

Effects of Supports on Cottonseed Markets

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A CENTURY AGO, there were no markets for cotton seed or cottonseed products. A few farmers spread cottonseed on their land as fertilizer, but most of it was discarded as waste. Seventy five years ago, less than 10% of the crop was processed; 50 years ago, only 50% of the crop was processed.

As uses were found for the oil and the meal, and later for hulls and linters, the proportion of the crop crushed steadily increased. It now approximates 90%—for all practical purposes, the maximum. Over a relatively short span of years, then, cotton seed has advanced from a waste product to a commodity which has brought farmers, in recent years, an average of more than \$300 million annual cash income.

This transformation was the result of research and years of education and promotion designed to get the public to accept and use cottonseed products.

Market Value

Farm dissatisfaction with the market value of cottonseed became very strong in 1949, when the price of seed, which, at times during the immediate postwar years exceeded \$100 per ton, declined to around \$45. Demands were made for supports and the USDA announced that it would support cottonseed at 90% of parity by means of a loan and purchase program. The support level was above the market value for seed. Few farmers were willing to put a perishable commodity like cottonseed under loan and carry the risk of deterioration during storage. Therefore, USDA was compelled to buy more than 800,000 tons, which was later disposed of by sale to mills at market prices and contracts with mills to crush the seed, with USDA retaining the resulting products. This 1949 program was attended by extensive waste, because of inadequate storage facilities and because of handling and rehandling by inexperienced personnel.

While USDA was seeking some means to avoid a repetition of its 1949 experience, war broke out in Korea. Inflation and the short crop forced prices up

sharply (at times exceeding \$100 a ton), making price supports academic.

By the beginning of the 1951 season, USDA had developed a program to support the price of cottonseed by purchase, from mills which paid the support price or above for seed, a "package" made up of specified quantities of oil, meal, and linters out of each ton of seed. This recognized two basic facts: (1) that the value of cottonseed is determined basically by the value of products obtainable from the seed, and (2) that cottonseed is perishable and can be economically stored only in the form of products, not seed.

By January 1952, the price of cottonseed declined below the support level and mills began to sell to the government. During the remainder of the 1951-52 season, USDA bought 136.2 million pounds of oil, 175,008 tons of cake and meals, and 107,359 bales of linters.

This might have served as a warning of things to come. However, USDA announced a 1952 program identical in all major aspects with that of 1951, except that the support price was actually somewhat higher. Market prices continued to decline and, during the 1952-53 season, USDA bought 874.4 million pounds of oil, 1,194,490 tons of cake and meal, and 837,520 bales of linters, almost 50% of the crop.

While this tremendous quantity of cottonseed products was going into government storage, competing commodities—soybean oil, lard, soybean meal, wood pulp—were going to market.

Complex Competition

One of the keys to this whole problem of cottonseed price support is the relationship between cottonseed and soybeans. In 1951 and 1952, both crops were supported at 90% of parity. This might appear to be equitable, but it ignores the complex competitive relationships between the two crops. A ton of soybeans consists entirely of two products, roughly 18% oil and 78% meal. Cottonseed, on the other hand, contains four products—approximately 16% oil, 43% meal (41% protein), 9% linters, and 27% hulls. The latter product is of low value, usually in the range of 0.25 to 1 cent per pound. As a result of these basic differences, the value of the products from a ton of soybeans is substantially greater than the value of

products from a ton of cottonseed. In addition, it costs substantially more to crush cottonseed than it does to process soybeans. Consequently, support of the two crops at the same percentage of parity requires higher prices for cottonseed oil or meal, or both, than for soybean oil and meals and, at support levels, enables the latter to undersell cottonseed products. This was the situation during 1952 crop year when soybean oil consistently undersold cottonseed oil—at times by 3 cents a pound.

To correct this distorted relationship between the two crops, the support level on the 1953 cottonseed crop was reduced to 75% of parity, with soybean supports remaining at 90%. On this basis, cottonseed products have been in a better competitive position this season and consumption has improved. Even with this 15-point parity differential, however, USDA has acquired 383 million pounds of oil, 528,000 tons of meal, and 353,000 bales of linters.

Total direct financial commitments of USDA, since the present type of support first became effective in 1952, have been nearly \$400 million, exclusive of the costs of administration and storage. Some of this outlay has been recovered by sale of products, practically all at prices considerably below cost. In its last report, USDA showed an investment of about \$250 million in cottonseed products. This exceeds the investment in the much-publicized butter program.

For the 1954 crop year, USDA has announced a continuation of support on cottonseed at 75% of parity. The 1954 support level on soybeans however, has been reduced from 90 to 80%. With the large acreage taken out of cotton, corn, and wheat this year, this reduction has not discouraged soybean planting. In fact current indications point to the largest crop on record. Such a crop would add much to the already existing surplus of oilseed products. It can be expected that the entire surplus will accumulate in the form of cottonseed products.

Lost Markets

Under the cottonseed price support program, the producer, the ginner, and the crusher have a measure of price insurance, the direct cost of which is charged against the U. S. Treasury. But there is an indirect cost—to some extent a delayed cost—that is even more important than the direct cost and this must be paid by the producer, the ginner, and the crusher. That cost is the loss of markets that have been developed over the past century.



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