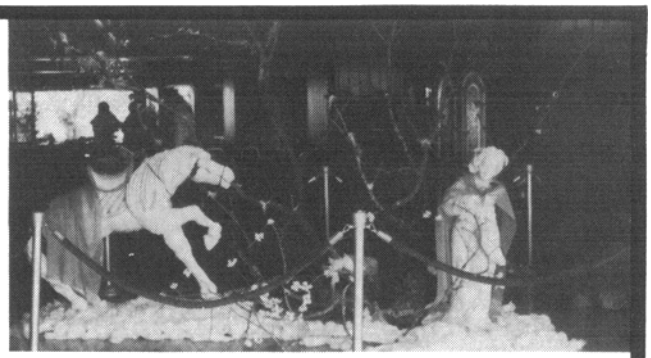
Report from Kuala Lumpur



Palm butter sculptures provided decorations during International Seed Crushers Association Meeting.

President's Review

International Association of Oilseed Crushers 1978[1]

The International seed crushing industry recently has been hampered by an excess of crushing capacity compared to oilseed supplies and by a generally slow recovery from international economic downturns of a few years ago. Larger oilseed crops in 1977, particularly of U.S. soybeans, will help close the gap if the gains are sustained in future years. The effect of further expansion of oilseed crushing capacity is discussed, with the suggestion that programs to aid developing countries be designed to enlarge the total market for oilseeds and their products, rather than merely to displace existing markets.

It is my custom in these reviews to consider how our industry has been faring since the last Congress, the developments in the oilseed, oil, and meal markets, and in the international environment within which we all operate. This year, I do so in Kuala Lumpur and in a country rightly described as one of the miracle economies of Southeast Asia. Malaysia can be justly proud of an economic growth of 6% per annum in the 1960s, a growth of 7% per annum in the first half of the 1970s, a growth of 11% in 1976, and an inflation rate of under 3%. This is the second Congress we have held in a developing country in the past three years thus emphasizing not only the international nature of our association but also Malaysia's importance in world markets. With the emphasis given to palm, Malaysia during the past ten years has risen from a minor place to one of the three most important exporting countries for edible oils. This has been a major contribution to developing countries which are forming an increasing part of world trade in edible oils after many years of decline.

Malaysia's achievements in the world oils and fats market are indeed remarkable and impressive not only in terms of increased palm oil production but also in terms of development of the whole sector. Apart from the established market positions in the USA, India, Pakistan, and Iraq, a wide range of other markets have been developed. Australia, Kenya, Tanzania, Burma, Syria, Madagascar, South Korea, and several Middle East countries have all imported significant quantities of Malaysian oil. Moreover, Malaysia now has established an industrial structure to produce and market processed oils – a considerably more complex undertaking requiring not only production skills but also skills in marketing the more specialized products where consumer requirements of the right qualities and right characteristics are more specific and more demanding. Successful and profitable development of more sophisticated products depends, even more than for crude oil, on maintaining a balance between the growth of the production facilities and the creation of the necessary marketing opportunities. Now over 50% of Malaysian palm oil exports are in processed form. This industrialization of the whole palm oil sector in Malaysia is an impressive achievement.

Before I review developments within the international seed crushing industry, let me first summarize developments in the international political arena, for it has been a year of considerable activity.

First, the Conference on International Economic Cooperation – the North/South dialogue – between the developed and developing world ended in June 1977, after some 18 months of discussions, with little agreement but also without confrontation. This conference, composed of a relatively small number of delegates, covered a wide range of subjects such as energy supplies, aid targets and debt rescheduling, the role of private foreign investment, industrialization for developing countries, and the usual questions related to international commodity agreements and trade liberalization.

All these topics have become permanent subjects for international debate and are embraced under the concept of a new international economic order, borne from resolutions by the developing countries and passed by the United Nations General Assembly in 1974. These resolutions expressed Third World feelings that the present world economic system works to their particular disadvantage. There is little question that Third World demands for improving the existing order are justified. But, there is always the problem of how to achieve these aims in a complex world. It is unfortunate, for the general climate of international investment, however, that this concept of a new economic order contains a strong element of distrust of private foreign investment and of the market mechanism, since these have a role to play.

Some topics of the North/South dialogue are specifically dealt with in other international institutions such as UNCTAD, UNIDO, and the GATT. Currently, UNCTAD meetings are focused on their proposed "Integrated Program for Commodities." The aim is to have a network of

[1]Editorial note: This address was presented by J.E. Th. M. Randag, at the 54th World Congress of the International Association of Seed Crushers held Jan. 30-Feb. 2, 1978, in Kuala Lumpur, Malaysia. Mr. Randag is president of the IASC, which has headquarters at 1 Watergate, London EC4, England.

comprehensive world commodity agreements negotiated within the context of the integrated program. Eighteen commodities were included in this program, including oils and fats. Preparatory meetings have been held by UNCTAD on all the commodities – that for oils and fats being held last June, and a second meeting will be held in a few weeks time.

An essential ingredient of the integrated program is the setting up of a Common Fund to provide the necessary finance. For the ten "core" commodities of the program, which exclude oils and fats, it has been suggested that as much as $6 billion will be required. An agreement in principle to establish such a fund was reached during the North/South dialogue, but there are divergent views between industrialized and developing countries about the purpose for which the Common Fund should be used. These divergent views are in the process of being reconciled, but it will not be easy as one can judge from the breakdown of the Common Fund negotiating conference last December.

The integrated program for commodities and the use of the Common Fund as envisaged by the developing countries are essentially of an interventionist nature. However, at the UNCTAD oils and fats meeting it seems now generally accepted that the complex oils and fats market is not suitable for an international commodity agreement. Instead, attention is being given to a proposal to improve stocking facilities in developing countries and to a proposal that at times of low prices – and what is low has yet to be defined – funds would be made available, presumably from the Common Fund, to purchase edible oils from developing country exporters to be made available to developing importing countries. It would be essential in such an arrangement that there are firm guarantees that existing and potential commercial sales were not displaced. European crushers, for example, export oils to developing countries and could be put at a serious competitive disadvantage. It would be essential under such a proposed scheme to ensure that the only countries to receive oils are those unable to purchase on world markets because of limited foreign exchange resources. In this way, oil imported under such a scheme would constitute an expansion in total markets and not merely a replacement of existing ones.

The question of industrialization in developing countries, also raised in the North/South dialogue, has focused on the oils and fats sector through the United Nations Industrial Development Organization (UNIDO). At the General Conference of UNIDO in March 1975, it was decided to undertake studies on specific measures to encourage the process of industrialization in developing countries. Priority has been given in these studies to agrobased industries including the vegetable oils and fats industry. A UNIDO meeting in Madrid in December considered the whole question of the development of seed crushing and oil processing in the developing countries. Targets for such developments are not enough. UNIDO will have to ensure that uneconomic developments are not encouraged. Crushing plants that are not competitive end up partly utilized, supported by various subsidies, implying that scarce capital resources might have been better used elsewhere. It will be important for UNIDO to consider the international aspects of such crushing so that expansion proposals are viewed not from the narrow standpoint of the country alone but also from the wider viewpoint of how each new plant fits into the world context.

After many delays, progress is being made in the GATT negotiations launched in Tokyo in 1973. Progress in agreeing on a formula for tariff reductions seems likely to make it possible to complete those complex negotiations by 1980 when the time limit set by the U.S. Trade Act expires. These negotiations may contain much not of direct relevance to our industry. However, the GATT is operated on the twin aims of achieving free access to world markets and expanding world trade. To the extent that their achievement contributes to greater world economic development, it benefits us.

While changes in the international sphere are important since they reflect ideas and developments which could affect our operating environment over the long term, we have, as an industry, rather more immediate problems. The profitability of our industry in the 1976/77 season has not been satisfactory. We have suffered first and foremost from a shortage of seeds. In the USA for the 1976 harvest, grains were more competitive for acreage, and fewer soybeans were planted. Then unfavorable weather reduced yields per acre. That crop of 1,265 million bushels was 18% below the previous year. The increase in the South American crops could not offset this decline. Philippines copra production dropped sharply because of earlier adverse rainfall conditions. World cottonseed production showed only a small recovery after the slump of the previous year. A relatively poor groundnut crop in India and little recovery elsewhere brought a lower world production of groundnuts. A poor sunflowerseed crop in Russia further affected world seed availabilities through the Russian purchases of some 2 million tons of soybeans. Total world production of oilseeds – the raw material for our international industry – declined in 1976/77 by 10 million tons or 9%, of which the drop in soybeans alone was 8 million tons. These are not circumstances in which an international seed crushing industry can operate satisfactorily.

Not surprisingly, the world production of all oils and meals declined in the 1976/77 season despite stocks of U.S. soybeans and of rapeseed in Canada being reduced to low levels. The fall in world edible oil production was the largest year-to-year fall ever experienced of over a million tons. With significant buying by China and with India's foreign exchange situation permitting purchases of more than 900,000 tons of edible oils, oils and fats prices rose at an ever faster rate through the season until May 1977. In the meal market, it became clear in the earlier part of the season that world consumption of meal was at levels that could not be sustained. A dramatic rise in meal prices was also required to reduce consumption levels to match available supplies.

The seed supply situation has changed significantly for the current season with a 33% increase in the U.S. soybean crop to a new record level of 1,683 million bushels. The U.S. sunflowerseed crop of one million tons is nearly three times larger than last year. It was these new season supply prospects which caused a major break in oil, meal, and bean prices last May.

The 1976/77 season was, therefore, yet another year of dramatic price swings. Soybean prices began the year at $6.45 per bushel, peaked at over $10 per bushel in April, and ended the year at $5.25 per bushel. Meal in Europe went from $218 per ton to $320 and then fell back to $174 per ton. Oil went from 21 cents per lb to 32 and back to 18 cents per lb. While part of these price movements reflected the basic supply and demand situations, the price swings also incorporated the effect of a fairly dramatic increase in sheer speculation, highlighted by the well publicized activities of speculators and their conflicts with the Commodities Future Trading Commission. There have been many arguments about the value of speculative activity, but I am quite sure that excess speculation is detrimental to the working of the market and that the efforts now being made in the USA to control excesses are welcomed. Certainly when a market is too dominated by speculators, normal commercial trading becomes extremely difficult. In 1977, I am sure that the difficulties of our industry were exacerbated by this speculative activity.

To an outsider it may be puzzling that an industry as large as ours operating in worldwide commodity markets

should be concerned over such matters as the impact of some subsidies in one country, some speculation activity in another, and relatively small market encroachments in others from skimmed milk powder schemes. This concern stems from the two basic characteristics of the seed crushing industry. First, we are a margin business processing raw materials with a small added value. On one side is a large and varied oilseed market, supplying our raw materials, which is subject to such varied influences as weather conditions and governmental actions. On the other side are the large, complex oil and meal markets which are also subject to endless influences. Sandwiched between these two large markets, our industry seeks to earn a margin with, in many cases, highly capitalized plants that need full capacity operations to be profitable. In such a situation, changes in product or oilseed markets that may appear small in relation to the size of those markets can dramatically alter the residual margin between them which is our profit.

Second, we exist in highly competitive and interrelated markets. Crushers would have better product markets if Peru did not produce fish meal; we would have better product markets if Malaysia stopped producing palm oil; and, of course, Malaysia would have better palm oil markets if the USA ceased to grow soybeans and we stopped crushing them. Moreover, worldwide capacities compete for available seeds; margins would be better in one area if capacities elsewhere were closed down. In the long run, I believe, these complex and interrelated markets can only function effectively as free competitive markets unhindered by the various forms of government measures which have appeared from time to time. In no way, therefore, do I complain about the increase in palm oil supplies which has taken place or pass any judgment about its future expansion. Its development is as legitimate in a freely operating market as any other activity seeking to meet the world's oil needs. At the same time, however, I recognize that all participants in the market have a common interest in securing an expansion in the total oils and fats and meal markets so that all sectors may expand. No one has interests in stagnant total markets where, as one sector expands, others contract.

If we are to have expanding total markets so that we all may gain, two basic conditions are necessary. First, good world economic growth is required. Although concerned with a basic foodstuff, our industry suffers along with others from world recessions and disappointing economic growth. Rising incomes are required to generate increasing consumption of livestock products and therefore of oilseed meals. Greater economic growth than already achieved in developing countries, especially if allied to easier foreign exchange positions, would certainly contribute to faster growth in the total oil market. One has only to consider India's purchase last year of more than 900,000 tons of edible oils – ten times more than in the previous year – to realize the possibilities. Admittedly, there is evidence that fat consumption per head stabilizes at high income levels and no longer increases as incomes rise. But even this may not be a sacrosanct fact of life. U.S. edible fat consumption stabilized at around 45 lb per head from the 1930s through to the early 1960s. Since then it has moved up to a peak in 1976 of 56 lb per head – an increase of 24% after the period of stability. Many factors undoubtedly contributed to this development, but I highlight it to indicate that market expansion does not necessarily halt even in high income countries. Thus, our industry is no different from others in requiring a healthy growth in the world economy for its profitable operation.

Second, our products must be priced so as to contribute to expansion of total markets. The expansion of fat consumption in the United States began in the 1960s during a period of relatively low prices and reacted downward in years of high prices, as did total fat consumption in Western Europe. In the developing countries that import oils and fats – and last year these imports amounted to some 3½ million tons – price levels may be crucial to realizing the large growth potential of those markets. The optimum situation might be one in which real prices for oils and meals decline when measured against inflation in consuming and importing countries so that market expansion is generated; one in which producing countries can accept and even contribute to such price developments by increasing productivity through better yields per acre, more efficient harvesting, and better marketing; and one in which a thriving domestic agriculture in developing countries provides the essential base for overall economic development. Indeed, the achievements of Malaysia seem fairly closely allied to such economic development.

One accepts that at certain stages of such a process, foreign exchange problems may arise. It is then that compensatory finance schemes such as the IMF scheme and the EEC's Stabex scheme within the Lome agreement have a role to play until such times as the overall economic development of a country generates adequate export earnings. What is not required if total markets are to expand are international commodity agreements or indexation schemes which raise prices artificially and so constrain the long term expansion in markets.

Whatever happens to the total oil, meal, and oilseed market, our industry remains in a highly competitive environment. In the long term, the unhindered operation of these markets induces the adjustments of crop levels, product markets, trade patterns, and crushing capacities in line with changing world needs. Change, however, is rarely painless, and because adjustments cannot all take place rapidly, difficult short term phases can arise. Our industry appears to be in just such a phase at the moment, and I think it can be summed up in the two words – excess capacity.

In our industry, excess capacity has two quite distinct aspects. First of all, it is capacity levels related to the available supply of seeds. If there is excess capacity in this sense, margins suffer, and competition for limited seed supplies forces prices up compared with those for oil and meal. We have seen the major impact that such an excess capacity has had on margins during 1977. If we compare the situation with three years previously, that is in 1974, we find that world oilseed production available for crushing was down by 4½ million tons with a drop in world soybean production alone of 2½ million. One has only to contemplate the capacity increases in Brazil and elsewhere to grasp the extent to which our industry has been passing through a phase of serious imbalance between capacities and seed supplies.

The world adjustment of imbalances between seed supplies and capacities takes time, perhaps considerable time. Quite apart from all the influences on oilseed supplies, it has to be recognized that new capacity tends to appear in large discrete steps; plants with up to a million ton capacities come on stream at a moment of time. Since this itself can contribute to excess capacity until seed supplies catch up, it emphasizes the necessity for any plans to increase capacity to be considered not only in the light of the circumstances of that particular country but also in the context of world capacities and whether oilseed supplies will permanently be available to fill the new plants.

The situation this year is alleviated by the increased supplies of U.S. soybeans, but there is a sizeable excess capacity to be absorbed before this year of record oilseed production can be said to provide a firm basis for further increases in capacities.

There is a second aspect to the concept of excess capacity in our industry. Our capacities represent not only the demand for seeds but also the supplies of oils and meals. If our product markets are weak, competition between crushers to secure sales high enough to support

capacity operations will tend to force down the price of products relative to seed prices. Over the past few years, the world recession and subsequent disappointing recovery have, in broad terms, not provided a favorable background for our product markets. Since this also has been the period in which seed supplies were reduced, our industry has been affected from both sides. The recipe for good margins over time is the reverse of what we have been experiencing – we need ample seed supplies and strong product markets in relation to capacities.

These considerations highlight the major extent to which our profitability in the end depends on world economic conditions and on how these major commodity markets behave between which our capacities are situated. Poor margins are not a reflection on our own efficiency, the high level of which is indisputable and, indeed, is steadily improving so that we may better cope with difficult market situations. But, clearly, if market conditions are generating poor margins, our industry is faced with a very large task to try to turn market-generated poor margins into reasonable or good margins.

In considering the longer term profitability of our industry, it could be that, after the past period of expansion in capacities, what is now required is a period of consolidation. This would permit world seed supplies to become firmly established at the higher levels necessary to operate profitably existing capacity. At the same time, to contribute to long run profitability, *we need* to see a healthy growth in the world economy to contribute to expanding markets: *we need* to see increasing oilseed supplies not just from higher acreage but from rising yields and productivity in producing countries; *we need* this increase in productivity to contribute to prices being at levels which will encourage faster growth in total oil and meal markets. It is my hope that the President's Review at the next Congress will be able to report the favorable development of all these factors and the beginning of a new and more profitable phase for our industry. ●

The Philippine Coconut Industry Looks Up to Year 2020[1]

The Philippines government has undertaken a massive replanting program that by the year 2000 should result in more than half the nation's coconut acreage being planted to higher yielding varieties. The net result should be to permit the nation to meet rising internal oil markets and supply overseas markets as well. Production in 1977 totaled 2.8 million metric tons, copra basis, compared to almost 10 million metric tons, copra basis, estimated for the year 2000.

The Philippines is the world's largest producer of coconuts. Starting off from 1642 when planting was made compulsory by our Spanish colonizers, there are today 350 million coconut trees in 2.5 million hectares spread over 60 of the country's 71 provinces. This is three-fourths of all land planted to commercial crops. One-third of the population depends on this industry for a livelihood. These rates of specific dependence indicate that within the next 20 to 30 years one-fifth to one-fourth of the country's economic growth rate will have to be propelled by the coconut industry.

Production and export

Philippine coconut products exports in 1977 reached 1,835 million metric tons, copra basis, or 22% below the 2.338 million M.T. exported in 1976. With domestic consumption estimated at 440,000 million metric tons copra basis this year, total 1977 coconut production ran to approximately 2.28 million metric tons, copra terms, for a decline of 17% from the record production of 2.742 million metric tons, copra basis, achieved in 1976.

A number of explanations have been advanced to explain the 1977 shortfall. The principal factor cited is the below-normal rainfall levels during vital months of 1976, particularly in the provinces of Mindanao island, the major production center. The series of earthquakes in 1976 was also said by some observers to have disturbed the fruiting cycle of coconut trees. Some foreign analysts, on the other hand, advanced the "biological need of the trees to rest" after two years of high production and yields (1975 and 1976), as a contributing factor.

[1]This talk was presented by Manual Igual, president of the Coconut Growers Association of the Philippines, during the International Seed Crushers Association meeting during January 1978 in Kuala Lumpur, Malaysia.

Hectarage, tree populations, and yield

Our Bureau of Agricultural Economics reports that coconut hectarage in the Philippines in 1976 (the most widespread survey available) registered at 2.52 million hectares; this being 10% or about 240,000 hectares more than the 2.28 million hectares in 1975. The bulk of the increase was noted in the island of Mindanao where coconut lands increased by 20% to 1.16 million hectares from 0.97 million hectares in 1975.

Total trees planted was recorded at 349 million as of end-1976, 2 million trees more than in 1975. About 298 million or 85% of these are estimated to be bearing. About 11 million or 38% of the total bearing trees were recorded for Mindanao. Bearing trees in Luzon totaled 102 million (35% of total), while in the Visayan islands bearing tree population reached 84 million (28%).

Based on a calculated nuts harvest of about 12.3 billion nuts in 1976, yield per bearing tree registered 41 nuts for an annual yield per hectare of about 1.3 M.T. of copra in 1976 basis an average of 150 trees per hectare.

Composition of exports

In 1960, the product mix was 85% copra, 10% coconut oil, and 7% desiccated coconut. It was in 1970 that the pattern radically changed with 52% coconut oil, 41% copra, and 7% desiccated coconut. In 1977, the mix further changed to 66% coconut oil, 29% copra, and 5% desiccated coconut.

Historical record shows that coconut production expressed by copra volume has grown only by an average of 2.2% a year for the past 20 years (1955-1975), while the trend toward increased processing is indicated by a 7.5% annual increase in coconut oil output during the same period.

Markets

The United States and Western Europe remain the principal markets for Philippines coconut products. In 1977, exports to the U.S. represented 43% of the total consisting of 475,000 M.T. coconut oil and 45,000 M.T. desiccated coconut. The EEC absorbed 38%, of which 475,000 M.T. was copra, 178,000 M.T. coconut oil, and 36,000 M.T. desiccated coconut.