

## *OILSEEDS, OILS & MEALS* **MONTHLY PRICE AND POLICY UPDATE <sup>1</sup>**

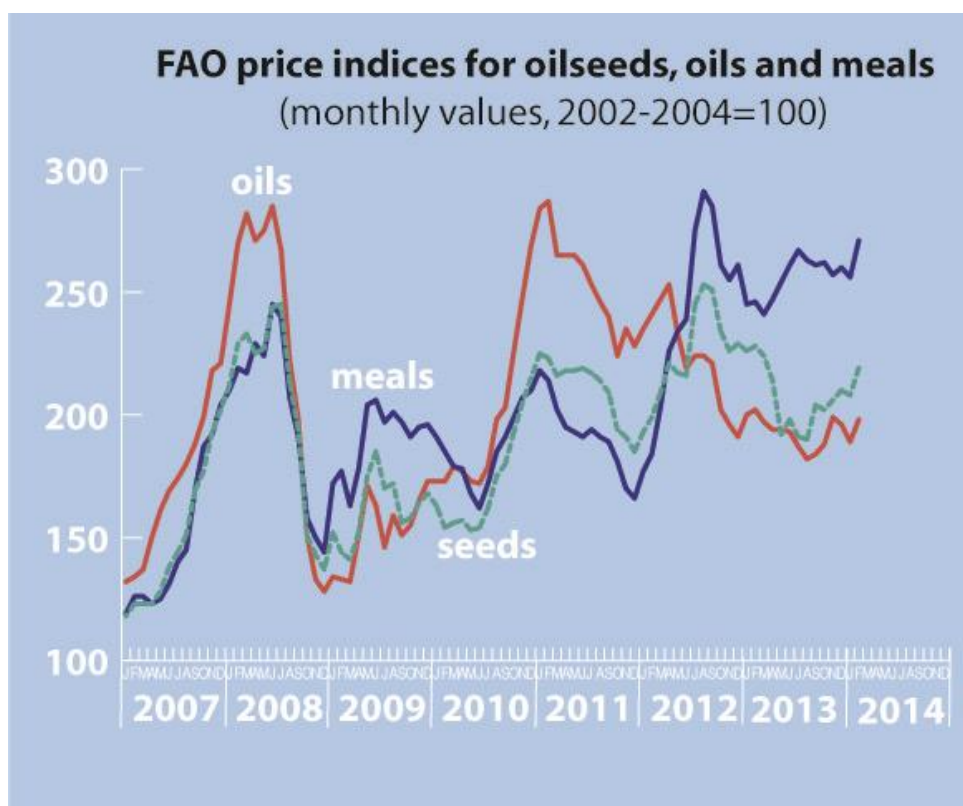
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### **a) Global price review**

In February, FAO's price indices for oilseeds and derived products all rose by about 5 percent compared to the previous month, with oilseeds, oils and meals gaining 10, 9 and 15 points respectively. Although the price indices for oilseeds and for oils continued to average below the past two seasons, they have risen to, respectively, 11-month and 3-month highs. Meanwhile, the index for oilmeals remained at close to record levels, now falling only 7 percent short of the all-time high observed in 2012.

Global oilseed and oilmeal prices strengthened mainly in response to unfavourable weather conditions in South America that led to a sizeable downward correction in this season's soycrop forecast. While severe dryness has affected crop development in several major growing areas (especially in Parana and Rio Grande do Sul in Brazil and in Argentina's central soybean belt), excessive moisture has negatively affected harvest operations in other parts of the region (Mato Grosso in Brazil). Continued strong import demand for soybeans along with shrinking export availabilities in the United States further underpinned prices.

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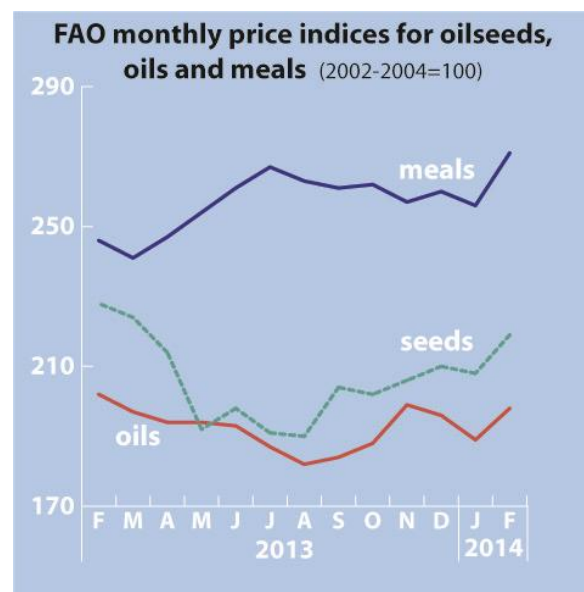
<sup>1</sup> The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **February 2014**. Previous issues can be downloaded from the FAO website at the following URL:  
<http://www.fao.org/economic/est/publications/oilcrops-publications/monthly-price-and-policy-update/en/>

## Global price review – cont'd

Strengthening rape and sunflower seed prices also contributed to the rise in the oilseed and oilmeal indices. Rapeseed prices firmed on the back of higher soybean values and, to a lesser extent, because of a weak Canadian dollar that stimulated canola exports from Canada. Sunflowerseed prices appreciated following forecasts of a poor crop in Argentina due to dry weather, which triggered concerns about export availabilities in the country. However, the likelihood for rape and sunflowerseed prices to increase further appears limited, considering that global supplies for both crops are estimated to be ample.

With respect to the rising vegetable oils price index, palm and soybean oil have been the main drivers. In the case of palm oil, prices reacted to concerns over persistently dry weather in main production areas in Southeast Asia, which may impair output in the coming months. The prospect of disappointing production results has put the market on alert because the palm oil sector already faces a below-average growth in supplies

in 2013/14, while global demand continues to be firm, including from biodiesel producers. In particular, the decision by Indonesia, and recently also by Malaysia, to raise national biodiesel blending rates could boost palm oil consumption in those countries, which would trigger a reduction in global export availabilities.



## b) Selected policy developments and industry news

**ARGENTINA – supply policies:** According to official sources, the government has reached an agreement with private grain firms about the release of USD 2 billion worth of soybeans into the market during February, i.e. before the harvest of the new crop begins. During the last few months, soy farmers decided to hold back sales from last year's harvest, using their crops as a hedge against inflation and currency instability – a conduct that increasingly affected local consumption and exports.

**BRAZIL – soy moratorium:** Brazil's *Grupo de Trabalho da Soja*, a private-public task force of soy stakeholders decided not to renew the 8 year-old moratorium on the trading and financing of soybeans grown on illegally cleared land in the

Amazon region. The moratorium will be allowed to expire in December 2014 because the evolution of the country's environmental legislation is said to have made the measure redundant. New instruments, notably a sustainability programme that will link domestic soybean production to the country's new Forest Code and a Rural Environmental Registry are to replace the moratorium. Advanced tools will be put in place to define individual farms' land use, separating production areas from environmental conservation areas. Reportedly, the new system will provide producers with the required legal security and buyers with appropriate guarantees.

**BRAZIL – infrastructure projects:** The government has awarded the rights to operate a 850-km long south-bound leg of highway BR-163 to a private local company. Connecting Mato Grosso to ports in the South, the highway plays a

major role in the marketing of the country's soybean crop. Reportedly, the contractor will be required to widen half of the concerned stretch by the fifth year of operation. By securing private sector resources for large infrastructure projects – at the road, port and storage level – the government is trying to enhance the country's agricultural export potential (*see also MPPU Oct. '11 and June & Sep. '13*). Last year, concessions were also granted for a highway linking the farm-rich states of Goiás and Minas Gerais. However, contracts for upgrading road transport towards the coastal states of Espírito Santo and Pará still remain to be awarded. Also the expansion in the country's rail network seems to be progressing at a slower pace than planned.

**CANADA – logistic challenges:** Following a set of recommendations made by industry representatives, the federal government has taken first steps to overcome the logistic hurdles currently faced by producers in moving grains and oilseeds to the country's ports. Immediate actions include improvements in reporting on the transportation system and the establishment of a forum for representatives across the industry to discuss improvements throughout the supply chain. These measures are meant to address (i) gaps identified in the frequency of reporting; (ii) insufficient reporting of movements beyond Canadian export ports; and (iii) limits to reporting on supply chain capacity, reliability and performance. The government has also taken a longer term focus by contributing public funds to a project of domestic pulses, oilseeds and grains industries to improve the efficiency and reliability of the country's rail supply chain.

**CHINA – vegetable oil-based aviation fuel:** China has approved commercial use of bio-aviation fuel, in line with its policy to diversify the nation's fuel consumption and to reduce carbon emissions. The country's civil aviation authority licensed state-owned oil refiner *Sinopec* to use aviation fuel made from materials such as rapeseed, cottonseed and palm oil, as well as used cooking oil. Reportedly, the measure makes China the fourth country in the world commercially

using bio-jetfuel, after the United States, France and Finland. Currently, China is the world's second largest aviation fuel consumer, and its demand is estimated to grow by 10 percent each year. According to observers, even if vast areas for growing oil-bearing plants as well as large amounts of waste oils seem to be available, high production costs are likely to prevent large-scale application of vegetable oil-based jetfuel for the time being. Industry sources reported that it costs two to three times more to produce bio-based jetfuel than conventional fuel. The collection of used cooking oil suitable for refining is said to be expensive, and it takes three tons of waste oil to generate one ton of bio-jetfuel.

#### **CHINA – agricultural and trade policy**

- **Global trading:** China's state-owned grain trader and processor *Cofco* is expected to increase its international presence. Driven by the shortage of arable land in China, *Cofco* started investing in overseas mergers and acquisitions with a view to build a global supply chain. Reportedly, the company bought a controlling stake in global agricultural trading house *Nidera* in February and is now in talks with *Noble Group*.
- **Farm subsidies:** According to government officials, this year's spending on agricultural subsidies for grains, including rapeseed, will be increased by 10 percent in a bid to improve food security and encourage farmers not to abandon their farms. Support will be provided in a more targeted way and subsidy payments will be based on actually planted area. The government also committed to continue implementing annual procurement and stockpiling programmes for rapeseed.
- **Domestic crushing:** Public grain reserves corporation *Sinograin* decided to set up an oilseed crushing and vegetable oil refining plant in the country's central province of Hubei. *Sinograin*, which is also involved in grain and vegetable oil procurement and stockpiling in Hubei, is the second state-owned company after *Cofco* investing in oilseed processing in China's leading rapeseed producing province. However, the bulk of the country's oilseed crushing capacity remains in the coastal provinces, which process imported

and domestically grown soybeans.

- **Import controls:** After denying access to selected maize cargoes over concerns they could contain unapproved GM seeds, port officials in Guangdong – the country's largest soybean and grain importing province – recently ordered to also examine soybean cargoes for potential contamination with GM maize.

#### **EUROPEAN UNION – olive sector policies**

- **Olive tree movement:** The EU banned the movement of specific plants out of the Lecce region in Italy to help prevent the spread within the Union of *xylella fastidiosa*, a fast expanding disease that devastated olive groves in that region. Additional measures – including a massive tree cull in the disease zone – are not excluded.
- **Olive oil labeling:** New EU-wide rules aimed at making the information on olive oil labels easier to read and understand will come into effect in December 2014. New labels will also feature information that enables consumers to ensure product freshness and that helps users to maintain the quality of their oil longer.

#### **EUROPEAN UNION – GM variety screening**

- **GM rapeseed:** Authorization granted in 2005 to import, process and use GM rapeseed variety GT73 (modified to be resistant to the herbicide glyphosate) in animal feed is up for renewal. After the Council failed to reach a qualified majority on the issue, the European Commission is expected to renew the authorization.
- **GM soybean:** New GM soybean variety BPS-CV 127-9 (modified to be resistant to the herbicide imidazolinone) has been declared safe for import, processing and use as food and feed by the European Food Safety Authority. The file is now with the European Commission and Council for final approval or otherwise.

**INDIA – edible oil sales:** Reportedly, the deadline for food operators to stop – in line with new food safety standards – the sale of edible oils in loose form has been extended by an additional year. The exemption aims at addressing the needs of poor people who cannot afford to buy packaged oils.

#### **INDONESIA – biodiesel production:**

According to industry sources, the domestic use of palm oil by the biodiesel sector could fall 40 percent short of the official 2014 target (*see also MPPU Feb. '14*). Actual demand has been estimated at 2 million tons, against the government's target of 3.4 million tons. In addition to logistical and regulatory difficulties, the weak demand prospect is attributed to the recent surge in the price of palm oil. Reportedly, the government has agreed to review its method for setting domestic biodiesel prices so as to ensure that domestic production and marketing of biodiesel remain profitable. The industry requested that the export price of crude palm oil be used as a benchmark.

#### **MALAYSIA – biodiesel policy:**

The government confirmed that B5 blending with palm oil-based biodiesel (5% biodiesel and 95% petroleum-based diesel) will become mandatory nationwide in July 2014. The measure is expected to raise domestic demand for biodiesel from the current level of 200-300 thousand tons per year to 500 thousand tons (*see also MPPU Feb. & Apr. '13*). Furthermore, discussions are underway with the country's car manufacturers about the possibility to raise the blending to B7 by early 2015. According to observers, the expansion of domestic palm oil demand is likely to drive up palm oil prices, which could make biodiesel production less profitable. Therefore, strict government enforcement of the higher blending mandates will be necessary to reach the new biofuel consumption targets.

#### **PAKISTAN – oilcrop development**

- **Sunflower seed:** The government of Punjab Province has renewed its efforts to promote local sunflower seed cultivation in a bid to help reduce the nation's deficiency in edible oil supplies. The provincial programme envisages to bring an additional 70 thousand hectares of land under sunflower seed cultivation.
- **Oil palm:** Reportedly, the central government is considering to develop – with assistance from Malaysia's Federal Land Development Authority – large-scale oil palm plantations in the coastal



provinces Sindh and Balochistan. The plan aims at lowering Pakistan's dependence on imported palm oil. Reportedly, climatic conditions in the 750 km-long coastal belt are suitable for oil palm and some 6000 hectares of land will be brought under cultivation in the near future. Over the past years, a series of federal and locally funded initiatives have been launched to promote oil palm cultivation in the region.

#### **PHILIPPINES – coconut rehabilitation:**

The government has allocated – for the current year – Pesos 2.8 billion (USD 62.9 million) for the rehabilitation of the country's coconut industry following the damage caused by typhoon Yolanda in November 2013. Administered by the country's Coconut Authority, the funds will be used for: (i) the production of seedlings and replanting operations; (ii) intercropping activities; and (iii) cash-for-work programmes to benefit affected farmers in concerned regions. The rehabilitation programme will be implemented over three years, although restoring production to pre-typhoon levels is said to require up to ten years. Both uprooted and partially damaged palms will be replaced with improved varieties, and triangular planting patterns meant to protect trees from being toppled during typhoons are going to be introduced.

#### **ZIMBABWE – vegetable oil import duty:**

Reportedly, the government is considering to raise the country's import duty on vegetable oils to 40 percent in a bid to protect and develop the domestic vegetable oil industry. Currently vegetable oils enter the country at zero duty.

#### **GM-free products**

- **GM-free foods:** According to industry sources, in the United States, the demand for GMO-free food products is expanding. Keen to gain market share, a growing number of food manufacturers started to offer products free of GM material (*see also MPPU Feb. '14*). However, several companies are reporting difficulties in securing large and reliable quantities of non-GM ingredients, notably for maize and soybeans, the production of which

is GM-dominated. Sourcing non-GM ingredients is said to be costly and cumbersome – a situation that will only improve with the gradual expansion of non-GMO supply chains. Furthermore, no federal standards exist for the labeling of non-GMO products, which forces companies to rely on third-party verification programmes. As the adventitious presence of GM in products marketed as GMO-free cannot be excluded, food companies tend to use disclaimers warning consumers about possible traces of GM material.

- **GM-free soybean:** Reportedly, a German association of poultry producers decided to end its commitment to exclusively use non-GM soybean feedstock, citing difficulties to source such material as well as high risk of cross-contamination between GM and conventional soybean along the supply chain. These claims have been promptly refuted by suppliers of non-GM material, who informed that cultivation of non-GM soybeans was gaining weight again, particularly in Brazil.

**Soybean research:** Reportedly, Brazil's agricultural research institute EMBRAPA has developed a new genetically-modified type of soybean that is resistant to drought. The new variety would mainly benefit farmers in Brazil's southern states, where crops tend to suffer from dry weather. A number of field tests and biosafety studies need to be completed before the new variety can be commercialized.

#### **Sourcing of sustainable raw materials**

- **Singapore-based Wilmar International,** one of the world's largest palm oil processors, has requested all its suppliers to comply with its recently launched “no deforestation - no peat - no exploitation” policy (*see MPPU Dec. '13*). The company committed to (i) avoid buying or trading palm oil that is produced at the expense of high carbon stock forests or high conservation value areas, (ii) avoid sourcing palm oil produced on peatland, and (iii) zero tolerance on palm oil linked to forced and child labour. Reportedly, suppliers are expected to stop using burning practices to clear land for planting and replanting, to restore peatland where feasible, to respect land

titles and resolve land ownership issues, to adopt minimum wage policies, and to stop using hazardous pesticides.

- Europe's chemical company BASF committed to purchasing all its palm oil and palm kernel oil from RSPO (Round Table on Sustainable Palm Oil)-certified sustainable sources by 2015. The raw materials will be sourced using either full segregation or the mass balance system of RSPO. Depending on their individual needs and policies, the company's customers will be able to choose between the two certified supply chain models. Under the mass balance system, certified and uncertified sources may be mixed along the supply chain, whereas the segregation method guarantees full identity preservation throughout.

- Belgian food manufacturer Delhaize Group committed to ensure that, by 2020, all of the palm oil sourced for its products is fully traceable and deforestation-free. The company's policy also includes commitments to protect peatland, high carbon stock forests, and high conservation value areas. Furthermore, free, prior and informed consent of indigenous and local communities in the development of new plantations will be required. In addition, the company will maintain its current commitment to use by 2015 only palm oil produced according to the guidelines of RSPO, thus sourcing all through one of the three RSPO-endorsed trading mechanisms – book & claim (or trade in *GreenPalm* certificates), mass balance and full segregation. Reportedly, after 2015, certificate trading will be dropped in favour of the other two systems.

- US food company Kellogg announced that it will require all its palm oil suppliers to trace palm oil to plantations that are (i) independently verified as legally compliant; (ii) adherent to the company's principles for protecting forests, peat

lands, and local communities; and (iii) compliant with RSPO principles and criteria. Suppliers are expected to comply with the new requirement by end 2015, or be working to close any gaps identified in their operations.

- Global cosmetics firm L'Oreal committed to only source sustainably produced raw materials by 2020. The company informed it was working on improving the traceability of its raw materials and ensuring that its products were made without links to any environmental or social harm, ensuring in particular that palm oil, soybean oil and wood-fire based products were sustainably sourced. Reportedly, the company is already sourcing palm oil through RSPO's segregated method, while palm oil derivatives are purchased via RSPO's book & claim system. Sourcing exclusively sustainable products will have to wait until a critical mass of certified materials becomes accessible in the market, the company informed.

- Scandinavian dairy company Arla Foods announced its decision to purchase RTRS (Round Table on Responsible Soy) certificates to cover all of the soybean used in cow feed by its suppliers across Europe. The new policy is part of the company's on-going commitment to support sustainable soybean production.

**Groundnut aflatoxin control:** In India, exporters of groundnut and its derivatives will face more stringent food safety inspections. Reportedly, the European Union and Malaysia, two key destinations for Indian groundnut exports, require Indian consignments to be accompanied by special health certificates issued by the Export Inspection Council of India.

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	<b>International Prices (US\$ per tonne) <sup>1</sup></b>					<b>FAO Indices (2002-2004=100)</b>		
	<b>Soybeans<sup>2</sup></b>	<b>Soybean oil<sup>3</sup></b>	<b>Palm Oil<sup>4</sup></b>	<b>Soybean Cake<sup>5</sup></b>	<b>Rapeseed Meal<sup>6</sup></b>	<b>Oilseeds</b>	<b>Vegetable oils</b>	<b>Oilcakes/ Meals</b>
<b>Annual (Oct/Sep)</b>								
2004/05	275	545	419	212	130	104	103	101
2005/06	259	572	451	202	130	100	107	96
2006/07	335	772	684	264	184	129	150	128
2007/08	549	1325	1050	445	296	216	246	214
2008/09	437	849	682	409	206	157	146	179
2009/10	429	924	806	388	220	162	177	183
2010/11	549	1308	1147	418	279	214	259	200
2011/12	562	1235	1051	461	295	214	232	219
2012/13	563	1099	835	539	345	213	193	255
<b>Monthly</b>								
2012 - October	617	1183	844	555	359	234	202	261
2012 - November	595	1148	816	539	378	226	196	255
2012 - December	603	1153	772	553	396	229	191	261
2013 - January	591	1192	838	512	367	226	200	245
2013 - February	597	1164	862	513	381	228	202	246
2013 - March	588	1117	853	503	367	224	197	241
2013 - April	559	1099	841	521	300	214	194	247
2013 - May	498	1077	849	527	404	192	194	254
2013 - June	523	1036	858	551	321	198	193	261
2013 - July	514	997	838	568	304	191	187	267
2013 - August	514	995	824	564	277	190	182	263
2013 - September	554	1028	823	557	291	204	184	261
2013 - October	544	989	866	555	318	202	188	262
2013- November	556	992	921	541	316	206	199	257
2013 - December	568	979	907	548	336	210	196	260
2014 - January	566	935	871	539	337	208	189	256
2014 - February	594	991	911	571	361	219	198	271
<sup>1</sup> Spot prices for nearest forward shipment <sup>2</sup> Soybeans (US, No.2 yellow , c.i.f. Rotterdam) <sup>3</sup> Soybean oil (Dutch, f.o.b. ex-mill) <sup>4</sup> Palm oil (Crude, c.i.f. North West Europe) <sup>5</sup> Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam) <sup>6</sup> Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)								
Sources: FAO and Oil World								