

# Trends in cottonseed processing

*Wayne Martin, president and general manager for Plains Cooperative Oil Mill in Lubbock, Texas, delivered the following remarks to attendees at the 37th annual Oilseed Processing Clinic held March 14-15, 1988, in New Orleans, Louisiana, under sponsorship of the Mississippi Valley Oilseed Processor's Association and the U.S. Department of Agriculture's Southern Regional Research Center. Plains Cooperative Oil Mill is the largest cottonseed crushing facility in the U.S.*

I would like to start by reviewing the history of the cottonseed crushing industry, looking at where we have been and where I think we are going.

Not too many years ago, the cottonseed crushing industry was made up of a multitude of small mills, all producing crude oil which mostly went to a domestic refiner and was used domestically. We have watched this change to the point that a substantial part of the oil being produced today is prime bleachable summer yellow (PBSY). A major part of PBSY goes into the export market. We evolved this way because we could command a premium for our oil in the export market and did not have to rely on the domestic market to move our oil. While this was good for us for several years, it also earned us the reputation in the domestic market as not being a reliable supplier.

Government farm programs also had a major impact on the cottonseed crushing industry. Cottonseed is a by-product of cotton. Restricting cotton acres translates into reduced cottonseed production. Short supplies of cottonseed oil forced refiners and users to look for other sources for their needs, replacing cottonseed oil in their products. The rapid expansion and improvement in the production of soybean oil filled the majority of the needs once filled by cottonseed.

The growth in the use of corn sweeteners has resulted in an increase in the production of corn oil and gives the user yet another alternative to cottonseed oil. Rapid growth in the production of tropical oils was another major factor affecting the oil markets worldwide. Palm oil replaced cottonseed oil in many products.

During this same period, an-

other factor was being born in California. Cottonseed production in California became greater than the crushing capacity, and because of stringent environmental controls, it was difficult if not impossible to increase capacity economically. As a result, California mills were forced to look for markets for whole cottonseed. They found it in the dairy industry. This market grew and spread rapidly to the rest of the country. It is estimated that 35% to 40% of the cottonseed produced in the U.S. today is marketed as whole seed for feed. Today, the crushing capacity in California is far greater than the supply of seed for crushing.

This generally is true for every area of the U.S. It is obvious that we are going to see a reduction in crushing capacity unless the production of cotton increases dramatically. In fact, some may even believe that crushers may go the way of the buggy whip.

I would like to leave the crushing industry momentarily and talk about the refining industry, something I know very little about. As I view it, the refining industry can be classified into two distinct classes: the oilseed crushers and the food manufacturer and independents. About half of the refining capacity is controlled by crushers. At the moment, I will confine my remarks to the independent refiner. Not too many years ago, the refiner did not have as many oils to choose from and relied on the nearest available suppliers. He had a good relationship with those suppliers, and it allowed him to adjust his business to the supply. In other words, he had reliable suppliers, and the oil mills had a reliable market for their oil.

For whatever reasons, this re-



lationship has changed over the past several years. The refiner would probably say the oil mills ceased to be reliable suppliers, and the mills would probably say that the refiners ceased to be a reliable market. In the case of cottonseed oil, both statements probably are true. With the rapid expansion of the soybean crushing industry and the availability of imported oils, the refiner became less dependent on cottonseed oil. Cottonseed mills, to some extent, during this same period were enjoying premiums in the export market and became less dependent on the refineries for a market.

The refiner today is driven almost totally by the wants and needs of the food manufacturer and/or the retail consumer market if he sells into that market. The refiner is not tied to any specific oil and is able to switch from one to another limited only by his ability to supply his market with an oil or product that fulfills the needs of his customer. The refiner is very price-sensitive and will use the lowest-priced oil that will satisfy the functional properties required in the end product.

Before you get the idea that I think the refiner has it made, let me assure you that is not the case. The independent refiner is becoming more and more dependent on the large user to utilize his capacity. So what you have in most cases are refineries running at or near break-even with a major part of their capacity and relying on smaller specialty markets for their margins. I am not finding fault with it; it appears to be working quite

well and may continue to for some time.

I would like to come back to the cottonseed oil mills and talk about some of our mistakes and what I think we will do to rectify them. It is obvious that cottonseed oil mills in general have not been very concerned with what our customers needed or wanted. We produced a product and said, "Here it is; buy it while I have it, and do without it when I don't. I don't care whether you can make a profit with it or whether I might do something to improve the quality. Just so long as I can meet the minimum quality standards, that is all that matters. If I produce a better quality, I don't get paid for it." We are all guilty to some extent of having that attitude. With that kind of attitude, we should not complain too much if our traditional customers deserted us. Our customers no longer are dependent on us; they have alternatives. Unfortunately, most cottonseed oil mills don't have the luxury of an alternative. Alternate crops are limited in volumes

that don't make economic sense. Most of us are tied to crushing cottonseed or nothing.

What does the future hold? Are we going to witness the complete demise of the cottonseed crushing industry? I think not, but it is going to be different. In my opinion, we are going to see a rather rapid consolidation of the cottonseed crushing industry into fewer and stronger hands. Crushing capacity will be reduced to better reflect the supply of cottonseed available for crushing. The cottonseed crusher of the future is going to be very sensitive to the needs of the end-user and will know more about his products than we do today. We will find those markets where cottonseed oil fits the best and promote our product to the consuming public.

We will become reliable suppliers willing to make long-term contracts and ensure the user of a supply of oil. In order to do this, we also will become refiners, probably with the capability of handling other oils in addition to whatever

cottonseed oil we might produce.

I know that some of my friends in the refining industry and some of my friends in the crushing industry don't like to believe my last remarks, but all you have to do is trace the soybean industry over the past few years to see that this already has taken place for soybeans. We have seen the consolidation of the soybean industry into very few entities, almost all of which control or operate refineries. I think the same conditions will dictate that this take place in cottonseed. It is the only way we can become competitive in the domestic market.

I may have painted what looks like a pessimistic view of our industry, but I really am quite optimistic about the future of the cottonseed industry. We will do those things that are necessary to our continued success, and we will remain a viable force in the vegetable oil market. Our key to the future will be to find our niche in the market and service it well.

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Edited by

David R. Erickson, Everett H. Pryde, Ordean L. Brekke,  
Timothy L. Mounts and Richard A. Falb

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