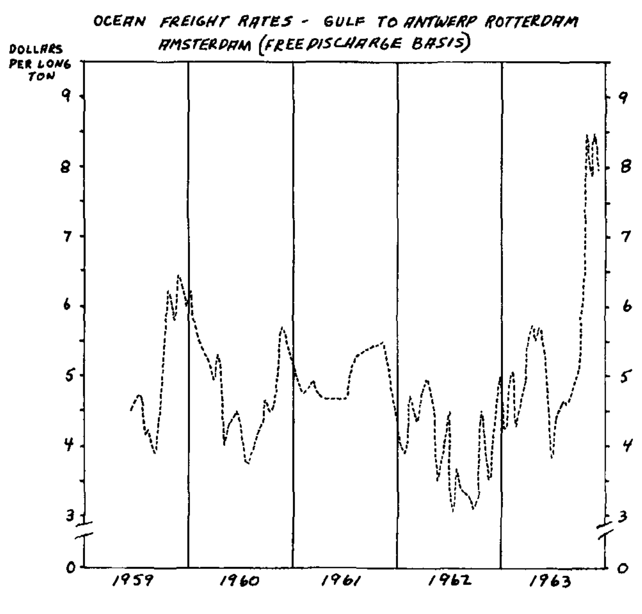
# Bottoms Up

Many commodity prices advanced sharply once it became apparent that the Russians were in the world market for a considerable amount of grains. Up to now the major obvious beneficiaries from the Russian grain moves have been the longs in the wheat futures market, the tax payers in the U.S.A., and the farmers in Canada whose carrying burden is being relieved. However, in any deal as large and as complex as this one, there will be a vast number of secondary and tertiary beneficiaries who are not directly involved in the trades. These range from longshoremen (who have more grain to load and trim), to bankers (who have more paper to shuffle), to futures brokers (who have more uncertainties to trade on). A prominent group of secondary benefit-receivers is the collective ownership of the world's Maritime fleet. The vessel owners probably stand to collect far more than the export firms who do the actual business and take the risks. Commodity exports in general and wheat exports in particular are conducted at startlingly low profit margins—approximately 5¢ a ton appeared to be about the average margin on the Canadian wheat to Russia. This is quite a contrast to the $4.00 to $5.00 a ton increase in ocean freight rates in recent months, all of which can be directly attributed to the Russian grain demand. This was the biggest move in freights since the sharp up-move-down-move that accompanied the Suez crisis, when part of the strength was probably stimulated by the increase in international tension that surrounded the whole affair. This move on the other hand is solidly based on a real expansion in demand.

Strength in freight rates in response to this new and unexpected demand is really not surprising because of a number of internal factors in the ocean freight market. First of course is the fact that this is an enormous and unprecedented increase in demand for space. Second, hauls to the Black Sea are quite long and precise turn-around time at the receiving end is still uncertain. Consequently, every ton of new demand to the Black Sea ports—particularly from the St. Lawrence—is probably the equivalent of two tons of new demand on the Gulf-Amsterdam/Rotterdam/Antwerp run. Third, for an extended period ocean freight rates had been hardly compensatory because of the entrance into world cargo markets of even bigger and faster vessels particularly bulk tankers. This resulted in both lay-ups and scrapping of smaller, slower vessels. It is expensive to extract boats from lay-up and quite difficult to unscrap them. Fourth, after the laid-up vessels are returned to service, there is no way to bring additional space into the trade except by making CIF prices of some items so high as to drive some potential receivers out of the market. Fifth, the rally in freight rates is to some extent going to feed on itself. Recent low rates had driven down the price of the slow, aged, 10,000 ton "Liberties." Late this summer best-of-condition Liberties were being sold for $160,000, not greatly above scrap value. By late fall they had moved up to $300,000. The faster and more sophisticated C-2's went from $450,000 to over $600,000. The economic circle operates here. Actual and potential rental and lease rates of most second hand industrial assets tend to be capitalized into the sale price and subsequently the second buyer tries to recoup the capital with high rentals. Sixth, U.S.A. sanctions on Cuba have forced a lot of uneconomic moves in the world sugar trade. This has kept vessels occupied that otherwise would have been in the grain trade or quickly available to it. The original administration approval of "subsidized" wheat sales to Russia and the East was tied to a specification that U.S.A. flag vessels be given priority "when available." On a practical basis this was always a vain hope and nearly everyone concerned tried to back away from it as far as could gracefully be managed. The U.S.A. *flag* fleet as distinguished from the U.S.A. *owned* fleet is high priced, inadequate to handle the trades, and consists largely of the wrong kind of vessels. For instance, the Committee For American Steamship Lines—the nation's 15 subsidized *flag* operators—immediately put in their oar (no pun) and asked for a piece of the business. Of the 15, only four have trade routes to the Black Sea, and not a single one of the 15 operates a modern bulk carrier. Maybe they thought the wheat could or would be packed in cans or boxes. Suitable U.S.A. *owned* vessels largely fly under flags of convenience, Liberia, Panama, Honduras, etc., and are not eligible. All this contributes to what has been apparently the big snag in Russo-U.S.A. wheat talks—the high cost of U.S.A. vessels. Despite considerable muttering of an $18 price Gulf-Black Sea not being a "fair price" much U.S.A. flag freight has been coming out. U.S.A. operators may stick to their subsidized and allotted portion of true aid cargoes. At one point this summer U.S.A. flag on a wheat aid cargo to Pakistan went at triple the unrestricted flag fixations on the same trade. One U.S.A. exporter now has had a trade approved to East Europe that will move fully on unrestricted flag because U.S.A. flag ships of sufficient size were not available. Do they exist? This presumably breaches the dike and we can probably expect a lot of U.S.A.-Russian wheat trades (if any), to be made based on vessels of such size that the U.S.A. flag fleet is not competitive. What the attitude of longshoremen will be toward a small proportion of U.S.A. flag is uncertain at the moment. The next big snag is which trades to Russia could be labor difficulties. These higher freight rates have the certain effect of increasing the landed cost of commodities to the final buyer. In those items where price resistance is possible due to the state of inventories or to the nature of the item there is likely to be some stock reduction. Protein meals and perhaps beans can be in this category if stocks are adequate to high. U.S.A. meal and bean prices are already on the high side. Oil price action, present and prospective, has confronted the European crusher with the same problems of unfavorable margins that face his American counterpart. It is true that landed prices of competitive protein meals are as surely forced up as U.S.A. soybean meal, as its competitors also come a long distance. But our concern must be an influence toward turning down the total new buying of protein. High freights could also influence the direction of international soybean movements, Quick consultation of a world map reveals the anomalies in movement of beans from central Illinois to Japan while coastal

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Manchurian beans are moved to West Europe. It is true that political influence had a strong bearing on both moves, but from an economic standpoint, only the vessel owners can benefit from the vast excess of ton miles involved. This may mean that buyers and sellers may find their policies being inexorably diluted by their freight economics.

Newspapers in recent days have carried reports that Russia is interested in buying in North America a considerable amount of potable alcohol since grain losses have meant sharply lowered vodka production. If so the alcohol shipments would be just one more thing to compete for space in the world freight markets so that the familiar vodka toasts of "Bottoms Up!" would add to the general pressure to push bottoms up.

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## Renderers Advance Co-Op Test, Promotional Program in Japan

Speaking at the 1963 Convention of The National Renderers Association, held recently at Hollywood Beach, Fla., NRA Executive Director Dean Specht announced finalizing of plans for a two-year cooperative program of extensive research, plus special promotional activities, to increase use of animal fats in Japan.

The program will include research in use of fat in feeding poultry, swine and cattle, and will utilize facilities of sixteen farms and laboratories of Japanese government and industry. Scheduled to start early this year, the program is being activated under the joint NRA-FAS contract for market development work in Japan.

The Association's new market development program in Japan will put major emphasis on tallow in livestock rations and on tallow in oleomargarine. While the demand for margarine in Japan is expected to increase along with incomes, it is felt the U.S. must supply a tallow of high quality to compete for this market.

## Glycerine Production Up

According to the U.S. Dept. of Commerce, production of crude glycerine (including synthetic) for the month of October was 29.4 million lb, up 3.9 million lb from the September figure, and up 7.0 million lb from crude production reported for October 1962.

At the end of October, producers' stocks of crude and refined glycerine totalled 36.3 million lb, up 0.9 million lb from the end of September, and down 18.2 million lb from October last year.

OCTOBER
(Million lb)
PRELIMINARY

| Glycerine 100% basis | Factory production | | Producers' stocks | |
|---|---|---|---|---|
| | Oct. 1963 | Change from Sept. 1963 | End of Oct. 1963 | Change from Sept. 1963 |
| | | % | | % |
| Crude | 29.4 * | +15.3 | 20.2 | +3.6 |
| Refined, all grades | 30.2 | +12.7 | 16.1 | +1.3 |
| | | | 36.3 | +2.5 |

* Includes synthetic glycerine.