Supplies, markets now favorable

The international oilseed crushing industry has benefitted from increased supplies of seeds and steady demand for its products during the past two years. International economic and political developments such as developments in Europe's Common Agricultural Policy, energy supplies, energy prices and the value of the U S dollar will have significant impact on the industry.

The theme of the IASC Congress this year is "the relationship between economic development and the location of the oil industry." This theme recognizes that our industry, operating on a worldwide scale, is heavily conditioned by the world economic environment – it provides us with opportunities and generates challenges, it influences our raw material supplies and markets, and, most importantly, it affects our profitability and, over time, the location of our industry within the world. While all industries are affected by their economic environment, this theme is of special relevance to the seed crushing industry. First, being at the first stage of processing an agricultural product, our gross margins and added values are small and, in comparison with many other industries, highly sensitive to changes in the economic environment. Second, our industry, no matter where located, is sensitive to economic influences throughout the world – developments in countries such as Brazil, Malaysia, the Philippines and the USA will be as important to a Dutch crusher as economic developments in the Netherlands itself. The influences affecting our industry stretch across frontiers, backward to the farmers and forward to the consumers of oil and meal.

Economic forces since our last Congress in Kuala Lumpur have combined together to usher in a new phase of expansion and improved profitability for the international seed crushing industry. There has been a far better utilization of refinery capacities and in this area, as well as seed crushing. the burden of excess capacities has been considerably reduced. Inevitably, crushing experiences will differ between countries but, at the world level, more favorable conditions have developed in two crucial sectors – the availability of seed supplies and the strength of product markets.

From 1974 to 1977, there was very little increase in the world crush of oilseeds at around 105 million tons. Not surprisingly, excess capacity developed, causing margins generally to be squeezed. But, in the present season, the world crush of all oilseeds will be around 130 million tons, representing an increase of more than 20% over two years. Such an increase indicates the extent to which excess capacity had developed earlier, but it now establishes a much healthier relationship between seed supplies and capacities. Much of the increase in seed supplies is attributable to the North American crops of soybeans, sunflowerseed and rapeseed. Over these two years, the US soybean crop rose by 15 million tons to exceed 50 million, the US sunflowerseed crop rose from under 400,000 tons to 1.75 million tons, and the Canadian rapeseed crop reached 3.5 million tons from less than a million. These three North American crops contribute some 40% of the world's seed availabilities, over 40% of world exports of vegetable oils. The United States has now surpassed the Russian/Eastern Europe region as the most important exporter of sunflower oil – that is, if we combine seed and oil together in oil terms.

Underlying the major expansion in these oilseed crops since 1976 was the operation of perhaps the most important economic influence on our industry – the shifts of acreage into and out of oilseeds in North America in response to the market situation for feed grains and wheat competing for the same land. From the 1971-73 period, feed grains and wheat shortages developed as some heavy world demand, particularly from Russia, met a situation in which the USA had been taking land out of production to correct the surplus tendencies of the 1960s. The effect of the shortages and high grain prices from the early 1970s was to reduce significantly the acreages planted to oilseeds. In 1976, the Canadian rapeseed acreage was one-third of its 1971 level, the US soybean acreage was 12% below its 1973 level having, with one exception, risen in every one of the previous 24 years, and an incipient expansion in sunflowerseed in the US wheat belt was cut short. Since 1976, however, feed grains and wheat have once again moved back into surplus, their prices have declined to an unfavorable relationship with oilseeds, and acreage has been shifted back into oilseeds on a major scale. Between 1976 and 1978, there was a four-fold increase in the Canadian rapeseed acreage, a 27% increase in the US soybean acreage and a 350% increase in US sunflowerseed acreage with a further increase of some 75% expected in 1979.

U S now most important exporter of sunflower seed oil

The increase in the US sunflowerseed crop has been particularly noteworthy development and has changed the whole world focus in this market. Ten years ago the market was absolutely dominated by the Russian/Eastern European area, which accounted for over 90% of the world's exports of both seed and oil. While this area's exports have dropped sizeably since those days, it is still a significant supplier of oil. But it is the United States that provided 85% of world sunflower seed supplies in 1977 and 74% in 1978. The reduced US share in 1978 does not point to any halt to the US expansion – indeed, 1978 US seed exports of 1.3 million tons were double those of 1977. It reflects increased crops and exports from many other countries – the most significant being Argentina, which exported seed for the first time ever in 1978.

Thus, for much of the world's seed crushing industry, the earlier unfavorable relationship between seed supplies and capacities and the present, more favorable situation, can be traced to a large extent to the changing situation

[1]This address was presented by J.E. Th. M. Randag at the 55th World Congress of the International Association of Seed Crushers held this spring in The Netherlands. Mr. Randag is president of the IASC, which has headquarters at 1 Watergate, London EC4, England.

in North America. It is inevitable that world crusing capacities and seed supplies will move out of line from time to time and cause fluctuations in profitability in view of (1) the time required to plan and to bring new capacities on stream, and (2) the random influences such as weather on annual crop sizes. But swings in profitability will be exacerbated if at the same time feed grains and wheat are oscillating between shortages and surpluses. The world seed crushing industry, therefore, has a special interest in the US government getting the right policy for its grains. A reserve grain stock seems desirable to act as a cushion and safeguard against the uncertain reaction of farmers to set-aside programs, and against the vagaries of weather conditions. Stock adjustments to provide some year-to-year stability in feed grain and wheat supplies probably would also be an important contribution to greater stability in world oilseed markets, in the raw material supplies to our industry, and in our profitability.

Outside of North America, early expectations for the 1979 soybean crop in Brazil had to be revised downward quite sharply following serious drought conditions for the second consecutive year. Nevertheless, the crop has not been as badly affected as last year; a crop of 11 million tons seems generally to be expected. Moreover, another large increase in the Argentine soybean crop has been achieved. This year's crop of 3.25 million tons is 25% above last year and more than double the crop of two years ago. These South American crops are providing a useful 2.5 million tons more soybeans than last year.

Soybeans, sunflowerseed and rapeseed account for some 70% of the world's crush and 90% of the world's trade in oilseeds. A large proportion of other oilseeds thus are crushed in the producing countries. Variations in seed supplies for crushers in those countries will reflect the particular development of local crops. The most pronounced changes, however, have been the sharp drop in Philippine copra production from the latter months of 1978 and the dwindling supplies of palm kernels. With a larger proportion of production being crushed locally, supplies of these oilseeds to Western Europe have been sharply reduced. However, while weather conditions have been the basic cause of reduced Philippine copra production recently, a major increase in production is in prospect in the long term regardless of weather conditions. The paper presented in Kuala Lumpur by Mr. Manual Igual in 1977 pointed out that extensive replanting of existing coconut areas with new high yielding varieties was scheduled to begin in 1980. A significant upward trend in production is expected from the second half of the 1980s, a trend that should extend well beyond the turn of the century.

India largest single importer of edible oils

The more favorable situation for the world seed crushing industry since 1976 stemming from an increase in seed supplies has been supported by the strength of the oil and meal markets. Between 1973 and 1975, the growth in edible oil consumption in the world was constrained by the high edible oil prices, with very high peaks towards the end of 1974, and the developing world recession. Indeed, between 1973 and 1975, total consumption of edible oils and fats in the enlarged European Community fell by 400,000 tons, concentrated almost entirely in the seed oil sector. Crushers in the Community in producing countries therefore experienced a reduction of 11% in the size of the market. Consumption of edible oils and fats also stagnated in the United States and Japan between 1973 and 1975. But with subsequent renewed economic growth, and lower prices, by 1978 edible oil consumption had risen to earlier levels in the European Community and to higher levels in the USA and Japan. India alone represents a major expansion in oil markets as ample foreign exchange resources have permitted large scale purchases on world markets. With edible oil imports in 1977-78 of 1.3 million tons, compared with only some 100,000 tons two years earlier, India has become the largest single importer of edible oils.

Even more important than the strength of the oil market have been the strong meal markets. The meal and grain shortages, and therefore high feed costs of 1973-74 as well as the impact of the world recession on demand for livestock products, combined to depress conditions in some major meal markets. Even in the EEC, where the livestock sector is protected by the Common Agricultural Policy, meal consumption failed to rise between 1973 and 1975. During the same period meal-consuming animal units in the United States fell by 8%. Between mid-1974 and mid-1975, the profitability indices for five out of the six livestock sectors in the United States fell or remained at depressed levels. Moreover, meal faced greater competition as grain prices fell from the 1974 peaks. Naturally, increasing supplies are reflected in increasing consumption, but the underlying weakness of demand – which is the significant aspect for crushing margins – brought relatively low meal prices.

Since then renewed economic growth has boosted the demand for livestock products and revived livestock profitability. In all but one of the US livestock sectors, profitability indices are at or near record levels; animal numbers and feeding intensities have increased. In the USA, the decline in cattle numbers has stimulated a sharp expansion in the relatively more important meal-consuming pig and poultry sectors. In the EEC, the high cereal prices sustained by the Common Agricultural Policy have favored increased use of cereal substitutes combined with meals in feed formulations; the increase in tapioca imports is the most dramatic manifestation. In total, there has been a considerable strengthening of world markets, giving major support to margins in the seed crushing industry.

There are other major economic developments of considerable significance for our industry – namely the ever increasing cost of energy and its economic repercussions. These have combined to affect seriously the competitive position of Western European crushers, such as here in Holland, compared with US crushers. European energy costs have fully reflected rising oil prices, and energy is becoming nearly as important as labor in the cost structure of many processing plants. In the USA, however, internal energy costs have been held below world price levels, Therefore, US crushers have what is now a significant cost advantage over European crushers. Hence, the more intensive competition in European markets from US meal and in export markets for oil has produced pressure on European crushing margins.

In addition, the US energy prices policy has, by sustaining consumption and oil imports, contributed significantly to the US balance of payments deficit. Not surprisingly, the dominant economic influence in the world over the past 18 months has been the weakness of the US dollar on foreign exchange markets. This too has exerted pressures on European crushing margins. The weakening of the US dollar – or from this side of the world, the strengthening of European currencies – not only lowers the prices of soybeans, meal and oil when expressed in deutschmarks and florins, but it also lowers the gross crushing margin when expressed in these strong currencies. As the dollar weakens, the same gross margin in US dollars to a US crusher becomes an even smaller margin in deutschmarks and florins to European crushers. In these circumstances, European crushers must continually reduce processing costs merely to maintain competitiveness and profitability. This task is made increasingly difficult by a country's own inflation and rising energy costs.

U S energy policies distorting crushing margins

This effect of the weakening dollar in improving the competitive position of US crushers is a particular case of the normal economic consequences for a country experiencing a depreciation in its currency. Such depreciation lowers the costs and prices of its exports, when expressed in foreign currencies, and improves the competitiveness and profitability of its export industries. The usual situation is where a faster rate of inflation and cost increases in one country compared with another is resulting in export industries becoming increasingly uncompetitive, and the depreciation of the currency is necessary to restore competitiveness. The weakening of the US dollar would not be of such concern to Western European crushers if it were merely a reflection of the extent to which crushing costs were rising faster in the USA than in Western Europe. But, of course, exchange rate movements depend on wider economic developments, national policies and, at this time, particularly on the worldwide effects of rising petroleum prices. It is these influences that also have contributed to a weakening of the US dollar beyond the different rates at which US and European crushing costs are rising, and as a result European crushing margins have been severely squeezed.

This particularly difficult phase for European crushers should gradually ease following the new energy policy announced by President Carter a few months ago. If US internal oil prices rise to world levels by September 1981, European and US crushers will ultimately be competing on the basis of the same energy costs, and it is perhaps reasonable to hope that the benefits of cost savings and increasing efficiencies here in Europe are not swallowed up by future exchange rate movements.

These particular circumstances have highlighted the extent to which the international seed crushing industry's profitability is sensitive to the world's general economic and political environment as well as the repercussions of events and policies in individual countries. It is a difficult period for European crushers. This is not to say that other industries are not also influenced by world economic and political developments. It is certainly not to suggest that the sole criterion for judging the desirability of certain economic developments or for determining political decisions should be their impact in our own industry. But the seed crushing industry is in a special situation in that we process large volumes of seeds on small margins – the small gap between the price of seed and the value of the oil and meal. In this situation, economic and political developments that we are unable to influence do not simply make our lives more or less difficult. They can completely eliminate our profits or considerably enhance them, and we have little scope for corrective adjustments within our plants. It is a challenging environment in which to operate and the most difficult situation in which to reach investment decisions. Moreover, because our margins are so susceptible to dramatic changes as a result of political decisions special weight should be given to the potential impact on a large industry such as ours when those decisions are of particular relevance to our operating environment.

Here in the European Community, developments and decisions relating to the Common Agricultural Policy always are relevant to our operating environment. The traditional, social and political justifications of the Common Agricultural Plicy are well understood, but in its operation it has become more and more dominated by surplus disposal problems. The butter surplus was joined by beef surpluses, then skimmed milk powder surpluses, wine lakes, and more recently cereal mountains, and an olive oil problem that will undoubtedly become more acute as the Community is enlarged to include Greece, Spain and Portugal. In simple, but fundamental terms, surpluses arise because prices are fixed at levels which cause production to be higher than can be absorbed into consumption at those prices. It is far from simple to find politically and socially acceptable solutions. But with the cost of CAP absorbing an ever larger proportion of the Community's budget, there is a growing concern to resolve the problems of CAP.

As this resolve is translated into action, the actions should tackle the fundamental structural problem of CAP, and the Commission itself has been suggesting a freeze on prices and a co-responsibility levy on milk production. What disturbs this industry, and other smoothly operating industries, are measures not concerned with the fundamental problems, but directed at the symptoms – the surpluses. Such methods often seek to transfer costs and burdens to other sectors of the economy and largely represent efforts to force consumers to alter their consumption patterns. Proposals for margarine levies, or to make seed oils more expensive relative to olive oil, are never far from the surface. The skim milk powder scheme, actions against tapioca imports and proposals in respect of cereal substitutes in general are all well known examples. To the extent that our oil and meal markets are affected, our small precarious margins are at risk. But even the possibility of ad hoc political measures such as these adds a whole new dimension of uncertainty in trying to plan on the basis of rational assessments of the future economic and political environment. Our industry is accustomed to meeting the challenges of a freely competitive international market – we understand how it works, we benefit if our assessments are right and lose if we are wrong. But those assessments are at risk from ad hoc political measures taken to cope first with one surplus commodity and then another. The establishment of the Common Agricultural Policy on a sound economic basis would provide a more stable framework in which affected industries such as ours could operate.

While world market developments and economic and political environments in USA and Western Europe are of major significance for the international seed crushing industry, we should not forget that crushers in developing countries are also a significant part of our industry. They account for about 30% of the world's crush and process over 80% of their own oilseed crops. Developing countries' needs for oil and meal are increasing rapidly because of population growth and rising incomes. And, in exporting developing countries, the processing of local crops is a normal stage of industrialization, so that the long term trend has been for an increasing proportion of their exports to be in the form of oil and meal rather than oilseeds.

It is, of course, important that crushing plants in such countries should be economically viable and able to compete freely on world markets without permanent support from subsidies. It is understandable that such countries wishing to foster the development of local crushing may impose differential taxes on seed, oil and meal exports. But a major consideration in assessing the long term optimum size of the local crushing industry is the availability of local seed supplies and their fluctuation from one year to the next. Such considerations become vital if crushers are dependent on only one oilseed crop. Without proper allowance for this factor, an overexpansion of local capacity may be encouraged, and difficulties then arise in sustaining capacity utilization and profitability from one year to the next, and over the long term. This point will be well understood by groundnut crushers in West Africa. In allowing for this factor, the optimum size for local crushing industries is likely to always leave seed available for export. Varying crop sizes are then reflected in varying exports rather than in seed availabilities to local crushers. Overseas crushers will have greater flexibility and scope for adjusting to fluctuating supplies. The continued existence of this overseas capacity is important to producing countries to maintain the widest possible markets for their crops. At this time, this is a particularly significant consideration for producers of copra in the Philippines.

I would now like to turn briefly to developments in the international political environment. Developments here may often seem far removed from specific aspects of the seed crushing industry. But, for an international business trading on a world scale, the political relationships between countries are likely to percolate through to such businesses. From this point of view, I regard the most important development as being the agreement in principle to the setting up of a Common Fund for Commodities in connection with UNCTAD's integrated program for commodities. To the Third World, the Common Fund is a major plank in its efforts to improve its economic situstion. And, over three years of difficult negotiations and conference breakdowns, it became increasingly seen as a test of the willingness of developed countries to give proper weight to the problems of the developing world. Apart, therefore, from the specific provisions of the Fund, the agreement will be a significant contribution to avoiding a situation of sterile confrontation and to an easing of tensions between the developed countries and the Third World. The atmosphere of the discussions on economic issues of mutual importance at the Fifth UNCTAD Conference in Manila last month was undoubtedly helped by this agreement on the Common Fund. Admittedly, scope still exists for disagreement since the actual articles have still to be drawn up and a number of countries still have reservations about particular aspects. Nevertheless, the agreement in principle was important.

The Fund itself is modest, amounting in total to $750 million. Early proposals had envisioned a capital base as high as $6,000 million. Of this total of $750 million, $400 million is intended to finance stocks held under individual international commodity agreements. But, of the commodities discussed, agreements for only a very few seem to have some chance of coming into existence. The recent breakdown of negotiations for new agreements on cocoa and wheat illustrate the great difficulties in negotiating international commodity agreements. These are relatively simple markets compared with that for oils and fats, and I think it is now well understood in international circles that the complexities of our markets preclude standard international commodity agreements. Certainly, no proposals exist at this time.

The remaining part of the Fund of $350 million is to be devoted to other measures to help developing countries increase their commodity earnings through such measures as raising productivity, research and development, seeking wider markets and, where appropriate, various forms of diversification. This part of the Fund could turn out to be the more important contributor to the economic development of the Third World.

Meanwhile, the point of final agreement has now been reached in the GATT negotiations, first launched in 1973, to reduce further the tariff and nontariff barriers to international trade. These negotiations have undoubtedly been far more difficult than earlier negotiations during the postwar period. Some points of dispute have still to be completely resolved. This is partly attributable to the fact that nontariff barriers and international codes of conduct are far more difficult to negotiate than conventional tariffs, which have become relatively less important over the years. Moreover, a world economic background characterized by high and persistent unemployment has tended to generate national pressures for more, rather than less, protection. For an international industry such as ours, it is reassuring to see that major trading nations are intent on pursuing the principles of freer international trade. The contribution this may make to world economic growth and efficient trading is important to this industry even if our products are involved only to a small extent.

Whatever the developments in our external environment which I have been reviewing, it is unfortunate that within our industry we have not escaped a tendency common to many commodities for the number of malpractices to increase and for there to be a decline in professional ethics. We have seen or heard of nonexisting shipments of timber in sinking ships, of palm oil shipments from Denmark on nonexisting ships, of groundnut shipments consisting of shells only and of palm kernel shipments on vessels that never sailed. A considerable number of vessels are arrested on arrival at destination or diverted by their captain and the cargo sold without the knowledge of the legal owners or without them having the opportunity to react.

All these shipments were duly covered by a full set of shipping documents, sometimes genuine and sometimes fake, and paid by the final receivers who had to bear the full burden of this modern form of piracy.

I see the origin of this situation in the difficulties in the shipping world associated with the world economic crisis. It is very tempting even for a bona fide shipper to take the opportunity of very cheap freight rates offered by some small ships' owners on the verge of bankruptcy without any risks for themselves. But shippers' reputations and their future credibility is at stake; receivers will have to take action which eventually will be harmful to them, and in the end nobody will be the winner.

Not only have we had these shipping problems, but I have the feeling that our philosphy "my word is my bond," our pride, and the baiss of our prosperity has been tending to deteriorate.

We should perhaps not over-generalize from particular instances, but they remind us that always we need to be watchful to safeguard the high reputation of our industry for honorable dealings. It is the basis on which it is possible for the multitude of international trading operations to be completed smoothly and efficiently.

At the end of my review in Kuala Lumpur, I expressed the hope that various economic factors would combine to bring our industry into a new and more profitable phase. Challenges and difficulties remain as they always will, but on the whole the economic climate for our industry has improved and long may it continue to do so. ●

New AOCS Monograph nears publication

"Geometrical and Positional Fatty Acid Isomers," edited by E.A. Emken and H.J. Dutton, is being published by the American Oil Chemists' Society. The 344-page hard bound monograph will cost $17 for AOCS members and students, $25 for nonmembers. Copies are expected to be available in late September or early October.

Chapter titles and contributors are: Hydrogenation of Fats and Its Significance, Herbert J. Dutton; Analysis and Physical Properties of Isomeric Fatty Acids, Charles R. Scholfield; Nutritional Role of Hydrogenated Fats (in Rats), Roslyn B. Alfin-Slater, Lilla Aftergood; Metabolism of Isomeric Fats in the Laying Hen, Alan C. Lanser; Utilization and Effects of Isomeric Fatty Acids in Humans, Edward A. Emken; Partially Hydrogenated Rapeseed and Marine Oils, Joyce L. Beare-Rogers; Effects of Isomeric Fats on Animal Tissue, Lipid Classes and Atherosclerosis, Fred A. Kummerow; Selective Recognition of Geometric and Positional Isomers of Fatty Acids in vi and in vivo, William E.M. Lands; Distribution of Dietary Geometrical and Positional Isomers in Brain, Heart, Kidney, Liver, Lung, Muscle, Spleen, Adipose and Hepatoma, Randall Wood; The Importance of Double Bond Position in the Metabolism of Unsaturated Fatty Acids, Ralph T. Holman; and Biosynthesis of Long Chain Fatty Acids in Mammalian Systems, Howard Spencer, Anthony T. James. ●