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Submitted by: Julean Arnold, Commercial Attache

Subject: TUNG OIL

U.S. DEPT. OF COM. COMM.

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FOREIGN MAIL

In a recent conversation at Chungking with Dr. P. W. Tsou, Chairman of the Foreign Trade Commission of the Chungking Government, he informed me that the contract of the Universal Trading Corporation with the Export-Import Bank in Washington calls for the deliveries of tung oil as follows:

1939 - 25,000 tons
 1940 - 35,000 tons
 1941 - 40,000 tons
 1942 - 40,000 tons
 1943 - 60,000 tons

TOTAL - 200,000 tons

Dr. Tsou stated that up to the middle of July of this year, 14,000 tons had already been shipped, 1,000 tons were in storage in Hong Kong, and 18,000 tons were in the possession of the Commission here in China. It is estimated that at the end of the year the Commission will have in hand approximately 18,000 tons of tung oil made up as follows:

Now en route to Chungking - 10,295 tons
 at Wanh sien - 421 tons
 at Iping - 279 tons
 All SZECHWAN PROVINCE - 14,995 tons
 En route from Kwangsi to Hong Kong - 3,000 tons
 TOTAL - 17,995 tons

The monthly movements of tung oil, Dr. Tsou states, are as follows:

Szechwan Province - 3,000 tons
 Kwangsi Province - 1,500 tons
 Hunan Province - 1,000 tons
 TOTAL - 5,500 tons

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It is interesting to note that no tung oil has been shipped by the Yunnan-Burma highway to Rangoon for export from that port. In fact, trucks return empty over the Yunnan-Burma highway. Some of the tung oil from Szechwan goes down to Kunming for transportation over the railway to Haiphong and some goes by trucks through Kwangsi Province to Haiphong. The Hunan oil also goes down through Kwangsi to Haiphong. Some of the oil from Kwangsi Province goes down the West River to Hong Kong. In fact, it appears that practically all of the oil is shipped first to Hong Kong and then transshipped from there to the United States. Transportation is a commanding factor in the present price situation. There is a very heavy leakage both in transportation and in handling at Haiphong.

One of the important problems in the shipment of the oil is the securing of sufficient containers. Gasoline drums and tins are used most extensively, although some of the oil is carried overland in bamboo baskets.

In conversation with Mr. W. W. Wong, Director of the Kwangsi Provincial Transportation Commission, he informed me that Kwangsi's annual production of tung oil aggregates HK\$40 million in value. The price paid for tung oil in Kwangsi Province on July 1 was HK\$50 per picul, (1 picul is equivalent to 133-1/3 lbs.), which amounted to 5 cents U. S. Currency per lb., figuring HK\$42 as equivalent to yuan 100. The price before the Sino-Japanese war was HK\$20 per picul, which at the then existing rate of exchange was likewise equivalent to about 5 cents U. S. currency per lb. The prices quoted above are those paid to the farmers, as tung oil was selling in Hong Kong on July 1 at HK\$80 per picul.

In regard to the production of tung oil in Kwangsi Province, Mr. Wong states that it is increasing very substantially. Land is very cheap. In fact, according to his statement, farmers are often given large tracts of

hill land free, provided they plant them in tung trees. The fifth day of the fifth moon has been set aside in Kwangsi Province as tung tree day. The tung blossom is the provincial flower of Kwangsi.

Mr. Wong says the tung trees in Kwangsi flourish best if planted where they get the morning sun and that there are two varieties of tung trees, namely a short-lived variety which lives but 10 years and a long-lived variety which can still produce at 50 years. The ideal planting is to alternate the long-lived and short-lived trees approximately 25 feet apart and after about 10 years the short-lived trees will die, making room for the larger long-lived trees which, when mature, require more space, -- i.e. 50 feet between trees. The short-lived variety, according to his statement, shows leaves with round tips and begins bearing in four years, whereas the long-lived trees start bearing in six years. The farmers seem to fertilize only for the first few years and find that land that is in proximity to limestone formations as better adapted for growing tung trees than any other. Peanuts are used as a cover crop, so Mr. Wong states.

It may be worth while for our tung oil interests in America to arrange to send a properly qualified man to Kwangsi Province to secure information which could be helpful in spreading the development of the industry in certain of our southern states.

1/ Enclosed is a copy of a report on tung oil for the first half of 1939 as compiled by A. G. Botelho & Co., tung oil exporters, Hong Kong.

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C O P Y

TUNG OIL REPORT FOR THE FIRST HALF OF 1939

The year started with further heavy shipments of tung oil by the Chinese Government concerns Fu Hua and China Vegetable Oil Corp. to America until it was estimated that the Universal Trading Corp. held stocks in New York amounting to over 12,000 tons.

For the second quarter the machinery set up by the Chinese Government to control the tung oil trade became so effective that merchants adopted a most disinterested attitude towards the tung oil market in general.

Although small quantities of contraband tung oil imported into Hong Kong by smugglers were available, Chinese Government dummy concerns readily acquired these supplies at prices over the foreign markets which action further confused local exporters.

It therefore became apparent that the tung oil business had assumed a manipulated condition which rested solely in the actions of the Chinese Government.

Factory and warehouse stocks in America at the beginning of the year amounted to 30,000 tons and the first quarter saw an increase in consumption of from 10,395 tons in 1938 to 12,858 tons in 1939, — roughly 25%. Figures for the second quarter are not yet available, but it is reasonable to assume that a further increase in consumption over the first quarter has taken place, as with the coming of spring there is usually an improvement in the paint and varnish industry, the largest users of tung oil.

Although stocks held by the Universal Trading Corp. hung as a cloud over the market, their refusal to sell spot oil in America, caused a shortage of free tung oil amongst the trade, and with an increase in consumption, manufacturers began to draw for supplies upon importers, who in turn could not secure replacement from the Orient, all free oil being readily acquired by Chinese Government concerns in Hong Kong.

From a low point in February of HK\$58.00 per picul or 13-3/4 cents Hong Kong currency per lb., the market advanced continuously until at the end of June it had reached HK\$90.00 per picul or 20-1/2 cents Hong Kong currency per lb. Exporters were active up to March when it became apparent that the market was being manipulated both ways and importers in America were not following the advance in accordance with instructions from consumers.

However, in May it appears the Universal Trading Corp. attempted to arrest the rapid advance in price and sold small quantities of spot tung oil at around 17 cents Hong Kong currency per lb., but they did not care to sell enough oil to meet consumer requirements, with the result that a further rapid advance took place to 20 cents Hong Kong currency.

With the high price for tung oil prevailing, American importers have been lobbying for Washington action to force the Chinese Government to adopt a more conciliatory attitude towards the trade as it appears that the Universal Trading Corp. are anxious to develop the consumer business direct, thus eliminating the American importer entirely just as they have done with the China exporter.

If we are to judge by the actual arrivals into Hong Kong of tung oil for the first 5 months there is no justification for any assumption that a shortage does exist as the following figures show:-

	<u>1938</u>				<u>1939</u>			
Jan.	78,190	pcls.	or	5,212 tons	49,042	pcls.	or	3,270 tons
Feb.	53,507	"	"	3,567 "	54,776	"	"	3,652 "
March	59,697	"	"	3,979 "	48,923	"	"	3,261 "
Apr.	40,563	"	"	2,704 "	83,349	"	"	5,556 "
May	91,764	"	"	6,117 "	57,768	"	"	3,851 "
	<u>323,721 pcls. or 21,579 tons</u>				<u>293,858 pcls. or 19,590 tons</u>			

(taken from the official figures Imports & Exports Dept. Statistical Branch)

Sources of supply for the above tung oil continued to be Wenchow, Pakhoi and Haiphong, but as we go to press the Japanese have declared their intention of closing Wenchow which has been a good source of supply for Chekiang tung oil.

This action on the part of the Japanese will reduce arrivals by about 1,700 tons monthly but the shortage can be partially offset through improved facilities in Haiphong or opening up the Burma route and now naturally, any improvement in arrivals, will have to be the work of the Chinese Government since merchants are no longer interested in the foreign markets as they are compelled to dispose of their stocks to collecting agencies in the exterior points vested in China Vegetable Oil Corp. and Fu Hua.

We understand a new tank storage is being erected in Haiphong by the Chinese Government and improved facilities have been promised by the French authorities so that a heavier movement from that direction may be expected for the second half of this year.

Shipments from Hong Kong for the first half of the year 1939 totalled 22,828 tons of 2,000 lbs. divided as follows:-

	<u>To America</u>	<u>To Europe</u>
Jan.	2,150 tons	1,305 tons
Feb.	3,890 "	757 "
March	1,925 "	731 "
Apr.	4,162 "	755 "
May	3,232 "	1,213 "
June	2,130 "	578 "
	<u>17,489 tons</u>	<u>5,339 tons</u>

of the above shipments by Fu Hua and China Vegetable Oil Corp. to America totalled 10,195 tons and to Europe 1,700 tons.

Price range 1st. half year 1939:-

EXPORT PRICE IN HK\$ PER PICUL F.O.B. LIGHTER.

<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
\$61.00	\$60.00	\$58.00	\$65.00	\$70.00	\$90.00

IMPORT PRICE IN U.S. CENTS PER LB. EX TANK NEW YORK.

<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
14	14-1/2	13.85	14-3/4	16.80	20

RATE FOR US\$ SIGHT LETTER OF CREDIT ON NEW YORK.

<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>
29-5/16	29-3/16	29-3/16	28-5/8	29-1/8	29-1/4