in an orderly manner under quotas designed to achieve a reasonable degree of stabilization in the world market. The fact is, however, that world sugar prices have been irregular for the past three years and they started on a major downward trend last spring.

With the coming into power of the Castro Revolutionary Government in Cuba in January 1959, the huge sugar industry of Cuba was thrown quickly and inexorably into the Communist orbit. Price pronouncements ranging all the way from promises of stabilization to threats of price wars poured out of Cuba with utter irresponsibility and immaturity. In July of 1960 the United States Government had to recognize that a Communistic Cuba was not a dependable source of sugar supply.

In negotiations of the International Sugar Agreement which extended with a short interruption from early last September until mid-December it was finally recognized that Cuba would

¹ Director, Sugar Division, Agricultural Stabilization and Conservation Service, U. S. Department of Agriculture, Washington, D.C., before the American Society of Sugar Beet Technologists, Denver, Colorado, Wednesday, February 7, 1962.

not agree to any quota that other countries could accept and that to agree to the quota provisions that Cuba and the other Communist Countries demanded would nullify the effectiveness of the Agreement and in large measure turn the sugar industry of the world over to the Communist Bloc while the free world would be restricted.

As a result no world sugar quotas will be in effect for 1962 or 1963, the two remaining years of the present International Sugar Agreement. It is hoped that a new agreement can be negotiated next year.

The dropping of quotas for the world market has caused some to have tremendous fears for the future of the world sugar market. I do not wish to forecast the future of world sugar prices or to give assurances of when world prices will stabilize or improve. However, I do not believe that the absence of quotas under the International Sugar Agreement will be a major determinant of prices during 1962 or 1963.

When the United States stopped buying Cuban sugar in 1960 the Soviet Union undertook to increase its purchase from Cuba by a like amount. In 1961 the USSR and Red China imported huge quantities of Cuban sugar. Obviously these purchases by Communist Bloc Countries made a home for large quantities of Cuban sugar. However, it soon became evident that Russia was not taking normal quantities of sugar from its older satellites, Poland, Czechoslovakia and Hungary. Accordingly, these three satellite countries had to sell additional quantities of sugar in the world market. At times last year European white beet sugar sold at lower prices than raw cane sugar. That is one of the reasons that world sugar prices have been uncertain for the past six months.

During the negotiations last fall Cuba made a great point of its sale of 4,860,000 tons of sugar for each of the ensuing five years to Russia, Poland, Czechoslovakia, Hungary and Red China. It became evident immediately, however, that large quantities of this sugar would become available for re-export sale by these countries. Therefore, the sugar will not be entirely removed from the world market.

After the Conference recessed in October it was learned that Cuba had exported in excess of its 1961 quota and was continuing to export. Cuban officials frankly admitted this and stated that their 1961 exports would exceed their quota by 1,100,000 tons. Recent trade reports indicate that their exports exceeded their quota by 1,400,000 tons. Nevertheless, when the Conference resumed negotiations in December the Cuban delegate offered no

apology for his country's violation of the Agreement and he offered no guarantee that his country would refrain from violating the Agreement in the future. On the contrary he demanded a quota that probably would have exceeded Cuba's ability to export in 1962. Worse yet, the methods of computing the quota would have been inconsistent with those used in computing quotas for non-Communist exporters and the computation would have involved a retroactive and fictitious determination of a condition of force majeure in 1960. Such a determination of force majeure would have been used to excuse a part of Cuba's overshipment in 1961.

Clearly, such a quota would have been of no value in stabilizing the world market. Moreover, acceptance of it would have made every member country a party to the establishment of a double standard of statistical treatment which would have given a Communist country preferred treatment over Capitalistic countries. Also, acceptance of the phoney claim of force majeure would have made other countries moral partners to Cuba's violation of the Agreement. Under such conditions a continuation of quotas would have been less than useless.

At the negotiating conference Cuba blamed the United States for most of the real and imaginary ills of the sugar market. It was not difficult to disprove these false charges. In fact most of them fell of their own weight. There is one criticism that is being made against our sugar policy, however, that will become progressively more valid if our program remains unchanged. The argument is made that the United States, by paying foreign producers twice the world price for sugar under its quota system, is tending to stimulate foreign production. Fortunately, we could show that up to last year the great expansion in world sugar production came in the Communist Countries and not in the countries supplying the United States. This may not be the case in the future.

The newest development in our sugar program is the undertaking of a barter-like operation. Under this program a part of our sugar will be obtained from countries that agree to make specific reciprocal purchases of American surplus farm crops. The countries agreeing to purchase the largest dollar volume of such crops per ton of sugar will receive quota reallocations to sell sugar in the United States. This program will not apply to the bulk of our sugar imports which must be supplied in accordance with formulae contained in the Sugar Act. It will, however, apply to quantities that present quota countries are unable to fill.

Our present sugar legislation lasts only through June 30 of this year. Therefore, Congress soon will be at work on new legislation to extend the program. The President in his budget message stated that the Act would be extended with substantial revisions to bring it into line with the greatly changed world sugar situation and to provide for the recapture by the United States Government of the premium at which domestic prices are held above world prices. This is of great importance to our foreign suppliers and it will necessitate some revisions in the methods and procedures followed by importers of foreign sugar. I do not see, however, why it need be of major concern to purely domestic producers. No proposal has been made for reducing or changing the amount of protection afforded domestic sugar producers. Domestic growers can be protected as adequately and as certainly by the proposed method as by the present one.

One of the problems that will confront the sugar industry and the government in developing new legislation is the extent to which basic marketing quotas will be increased and the nature and extent of provisions for meeting the demands of new producers and new producing areas. To appreciate the nature of these problems, it is necessary to recognize the effects of three very different factors.

1. In recent years Puerto Rico and Hawaii have failed to fill their basic marketing quotas. Hawaii's failure resulted from the prolonged and disastrous strike of 1958 and its aftereffects. Gradually these effects are wearing off and Hawaiian production is recovering. Puerto Rico's failure to fill its quota was the result of adverse weather conditions and the low sucrose content of recent crops. So far as I am aware, the low sucrose content has not been explained. However, Puerto Rico has been harvesting peak tonnages of cane and its production has recovered considerably from the recent low point. To the extent that production in the offshore areas improves there will be smaller deficits to reallocate to the mainland areas.

Because of the large offshore deficits in recent years stocks in the mainland areas have been greatly reduced and neither mainland area was able to fill its quota in 1960. Low production of beet sugar in 1961 further reduced stocks in that area. No acreage restrictions were in effect in 1961 and none will be in effect for the 1962 crop. It is anticipated that 1962 production in the mainland cane and beet areas will be sufficient to permit these areas to fill their marketing quotas and to have larger carryovers at the beginning of 1963. In other words, the current acreages

of mainland sugarcane and beets are in excess of the acreages required to fill the basic quotas of these two areas. If present quotas for the domestic areas remain in effect, therefore, or even if moderately increased quotas should be established, it is probable that some cutback in acreage will be necessary in 1963.

2. Domestic sugar prices in the post-war period have been relatively stable, whereas prices of other farm crops rose sharply during the Korean fighting and then declined. As a result present returns from sugar beets are attractive compared with the returns from other farm crops. This has made established sugar beet growers wish to increase their production and has caused farmers in many parts of the country to want to start production. The demand for acreage now greatly exceeds factory capacity in nearly every part of the country. There is strong grower pressure for the erection of new factories. These pressures exist all the way from Maine and New York State in the northeast, to Arizona in the southwest and to Washington in the northwest.

If present price relationships could be guaranteed and if marketing opportunities were guaranteed, this country could go far in the direction of domestic self-sufficiency in sugar. However, the comparatively favorable returns from sugar crops is not the result of greatly increased sugar prices but of lower prices of competing crops. Many farmers who are now clamoring to raise sugar beets would turn to the proved and established crops for their respective communities if the prices of such crops were to recover. Sugar beet processors have learned to their sorrow that they cannot operate plants profitably in areas in which farmers wish to plant sugar beets only in years when sugar is high in price or when other crops are low in price.

3. The agricultural revolution that has had such tremendous effect on our agricultural production as a whole has also affected sugar beet production. This is resulting in a desire for larger sugar beet acreages per farm and has made sugar beets a more attractive crop to many farmers. Also the development of irrigation, private as well as public, has made it possible to grow sugar beets successfully in many areas that could not do so a few years ago.

For the above reasons the pressures to produce sugar beets are now greater than ever before and this pressure comes at a time when the industry is already operating at factory capacity as a result of temporary conditions.

Great sympathy and wisdom will be needed in dealing with this situation over the next few years. Certainly the demands of

new producers and new producing areas must be met to the maximum extent feasible. This is a field, however, where we need careful analysis and hard-headed business judgment as well as sympathy. The beet sugar industry has had more than its share of sad examples of misplaced factories. Now that production requires such large capital investments farmers as well as processors need to use caution and make certain that new production projects are wisely located for long-time efficient production.

You beet sugar technicians can perform a great service for your industry and for the country in developing criteria for examining prospective sugar beet enterprises. The Department of Agriculture is literally deluged with proposals involving new plants and new producing areas. Frequently we are told that representatives of one or more of the existing companies have visited the area and have indicated an interest in obtaining acreage or in constructing a factory in the area. In some cases these are the same general areas that have gone out of sugar beet production in the past. In none of these cases has there been the long and careful experimental work or study of comparative costs and profits necessary to determine the long-time interest of farmers in producing sugar beets in the particular locality. Neither have the proposals indicated any adequate analysis of the marketing problems that would confront the new factory. Since World War II, 25 sugar beet factories have gone out of existence, while others have prospered. Many of those that have failed were built in a promotional atmosphere in areas that were not suited culturally or economically to produce beet sugar on a competitive basis.

Suitable areas have a right to look forward to the erection of factories and the undertaking of sugar beet production. I am glad to see the beet sugar industry making specific provision in its legislative proposals for meeting, in some degree, the aspirations of new areas. I hope the existing industry will go farther, however, and outline the basic information needed to determine whether or not an area is suited to produce sugar competitively. It will be disappointing indeed if the end result of today's relatively favorable prices for sugar beets is to be the erection of plants destined to wither and die because they are not located where they can survive in today's competitive struggle.

I now want to turn to a development that must be attributed in no small part to the work of you technologists. Sugar beet production has been rather thoroughly revolutionized since World War II. Virtually all of the crop is now harvested by machines and over 40 percent of the crop is thinned by machines. The

acreage of sugar beets per farm for the country as a whole has increased significantly. We have not yet seen the end results of the monumental development of monogerm seed nor have we come to the end of the road in the application of herbicides and other chemicals to increase production and improve efficiency in the growing of sugar beets.

Since the war there has been a reduction of 44 percent in the man hours of field labor required to produce a ton of beet sugar. Even though there has been a simultaneous increase of 44 percent in the hourly earnings of field workers, the total cost for field labor has been reduced. I mention these developments in farm practices because they are well known. There have been corresponding improvements in processing and in marketing. The beet sugar industry is to be commended for the increases it has made in the efficiency of production and marketing throughout its ramified system. The industry must be encouraged to continue these improvements. Again I ask your help.

The domestic sugar industry is not only highly protected, it is also highly regulated. It is the only agricultural industry in which the Department of Agriculture has the responsibility for determining fair wages and fair prices. Farmers and processors accept these regulations and appear to take pride in them. Well they should, for one of the end purposes of protecting an agricultural enterprise must be to improve the standard of living of farm people, including farm laborers.

In administering these regulatory provisions of the Sugar Act, however, we must keep in mind some of the fundamental economic prerequisites for increasing efficiencies. Production and marketing efficiencies, in both fields and factories, involve large capital investments. We must make certain that we give the efficient farmer and the efficient processor an opportunity to make a profit from these additional capital investments if we expect our industry to continue to improve.

Today it is vital that there be complete understanding and confidence between processors and growers on projects that affect the grower's returns from his beets. Governmental determinations of fair prices and fair wages can afford a degree of protection to growers and laborers and may instill a certain measure of confidence. However, such determinations cannot be a substitute for understanding and negotiation. When growers and processors have full, frank and timely discussions of their mutual problems and projects there can be little doubt of their ability to reach a solution that will foster progress.

On that note I wish to close. If we keep in mind that our sugar industry is highly competitive and that its various segments have many divergent interests, it seems to me that it shows a commendable degree of tolerance, understanding and mutual respect. By continuing the drive for sound, objective solutions to production, processing and marketing problems, you men with your associates on farms and in factories and distribution centers can assure the continued success of the domestic beet sugar industry.