

World competition in oilseeds



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The following comments were presented by Kenneth Lewis, executive vice-president of the National Cottonseed Products Association, on March 3, 1986, as the keynote address for the 35th Oilseed Processing Clinic in New Orleans, Louisiana. The clinic is sponsored annually by the Mississippi Valley Oilseed Products Association and the USDA Southern Regional Research Center.

This is a look at worldwide production of the major oilseed crops with a focus on the competitive factors affecting the export market—and how they affect one product from one oilseed—cottonseed oil.

The U.S. Department of Agriculture tells us that world production of oilseeds for 1985/86 is estimated at a record 194.2 million tons.

World production for soybeans for 1985/86 is estimated at a record 94.1 million tons.

World production of cottonseed is estimated at 31.6 million tons. (And notice it isn't a "record.")

World production of peanuts is estimated at a record 20.6 million tons.

World production of sunflowerseed is estimated at a record 19.1 million tons.

World production of rapeseed is estimated at a record 18.8 million tons.

World production of palm oil is estimated at a record 7.6 million tons.

With all these record productions it is little wonder that the markets for oilseed products have been depressed.

Now, may I shift to the one product which I mentioned earlier—cottonseed oil.

For a number of years, the cottonseed processing industry enjoyed an export market which consumed about 50% of all the cottonseed oil produced in the United States—and one which paid a premium for the product.

Competitive forces in the export market plus our own government's farm policies acted in concert to reduce cottonseed oil exports in the payment-in-kind year of 1983 to 34.8% of total supply with slight increases to 35.4% in 1984 and an estimated 37.9% in 1985.

The effect of the PIK program is virtually self-explanatory. A reduction in the supply of cottonseed for crushing resulted in a corresponding reduction in cottonseed oil produced and a fear by foreign buyers that (U.S.) cottonseed oil would not be available—so they searched for, and usually found, their supplies elsewhere. Once your channels of trade are disrupted, it is most difficult and often expensive to recover your losses. The grain embargos in the 1970s are a case in point.

Major export markets for cottonseed oil have been Venezuela, Egypt and Japan. Exports to the Dominican Republic, the Netherlands, El Salvador, Guatemala, Canada and at times the Federal Republic of

Germany are also an important part of the total.

Cottonseed oil has enjoyed a preferred position with the Venezuelan vegetable oil industry and with the general population there and has usually ranked first or second in the tonnage purchased from U.S. suppliers. In an effort to stimulate interest in oilseed processing, the Venezuelan government in 1985 established an exchange rate for oilseeds at 4.3 bolivars per U.S. dollar and 7.5 bolivars per U.S. dollar for vegetable oils.

Since Venezuelan-produced value added products are price controlled, those companies with oilseed crushing plants could improve their profit margins by importing and processing oilseeds. Result—a decline in purchases of vegetable oils. Beginning on Jan. 1, 1986, imports of oilseeds moved to the same exchange rates (7.50 bolivars per U.S. dollar) as value added products. This makes it more economically attractive for the edible oil industry to try to utilize its import allocations for oils rather than oilseeds. So, there has been a renewed interest in U.S. cottonseed oil. The Venezuelans have toyed from time to time with sunflowerseed oil from Argentina and cotton-

seed oil from Brazil but thus far quality problems have more than offset lower initial prices.

Egypt's long history of cotton production can account for a preference for cottonseed oil by the Egyptian people. When the first NCPA trade team visited Egypt in 1976, U.S. cottonseed oil accounted for most of the volume of imported oil with purchases of about 138,000 metric tons. There were good years through 1982, when the five-year average stood at about 140,000 metric tons (MT). Then in 1983, a decline began, with Brazilian cottonseed oil making serious inroads into this traditional U.S. market. A series of export subsidies, formerly used by Brazil, stimulated a rapid growth in the production of oilseeds which, coupled with an expansion in cotton production, has created a competitor able to sell at prices lower than those acceptable in the U.S. Also, the rapid increase of sunflower production in Argentina has caused surplus sunflowerseed oil to be targeted at reduced prices toward Egypt, which considers cottonseed and sunflowerseed oils to be equal in value after adjustment for refining losses. The result of this action: purchases shifted from the U.S. to South America. The last two Egyptian tenders amounting to something over 80,000 tons were for sunflowerseed oil and/or cottonseed oil; it is obvious that the sale was made by South American sources because the price was approximately 200 points under the board.

Further complicating the Egyptian market is an agreement with the Hungarians which was first reported by our trade team that visited Egypt in 1984. This allows for the purchase of up to 30,000 MT of sunflowerseed oil from Hungary at discount price.

To make matters even worse, a team of Egyptians will visit Canada in May to inspect rapeseed producing facilities to determine if canola oil is a suitable product for consumption in Egypt. It is our understanding that the French also have been active in attempting to obtain approval for the sale of rapeseed and rapeseed oil in Egypt.

On the plus side is a \$25,000,000 GSM102 credit guarantee authorized by the U.S. Department of Agriculture for purchase of vegetable oils from U.S. origins. We, along with the National Cotton Council and the agricultural counselor in Cairo, have been working for this kind of a program for about a year.

The Japanese recognize cottonseed oil as a premium oil and have been able to fit it into a specialty market which has used up to 40,000 tons in a year. It must, however, compete with sunflowerseed, safflower and corn oils in the premium oil market and with soybean oil and some peanut oil in the overall market. Most of these competitors are of U.S. origin.

The Peoples' Republic of China, with a production capacity of up to 27 million bales of cotton and over 10 million tons of cottonseed, will be a force to be reckoned with in the future. We know that there have been sales of cottonseed to Japan, and recently we heard that cottonseed oil has found its way to Japan as well. Our trade team found that if the quality of cottonseed oil from China could be improved, it would be readily purchased by Japanese traders—if the price is right. China needs crushing plants and technology and an updated transportation system to become a serious competitor in the world market; we understand that improvements are on the way in all three areas.

Back in the early 1960s, the bottom fell out of the rubber market. The decision then was made to replace Malaysian rubber trees with oil palms, and that was the beginning of rapid expansion in production of palm oil. Much of the expansion was accomplished with loans from the World Bank and other international lending agencies whose major contributor was the United States. In the 1985-86 period, Malaysia alone will produce almost 4 million metric tons of palm oil and will export 80% of the total.

In May of last year, Dwayne Andreas, chairman of the board and chief executive officer for Archer Daniels Midland, made this statement: "Malaysia's preferential duty

exemptions have stimulated construction of a vast excess of palm oil refinery capacity, now becoming high-cost and inefficient. The result—depressed export prices for refined palm oil products and reduced prices and margins for edible oil products world wide." An accurate statement? Yes, indeed!

The USDA reported in January "the sharpest losses in oil prices were for palm and coconut oil prices. During September-November, Malaysian palm oil output increased by 23% from the same months a year earlier. This followed a 3% decline in the June-August period from the year-earlier level. The recent price declines reflected sharply larger supply prospects and heavy stocks in the exporting countries. The lagged effects of above normal rainfall and expanding bearing tree numbers should result in substantial increases in palm oil and palm kernel oil output in Malaysia and coconut oil supplies in the Philippines throughout 1985/86. During the 12 months ending December 1985, Malaysian palm oil output exceeded 4.1 million tons, 11% above the same 12 months a year earlier.

"In the United States, palm oil prices carry a large premium to Malaysian f.o.b. prices. If this continues, it will likely result in a sharp increase in U.S. imports of palm oil. During October-December (1985), U.S. palm oil imports totaled 79,000 tons, or more than double that for the same months a year earlier."

It is our understanding that palm oil sold delivered at Gulf ports at 15¢ per pound in late February. That kind of marketing puts real pressure on all products.

Until the world situation sorts itself out, the U.S. cottonseed processing industry will have to direct its attention more and more to the domestic market.

The industry will be looking to researchers—particularly at the Southern Regional Research Center—to help us find ways to reduce operating costs and to produce better products.

Kenneth O. Lewis