JAOCS News Feature

President's review of world oilseed industry[1]

Overall market and price movements in 1974 are reviewed with special emphasis on their impacts in the oilseed crushing industry. The longer projection of the role of developing countries in the edible oils market is discussed.

Introduction

I cannot begin my review this year without first expressing my deepest appreciation to our host country for the opportunity to hold our 52nd congress here in Abidjan and for the hospitality and kindness being offered to us. It is certainly a milestone in the history of our association—the first meeting to be held in a country customarily classified as a developing country and, to me, a matter of great pride. It reflects the really world-wide nature of our association and the valuable contributions to its effectiveness which all countries can make, regardless of some standard international classification.

Indeed, the true international nature of our association is itself a reflection that we are all involved in the same international, integrated market embracing oilseed processing and the flow of oils, fats, and meal supplies between producers and consumers. All are involved in this large international market with the interrelationships between its various parts, whether we are extracting soybeans in Europe, supplying fishmeal from Peru, or handling the increasing supplies of palm oil to which the remarkable success of the ambitious "plan palmier" here in our host country now is making a significant contribution. All participants have the same common interest, i.e. in the market being effective and efficient and fulfilling its basic function of matching the varying needs of consumers of oils, fats, and meals throughout the world with the varying pattern of supplies. Thus, in terms of the operation of the market, one may regard the customary distinction between developing and developed countries as not particularly relevant, and, although I regard this congress as an important point in the history of our association, it is also highly satisfying that it is just as appropriate to meet here in the Ivory Coast as it is to hold our congress in any of our other member countries.

Clearly, although a common interest in the proper functioning of the market exists, the behavior of the market has a different impact and varied implications for individual sectors of our industry. Therefore, in my review, I would like to consider overall market movements since our last congress and its impact upon the seed crushing industry and take a look over a longer time-span at the place of developing countries in the edible oils market.

Price movements—oils and oilcake

At the time of our Vienna congress last May, the oils and fats market was characterized by conditions of acute shortage. This frequently was reflected in sizeable premiums for spot oil, and importers could be heard discussing the problem of access to supplies at reasonable prices in much the same way as exporters previously had discussed the problem of access to markets at reasonable prices. There, at Vienna, I expressed the hope that some alleviation of these shortages soon would occur, but these hopes were dashed almost immediately. In the U.S., too much rain in the spring, drought in the summer, and unusually early frosts in the autumn resulted in a dramatic cut in the soybean crop from early expectations of 1540 million bushels to a final crop of 1233 million bushels. This is equivalent in oil terms to a drop of 1.5 million tons, substantial by any standards.

Such a reduction in the U.S. soybean crop inevitably implied that world soy oil supplies would fall in 1974-75, despite the prospect of a further expansion in the Brazilian crop and the availability of higher stocks in both U.S. and Brazil. This engendered growing fears that total edible oil supplies in 1975 would be inadequate again, and, with world stocks still relatively low, it was not surprising that edible oil prices, which had declined from a peak in February, resumed their rise and reached an even higher peak in October 1974. At that time, the overall level of prices was +118% higher than a year earlier and represented nearly a fourfold increase from the levels of 2 years before when prices first began to rise. Looking at representative oils over these 2 years, palm oil rose from $228 to $835/ton, European soy oil from $227 to $1163/ton, and sunflower oil from $303 to $1240/ton.

From these unprecedented levels, a major downward adjustment in prices has occurred. The easing of acute shortage conditions seems to have come one congress later than I had expected. The relatively poor soybean crop in the U.S. in more than offset by significant increases in production elsewhere. Philippine copra production is recovering vigorously from previous drought depressed levels; West African peanut production, although still disappointing, has responded to the doubling of producer prices and improved rainfall conditions, while palm oil continues to assume greater importance on world markets. In any case, such high prices were hardly sustainable, since they clearly were restricting the consumption of edible oils and were inconsistent with expanding markets for exporters of oils.

Price developments in the oilcake sector until mid-1974 contrasted sharply with those in the oils and fats market. While oils and fats prices were reaching new highs, soy meal prices in Europe already had declined by mid-1974 to under $150/ton from the remardably high level of some $600/ton reached a year earlier. The sharp drop in the U.S. soybean crop induced a rise in prices, but, even so, in October, when oil prices were at their peak, soy meal prices were still no higher than a year earlier and have since shared the downward movement in oil prices. Very weak demand for oilcake has continued to limit any strong upward movement in prices, despite the pros-

[1]Editorial note: This address was presented by J.E. Th. Randag, Oils and Fats Buying Division, Unilever House, Rotterdam, The Netherlands, and currently president of the International Association of Seed Crushers, at the association's meeting, March 4-7, 1975, in Abidjan, Ivory Coast.

pect that world production of oilcake and fish meal in the 1974-75 season is likely to be lower than last year.

These price movements represent the common experience of all participants in our markets. However, underlying these price movements are the changing supply and demand patterns which have affected different parts of our overall industry in different ways. Clearly, exporters of oils and oilseeds have benefited from high market prices, provided supplies have been available. African countries with peanut crops reduced almost to vanishing point have, for example, not gained much benefit from high peanut prices. On the other hand, it has been a poor year from importers of oils and fats because of burdens imposed by high price levels in which I include the financial strain of holding stocks.

Seed crushing situation

With regard to the seed crushing industry, the situation has been deteriorating. All the three prerequisites for profitable operations have been heading in the wrong direction, with particularly adverse repercussions upon countries largely dependent upon imported oilseeds, i.e. Western Europe and Japan, and it is also true of the U.S. The first need of crushers is for expanding markets for oil and meal. In the case of edible oils, even the slow expansion typical of high income countries was halted in 1974. In Western Europe, total edible fat consumption in 1974 was slightly lower than in 1973. In the U.S., per capita consumption of food fats began to fall below 1973 levels during 1974, while, in Japan where past years had witnessed a very rapid rate of growth, consumption in 1974 failed to increase at all from that of 1973. Given the very sharp rise in oil prices during the course of 1974, the constraints on consumption undoubtedly intensified and are continuing, since the fall in market prices is too recent yet to be reflected significantly in product prices and a renewed expansion in consumption levels. It is, I think, interesting to note by contrast that straddling a period of low prices between 1965-1970, food fat consumption in the U.S. rose by 5 lb/head, despite being fairly stable over the previous 30 years. Now, in a period of very high prices, consumption is falling back again. Clearly, dramatically rising prices to unprecedented levels are simply not consistent with expanding markets.

Of even more importance to seed crushers was the weakness in the meal market, since, in Western Europe, for example, meal constitutes over 70% by volume of the output of seed crushers. The livestock sectors were caught in a very severe squeeze on profitability. First of all, feed costs increased sharply. This was entirely the result of a shortage of feed grains and high prices of same, since meal prices have fallen and become cheap relative to feed grains. In the U.S., maize prices in 1974 averaged 46% higher than in 1973 and, at their peak in October, were +66% higher than a year earlier. Secondly, the higher feed costs induced a sizeable increase in slaughterings which contributed to a major drop in livestock prices and profitability. The market for meal weakened, therefore, from reduced feeding rates and, in some areas, from a reduction in the number of animals fed.

The second need for profitable seed crushing is for an adequate supply of oilseeds. Admittedly, 1974 began well with record availabilities of U.S. soybeans. Indeed, they were more than adequate in relation to the combined product markets, with the result that U.S. soybean stocks were rebuilt to more adequate levels by the end of the 1973-74 season. However, we clearly have moved into a period of inadequate oilseed supplies. With the U.S. soybean crop down by nearly 9 million tons, not only U.S. crushers but importers of oilseeds also are faced with reduced seed supplies. There will be some offsetting increases—perhaps a 2 million ton rundown in U.S. bean stocks, perhaps a 2 million ton increase in the Brazilian crop, and certainly significant increases in peanut and copra supplies. However, together these cannot compensate fully for the lower U.S. soybean crop which contributes some 65% of all oilseeds traded on world markets. The total supplies of oil and meal look adequate for consumption needs this year, but a smaller proportion of the total market is likely to be supplied from processing oilseeds.

The third need to establish favorable conditions for seed crushing is that there should be a reasonable balance between available capacity and available seed supplies. This relationship has, inevitably, been deteriorating, since increased capacity has been coming on strong, while seed supplies have been reduced. In the U.S., for example, soybean extraction capacity has increased further, and total capacity now is estimated at some 1.1 billion bushels on an annual basis, but utilization is already down to ca. 70%.

The experience of crushers in the oilseed producing countries will vary according to the extent of their dependence upon international markets for oil and meal and the size of the local oilseed crops. Certainly, West African peanut and Philippine copra crushers have been through a particularly difficult period as a result of reduced seed supplies. Between 1972-1974, Philippine copra production declined by -34% and the combined peanut crops in West Africa by -49%. However, the considerable recovery in production this year in these areas provides a more favorable environment for the local seed crushers, while the higher copra supplies also will benefit crushers elsewhere and compensate, to some extent, for the reduced soybean supplies.

Seed supplies and crushing in developing countries

Soybeans always have been important to crushers dependent upon imported seeds; even before the war nearly 40 years ago, soybeans (but at that time from Manchuria) were already the largest single oilseed traded on world markets and accounted for 24% of the total traded. Today, however, soybeans from the U.S., from Brazil, and a few from China together represent 75% of total oilseeds traded. It is this oilseed which has provided the base for the long term expansion in seed crushing in importing countries. Prewar world soybean exports were 2.2 million tons; in 1974, they were nearly 8 times greater at some 17 million tons. In absolute contrast, world exports of all other oilseeds of 4½ million tons were actually lower than the 5 million tons supplied in the years just preceding World War II. Admittedly, in 1973, peanut and copra supplies were particularly low as a result of drought conditions in producing areas, but, even when these supplies were at peak levels in 1966, world exports of oilseeds other than soy were still marginally lower than prewar.

Not surprisingly, these divergent trends for soybeans, on the one hand, and all other oilseeds on the other hand also are reflected in the declining importance of developing countries in the world oilseed market. Prewar, oilseeds shipped from high income countries were negligible. Asia and Africa provided nearly two-thirds of world exports, and the balance came largely from China. By 1974, exports of oilseeds from developing countries were lower in tonnage terms than prewar—indeed, would have halved but for the marked growth in Brazilian soybean exports—and formed less than 20% of all oilseeds traded.

The relegation of developing countries to a relatively minor place in the world oilseed market and their declining exports of oilseeds undoubtedly reflect, to some extent, an inadequate growth in oilseed crops and, therefore, lost opportunities to expand further into local and export markets. It again emphasizes the need in this area, as for other commodities, for more rapid improvements in agricultural productivity and efficiency to realize their full

economic potential.

How best to achieve this potential is a major subject in its own right which I do not wish to pursue at this time. I would wish to stress, however, that it would be wrong to see declining oilseed exports from developing countries only in terms of inadequate increases in crops. It is a reflection also of the growth in their own seed crushing industries. In looking over the past, it can be said that the long term dynamic growth in protein demand which is characteristic of high income countries has been met by the growth in soybean supplies, a crop economically suitable because of its high meal content and climatically suited largely to the developed world. Since there are also economies in crushing, on an ever larger scale, at the point of meal consumption rather than at the point of production, a large oilseed trade has grown up in the world; however, it is one which is dominated by the high income countries. By contrast, the developing world is faced with more dynamic domestic oil markets and, in Asia and Africa at least, with climates more suitable for high oil yielding seeds, including, of course, palm. The need for improved levels of protein consumption certainly exists and may even call for some greater emphasis upon oilseed crops with a high meal content. However, so far, it is the oil situation, rather than meal, which has provided the base for the impressive expansion in seed crushing which has occurred. Thus, apart from the problems of agricultural productivity, declining seed exports from the lower income countries can be viewed in a favorable light. It reflects the growth in local seed crushing and the contributions this makes to the momentum of overall industrial development, to providing greater oil supplies to improve local levels of fat consumption, and to expanding exports.

In essence, the international seed crushing industry can be seen increasing as a partnership between the high income countries more dependent upon high meal demand and high meal yielding seeds and the developing world depending more upon high oil yielding seeds and faster growing oil markets.

Developing countries—oil exports

This greater emphasis upon seed crushing in such as the Asian and African countries and the growth in palm oil are major phenomena of the 1960s. In the previous decade, seed crushing had only increased, in broad terms, in line with the growth in a country's own domestic oil market. As a result, exports of oils from domestic crush showed no real expansion over the decade and were declining in the latter half of the 1950s. However, from the beginning of the 1960s, oil exports from these countries have more than doubled. They were not much more than 500,000 tons in 1960 but climbed to 900,000 tons by the mid-1960s, were 1.1 million tons in 1968, and are now over 1.3 million tons.

These figures reflect the impressive growth in oilseed crushing which has taken place quite apart from the impressive achievements in the palm oil field. Including palm oil, exports would show that total vegetable oil exports from the countries in the developing part of the world were 1.1 million tons in 1960 but over 2½ million tons now. Indeed, not only has the volume of trade increased, but, since the late 1960s, the share of world trade in vegetable oils as such contributed by these countries has increased. It was 55% in 1968 and 62% in 1973.

Palm oil has become of ever increasing significance in the vegetable oil market in recent years. For the whole of the post-war period up to 1967, world exports were basically stable at ca. 550,000 tons but since that time have more than doubled. Today, we are in the palm oil era and one in which our host country is destined to play an even greater part to judge by what I have seen of the most efficient palm industry here. It is also clear that an end to the expansion in world supplies is not yet in sight, nor is it difficult to envisage world exports reaching perhaps 2¼ million tons by 1980, forming possibly 20% of the total edible oil market and being second only to soy in importance.

However, expanding markets have to be found in importing countries. The upsurge in world palm oil supplies dates from 1968. Since then, with the exception of 1 year, increasing supplies have been sold at ever mounting prices even in real terms. This was because of growing shortages of edible oils in total; palm oil was much needed and, I suppose, gratefully accepted by importers to fill the gap left by inadequate supplies of other edible oils. In these circumstances, finding ever larger markets hardly has been a problem, and, undoubtedly, in the future, there will again be periods in which other oils will be in short supply. One cannot, for example, anticipate any long run expansion in fish oil. Moreover, as world consumption of edible oils rises by a million tons each year such an increase in supply needs to be achieved. Nevertheless, as the producers will recognize, weather conditions can produce surpluses, as well as shortages, of edible oils and a sustainable marketing strategy cannot hinge upon the continuation of significant shortages of competing materials. A policy is required which maximizes marketing opportunities whatever situation arises in the total edible oil market.

In contemplating the possible expansion of import markets, there are three broad aspects which are of importance—the structure of the market, the level of prices, and what might be described as marketing activities. The high income countries form the main markets for edible oils taking more than 70% of world exports. Traditional trading channels and adequate commercial intrastructures exist, and tariff levels are not oppressive. These markets, therefore, form a natural focal point for exporters of vegetable oils from developing countries. However, the underlying potential is constrained since these countries have only a small population growth, consumption of edible oils and fats/head is already high and increasing very slowly, if at all. In such markets, it is the price of an oil in relation to competing oils which will be the most important factor in determining the market size for any individual oil.

During the period when palm oil supplies were relatively stable, its price moved merely in line with the changes in the overall level of edible oil prices. Since the mid-1960s, however, its price, in spite of the rise in its absolute level, has fallen quite significantly in relation to the prices of competing oils by some -25%. Palm oil being priced attractively has engendered a major expansion in sales to high income countries where its share of their total edible oil imports has risen from 9 to 14%. In the U.S. alone, imports in 1965 were a mere 3000 tons but were 200,000 tons in 1974.

Even for high income countries, efficient marketing is still a necessity, and I include particularly the attention to maintaining and improving further the quality of palm oil and the existence of a mutually acceptable international contract to maximize the flow of trade. Efficient marketing by producers, combined with the end use research, which consuming countries carry out, is a partnership from which both benefit in enlarging markets. Competitive pricing, however, remains a crucial element in these expanding markets, and I am convinced that this has been a notable factor in the opening up of new markets and the expansion of existing ones in developing countries; Iraq, India, and Pakistan readily come to mind, but countries, such as Kenya, Israel, China, Formosa, Korea, and Ecuador, also figure as importers of palm oil.

Developing countries—oil imports

In contrast to the high income countries, developing countries with a higher rate of population growth and

relatively low and expanding fat consumption/head seem to offer the greatest potential for countries wishing to enlarge their export markets. Indeed, imports of vegetable oils into developing countries, and here I include the oil content of seeds, have risen between 1961-1973 from just over 700,000 tons to 1.8 million tons, a growth rate averaging 8%/annum. However, the whole of this sizeable expansion in markets has been satisfied mainly by exports from the high income and centrally planned countries. Exporters in developing countries, presumably anxious for new markets, scarcely have shared in these expanding markets. Over this whole period, there has been no significant change in the level of trade in vegetable oils between the developing countries.

Many of these countries import large quantities of soy oil, rapeseed oil, sunflower oil, and cotton oil which are immediately recognizable as oils coming largely from high income countries and the Russian-Eastern European area. Where developing countries are involved in trade in these oils, their exports are, to a great extent, to the high income countries or traded with neighboring countries. For these oils exported entirely or almost entirely from Asia and Africa, palm oil is now the major item in trade with other developing countries, with smaller quantities of peanut oil and coconut oil also traded.

Clearly, large potential markets already exist in developing countries, and these undoubtedly will continue to expand rapidly. The fact that exporters in the developing world have not been able to exploit these markets, points to the existence of quite considerable structural problems which are not susceptible to easy solution and, in some cases, may well require action at an international, rather than at a national, level.

One always must keep in mind the level of supplies and prices. Increasing agricultural efficiency which lowers the cost of production and which contributes to the more competitive pricing of an oil has a real role to play in enlarging markets. It is even more important for markets in low income countries where, because of foreign exchange constraints, attention is likely to be focussed upon the lower priced oils. It is, I think, significant that for peanut and coconut oils, oils more characterized by shortage and high prices, the combined imports into developing countries all but halved over the past 12 years, a market loss of some 130,000 tons. Meanwhile, with palm oil prices becoming increasingly attractive against other oils, imports into developing countries were nearly 3 times higher in 1973 at 223,000 tons than in most of the 1960s.

Other aspects of a structural nature also exist. The foreign exchange problems of such importers give great importance to the financial terms for such trade—the currency in which payment must be made, the period of payment, and the credit facilities available. Inevitably high income countries are likely to be in a position to offer more favorable terms, while developing countries hardly could match, for example, the concessional terms granted by the U.S. To increase the available finance for trade between developing countries by national measures or by means of some international PL480 is a question with the only solution in the long term. Time also is required to establish an improved commercial intrastructure for such trade. Historically, the lines of trade have been between developing and high income countries, and it is along these lines that the commercial intrastructure has grown up. More trade between developing countries, for example, will require more regular shipping facilities to be available, and these will, presumably, be developed if the need can be shown.

These are all major and continuing questions of an international nature. The scope for exploiting potential markets in developing countries by means of bilateral or multilateral trade agreements or by reciprocal reductions in tariff and nontariff barriers would be for national governments to consider. For the producers, and certainly for palm oil producers, these growing markets in developing countries present a great challenge. It is important, but not enough, to have supplies available at the right price. Prolonged and skillful marketing also is required to ensure that there is full knowledge of the true value and quality of palm oil. Importers' requirements must be known fully; the market must not be restricted by lack of technical know how in the handling of palm oil or in its use in a variety of end-products; and there must be encouragement to set up the necessary transport, storage, and processing facilities. There is probably little dispute about the value of a major marketing back-up for increasing supplies in the form of trade services and technical and selling expertise. Its greatest value will be in opening up new markets in the lower income countries, and, despite the structural problems which exist, there seems to be considerable potential markets waiting to be tapped. In view of the attention already being devoted to marketing by palm oil producers, in view of its increasing price attractiveness, and in view of successes already achieved, I feel sure that developing countries importing oils and fats will turn even more to palm oil to satisfy their rapdily growing needs.

All these developments take place within a changing international environment and climate of opinion which present particular challenges and opportunities.

The world now is dominated by rapid rates of inflation to which high energy costs have contributed. There is a real challenge to processors and producers alike to contain cost increases by ever closer attention to efficiency, and this need becomes even greater in present conditions in which world recession is likely to restrain market growth for many products, including those using oils and oilcakes.

We have witnessed a growing number of export restrictions in our markets. Whichever short term rationale is chosen, they are not consistent with maximizing the long run expansion of international markets. I hope that such restrictions will disappear in the future. They are inconsistent with the changing climate of opinion toward trade liberalization in the interests of expanding world trade, as evident from the GATT trade negotiations, the moves to have vegetable oils included in the Gneralized System of Preferences for the Third World, and the widening of the preferential tariff area from the enlargement of the EEC.

It also seems to me that, in recent years, there has been one other important change of emphasis in international opinion. It is now universally accepted that too many people in the world run the risk of actual starvation in years of poor crops. There is a growing recognition of a need for a cushion of internationally coordinated food stocks to cope with this particular problem. But, in our markets, the concept of buffer stocks or any other device to manipulate world prices increasingly is being recognized as not a viable proposition; the market is too complex. Instead, the focus is increasingly upon compensatory financing arrangements, such as are embodied in the recently negotiated agreement between the EEC and the Associated States. This, I am convinced is the correct emphasis. Such arrangements leave prices free to move on international markets, and it is through these movements that consumer needs are in the end translated back to producers and lead to continuing adjustments both by producers and consumers. International price movements, however, also affect the international distribution of income, and compensatory finance schemes always seem the proper way of correcting any undesirable income effect arising from price movements. Hence, prices are left free to fulfill their basic market function.

There can be little doubt that our industry, in the widest sense, will continue to expand to satisfy growing needs for oils and fats and protein. There will be mixed experiences within the different sectors of our industry; there will be good years and bad years and obstacles not of our own making which will have to be taken in our stride. But as an efficient industry continually seeking to improve performance, difficulties are there to be overcome, challenges faced, and opportunities grasped. A combination of unusual events is causing some difficulties at the present time, but I see no undue cause for despair and despondency. Instead, I look forward to the possibility of an unusual combination of favorable factors when somewhat lower oil prices permit better growth in this market, when profitability is restored to the livestock sector, when meal demand recovers, and when favorable weather contributes to more adequate seed supplies. Possibly, next year at Monte Carlo, the president's review will begin with these very words.

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