Sugar price, at a boil, gives firms bitter taste

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Your holiday cookies could cost you this year with post-hurricane sugar prices surging to nearly double what they were a year ago.

Sugar is now selling at 42 cents per pound on the wholesale market, up from 24.5 cents per pound a year ago, according to statistics compiled by Milling & Baking News, which tracks sugar prices for manufacturers.

"Prices have gone through the roof for all sorts of reasons," said John Cropley, a sugar analyst for LMC International in London, who said prices likely will keep rising through the end of the year because of the increasing demand from holiday baking and candymaking.

Prices were on their way up this summer because of a poor sugar beet crop in the Midwest. Damage to sugar processing plants and sugar cane fields in Louisiana caused by Hurricanes Katrina and Rita compounded the problem, creating shortages and sending prices skyward.

The sugar supply problem is coming at a bad time for Chicago's candy industry, one of the largest in the country, as local firms are trying to ramp up production for the largest three months of the year for candy sales.

"I've missed three full days of production because I couldn't even buy it at 42 cents because it was not available," said Mark Puch, president of Primrose Candy Co. on Chicago's West Side. Primrose had a yearlong contract for sugar at 27 cents that expired Sept. 30.

Sugar is a leading cost for Primrose, which makes hard candies, lollipops, starlight mints and butterscotch under contract to some of the largest U.S. candy companies, and it made better financial sense to shut down production until it could get better priced sugar.

"The people who had sugar would have sold it to me at 50 cents a pound, but at 50 cents it made better sense to just shut down," he said. The company has since signed a contract for 37 cents a pound through the end of the year.

And prices are pinching at all levels.

Kraft Foods Inc. on Tuesday cited rising commodity prices, including sugar, as a reason that its third-
quarter net income fell 13.5 percent compared with a year ago. Analysts say the high sugar prices are likely to hurt the first-quarter results of Sara Lee Corp., whose bakery division uses tons of sugar. Sara Lee reports its results on Nov. 3.

The larger firms usually lock in prices with contracts but buy some on the spot market.

Even the casual cookiemaker will see the change. It is unlikely that shoppers will find sugar specials this year because of the shortages, said Brian O’Malley, president of New York City-based Domino Foods Inc.

"We're taking steps with our customers and saying don't run hot price specials on sugar right now," he said about sales on sugar and other staples designed to bring shoppers into stores.

O'Malley said the company would be running its sugar refineries at "full bore" in an effort to meet the demand.

A year ago Domino sugar was less than $2 for a 4-pound bag and could be purchased in the Chicago area for as little as 99 cents. On Wednesday, a 4-pound bag of Domino sugar was priced at $2.29 at Jewel, Chicago's largest grocer. Bargains can still be had, however. Jewel is selling Crystal Sugar for $2.19 for a four-pound bag, or two four-pound bags for $3.

To ease the strain, the U.S. Department of Agriculture in August and September released 500,000 tons of sugar from reserves being held by producers and allowed the import of 371,000 tons from Mexico.

It also increased the amount of Mexican sugar that can be imported in fiscal 2006 to 276,000 tons from 8,000 tons.

The USDA said it moved to increase the supply as a result of the tightening of the sugar market due to "unexpected demand" along with the crop losses. Sugar supplies are regulated by the USDA under the sugar program that protects U.S. sugar cane and sugar beet growers by limiting the amount of sugar imports. Raw sugar on the world market closed Wednesday at 12.86 cents per pound.

The U.S. is the world's fourth-largest sugar producer. It is also the largest user, consuming 10 million tons of refined sugar annually.

For Ron Pavelka, the owner of the Bridgeport Bakery in Chicago, the efforts to increase the supply were too late.

"I've been trying to eat a little bit of the higher prices, but now it is going to affect us more," he said. He is passing on some of the increase to customers. "I use 400 to 500 pounds of sugar a week and I am now paying $23 for a 50-pound bag."

Phillip Hayes, a spokesman for the American Sugar Alliance, an Arlington, Va.-based trade association said the steps taken by the USDA averted shortages.

"The USDA has taken extraordinary steps to make sure there are no shortages. A catastrophe didn't happen. Supplies have remained relatively stable," he said.

Despite the higher prices, Catherine Giannos, 67, of Elmwood Park, said she is hoping she won't have to cut back on her holiday baking or the baking conducted by members of St. Nicholas Albanian Orthodox Church in Chicago.
"We like to keep our traditions so we can teach our children," she said. "I am on my way to the store now and will check on the prices."

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