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THE SUGAR SITUATION

A REASONED AMERICAN FORECAST.

Messers Hayden, Stone & Co., of New York and Boston, in their Weekly Market Letter, dated December 24th, write: "In all the uncertainty which surrounds the immediate future of the sugar industry, a few facts stands out clearly. It may be helpful at this time to elaborate some of these determinable factors. For one thing the decline which has proceeded to much more drastic lengths than was generally considered probable—has carried the price down below the cost of production. It is very doubtful if more than a very few Cuban mills could produce their 1921 sugar crop at a selling price of 3½c per ℔ and avoid a loss. Therefore, were recent prices to prevail during the coming crop season, it would mean a year of loss to the great majority of Cuban producers. The same statement is broadly true of Porto Rico of Louisiana, and the various American beet companies. It is of course possible that sugar an agricultural crop, during this period of cataclysmic commodity price readjustment, will have to be produced for a season on a non-profitable or positively unprofitable basis. The mere fact that any commodity has declined below its cost of production does not prove that the price will instantly or automatically recover to a cost price level. It is a fundamental axiom of political economy, that goods cannot be long created at less than the cost of production. But there is no rule of thumb by which the exact length of time during which goods may be produced at a loss can be determined.

The sugar equilibrium of the world has been profoundly disturbed, and the restoration of equilibrium is a perplexing economic problem. The Cuban sugar industry never suffered from a more costly experience than the spectacular advance in raw sugar prices to a height of 23c per ℔.. When raw sugar got above 15c. per ℔. it got into the danger zone in the sense that the continuance of such prices opened the flood gates to an avalanche of sugar in the United States from every corner of the sugar producing world This natural tendency was powerfully aided and abetted by the positive action of the refiners in going after heavy tonnages of oriental sugars. It was these sugars which finally overloaded the market and created a wide open break in sugar prices that has cost every factor in the sugar industry, with one exception, the loss of some hundreds of millions of dollars. The one exception to which we just referred is the Cuban sugar companies They have been in the unique position all through the past few months of demoralization, of having no inventory losses to adjust. Thanks to the fact of an unusually early closing season because of drought, 90 per cent, of the Cuban crop was produced and sold before the price slump was well developed. The other 10 per cent, of unsold Cuban sugars could have been marketed, except for the greed of speculators who were holding for higher prices. Broadly speaking 50 per cent of the Cuban crop is produced by companies controlled by Americam capital while 50 per cent is produced by Cuban controlled properties. The American companies, practically without exception, cleaned up their 1920 crop and were free of sugar when the August price decline started. This is perhaps the most encouraging feature of the present sugar situation from the standpoint of the Cuban companies. The American owned Cuban companies have no 1920 inventory losses to absorb. They enter the 1921 crop year with clean hands and, generally speaking, with a year of record earnings behind them. There is also the possibility that the price readjustment will be completed in time to permit them to get the benefit of stabilization before the 1921 crop year is over.

"At present the chief sufferers from the sugar situation in the United States are the refiners and the beet companies. The 1920 beet crop promises to run between 925,000 and 950,000 tons, a 40 percent, increase over 1919. In fact, this increase in beets nearly offsets the drought shortage in Cuba. The beet companies have sold less than 15 percent, of this year's crop, and will apparently carry over in 1921, 700,000 to 800,000 tons of unsold sugar. Other unsold sugars, including the remaining portion of the Cuban crop, are sufficient to bring the carry over of sugar in American markets into 1921 to a total of 1,250,000 tons, which is about three months consumption. The big bulk of sugar is bound to act as a price depressent until largely absorbed. Happily there are solid grounds for the hope that Europe may demand several hundred thousand tons of raw or refined sugar during the first quarter of next year Such buying is logical to expect if England and France are to continue to consume sugar, because the United States is today the lowest priced market in the world. (*West India Committee Circular.*)