

**AUTHOR'S NOTE**

A major and often determining factor in soybean prices during the 1954 to 1963 period was the P.L. 480 sales program for surplus soybean and cottonseed oils. Upon taking office in 1953, the Eisenhower administration found itself the owner of a large quantity of oil that had been accumulated under price-support programs. There was an export market for the oil, but the countries that needed oil did not have the dollars to pay for it. Export companies were authorized to sell oil for foreign currencies and trade them to the U.S. government for dollars. The foreign currencies were used to pay U.S. costs in the recipient countries and to finance development projects. What the USDA was doing about P.L. 480 allocations was a major factor in soybean prices.

Allied Crude Vegetable Oil Refining Company, owned and directed by one Tino De Angelis, was a major player in the export program. Tino was the focus of attention he seemed to be able to undersell his competitors and mystified the market for a long time. What he was doing became clear when the De Angelis house of cards was brought down in bankruptcy. The series of events and their culmination were the major commodity event of its time. Norman C. Miller, of the *Wall Street Journal*, was awarded the Pulitzer Prize for a series of stories he wrote about the affair. He subsequently wrote a book entitled *The Great Salad Oil Swindle* (Coward-McCann, 1965).

De Angelis's bankruptcy was triggered by a margin call on the massive futures positions held. As was to be expected, a strong antifutures trading cry went up, and further regulative power was proposed in Congress.

On June 3, 1964, I received a letter from Warren Collins, Assistant Director, Commodity Division, American Farm Bureau Federation, asking for my views on proposed legislation and my thoughts regarding how the salad oil scandal developed and how this might have been prevented. Thus, the Collins Letter.

## THE COLLINS LETTER: TINO DE ANGELIS

June 3, 1964

CHAPTER 22

Mr. W. E. Collins, Assistant Director  
Commodity Division  
American Farm Bureau Federation  
Merchandise Mart Plaza  
Chicago, Illinois 60654

Dear Warren:

I have not yet seen S. 2859. I have asked for a copy, but if you have one available perhaps you should send it to me.

There is not any brief way to describe the vegetable oil scandal, nor are all of the facts known. About 1954, the United States started exporting substantial amounts of soybean oil to Spain under P.L. 480. A substantial share of the business was handled by Allied Crude Vegetable Oil Refining Company. As exports of various fats and oils expanded, this company became a very important market factor. They seemed to be able to undersell the competition and to get the bulk of the business. From the mid-1950s until last fall, conversations about the probable price trends were dominated by speculation about the position and actions of Tino De Angelis of Allied. He was known to have built up a very large cash position in expectation of export business. In the spring of 1961, the price of oil increased rapidly and for no apparent reason except that Allied was buying heavily. I was quite surprised by the price increase at the time. As exports failed to materialize, the price declined sharply into the fall of the year. About that time, the United States Department of Agriculture purchased some 500 million pounds of oil for charitable donation. It is my impression that Allied was the principal supplier.

The price of oil was rather low and draggy from the fall of 1961 until the fall of 1963. It was apparent that Allied was carrying huge inventories, paying large storage charges and high rates of interest, and was doing a lot of export business at prices that appeared to be below cost.

As the Russian wheat business developed, stories of prospective oil exports circulated and the price increased sharply into November.

Quite suddenly, Allied declared bankruptcy. It was not surprising that the high costs of carrying oil and transactions at losses should finally catch up and cause a failure, but it was surprising that it should occur on a rising market. It was also surprising that one firm could stand such costs and losses for so long. How they did it was subsequently to become clear.

Following the bankruptcy, the people who presented warehouse receipts found that there was practically no oil. These were American Express warehouse receipts. It now appears that there were warehouse receipts out for about 800 million pounds, an amount nearly equal to the whole U.S. supply, and a far greater amount than could possibly have been at the New Jersey tank farm. It is clear that the costs and losses were paid out of fraudulently acquired funds involving warehouse receipts. Corruptions, counterfeiting, bribery, etc., were obviously rampant. This is the core of the scandal.

When Allied and De Angelis started trading in cottonseed oil futures and soybean oil futures is not readily apparent. Their market actions were apparent to the trade for some years, especially from 1961 on. Their market position seemed to be basically long. Their actions appeared to be the opposite of hedges; they appeared to go long futures to lend strength to a large long cash position.

By last November, Allied had accumulated a huge long position in cottonseed oil futures on the New York Produce Exchange and in soybean oil futures on the Chicago Board of Trade. Even though it did not have access to the position records, the Chicago Board of Trade raised margin requirements. De Angelis could not come up with the money and went into bankruptcy. Ira Haupt had extended De Angelis credit for margin as a hedger and, consequently, went bankrupt as cottonseed oil futures prices declined. The forced liquidation at Chicago was picked up by other traders, and the price quickly stabilized and recovered. The large ownership was diffused quickly, and the price did not change greatly. No funds of futures market customers were endangered, and all losses of the longs were paid.

Three things seem reasonably clear:

First, a large cash position was built up to the point of dominating the market and could be construed as manipulative. This is quite legal. I know of no way to prevent someone from engrossing a cash market if he wants to, and has enough money. It has proved to be stupid in the past because a price that is put above market value will finally come back down at the expense of the person engrossing the market. The history of these is a pretty good preventative. De Angelis blames the government for his troubles. This blame is misplaced. However, I doubt that the whole thing could have happened in the absence of surplus disposal programs of the USDA. Also, the history of speculation about what De Angelis was doing

often suggested something less than purely competitive actions by officials of governments who receive P.L. 480 allocations.

Second, there was extensive fraud, corruption, bribery, etc., in warehousing. Possibly, some closer warehouse supervision is desirable. American Express Warehousing Company performed very badly. It did not have enough money to guarantee the quantities of product that it attempted to guarantee. The parent company, American Express, has only limited liability. Warehouses take on a public utility aspect. It is important that receipts be valid. In this connection, it is worth noting that none of the missing soybean oil was in warehouses regular for delivery on the Chicago Board of Trade. For years, the exchange supervision of warehouses regular for delivery that duplicates supervision by the federal government has looked a little silly. It looks less so now.

Third, DeAngelis and Allied Crude turned to futures market operations to bolster cash operations. This was finally their undoing. The Chicago Board of Trade got worried about how good the financing behind soybean oil contracts was, and took action to make it good. This action unstuck the house of cards and it fell. They took this action soon enough that the contracts were financially sound. No customer lost money because of invalid contracts or financial insolvency of any other customer or any agent through whom he traded. No exchange lost money or had to assume customer losses. De Angelis and his assortment of companies was in trouble with the courts, the federal government, and the trade for years; and no one seemed able to do much about it. When his actions threatened the validity of futures contracts, the commodity exchanges clobbered him. He successfully dominated the cash vegetable oil markets for years, but when he tangled with the futures markets he lost.

A lot of people lost a lot of money out of this affair. One must certainly sympathize with those who held American Express warehouse receipts that proved to be worthless and wonder if better warehouse supervision is needed.

Past this point, I have a limited amount of sympathy for the losers. Ira Haupt Company, for example, lost heavily. They extended huge credits to Allied on the basis that it was hedging, which it obviously was not. One can only explain such imprudent behavior on the basis of greed for commissions. There is an interesting sidelight in the Haupt facet of the scandal. It is my understanding that the company used securities that it held for customers to finance the Allied trades with the Produce Exchange. It was this loss that the New York Securities Exchange made up. The Produce Exchange (the futures market) already had its money and did not lose because it had been hard-nosed about margins. Also, Haupt did not use futures customers' funds because these must be held in segregated accounts.

It seems reasonably clear that other firms that lost money were fairly active participants with De Angelis to the extent of collecting big storage and interest charges, both directly and indirectly, and trading commissions. One must ascribe a substantial share of their losses to greed and be only moderately sympathetic.

When De Angelis went down, many things came up stinking. There are two notable exceptions. One is the USDA. In view of the heavy involvement of the USDA in oil surplus disposal programs since 1954, it is a substantial tribute to the integrity of USDA personnel that they are out of this clean.

Second, the institution of futures trading was clearly financially responsible and not corrupted. On November 21, 1963, two days after the collapse, I wrote Bob Liebenow, president of the Chicago Board of Trade, "One should expect some sharp repercussions, both immediate and over a prolonged period, as a result of the "soybean oil fiasco and the accompanying break."

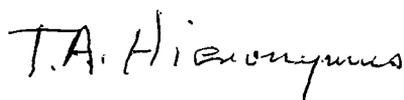
The situation dates back several years. The essence of it was a concentrated cash position with strong manipulative overtones that was, at least in part, a by-product of governmental surplus disposal programs. In my judgment, the futures markets in soybean oil and soybeans diffused and reduced the impacts of this manipulation and were instrumental in breaking it up. As significant, these markets are currently important and useful in diffusing the concentrated holdings of the now defunct combine over a large ownership so that they can be carried and disposed of in a more orderly fashion.

Instead of being criticized, the futures markets should have an award for superior performance. I would not defend but would attack. There is a real story to be told, and I would not be bashful in telling it.

What I said then has been fully borne out by subsequent disclosures. There is no rational basis for making futures markets a whipping boy in the De Angelis scandal. Rather, the whole affair is a clear indication that futures markets are adequately governed and regulated by themselves and the Commodity Exchange Authority at the present time.

I hope that this long letter is not too confusing, but, as I said at the outset, the affair defies simple description.

Sincerely,

A handwritten signature in black ink that reads "T. A. Hieronymus". The signature is written in a cursive, slightly slanted style.

T. A. Hieronymus, Professor  
Agricultural Marketing

