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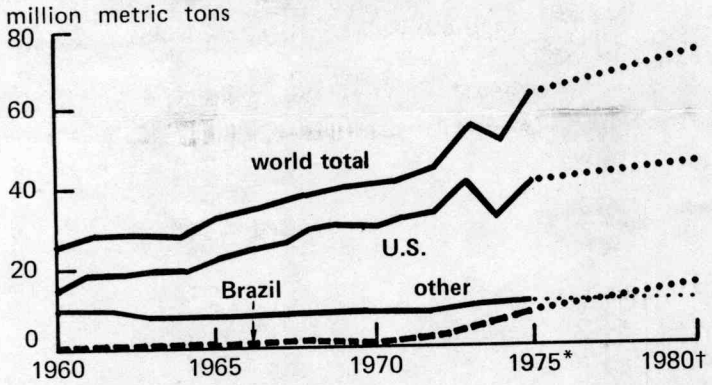
U.S. SOYBEAN PRODUCERS are experiencing increasing competition, both indirect and direct, from other areas of the world. Production of palm oil—a substitute for soybean oil—is increasing dramatically. Brazilian farmers have expanded soybean acreage rapidly in recent years, a trend that appears likely to continue. And in a more short-run perspective, the European Community (EC) has implemented a program to induce feed manufacturers to use nonfat dry milk as a protein substitute for soybean meal.

World production of soybeans



*Estimated
†Projected

Palm oil can be substituted for soybean oil as a major ingredient in shortening and can be used as a minor ingredient in a number of foods and oil-fat products. About one-third of all fats and oils used in foods and related products go into shortening. Palm oil constituted slightly over 20 percent of the total fats and oils used to manufacture shortening in the United States during 1975, an eightfold increase since 1970. However, palm oil is somewhat different than most vegetable oils in that it is high in saturated fat—even higher than lard. Consequently, the increased utilization of palm oil in edible foods may come under close scrutiny from those concerned with saturated fat intake raising the cholesterol level of diets.

World palm oil production has risen 67 percent in the past five years and world exports of palm oil have more than doubled. West Malaysia is the leading producer, accounting for nearly 43 percent of world production. The expanded acreage and production could result in burdensome palm oil supplies for a number of years. Although there is a four-year lag between planting and the first harvest, oil palm remains productive for 30 years, reaching peak production in about ten years.

Declines in U.S. soybean oil production in 1974 coupled with the expanded palm oil production brought about sharp increases in palm oil imports, a reflection of the price spreads in favor of palm oil. During the early seventies palm oil prices averaged about 2 cents per pound under soybean oil prices. The USDA recently estimated the breakeven point for importing Malaysian palm oil to the United States at about 12 cents per pound. Consequently, it is possible that the economic advantage of palm oil may be reduced when soybean oil prices drop near or below the 14 cents per pound level.

The USDA has also recently expressed the position that extreme caution should be taken when providing foreign aid for production aimed solely at export. Part of the expansion in world palm oil production in recent years has come about through loans from international lending institutions such as the World Bank. USDA officials point out that such assistance might be better directed at helping raise food production in countries that are chronically food deficient rather than countries that export their production and disrupt markets of existing exporters. (Malaysia exports nearly all of their palm oil.)

Brazilian soybean production is expected to increase by about 16 percent in 1976. Soybean production in 1975 was 30 times greater than the 1964 level. This record of expansion has permitted Brazil to capture a much larger share of the world markets for soybeans and products. However, Brazil has recently agreed to phase out its export subsidy on soybean oil. Nevertheless, the government recently announced a system to guarantee soybean producers a minimum price and to stimulate exports of soybeans and products. Brazilian farmers are assured of receiving at least $3.56 per bushel of soybeans when the new program is implemented, a factor that will likely prolong the current expansion phase.

A growing nonfat dry milk surplus has prompted the EC to adopt a program that encourages feed producers to use some nonfat dry milk in place of soybean meal. Soybean meal importers must deposit the equivalent of $33 into a special fund for each metric ton of soybean meal purchased. The deposit is returned when 110 pounds of nonfat dry milk is purchased and used in feed manufacturing or is denatured. However, the nonfat dry milk is about four times more expensive than the vegetable meal. Consequently, **some feed manufacturers have forfeited their deposits rather than buy dried milk. Nevertheless, the program will curtail EC demand for soybean meal.**

Terry Francl
Agricultural Economist