

The Current Economic Situation as Related to Fats and Oils¹

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It is a pleasure to meet with you today to discuss the current economic situation as it relates to the fats and oils industries. There are several general factors which affect the outlook for fats and oils during the current crop year beginning October 1, 1951. As you



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know, inflation is one of the primary concerns of the day. The most important inflationary factors appear to be these: a) industrial employment and wages are at record levels and are increasing; b) business profits are at high levels; and c) users generally have more money and less debt than at any time in the past. On the other hand, inventories of most raw and finished commodities are relatively high, and this fact should tend to eliminate or at least postpone periods of shortages. Industrial production is at a record level, nearly double that of 1939, and production for defense purposes, while expanding, is still taking a relatively low percentage of total output. It now appears that defense activities during the current crop year will likely require less than 20% of our total industrial production whereas at one time during World War II defense requirements amounted to between 40 and 50% of total output. Inflationary forces also may be restrained to a certain extent by increased taxes and the limited credit controls now in effect as well as by price ceiling regulations.

Sudden changes in the international political situation have had important consequences in the commodity markets during the past few years. These changes cannot be foreseen with accuracy, nor can their effects be properly evaluated. This is particularly true in the case of fats and oils, which are important in peace time and even more important in time of war or threats of war. Fats and oils prices throughout the world began advancing sharply after hostilities began in Korea in June of 1950. Prices advanced in the United States despite a record total production of fats and oils for the 1950-51 crop year. These prices however were considerably below the postwar highs when ceiling prices were imposed by OPS. A good part of the increased domestic and export demand was stockpiling by end-users and as a speculative hedge against possible shortages and inflation.

Despite inflationary pressures and the increased demand for fats and oils to meet the needs of an increasing population and the requirements of the defense program, there are factors which should introduce a measure of stability into the domestic fats and oils situation during the current crop year.

Most important is the fact that the United States has become a net exporter of fats and oils. Exports during the crop year just ended totalled well over two billion pounds, oil content basis—about the same as in 1949-50. Imports into the United States during 1950-51 amounted to about 1.3 billion pounds, resulting in net exports of roughly a billion pounds. Prior to World War II the United States was a net importer to the extent of about 1.5 billion pounds per annum and was dependent upon overseas supplies for about 15% of its domestic requirements. The changed position has been due to several factors.

a) The principal factor, has been the phenomenal growth of soybean production on United States farms and the parallel growth in domestic handling, crushing, and processing facilities.

b) United States flaxseed production has expanded to levels at or above domestic requirements for linseed oil. Since the 1947 crop year the United States has not required any imports of flaxseed or linseed oil. Our program to expand and maintain domestic production was necessary because we had no assurance of imports at reasonable prices to meet industrial requirements.

c) Animal fat production occasioned by the increase in cattle and hog production on our farms has enlarged to meet the demands of our expanding population and higher standard of living and by a material increase in fat rendering facilities. Cattle numbers are still increasing, and hog production is approaching the record high level of 1943-44. The number of renderers producing inedible tallow and grease has risen from a little over 500 in 1940 to about 750 in 1950, and the average size of operation has increased. Production has practically doubled during this time. As a result, we now have tallow and grease production in adequate quantities to meet anticipated domestic needs and also a sizeable quantity for export. This is quite a contrast to our shortage of soap fats only a few years ago when it was necessary to maintain a fat salvage campaign for the recovery of used kitchen fats.

d) Another factor has been the increases in vegetable oil outturns resulting from the expansion in solvent extraction processing facilities. This expansion first took place in the soybean crushing industry, but it is now rapidly spreading to other oilseeds. We estimate that, when facilities now under construction are

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completed, about 60 or 70% of the soybean crushing capacity will consist of solvent extraction equipment, approximately 50% in the case of flaxseed, and around 20% for cottonseed. Solvent mills are also in operation for peanuts and other oilseeds. In addition, this process is being used to some extent in inedible tallow and grease plants. The proportions of the crush handled by solvent mills, no doubt, will exceed these percentages because of the competitive advantage over other methods of extraction. The trend toward solvent plants undoubtedly will be continued within the limitation of availability of materials.

INCREASED production of fats and oils resulting from technological progress in obtaining higher yields per acre and improved extraction efficiency of crushing mills is particularly important during this period of emergency. The United States is already using about all of its available cropland, and such technological progress in effect makes additional acreage available for desirable shifts in production.

You will recall, of course, the numerous and necessary controls placed upon fats and oils during and following World War II. These controls were necessary because of the scarcity, extreme in some cases, caused by the cutting off of normal sources of imports and by the war needs of the United States and our allies.

We are therefore quite fortunate in having planned production programs which have resulted in a bountiful supply of fats and oils, a supply which should meet any foreseen needs, including defense program requirements. An additional safety factor is the national policy of maintaining a strategic stockpile of those commodities for which we are entirely or largely dependent upon imports. In the case of fats and oils, castor, coconut, palm, and sperm oils are being stockpiled.

Today there are only two oils of which there has been any scarcity, castor oil and tung oil. Castor is the only oil for which any form of use control has been necessary in the present situation and this primarily to make oil available for the strategic stockpile. The U. S. Department of Agriculture controls the use and inventory of castor oil under Defense Food Order 1. This action was taken and has been continued in line with recommendations of our Industrial Oils Industry Advisory Committee. The Department is also carrying on a program for the domestic production of castor beans. The acreage in 1950, the first year in which there were any significant plantings in the United States, was 9,000 acres. Under the Department's program this was increased in 1951 to about 80,000 acres. We believe the acreage can be increased to about 200,000 acres in 1952. This would produce approximately 50 million pounds of castor oil and also would provide seed stock for future plantings. Prospects for a sizeable domestic production, 20 to 25 million pounds of oil, in 1951 appear favorable despite the drought in some parts of Texas and Southern Oklahoma. Present indications are that domestic production may be successful on a long-time competitive basis so as to assure essential requirements from domestic production in any time of emergency. To compete successfully however, further improvements in varieties, cultural practices, and harvesting equipment may be necessary.

Tung or Chinawood oil has been in rather short supply in relation to normal usage because of the Chinese embargo. But our domestic production of tung nuts is increasing, and when new orchards come into bearing, there should be a substantial output in the United States. Meanwhile domestic production, plus imports—principally from Argentina—although far less than desirable, are more than adequate to meet essential defense needs.

ON THE basis of the September 1 crop report our over-all production of fats and oils, including exports of oilseeds during the 1951-52 crop year, is expected to total about 12.6 billion pounds. This is roughly 4% above the previous high record established in 1950-51. Of this total approximately 9.1 billion pounds will be edible fats and oils and about 3.5 billion pounds in the inedible category.

Stocks of all fats and oils on August 1, 1951, were somewhat higher than August 1, 1950. There was an increase of about 200 million pounds in stocks of inedibles, but part of this increase was offset by a decrease of about 100 million pounds in stocks of edible fats and oils. It is to be noted that stock data now published by the Bureau of the Census exclude oils held in the strategic stockpile.

Production of cotton oil from the 1951 crop should total about two billion pounds or 57% more than the production from the small 1950 crop. Estimated production of soybean oil, including any oil exported in the form of soybeans, is approximately 2.5 billion pounds, or approximately 8% less than the quantity produced from the 1950 record crop of soybeans. Lard production will be materially larger than a year ago, currently being estimated at 2.9 billion pounds. Tallow and grease production also should be larger, totaling about 2.5 billion pounds for a new record high.

Demand for fats and oils in the United States is expected to continue strong. Per capita disappearance of food fats and oils into domestic civilian trade channels in 1950-51 is estimated at about 44 pounds, as compared with about 44.5 pounds during 1949-50, which was the highest year since 1941. Per capita consumption in 1951-52 is expected to be larger than last year. There have been considerable shifts in consumption between the various fats and oils. The pre-war average per capita consumption of miscellaneous edible oils, including salad and cooking oils, was 6.3 pounds. Since World War II this has steadily increased to almost 9 pounds. During the same time butter consumption has declined from an average of 16.7 pounds to approximately 10 pounds per capita while margarine consumption has increased from an average of less than 3 pounds to over 6 pounds. It is to be noted that margarine consumption has also increased in Canada, which buys some of our crude oils and soybeans. Much of the decrease in butter production and consumption has been caused by a shift to the use of more milk for fluid uses and to some extent to manufactured dairy products. At the same time the per capita production of milk has decreased and is now at the lowest level since 1936.

In the first 10 months of the 1950-51 crop year lard exports and shipments to territories amounted to about 535 million pounds. During recent months exports have been at a rate of over 800 million pounds annually. Lard exports and shipments during the

1937-41 period amounted to about 270 million pounds annually, well below current rates.

Soybean exports during the first 10 months of the 1950-51 crop year amounted to over 26 million bushels. In addition, about 375 million pounds of soybean oil were exported during the same period. Prior to World War II this country exported soybeans and soybean oil equivalent to only about 40 million pounds of oil annually.

Exports of tallow and grease during recent months have been at a rate of about 400 million pounds per annum as compared with an average of about 10 million pounds prior to World War II. There are numerous factors tending to affect the tallow and grease situation. Sales of synthetic detergents have increased sharply during the past five years. Retail sales of synthetic detergents in 1950 were estimated at 1.1 billion pounds, product weight, and increased about 18% during the first six months of 1951 as compared with 1950. There is the possibility of further development of synthetic detergents or possible decline in synthetic detergent production if shortages of benzene, sulphuric acid, or phosphates become more acute. Recognizing the importance of the tallow and grease industries to the domestic economy, the Department of Agriculture has inaugurated research programs to develop new uses and expanded market outlets for these commodities.

A BRIEF review of the world situation indicates that production of fats and oils in the calendar year 1951 is expected to exceed prewar production by about 5%. World per capita consumption of fats and oils for all purposes however is still somewhat below prewar since world population has increased by 12 to 14%. Consumption patterns are not uniform throughout the world, nor are production patterns anything like those existing prior to World War II. Prior to 1941 the principal areas exporting fats and oils were the Philippines, West Africa, India, Indonesia, Argentina, and Manchuria. The United States is now the leading exporter whereas India, Indonesia, and Manchuria are exporting much less today than 10 or 12 years ago. The principal importing areas were, and still are, Western Europe, North America, and Japan.

Per capita consumption in most surplus producing areas is at or above prewar levels. However there are still areas which are below prewar. The largest decline in per capita consumption has been in Japan, at about 70% of the low prewar level, and in the Central European countries, particularly Germany and Austria, where it is now about 75% of prewar. In Southern Europe, excluding France, consumption is about 85% of prewar.

During the past few years the situation has improved greatly in European countries where the greatest shortage existed following World War II. Stocks have been built up to reasonable working levels, and rationing has been discontinued except in the United Kingdom and a few other countries. Effective trade controls are still maintained however in the form of currency restrictions.

The fats and oils situation in the United States for the coming year can be summarized as one of plenty, but not one of any surplus which should cause undue concern. In fact, I believe everyone will agree that it would be desirable to increase annual carryover

stocks of oilseeds and of fats and oils above the levels of the past few years as insurance against the possibility of lower production in future years. There is obviously a need for our exportable surplus at reasonable prices by friendly nations. At present, there are no indicated foreign areas of extreme scarcity, nor are there areas of major crop failures as in Yugoslavia generally and in Mediterranean Basin olives last year which would require substantial exports from the United States. Nevertheless Western Europe is and will continue to be a major deficit area. Supplies from areas other than the United States are still far from adequate to meet European needs.

There are several other factors which should tend to prevent any drastic declines in fats and oils market prices in the United States. The 1951 crop of cottonseed is being supported at \$65.50 per ton, basis grade, f.o.b. gin points. This support price program is being carried out primarily in cooperation with cotton gins and cottonseed oil mills. The Commodity Credit Corporation has made an open offer to cottonseed oil mills under which it agrees to buy cottonseed products at specified prices, where necessary, from mills which have paid not less than the support price for all cottonseed purchased from participating gins. It is to be noted also that cottonseed in the Southwest and far West will be crushed over almost the entire crop year because the crushing capacity in the area is not large enough to crush the crop in the usual short length of time for the Cotton Belt. Soybeans are being supported, at an average price of \$2.45 per bushel, to farmers by means of a loan and purchase agreement program. Then too, there are indications that farmers are holding larger quantities of soybeans than usual at harvest time and that there will be a more orderly marketing of the 1951 crop. The support prices for cottonseed and soybeans are equivalent to crude oil prices at about the 15c level which appears quite reasonable compared with other price levels in the domestic economy.

Flaxseed is being supported at an average of \$2.65 per bushel to farmers for the 1951 crop, and this has been increased to an average of \$3.77 for the 1952 crop as a means of assuring a continuing domestic production in line with industrial needs for linseed oil.

The Department is required by legislation to support the price of tung nuts at not less than 60, nor more than 90% of parity. The support price for the 1950 crop was at the minimum of 60% of parity. No announcement has been made for the 1951 crop, but one is expected at an early date.

Present legislative authority provides adequate authority to control imports of fats and oils in the event that imports threaten our domestic price support programs. At present however, import controls are in effect only for flaxseed, linseed oil, peanuts, and peanut oil and butter in the fats and oils field.

It is a long and well established policy of the Department of Agriculture to provide programs which will result in adequate production of farm commodities at prices reasonable both to farmers and to consumers. This policy is being followed in the field of fats and oils and is one of benefit to the industries with which you work as well as to the producers of the agricultural raw materials and consumers of the end products.

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