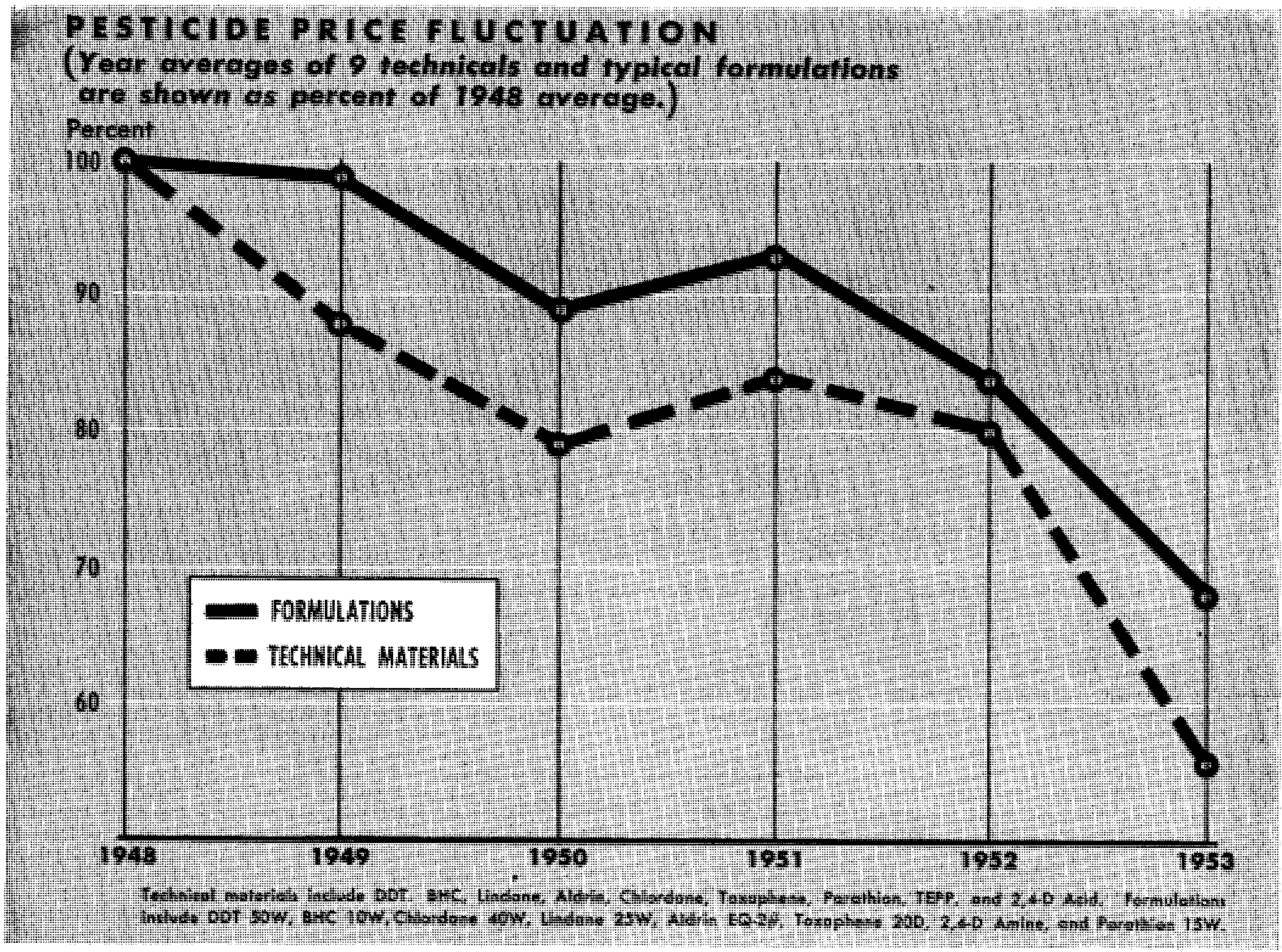

Figure 1

PESTICIDES—Problems and Progress

» **Though more pounds and gallons of pesticides were sold during the past year than in the previous year, the price war pared profits almost to the vanishing point, according to NAC President Mohr. Suggestions for getting into a healthier economic situation and continuing research progress are discussed by leaders in Ag and Food's staff summaries of the speeches delivered at the NAC Association meeting**

I AM OF THE FIRM BELIEF that more pounds and gallons of agricultural chemicals have been sold to date in 1953 than for the same period last year. Demand and use from the over-all national picture has been excellent.

Total sales in dollars, however, are probably off by a considerable amount, because of the drastic price reductions in effect throughout 1953. To be frank, the price war brought on by the very large overproduction of most all of the chemicals of our industry has pretty well destroyed profit.

Figure 1 shows what has happened to prices of both technical products and formulated foods for the period from 1948 through the first seven months of this year. The average price for each year is compared with the 1948 average, taken as 100%. The price drops in 1949 and 1950 were sensible, because in those years, initial costs were down, throughputs increased, and plant efficiencies improved, resulting in reduced selling prices. The 1951 increase was

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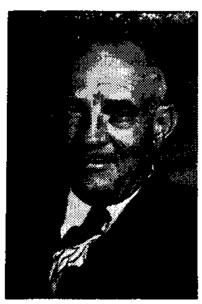

brought about by the rapid inflation induced by the Korean situation. It was in 1951 and 1952 that so many new plants came into production and in 1952 overproduction started to have its effect and the average price dropped to 80%. You can see what the price war of 1953 has done to the average price of these nine basic chemicals. They now stand at approximately 56% of the 1948 price.

Figure 1 also shows the price fluctuations of typical formulated goods made from these same chemicals and it is natural that these two curves should resemble each other. It might seem a logical conclusion that formulations have fared better than technicals. This is highly erroneous as the cost of the technical product is only a portion of the

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cost of a formulation. For example, the cost of DDT in a 25% emulsifiable liquid is only about 60% of the total, so a 10% reduction in DDT only lowers the cost of the finished product by 6%. There has been an increase in cost in the other items since 1948 so actually the price reductions of formulations in relation to cost have been fully as drastic if not more so than on technicals.

Profits suffered considerably in 1952, and I am told have pretty well vanished for most companies this year.

I am sure that the entire industry has higher operating costs in 1953 than in the 1950–51 period. Labor, salaries, raw materials, freight rates, taxes, and practically every miscellaneous cost of doing business are all up. It is, therefore, thoroughly understandable with increased costs and decreased selling prices that profits have vanished. This is in rather sharp contrast to the chemical industry as a whole. Financial reports of the major chemical companies for the first six months of 1953 show a fairly substantial gain in sales dollars and profits.

The pesticides business, as compared with the chemical business has a number of problems which should command a greater rather than a lesser percentage of return on the sales dollar. The first of these is inventory requirements in relation to sales. Figure 2 shows the inventory relation to annual net sales dollar. The solid line shows the percentage of average inventory in relation to annual sales for the pesticide industry, the broken line shows the same ratio for the chemical industry as a whole, and the horizontal dash lines show a six-year average for each. Our industry has required a $26 average inventory investment for each $100 of sales, or about 1.75 times as much as the $15 inventory investment for the chemical industry. Since an inventory dollar is an investment in business, there should be a proportionate return on this investment.

A second problem is product liability. The association has received reports on claims against our industry totaling $6,968,000 in the past few years, which is not complete, since not all companies report. The ratio of liability to profits compared to the chemical industry is out of all proportions.

Shouldn't there be a greater return on the sales dollar for a business which is required to carry high inventories, which is exposed to high liability costs, which is lax in credit administration with high receivables, and which frequently indulges in consignment practices?

As to the prospects for 1954, I am sorry to be pessimistic, but all indications point to acreage allotments on certain crops for next year and a consequent shrink in market potential. With no move to cut productive capacity appearing, the oversupply situation will be aggravated rather than relieved. I cannot see any improvement in exports. Over the longer period, there is little chance of betterment until some of the excess capacity is converted to the manufacture of other chemicals with a better profit potential. After sufficient red ink, this will probably come about, but there is no way to predict when, so it is hard to be optimistic about the next few years.

Public Information Program Needed

TODAY, MANY IN OUR INDUSTRY fail to recognize that the continuation of adverse publicity constitutes a major threat to increased sales and new uses of agricultural chemicals. Farmers, home gardners, and housewives must be assured of the safe use of these materials or their use will be unjustifiably curbed. The fact that this problem has been considered by the Food Protection Committee of the National Academy of Science and a report made thereon by this group, and that the World Health Organization has recently issued a 129-page book on the subject, "Toxic Hazards of Certain Pesticides to Man," indicates the importance being given to this subject and the necessity for a sound public relations program.

Federal and state legislation required a larger expenditure of the Association's time and funds during the past year. More than 250 bills related to the industry were introduced during the past year. We are confident that much of this legislation is due to the public fear created by adverse publicity. Federal bills, such as the Delaney bill and the Miller bill, together with numerous state bills, can definitely be attributed to this same cause.

A recent defensive program requiring time and money is the product liability program, which has been vigorously attacked. Liability claims have definitely slowed up research and development in the industry and have created a doubt even on the part of the land grant colleges and the federal government as to their ability to give directions and recommendations for use.

A fourth major problem facing the industry today is the confused economic status. Falling markets have completely destroyed the "buy early" program, which, in cooperation with the National Cotton Council in particular, was functioning for several years. Rumors report excess plant capacity for many products, inventory and warehouse problems at all levels of distribution, credit problems indicating that our members are again being asked to become bankers. These reports certainly indicate the need for fundamental data on various economic phases of the industry, with particular reference to trade customs, distribution channels, and other characteristics of the agricultural chemicals industry. This data is needed particularly because of the industry's rapid expansion and the great

Figure 2