OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 39, September 2012

a) Global price review

In August, FAO's price indices for oilseeds and meals continued to rise, while the index for oils/fats has remained unchanged compared to one month earlier.

On average, international quotations for oilseeds and oilmeals increased by, respectively, 3 and 4 percent from their July level, setting new historic records in both cases. The oils/fats index, by contrast, did not move, thus remaining below the peaks recorded in 2008 and 2011 but still above the historical average.

The new record in the oilseed index primarily reflects the extraordinary tightness in global soybean markets - not only during the current 2011/12 season but also during the first half of the forthcoming 2012/13 marketing year. Unusually dry weather kept negatively impacting the United States' soybean crop, which is anticipated to result in a 5-year low production outcome. Thanks to the prospective sharp rebound in South America, global 2012/13 soy production should recover from the poor 2011/12 outcome, although remaining below the 2010/11 level. Definitely, 2011/12 closing stocks are set to be very low in all major exporting countries, causing widespread market concern. The present tightness is expected to last until the next South American soy crop is harvested early next year. In the coming months, the market will depend almost exclusively on the United States' limited export supplies.

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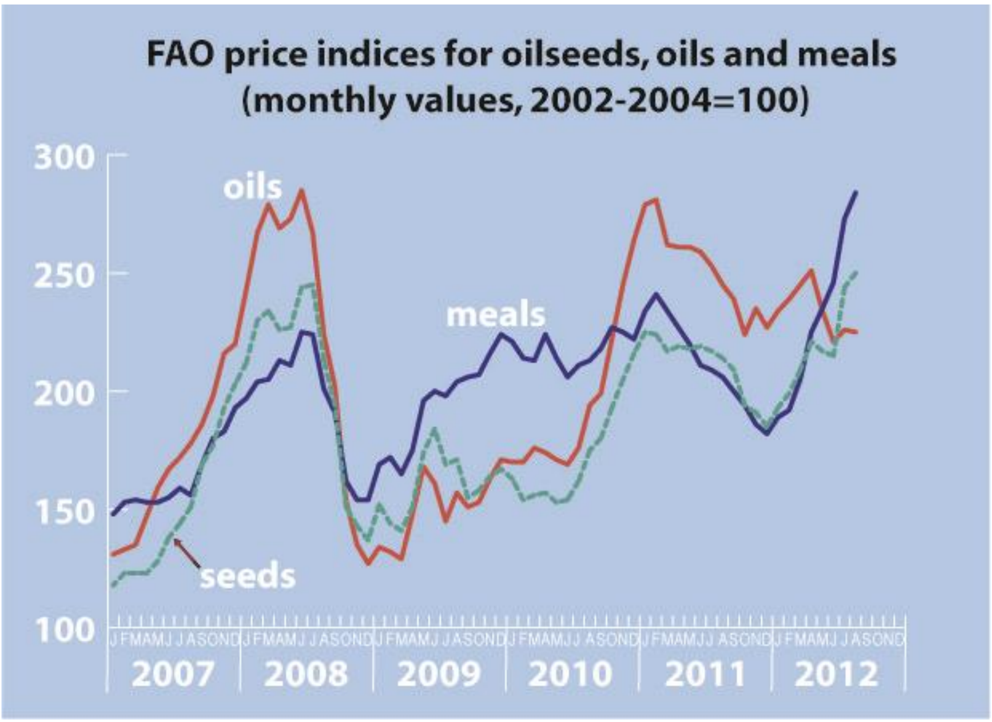

* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **July/August 2012**. Previous issues can be downloaded from the FAO website at URL http://www.fao.org/economic/est/publications/oilcrops-publications/monthly-price-and-policy-update/en/

Global price review - *cont'd*

Deteriorating prospects for rapeseed also weighed on the oilseed index: unfavourable weather has affected crops in the Russian Federation, Ukraine and parts of the EU, while the record crop anticipated in Canada has suffered from disease attacks. Also global sunflowerseed output could be lower than anticipated earlier, possibly limiting export supplies. Finally, talks about a poor monsoon season in India added to market nervousness.

Given the influence of soybeans in the global oilseed market situation, the meal price index closely followed the index for oilseeds. In fact, under the lead of soymeal, the meals index continues to range well above previous records, reflecting extraordinary low inventory levels and stock-to-use ratios in 2011/12 and the prospective lack of recovery in global supplies in 2012/13. Clearly, the concurrent surge in international maize prices, which implies tightness in the feed market as a whole, is lending additional support to the meals index.

As to oils and fats, additional gains recorded in soybean oil prices and strengthening quotations for sunflower and rapeseed oil have been offset by persistent weakness in palm oil values. International prices for palm oil - the single most important component of the oil/fats index - have fallen to two-year lows as recent increases in production (due to seasonal yield improvements in Indonesia and Malaysia) coincided with a slowdown in import demand that has lead to stock accumulation, especially in Malaysia. Lower than anticipated usage of soy oil and rapeseed oil by the biodiesel industry in both, the EU and South America also prevented the oils/fats index from rising.

b) Selected policy developments and industry news

ARGENTINA – soybean imports: Imports of soybeans are going to be allowed temporarily to address problems of excess capacity in domestic crushing following the country's reduced soybean harvest earlier this year. The measure revives a scheme that was in place during 2004-2009, under which crushers could import soybeans from Paraguay, later re-exporting meal and oil while only paying value added tax but not the full export tax. In order to participate in the programme, crushers must be registered and must provide proof that they have purchased 5 mill tons of domestic beans for each ton of imported beans.

ARGENTINA – biodiesel policies: Effective August 2012, the export tax on soybean oil-based biodiesel will amount to 32%, the same rate that applies to shipments of soybean oil. The former, lower rate of 20% (in place since 2008) stimulated the country's exportation of biodiesel, which climbed from less than 0.2 mill tons in 2007 to around 1.7 mill tons in 2011, making Argentina the world's largest biodiesel exporter. Reportedly the measure aims at making biodiesel more affordable in the domestic market, given that Argentines are paying more for the fuel than foreign buyers. The tax increase should slow down biodiesel exports (which currently absorb up to 70% of domestic soyoil production), possibly benefitting soybean oil shipments. To encourage domestic demand, along with the export tax increase, the government also lowered the official national price for biodiesel by 15% (from Ps 5196 per ton to Ps 4405). How the two measures are going to affect the biodiesel sector remains to been seen. For 2012, biodiesel production has been estimated at around 2.7 mill tons, while domestic consumption should be just under 1 mill tons - slightly less than the theoretical requirement resulting from the present mandatory blending rate of 7%. To what extent local biodiesel consumption will grow, possibly compensating for lower exports, remains

uncertain. Moving to a higher mandatory blending rate of 10% would lift domestic demand, but no firm date has been provided for such step.

BANGLADESH – state imports: Securing adequate supplies and stabilizing prices for vegetable oil continues to be of concern to policy makers. Following the introduction of retail price controls and lower import duties on edible oils last year, now the government has instructed a state agency to import 3 000 tons of refined palm oil every three month with a view to improve the flow of supply throughout the year. According to private sources, the level of imports and state reserves will have to be increased if the measure is to achieve its purpose.

BRAZIL – agricultural support 2012/13: Reportedly, the government decided to increase the availability of (low-interest rate) production loans for farmers growing maize. The measure aims at encouraging maize plantings amid increasing competition from soybeans. Between the two crops, which will directly compete for land coming October, soybeans is currently estimated to be more profitable. There is concern that a reduced maize crop could drive up feed prices, hurting the country's livestock sector.

CANADA – rapeseed disease problems: Agricultural experts relate recent reports of increased disease incidence in this year's rapeseed crop not only to difficult weather conditions but also to tighter than recommended crop rotation across the country during the last 5-6 years *(see also MPPU no. 33, March 2012)*. Main diseases reported so far, include blackleg, sclerotinia and aster yellows.

CHINA – crushing capacity: According to the state-backed *China National Grain & Oils Information Center*, the country's annual soybean crushing capacity has reached 125 mill tons, after another 30 mill tons have come on-stream during the last two years. Following this expansion and based on the size of current crush operations the average rate of operation is said to have fallen below 50%.

CHINA – edible oil market regulation:

- Public soybean stock release: After a short break, auctions of soybeans from state reserves have resumed in July, reflecting renewed government concern about rising domestic edible oil prices (in the wake of international price surges) and possible inflationary pressure. Reportedly, 400 thousand tons will be offered every two weeks at prices 10% below import prices. Reportedly, since last April, 1.1 mill tons of soybeans have been sold through auctions. Last year, total sales from public stocks amounted to 2.6 mill tons. State reserves are estimated around 10 mill tons in total. Reportedly, companies that purchased soybeans from state reserves have agreed to refrain from raising end-product prices.
- Rapeseed procurement: Procurement of rapeseed from this year's crop by state-owned enterprises has been reported at 3.43 mill tons.
- Price monitoring: The country's top five edible oil producers have been requested to regularly report their raw material, wholesale and retail prices - a further move aimed at containing consumer prices as well as overall inflation. Reportedly, rising raw material costs (especially for soybeans and groundnuts) have put processors under pressure to raise their retail prices so as to avoid reductions in profit margins. Typically, large processing firms collaborating with the government enjoy certain privileges. Reportedly, participation of smaller enterprises in these schemes remains limited.

EUROPEAN UNION – GM approval: Reportedly, the European Commission has requested the European Food Safety Authority to re-examine three new GM maize varieties that had already been cleared by the food agency. Some observers described the move as an admission that the existing risk assessment method needs improvement. Related to this, a number of independent scientific institutes have questioned the EU's recent approval of a new GM soy variety.

INDIA – import policies:

- Calculation of palm oil import duties: India decided to revise the base import price it uses to calculate custom duties for refined palm olein *(see*

MPPU no. 36, June 2012). Finally, the six-year old base price has been raised from USD 484 per ton to USD 1053 (which reflects current international prices), which basically doubles the duties that will be collected on imports. While the tariff rate remains unchanged at 7.5%, customs will now charge USD 79 per ton as opposed to USD 36 before. By making refined palm oil imports more expensive, the government aims at protecting domestic refiners from low-priced imports coming from Indonesia, where exporters are benefitting from a recent export tax revision. Reportedly, since Indonesia has modified its tax regime, the share of refined product in India's total imports has risen from 17% to 26%. India's revised duty calculation is expected to rebalance the competitiveness of oil processing in the two countries, bringing trade in refined palm olein back to its original level. However, private sources have pointed out that the adjustment in base import prices only concerned refined *palm olein* - but not so refined *palm oil*. Therefore, traders might shift towards refined palm oil imports, in which case the benefit enjoyed by the refining industry could be cancelled out.

- Palm oil importation: The Coconut Development Board has urged the government to ban palm oil imports through south Indian ports to foster consumption of locally produced coconut oil in Kerala and neighbouring regions in Tamil Nadu. The board also recommends to encourage exportation of coconut oil by lifting the existing export ceiling (10 000 tons per year) and allowing shipment in bulk. Market experts observed that, in the past, similar partial import bans proved to be ineffective.
- Meal import duty: Recent sharp increases in domestic soymeal prices have given rise to new concerns over food inflation and prompted the government to waive the import tariffs on oilmeals (20% including local levies). Apparently, also the possibility of introducing a temporary ban on oilmeal exports had been considered. The recent rise in domestic oilmeal values reflects both, international price strengths and domestic supply uncertainties: reportedly, poor monsoon rains have threatened crop yields and could lead to domestic oilmeal shortages. Private sources reported that India, Asia's leading oilmeal exporter, this year might resort to importing meals.

INDONESIA – soybean market regulation:

- Import duty: Following protests by domestic tempe and tofu producers across the country about soaring soybean prices (in the wake of the recent surges in international values), the government has decided to suspend the country's 5% import tax on soybeans until the end of this year. With domestic soybean output remaining below 1 mill tons, annual import requirements have risen to nearly 2 mill tons, making the country vulnerable to swings in world prices. Taxation of soybean imports had been temporarily suspended for similar reasons in 2008 and 2011.
- State market regulation: According to official sources, in order to protect consumers and stimulate domestic soybean production, the mandate of BULOG, the government agency responsible for maintaining strategic rice reserves, could be extended to soybeans and other staple foods, in which case maximum retail prices and minimum farm gate prices could be introduced.

INDONESIA – palm oil export tax: Based on further decreasing international benchmark prices, starting September, the export tax collected on crude palm oil will be 13.5% - as opposed to the 15% and 14% rates applied in, respectively, July and August. The new tariff will be the lowest recorded since end 2010.

INDONESIA – access to subsidized petrol: Reportedly, as part of a government initiative to control public outlays for subsidized sales of petrol, Indonesia's palm oil plantation firms will be barred from using state subsidized fuel starting in September.

MALAYSIA – export policy: Policy makers decided to lift this year's duty free export quota for crude palm oil from 3 mill tons (set last February) to a total of 5 mill tons. The new quota compares to 3.6 mill tons last year and 3.0 mill in previous years, and to a total palm oil production estimate of 19 mill tons in 2012. The measures is meant to prevent a further build-up in domestic stocks so as to keep palm oil prices at a level

remunerative for producers. Inventories are reported to have increased in recent weeks as rising production met with weak export demand. Originally, the purpose of allocating export quotas to individual producers was to help them ship out feedstock destined for their own overseas refining operations. This time around, government officials described the quota increase as a temporary measure aimed at stock management and price support. The measure has met with criticism from the domestic refining industry: the sector is bound to suffer from the likely reduction in domestic supplies and rising prices of crude palm oil – at a time when the industry has to cope with increased competition from refiners in Indonesia. Industry representatives claim that the sector's capacity utilization has fallen significantly since Indonesia revised its export policy regime last September last year. The Malaysian government informed that a comprehensive review is underway to also enhance the downstream sector of the country's palm oil industry. Reportedly, one of the objectives will be to provide refiners with incentives to further specialize in downstream operations so as to produce higher-value products than competitors in Indonesia.

MALAYSIA – biodiesel sector: Reportedly, the country's palm oil-based biodiesel industry has grown considerably less than expected some years ago. Main reasons include, high feedstock prices, limited domestic demand, the need to compete with subsidized petroleum products, and low exports due to rising competition from Indonesia. Currently, the majority of the country's biodiesel plants are reported to lie idle. Current production estimates range between 250-350 thousand tons per year, whereas installed capacity is reported around 3 mill tons. As to domestic consumption, although mandatory 5% blending has been launched in 2009, to date it only involves three out of the country's 13 states. Currently, only 150-200 thousand tons of biodiesel are used in the transport sector. Nation-wide implementation of mandatory blending should raise consumption to 0.5 mill tons. Producing that amount of biodiesel requires about 570 thousand tons of crude palm oil, representing only about 3% of current annual palm oil production. While the government offers financial incentives for setting up biofuel production facilities, only limited support is provided for biodiesel sales, whether domestic or overseas. As to exports, last year, shipments are reported to have dropped to 50 thousand tons, compared to the 2009 peak of 230 thousand tons. Indonesia's shipments, by contrast, are estimated to have risen from below 200 thousand tons in 2009 to over 800 thousand last year.

RUSSIAN FEDERATION – export policy: The temporary reduction in the country's soybean export tax - introduced last April and meant to remain in place until coming October - has been revoked. The tax thus returns back to 20% (but not less than 35 Euro) as opposed to the reduced rate of 5 % (but no less than 8.50 Euro per ton).

UNITED STATES – biofuel policies:

- Biofuel tax credits: Reportedly, the US Senate is considering legislation that would reinstate the USD 1 per gallon biodiesel tax credit that has expired end of last year. The proposal is to extend the credit until the end of 2012. Proposed legislation would also extend the small agri-biodiesel producer credit of US cents 10 per gallon. Furthermore, the tax credit applying to cellulosic fuel production would be renewed as well as expanded to cover fuel derived from algae.
- Biofuel producer support: Up to 125 biofuel companies - mostly producers of biodiesel - will be awarded public funds under USDA's "Bioenergy Program for Advanced Biofuels". The program grants payments to eligible producers based on the amount of biofuels that are produced from renewable biomass, other than corn starch. Vegetable oils and animal fats qualify as feedstock for advanced biofuel.
- Ethanol mandate: The Environmental Protection Agency has come under pressure to consider a temporary suspension of the nation's mandatory use of maize-based ethanol in gasoline production. Petitions filed claim that complying with the mandate at a time of historic drought and record feedstock prices is causing major harm to the country's meat and dairy industry. The agency decided to ask for public comment on the matter and has until mid November to take a decision. A similar appeal was denied in 2008.

UNITES STATES – 2012 drought implications:

- Policy response: USDA and other federal agencies have used their authorities to address emergencies and hardships faced by farmers in the wake of the nationwide, historic drought. A long list of measures is under implementation to provide relief to those affected.
- Impact on farm income: Despite the anticipated production shortfalls, US farmers could, on average, be heading for significant profits this season as record crop prices (especially for maize and soybeans) and indemnities received from federal crop insurance programmes should partially offset the impact of lower yields - according to official sources. As to insurance programmes, over 80 percent of land planted to major field crops is reported to be covered by federal schemes providing protection from yield or revenue losses. USDA's latest sector-wide income forecast suggests that crop farm gains should be more than enough to compensate for livestock farmers' higher feed expenses and reduced returns in dairy operations. If realized, USDA's current forecast for 2012 would represent an all-time record level in net farm income. When adjusted for inflation, the anticipated income level would be the second highest since 1970.

TANZANIA – oil palm development:
Reportedly, the government continues to pursue its strategy to enable the development of oil palm in the country, with a view to improve farmers' economic conditions. Areas where support is being provided include the establishment of crushing and processing facilities, the construction of markets and feeder roads, and quality seed production.

Soybean seed developments:

- New GM soybean generation: With the patent for its first generation seed set to expire in 2014, bio-technology firm *Monsanto* has developed a second generation GM soybean variety, 'Intacta RR2', said to combine herbicide tolerance with insect resistance. The new GM material, which reportedly allows yield improvements up to 15%, is already commercially available in the United States and Brazil. Official approval has also been granted in Argentina and is said to be imminent in Paraguay. As to major importers, the new variety has been cleared in the EU (for consumption, marketing as well as cultivation) and in South Korea, while in China approval is expected soon. With regard to Argentina, commercial introduction is only expected in 2013 as royalty issues remain to be solved. Reportedly, the country's seed legislation is currently under review to provide better protection of intellectual property rights for agricultural bio-technology. In particular, clarification is sought on who qualifies as a 'small farmer', thus being allowed to reutilize seed from the own crop without paying royalties. Reportedly, *Monsanto* is working to reach a comprehensive agreement with seed merchants, farmers, processors and exporters to collect royalties when farmers deliver their beans to the market.
- Flood-tolerant soybeans: In the United States, studies are being conducted on possible flood tolerance in soybeans. Reportedly, scientists at USDA's Agricultural Research Service are finding and incorporating genes from non-native soybean varieties in an effort to supplement the narrow genetic base of US soybeans and improve their tolerance to wet soil and associated diseases. The top three flood-tolerant lines identified so far originate from Cambodia, China and Australia. Potential beneficiaries of these studies include Mississippi Delta farmers who typically suffer yield losses up to 25% when they plant soybeans in rotation with rice.
- Adaptation to Japan's food market needs: In Canada, research benefitting from public funding is underway to identify Canadian soybean varieties that can best suit Japanese food market needs. Soybean varieties and related products will be tested for their appearance, texture, taste and odour to find the strains that best match the demands of the Japanese marketplace. Varietal screening for specific biochemical compounds will be followed by breeding work. The ultimate objective is to support Canadian soy growers by expanding their export opportunities.

Palm oil refining and trade in Asia: Driven by developments in Indonesia, important changes in the region's palm oil refining and trade pattern could take place over the medium term. According to a survey of Indonesian palm oil firms carried out by *Reuters*, the country's annual refining capacity is set to rise to 43 million tons over the next few years - almost double the presently installed capacity of approximately 26 mill tons. Traditionally, much of Indonesia's palm oil exports occurred in the form of crude palm oil, for further processing in importing countries (notably in India, the EU, China and Malaysia). The planned expansion in domestic refining capacity suggests that, in future, local processing into higher value added products for export could become much more important in Indonesia - a development that, potentially, could alter the pattern of palm oil processing and trade in the entire region. National policy measures are expected to play a very important role in this context, as illustrated by Indonesia's recent revision of its palm oil export tax regime, which has already triggered policy responses by a key trade partner, India, and by main competitor Malaysia.

Certified sustainable palm oil:

- Food sector: Food retailer *Carrefour Indonesia* started selling cooking oil produced from domestically sourced RSPO-certified palm oil. According to local observers, other retail chains could soon follow suit. *Carrefour* informed that it is exploring the possibility of expanding sales to Malaysia, India and China. The development is considered as an important breakthrough considering that, unlike the European market, awareness of the importance of buying sustainable products has yet to develop among Asian consumers.
- Biofuel sector: After complying with RSPO's smallholder principles and criteria for sustainable production in 2010, the same Indonesian smallholder cooperative, which is part of a Cargill-operated estate, has received certification for palm oil used as biofuel feedstock according to the EU-recognized ISCC (International Sustainability and Carbon Certification). This will allow Cargill to provide customers with palm oil for energy applications in compliance with RED, the Renewable Energy Directive in force in EU member countries.

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	International Prices (US$ per tonne)					FAO Indices (2002-2004=100)		
	Soybeans[1]	Soybean oil[2]	Palm Oil[3]	Soybean Cake[4]	Rapeseed Meal[5]	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2004/05	275	545	419	212	130	105	104	105
2005/06	259	572	451	202	130	100	108	125
2006/07	335	772	684	264	184	129	148	153
2007/08	549	1325	1050	445	296	217	245	202
2008/09	437	849	682	409	206	156	145	180
2009/10	429	924	806	388	220	162	174	215
2010/11	550	1308	1147	418	279	215	256	221
Monthly								
2010 - October	496	1165	998	415	285	193	222	227
2010 - November	526	1248	1117	430	292	205	245	225
2010 - December	550	1321	1229	437	289	216	264	222
2011 - January	572	1384	1279	454	313	225	279	234
2011 - February	569	1366	1286	447	290	224	281	241
2011 - March	552	1305	1172	423	264	217	262	234
2011 - April	553	1310	1148	406	277	219	261	227
2011 - May	556	1291	1155	403	280	218	261	220
2011 - June	559	1321	1137	396	289	219	259	211
2011 - July	558	1345	1100	405	262	217	253	209
2011 - August	557	1327	1080	402	248	214	245	206
2011 - September	546	1310	1065	396	255	209	239	200
2011 - October	502	1216	995	378	243	194	224	194
2011 - November	491	1228	1054	353	224	191	235	186
2011 - December	476	1163	1026	346	227	185	227	182
2012 - January	500	1223	1062	371	234	193	234	189
2012 - February	512	1245	1100	385	255	199	239	192
2012 - March	542	1283	1152	426	287	209	245	205
2012 - April	575	1308	1182	474	335	221	251	225
2012 - May	570	1210	1081	492	330	217	234	235
2012 - June	570	1187	996	503	315	215	221	246
2012 - July	660	1234	1010	584	353	244	226	273
2012 - August	682	1254	994	619	365	252	226	285

[1] Soybeans (US, No.2 yellow , c.i.f. Rotterdam)
[2] Soybean oil (Dutch, f.o.b. ex-mill)
[3] Palm oil (Crude, c.i.f. North West Europe)
[4] Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)
[5] Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

Note : The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each commodity for the 2002-2004 period. The indices are based on the international prices of five selected seeds, twelve selected oils and fats and seven selected cakes and meals.
Sources: FAO and Oil World