Viewpoint

Fats and oils outlook

New marketing aspects in U.S.S.R., Brazil

The following article was prepared during December by David Bartholomew, a frequent contributor to JAOCS News. He is manager of the oilseeds department for Merrill Lynch Pierce Fenner & Smith Inc. at the Chicago Board of Trade. In this article, Bartholomew notes that the Soviet Union is much more concerned with financial aspects of oilseed purchases than it was a year ago and that the government of Brazil has relaxed export regulations. Both developments could affect U.S. oilseeds markets.

The new year 1982 brings two important changes in the marketing of soybeans and their products, and other commodities as well. One of these changes relates to dealings with the Soviet Union. The other concerns export policy of Brazil. Both will affect marketing aspects of the United States and the rest of the world.

Soviet Union

Following the U.S. embargo in early January 1980, Russia became an aggressive buyer in other parts of the world, particularly Argentina. Naturally, cash basis premiums made a spectacular jump, but the Soviets paid the price anyway. This was mainly because of political pride. Price was of little concern if they could embarrass Washington by proving the the embargo was futile.

Moreover, Soviet leaders were anxious to diversify their purchases so as to be less susceptible to interruptions caused by politics, labor unions, weather, war etc. Ultimately, it would be to their economic advantage in the future if there were more competition among sellers. So it was considered a bit of clever strategy, both politically and economically, to dispense some largesse toward Argentina for short-term and long-term advantage.

Economic planners in Moscow felt comfortable with that policy because of two projections, both of which were later proven wrong. First, they expected their 1981 crops would be much better, but they were not. Second, they expected prices of gold and other precious metals and petroleum would continue to advance or at least not drop, but they did drop. These are the principal items sold to secure foreign exchange with which to buy food and feed imports.

Thus, it is now seen that there is a critical economic crunch in Russia. Import needs continue large, but resources to pay for them are diminished in value. Consequently, the word going around business circles in Argentina is "the honeymoon is over." Negotiations over commodity purchases are once again mostly related to price fluctuations of minute proportions. Political pride has taken a subordinated position. The country making the best deal in monetary terms will get the business.

There is nothing that suggests a reduction in total tonnage to be imported, despite the financial pinch. In fact, with the unrest in that part of the world it seems politically mandatory to import all that can be physically received.

Brazilian Export Policy

The government of Brazil has decided to allow more freedom in export marketing. The primary motive is to increase earnings from foreign trade. Next is to reduce expenditures of the government used to support internal industries. It has been recognized that too much government control can result in inefficiencies in marketing. Freedom to make sales at the most opportune time can result in greater profitability and therefore an improvement in foreign trade exchange earnings. Obviously, it would be better for the Brazilian economy if profits were made from the market rather than from government subsidy. This philosophy can be extended to all major commodities. Initially, it applies to soybeans and their products. It is easiest to begin there because it is a younger industry and there are less complications with other exporting countries.

The principal exchange that has been made is to eliminate the export quota system beginning March 1, 1982, with the new crop. Under the quota system, there were periodic allocations among members of the industry allowing them to make export sales. From time to time the government would review the status of shipments if the domestic markets for soybean oil and meal were being adequately supplied. There was always a fear that internal prices might be too high and thereby aggravate inflation if too much were exported.

The primary concern was for soybean oil rather than meal. There still is a concern to protect domestic supplies of soybean oil, and, of course, there could be a problem with no export quota. So this is addressed by a new program of establishing a national pool of 1.5 million MT of soybean oil.

Each crusher will be requested to declare a contribution to that pool. To induce participation in the pool, crushers will be granted a low cost operating loan. The loan will be for 80% of the export value of the quantity designated for