Harold Taylor

93d Congress
2d Session

COMMITTEE PRINT

National

1975 U.S. AGRICULTURAL OUTLOOK

Conference

Papers Presented at the National Agricultural Outlook Conference Sponsored by the U.S. Department of Agriculture—Held in Washington, D.C., December 9–12, 1974

PREPARED FOR THE

COMMITTEE ON AGRICULTURE AND FORESTRY
UNITED STATES SENATE

December 23, 1974

Printed for the use of the Committee on Agriculture and Forestry

U.S. GOVERNMENT PRINTING OFFICE
42-612
WASHINGTON : 1974

LONG-RANGE CONCERNS OF INDUSTRIAL SWEETENER USERS

[By Dr. Marvin L. Hayenga, General Foods Corporation, White Plains, N.Y.]

There are several critical business issues facing the sweetener industry—both producers and users—in the United States. After experiencing perhaps the most volatile market situation in the sweetener industry, several significant and possibly unprecedented changes have occurred within the industry.

While consumer behavior now appears near normal, there was a period last year when sugar deliveries surged, then plummeted, as sweetener consumers and industrial users reacted sharply to sugar-price movements, negative economic growth, and a cash-flow crunch. Much of this was due to pantry or factory inventory fluctuations. While it's very difficult to determine how much actual consumption of sweetener-using products changed in the home, there was an obvious public awareness and shift in the product mix as the recession and the sugar price surge overlapped.

As sugar prices surged, we noted a dramatic increase in the sensitivity of industrial sugar users to sweetener price fluctuations. Not only did sweetener purchasing decisions become the focus of management attention in many food industries but there was a sharp stimulus to investigate and switch to alternative sweeteners, particularly corn sweeteners.

With profit expectations sharply increased due to the simultaneous surge in demand and price for corn sweeteners, the corn wet milling industry is intensifying its production of high-fructose corn syrups, which are a very close substitute to liquid sugar in many product applications. Not only do corn wet millers feel that this is the wave of the future, so do some major sugar processors.

While the traumatic moments brought on by the price surge now appear to be behind us, there is a great uneasiness among many industry members. They fear that the sharply lower prices we have experienced recently may stifle growth in sugar production here and abroad, and cause a recurrence of the trauma we have recently gone through. To better guide major investment decisions throughout the sweetener industry—from producer through the major users—the industry needs a much clearer picture of likely sweetener market developments over the next decade. This is an important issue that I offer as a challenge to the economists in the audience who are public servants in the government or universities, and to those market analysts working in the sweetener industry who may have had similar questions raised by their bosses.

It's quite obvious that the sweetener industry is concerned particularly with short-term outlook questions concerning the:

(a) likely changes in sugar production in major producing countries as new developments occur,

(b) changing consumption levels in major consuming countries in response to most likely economic growth and market price patterns,

(c) different policy changes which might be likely, and

(d) the ultimate question, "What are the most likely absolute *and* relative price patterns for raw cane sugar, refined beet sugar, and the primary corn sweeteners—dextrose, corn syrup and high-fructose corn syrup?"

Obviously, timeliness as well as accuracy in assessing these changing fundamentals have to be the critical factors in a market where small changes in fundamentals can trigger large price adjustments, and where the necessary statistics are notoriously "soft," or simply unavailable from some major producing countries.

While these short-term questions are undeniably important to all elements within the sweetener industry, I believe that the industry's long-term supply and price outlook issue of even greater importance.

Today, relatively little attention is being given by the research community to this issue. Yet expectations about longer-term availability and relative prices of competing sweeteners have an effect on all elements of the industry. For example, they have a significant impact on the acreage put into sugar cane or beets here and abroad, the number of sugar processing plants or refineries which are built or allowed to deteriorate, the rate of investment in corn wet milling plants, and the portfolio of new or modified sweetener-using products on which food processors elect to spend their research and development time and money.

To improve their investment and resource allocation decisions, nearly all industry members are searching for better insights into:

(1) Probable sugar cane and beet acreage and yields worldwide.

(2) Likely changes in government policies affecting producer and consumer prices, investment incentives, consumption within the country, and import-export policies.

(3) Consumption projections under alternative economic growth and population scenarios.

(4) Likely changes in the production of competing corn and non-caloric sweeteners and the relative price differentials between these sweeteners and sucrose.

(5) The probability of new sweeteners being developed and their impact on the sweetener market.

I envision that the dominant influence in the world sweetener market will continue to be the relative growth in production and consumption of cane and beet sugar, with total sugar consumption being impacted slightly by the growth in corn sweetener production, primarily in the United States. However, small changes in production or consumption will continue to cause sharp price fluctuations. The insights which you could provide from a thorough analysis of these issues can lead to better decisions by small and large producers, processors and users of sweeteners, and public officials determining government policy here and abroad. If we can avoid or minimize mistakes which can contribute to cyclical gyrations in supply and prices in the sweetener industry, I feel confident that the long-run result would be a more stable industry environment leading to consumer prices lower than they otherwise would be.