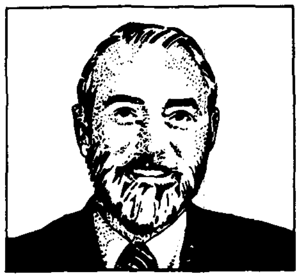
Viewpoint

What's new for vegetable oil?

(The following article was prepared by David M. Bartholomew, oilseed specialist for Merrill Lynch Futures Inc. at the Chicago Board of Trade, in early April.)



During the third week of March, the National Institute of Oilseed Products (NIOP) held its annual convention, involving oils and fats industry people of the U.S. and a good representation internationally. This year the principal industry speeches dealt with palm oil. Considering present market circumstances, that was a most timely choice.

It was reminiscent of the 1972 convention. At that time also, the principal speakers explained palm oil production and the shipping industry. Judging from the reaction of most of those in attendance, that was the first time most had paid serious attention to what was going on in Malaysia.

The 1972 meeting was the most depressing convention ever experienced by this author. Malaysian production had reached 780,000 metric tons (MT) in 1972 and was projected to double by 1976 (to 1,560,000 MT). Exports had climbed from 143,000 MT in 1965 to 555,000 MT in 1971 and obviously could keep pace with the production growth in the future. Spot soybean oil (SBO) futures (March 1972) had been in a steady decline for six months, from 13¢ to a low of 10.75¢ during the convention. The speaker was asked, "How low can palm oil go before it is uneconomic to produce?" He had a ready answer: "Five cents." Instinctively the audience envisioned SBO going to 7¢, because traditionally crude palm oil has traded at a 2¢ discount.

SBO futures did get down to 9.75¢ in August and to 9¢ in October, but the worst fears were not realized for several reasons. Probably the most important reason was that following the convention, corporate research departments were advised to get serious in finding additional ways to use palm oil. They all made the adaptation about the same time; suddenly palm oil demand exceeded supply and it was no longer at a discount.

That could happen again in the present situation. This time it is likely that the industrial nonedible sector will become more serious about using palm and maybe other vegetable oils. Companies have gradually moved in this direction in the past few years and will now probably accelerate that tendency, especially if India is successful in its new campaign to stimulate oilseed production and reduce oil imports.

As expected, the mood at the NIOP convention this year was bearish for oils and fats because so much attention was focused on growth in the palm oil industry. It was almost impossible to see how all that potential oil could be absorbed by visible demand without further depressing prices. Some participants began to talk of SBO prices dropping to 12¢, but not everyone agreed; certainly the mood was not as depressing as the convention of 1972.

There is evidence of increasing use of palm and palm kernel oil (PKO) in nonfood applications. This is more likely in countries other than the U.S. because in this country there is so much tallow to compete with. However, the competing feedstock for some users is petroleum derivatives. Even though the price of that source has declined dramatically, it still is not as cheap as the tropical oils. This was explained in the presentation by B.T. Rocca Jr., who pointed out that those oils are cheaper than ever before in this century, on a deflated basis, while crude petroleum is still four times higher than it was in the early 1970s. Moreover, it is to be expected that petroleum prices will never go so low by comparison, and probably will make some recovery, while vegetable oils will stay relatively cheap for the foreseeable future. Such a scenario is essential for industry to make the necessary adjustments.

In the U.S., it is not expected that the tropical oils can find significantly larger edible utilization because of publicity about saturated fats. This concern has focused mostly on tallow, which is heavily used in institutional enterprises such as McDonalds and the many similar establishments. Technically speaking, tropical oils should be the next best alternatives to tallow, but that would not improve the public image. Thus it can be expected that those enterprises will soon make a shift toward seed oils. That could become significant for stabilizing SBO and the others and potentially raising those prices. Burger King has begun to switch to seed oils and is advertising the health advantage. If that firm improves its public image and takes business from other fast-food restaurants, the latter will be certain to follow. Thus far there is resistance to change for fear of sacrificing flavor reputation, but fast-food chains will find a way to handle that, given the kind of pressure that is likely to develop. In analogy, only recently has margarine come close to tasting relatively similar to butter, but people have changed to it anyway, largely for health reasons.

It is estimated that 35% of edible fats and oils consumption in the U.S. is via the restaurant and institutional trade. Unfortunately there are no statistics for just the "fast-food" sector. Suffice it to say the volume is enough to make a significant difference in the balance between over- and undersupply. It must be watched closely.

In the two weeks following the NIOP convention, SBO futures went up 2¢ a pound. It is interesting how a bearish NIOP convention seems to be a good cure for a weak-trending SBO market. That may not be an accurate conclusion, but it has happened before. Traders find the vast majority are very bearish and users have very little forward coverage. They get nervous and start to extend their positions.

Other factors are at play also. India has quietly allowed 10% more imported oils in vanaspati and probably will permit additional amounts soon. Argentina's sunflowerseed yields are disappointing and traders have had to buy back some short positions. Chicago speculators have returned to buying oil and selling meal as the soybean meal (SBM) uptrend failed.

None of these things speaks of an extended bullish market for SBO, unless India begins a persistent and sizable purchasing campaign. Maybe as time passes there will be evidence that more vegetable oils are going into industrial products, especially in Europe and the U.S. That would be a normal response to information presented at NIOP.

David M. Bartholomew

From Washington

Food use for menhaden oil?

The National Fish Meal and Oil Association set June 1 as the target date to officially file a petition with the Food and Drug Administration for generally recognized as safe (GRAS) status for menhaden oil in foods.

According to Lee Weddig of the National Fish Meal and Oil Association, the group had hoped to file the petition earlier, but delayed doing so after FDA published a rule allowing substances used in foods in other countries to be considered eligible for GRAS status based on common use. According to Weddig, the association has gathered information documenting accepted use of menhaden oil for many years in Europe.

USDA revises fat standards

The U.S. Department of Agriculture has revised its definitions for *lite*, *lean* and other fat content claims used on meat and poultry labels to reflect more accurately the product's fat content. USDA also is requiring specific labeling information on products using these terms.

Under the new policy announced March 31, 1986, the term *extra lean* will be reserved for products containing no more than 5% fat. The terms *lean* and *low fat* can be used only on products containing less than 10% fat, and the amount of fat must be stated on the label. The terms *light*, *lite*, *leaner* and *lower fat* can be used on products containing at least 25% less fat than the majority of such products in the marketplace. A statement explaining the comparison must be included on the label.

In addition, the terms *lean*, *lite* or other fat claims can be part of fanciful names, brand names and trademarks only if the product meets the requirements for that claim and if the claim is explained on the label. However, this restriction does not apply to the use of these terms on brand-name products such as frozen dinners and entrees when the terms indicate a product's usefulness in calorie control. Labels on these products must carry nutrition labeling that includes the fat content.

Processors have one year to change their labels in accordance with the new requirements.

Copies of USDA policy memos 070A and 071A, which explain the new labeling requirements, are available from USDA, Food Safety and Inspection Service, Printing and Distribution Section, Room 0151-South Building, Washington, DC 20250.

Fats, oils usage declines in 1984

Per capita usage of fats and oils in the U.S. declined in 1984 for the first time in several years, USDA date showed, rising again in 1985 but not to the 1983 levels.

Fats and oils consumption in the United States during 1984 was 61.6 lb per person, falling from 63.2 lb per person in 1983, according to a report by Karen L. Bunch in the Winter 1986 issue of *National Food Review*. Consumption included 13.5 lb of animal fats and 48.1 lb of vegetable oils per person.

Consumption of butter, margarine and salad oil declined. Bunch explained supplies of soybean oil for use in margarine, shortening and salad and cooking oils were tight in 1984 due to a drought in the summer of 1983. As a result, retail prices rose by more than 9%. Because of reduced supplies of vegetable oils, manufacturers turned to cheaper priced animal fats.

However, per capita consumption of fats and oils rose an estimated 2% in 1985 (to just below 63 lb per capita), with increased use of shortening, salad oils and edible tallow. With vegetable oil supplies rebounding in 1985, retail prices declined significantly between 1984 and 1985.

Preliminary data for 1986 included predicted per capita consumption of fats and oils will decline 1% to 2% from the 1985 level.

Report available on six colors

The Food and Drug Administration's (FDA) Color Additive Scientific Review Panel has released its report assessing the carcinogenic risk of using six provisionally listed