



## ***OILSEEDS, OILS & MEALS*** **MONTHLY PRICE AND POLICY UPDATE \***

*No. 65, December 2014*

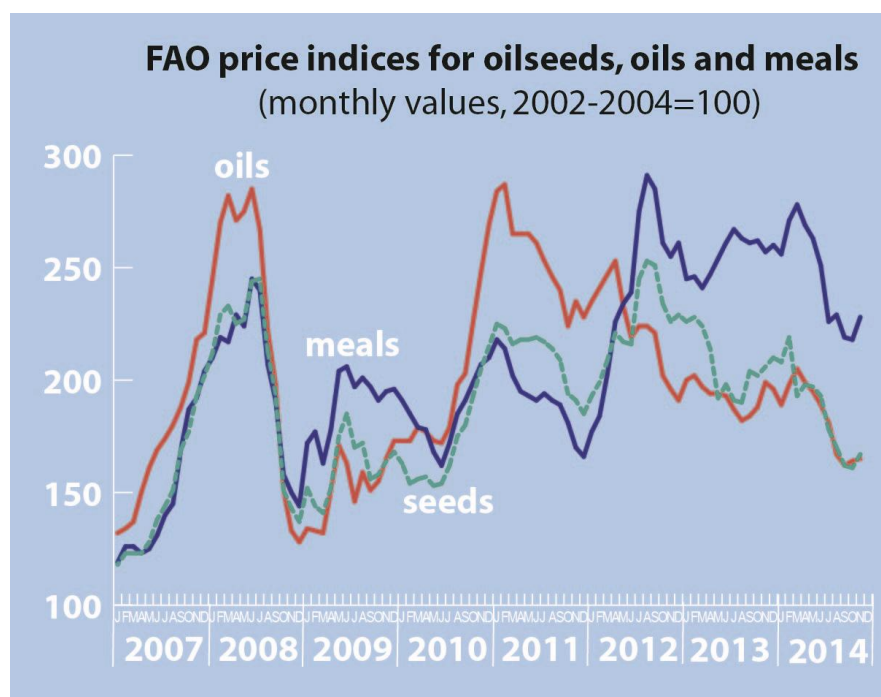
### **a) Global price review**

In November, all three of FAO's price indices for the oilcrop complex rose, though the vegetable oil index remained almost unchanged. Month-on-month the indices for oilseeds and oilmeals gained, respectively, 6 and 10 points (or 4 to 5 percent), while the index for vegetable oils rose by 1 point (or less than 1 percent). Due to marked drops in prices for oilseeds and derived products earlier this year, all three indices continue to fare at multi-year lows, although the meals index remains at a historically high level.

Last month's bounce in the oilseed and oilmeal indices was mainly driven by developments in the soybean and sunflower markets. International

quotations for soy and soymeal strengthened in response to less favourable weather conditions in Argentina and Brazil, which caused planting delays in some regions, especially in Brazil's Center-East. Furthermore, sustained global import demand – primarily from China – combined with reserved farmer selling in Argentina exerted pressure on exports from the United States, lending additional support to world prices. Sunflower seed quotations continued appreciating due to lower than initially forecast global production, mostly owing to production setbacks in Ukraine and the Russian Federation. Some strengthening also occurred in rapeseed prices, reflecting a downward revision for Canada's 2014 harvest – although prospective global availabilities in 2014/15 remain ample.

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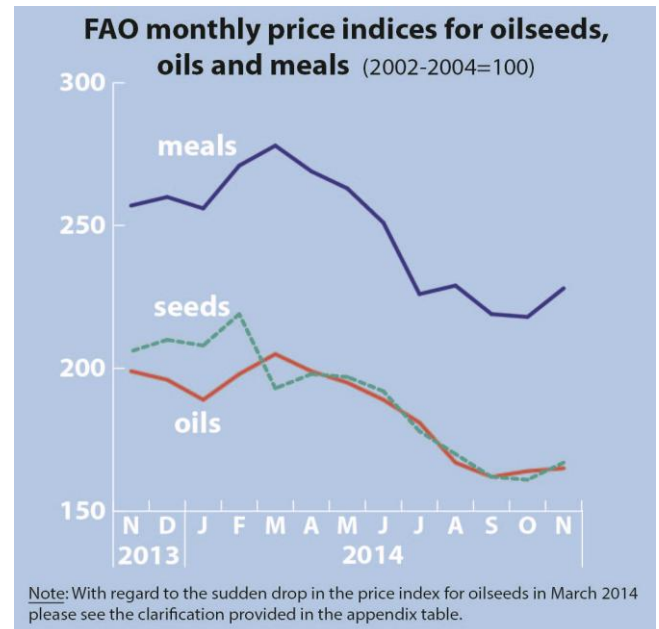
\* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **November 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*

With respect to oilmeal markets, the prospect of tight global fishmeal availabilities also propelled oilmeal prices upward. In Peru, the world's leading fishmeal producer, an unprecedented tightness in export supplies is probable as fishing bans are expected to remain in place until mid-December, while a sharp reduction in catch quotas seems likely for the period April–July 2015.

As to vegetable oils, the FAO price index has risen by less than one percent, thus remaining well below the level recorded in November 2013. The small rise was mainly driven by an improvement in palm oil prices, following production slowdowns in Malaysia and Indonesia and steady global import demand. Quotations for sunflower oil remained firm on lower than anticipated global production. However, the following two factors prevented the index from appreciating further: first, continued weakness

in soyoil prices due to abundant supply prospects in 2014/15; and second, the recent setbacks in crude oil prices, which tend to reduce demand for vegetable oils as biofuel feedstock.



## b) Selected policy developments and industry news

**ARGENTINA – credit policy:** Farmers holding onto their soybean harvest (as a hedge against local inflation and currency devaluation - *see MPPU Mar. & Nov. '14*) may see their access to production loans curtailed. Reportedly, the state-owned Banco de la Nación has been instructed to make available financing only to growers able to prove that they are not stockpiling soybeans on their farms. Reportedly, the bank finances some 40 percent of the country's agricultural production and provides loans worth Pesos 300 million (USD 35 million) to soy farmers each year. Apparently, the government's measure is aimed at stimulating soybean exports so as to allow the collection of export taxes to pick up. Industry sources pointed out that out of nearly 13 million tonnes of soybeans currently being held back from the market, farmers are likely to swap 8 million

tonnes for seed, fertilizers and other production inputs.

**AUSTRALIA / CHINA – trade agreement:** The two countries have signed a declaration of intent for a free trade agreement that would remove tariffs across a range of sectors. Regarding agriculture, tariff removals would apply to China's imports of various grains, dairy and fishery products but not wheat and rapeseed.

**BRAZIL – soy moratorium:** Contrary to previous announcements (*see MPPU March '14*), the country's oilseed/grain associations decided to renew the moratorium on the trading and financing of soybeans grown on illegally cleared land in the Amazon region. Due to expire in December 2014, the moratorium is now poised to remain in place until May 2016, when Brazil's new Forest Code and farm registration system are expected to become fully operational. Reportedly, the Ministry of Environment has called for the

renewal on concerns that illegal deforestation was continuing in the Amazon rainforest. According to satellite imagery, in 2013/14, the area of soybeans grown on illegally deforested land has grown for the first time since 2005. Industry sources pointed out that cattle ranching – rather than soybean cultivation – remains the main driver behind deforestation in the region. Starting January 2015, compliance with the moratorium is going to be monitored through official controls. The moratorium's extension, which should enhance legal certainty and transparency along the soy production/processing system, has been hailed by customers in Europe, where demand for responsibly produced soy products is reported to be on the rise.

**BRAZIL – biodiesel tax policy:** With a view to support the development of the country's relatively young biodiesel sector, the government decided to exempt the sale of vegetal-origin feedstock for biodiesel from paying selected taxes. The tax suspension will apply to both cooperatives producing feedstock and to processors and companies that store and market biodiesel feedstock.

**CANADA / INDIA – import regulations:** The government of Canada has initiated talks with Indian counterparts, seeking permission to import Canadian rapeseed oil as 'canola oil'. Last August, India's Food Safety Standards Authority had prohibited the use of any particular brand name, requesting that all imports from Canada be marketed as 'imported rapeseed-low erucic acid oil' (*see MPPU Sep. '14*).

**CHINA – GMO policies:** Reportedly, China's Ministry of Agriculture decided to suspend the import approval process for a new genetically modified soybean variety, citing 'low public acceptance' of GMO products. To address the problem of growing consumer sentiment against GMO foods, the Chinese government recently launched a media campaign in support of GM crops. Reportedly, the campaign is meant to educate people about the benefits of GM products, which, in addition to being considered as safe, are

seen as potentially key in helping to guarantee the nation's food security. Despite having invested heavily in domestic GMO research, China has not yet permitted domestic cultivation of any GM crop. Recently, private resources reported that the government could consider removing a long-standing ban on foreign investment into domestic GMO research.

**CHINA – fishmeal production rules:**

China's Shandong Province has issued stringent environmental regulations governing fishmeal production facilities, especially with respect to water treatment. Reportedly, in order to comply with the new requirements fishmeal factories will have to invest in their facilities. Market observers don't expect the country's net fishmeal production and imports to change significantly as a result of the measure.

**EUROPEAN UNION / RUSSIAN**

**FEDERATION – trade dispute:** The EU requested formal consultations with the Russian Federation – as an initial step in the WTO dispute settlement procedure – in respect of import duties the Russian Federation has charges on selected products, including palm oil. Allegedly, products have been taxed more heavily than agreed when the country joined WTO. In case the consultations prove unsuccessful, the EU may ask the WTO to establish an independent panel that would rule on the case.

**EUROPEAN UNION – GMO policy:**

After four years of debate, a provisional political agreement has been reached between EU policy makers on legislation regulating the cultivation of GM crops (*see also MPPU July '14*). The proposal would give member states the possibility, as from spring 2015, to restrict or prohibit the cultivation of GM crops on their own territory – even if the concerned crop has previously won approval by EU authorities based on scientific risk assessments. The agreement, if confirmed, would meet member states' consistent calls to have the final say on whether or not GMOs can be cultivated on their own farmland. The competent EU body would

continue conducting assessments of new GM products, possibly granting EU-wide cultivation permits. The agreement still requires formal approval by the European Parliament and the EU Council.

**INDIA – vegetable oil tariff values:**

The official tariff value for crude palm oil has been lowered to USD 704 per metric tonne (which compares to USD 743 applied since August 2014). Used as reference prices for calculating import levies, tariff values are adjusted periodically to ensure that they reflect changes in international benchmark prices. As far as vegetable oil import duties are concerned, no decision has been taken yet with regard to the calls for higher tariff rates (*see MPPU Nov. '14*).

**INDIA – biodiesel policy:** The government has taken new steps to promote domestic production and consumption of biodiesel (*see also MPPU Nov. '14*). According to the Railway Ministry, during the 2014-15 budget year, the country's fleet of locomotives will start using diesel blends containing up to 5% of biodiesel. Reportedly, the railway is India's single largest bulk consumer of diesel. Furthermore, the Road Transport Ministry, is considering to allow biodiesel producers sell their produce directly to domestic bulk consumers. By means of these two measures, the government hopes to stimulate the use of 'clean' and domestically produced fuel while lowering the country's dependence on diesel. Past efforts to introduce mandatory blending schemes and to regulate biodiesel prices faced various implementation problems. Private sources estimate that currently only 10% of the country's biodiesel production capacity is being utilized and that about 80% of domestic biodiesel production is being exported due to limited domestic market opportunities.

**INDONESIA – environmental policies:**

After the government's recent decision to develop new regulations on the conservation and management of peatland (*see MPPU nov. '14*), the Ministry of Environment has been instructed to review licenses for companies that

have converted peatland to establish oil palm plantations. Reportedly, the Ministry will consider revoking permits of plantation concessions that are found to be at fault. Related recent government initiatives include the following: (i) the establishment of reference levels for measuring emissions from deforestation and peatland degradation, (ii) the enforcement of a temporary moratorium on all new logging permits, and (iii) the launch of an ambitious reforestation plan.

**INDONESIA – variable palm oil export tax:**

In December, the tax on crude palm oil exports will remain at zero. Last October, the government suspended the tax in an effort to stimulate exports, thereby bringing down domestic stocks and preventing prices from falling (*see also MPPU Nov. '14*).

**ISRAEL – consumer policy:** Reportedly, the government is considering to raise the number of basic foodstuffs subject to price controls. Based on comparisons of domestic and international prices, new price caps could be imposed on, inter alia, rapeseed oil. The initiative aims at bringing the Israeli consumers' purchasing power in line with that of consumers in other developed countries.

**MALAYSIA – palm oil certification:**

Official sources confirmed that the country's voluntary standard and certification scheme for palm oil, MSPO (Malaysian Sustainable Palm Oil), will become operational on 1<sup>st</sup> January 2015 (*see also MPPU Nov. '14*). Reportedly, an independent body, the Malaysian Palm Oil Certification Council (MPOCC), has been set up to administer the scheme. No specific time has been provided as to when the scheme would be made mandatory for all local players.

**MALAYSIA – palm oil export tax and**

**biodiesel policy:** The government confirmed that the tax on crude palm oil exports will remain suspended until the end of the current year. The tax was temporarily lifted last September with a view to stimulate exports and help mitigate the



downward trend in prices (*see also MPPU Nov. '14*). Also biodiesel policies continue to be used to stimulate domestic consumption and stabilize prices: in the transport sector in Peninsular Malaysia, mandatory blending of diesel with 7% of palm oil methyl ester (referred to as B7) has commenced in November. Once implemented on a national scale and including the industrial sector, the B7 programme is expected to utilize 700 000 tonnes of palm oil per year.

### UNITED STATES – biofuel policies

- **2014 blending targets:** The United States' Environmental Protection Agency informed that it would further postpone and reconsider the mandated levels of renewable motorfuels – including biodiesel – for calendar year 2014 (*see also MPPU Dec. '13*). Due in late 2013 and eventually postponed to the end of this year, the blending targets for 2014 will now be announced in early 2015, together with the numbers for 2015.
- **Biodiesel tax credit:** Reportedly, US legislators are considering to further delay the decision about renewing the USD 1 per gallon biodiesel tax credit (which expired at the end of 2013) until the next session of Congress in 2015.
- **Federal support:** USD 5.6 million in grants are going to be made available to 220 producers to support the production of 'advanced biofuel'. Payments will be made based on the amount of biofuel produced from renewable biomass other than maize kernel starch. Eligible feedstock include vegetable oil, animal fat, crop residue and animal, food and yard waste. The funds will be provided through USDA's Advanced Biofuel Payment Program, which was established under the 2008-Farm Bill and re-authorized in the 2014-Farm Bill. Reportedly, since the programme's inception, more than USD 280 million have been made available to 350 producers. Most payments went to producers of biodiesel. In addition to the above funding, USDA informed that it will award grants worth more than USD 4 million that will advance the bioeconomy and reduce the nation's dependence on foreign oil.

### SECTOR SUPPORT MEASURES

- **India – sunflowerseed:** The state government of Punjab has launched a comprehensive plan to stimulate cultivation of sunflowerseed and other oilcrops with a view to maximize local edible oil production and thus check the rise in imports. Under the programme, state authorities will extend cooperation and assistance to farmers, promoting in particular the use of certified seed and the adoption of best agricultural practices.
- **Pakistan – soybean:** In addition to promoting the cultivation of oil-rich crops, Pakistan's Agricultural Research Council has initiated work on soybeans with a view to help meet the meal requirements of the country's rapidly growing poultry and aquaculture sectors. The institute's efforts will concentrate on the selection of suitable soybean varieties and on raising the farmers' awareness about the crop's short maturity duration and its beneficial effects on soil fertility.
- **Philippines – coconut:** State funding has been made available to rehabilitate damaged coconut trees in areas affected by typhoon Bopha in late 2012. Assistance will be provided for fertilization and replanting activities.
- **Zambia – vegetable oil:** Local producers of edible oil and of vegetable oil-based biodiesel have called for increased government support to their nascent industries so as to be able to compete with producers in neighbouring countries and overseas markets. In particular, producers asked for edible oils to be exempted from VAT as was done for a number of basic or essential products.

**Futures markets:** Paris-based *Euronext* announced the launch of futures contracts for rapeseed oil and rapeseed meal to complement the existing rapeseed contract. By covering the full rapeseed complex, the exchange wants to allow users to manage their entire crushing margin from grain to oil to meal. It is also targeting participants in the biofuel market by allowing oil blenders to hedge their exposure to rapeseed oil, the key feedstock for EU biodiesel. Reportedly, the new rapeseed oil and meal contracts will be based on non-genetically modified references.

**Release of new GM seed:** Reportedly, the general slowdown in China's GM regulatory process (see above) has affected global seed companies' plans concerning new product launches. In the United States, seed producers *Syngenta AG* and *Dow AgroSciences* have opted for tightly controlled releases of new GM maize and soybean varieties, while *Bayer CropScience* decided to keep a new soybean variety on hold. Sales will be accompanied by strict planting and use restrictions, whereas new varieties are likely to be released only when farmers and exporters can be assured that harvests will not be rejected by China or other importing nations. Related to this, in the United States, *Syngenta AG* is facing a growing number of lawsuits by farmers and traders for damages suffered after the rejection of shipments by China. Allegedly, the seed company underestimated the time it would take to obtain China's approval and failed to properly manage and segregate its GM varieties. Industry sources estimated damages to farmers during the 2013/14 marketing year in excess of USD 1 billion. In general, avoiding accidental shipment of unapproved varieties poses major challenges given the common practice to mix different varieties during storage and transport. And the lack of approval for a particular GM variety can put at risk of rejection large shipments that consist primarily of approved GM grains.

### **Sustainable palm oil – international collaboration**

- **UN partnership:** The United Nations Environment Programme (UNEP) and the Roundtable on Sustainable Palm Oil (RSPO) have joined forces to promote certified palm oil as part of a broader effort to conserve biodiversity. The two organizations will work together to strengthen standards for certified palm oil and to encourage uptake in global markets. UNEP said that certified palm oil has the potential to make a significant contribution to its efforts on sustainable consumption and production. Currently, RSPO's globally recognized certification programme is reported to cover some 11 million tonnes or 18 percent of global palm oil output.

- **RSPO:** Recently, the global palm oil sustainability/certification body announced that it will suspend or expel member companies that do not comply with the organization's reporting requirements. Members are expected to report annually on progress made towards time-bound plans to reach specific sustainability targets.
- **POIG:** A group of palm oil companies and environmental/social NGOs has launched the Palm Oil Innovation Group (POIG). The Group's objective is to find – while building on the principles and criteria of RSPO – innovative ways to (i) halt deforestation and peatland conversion, (ii) respect the rights of local communities, and (iii) achieve greater product traceability along the supply chain. The following consumer goods manufacturers and retailers committed to support the newly formed group: *REWE Group*, *EDEKA*, *Ferrero*, *Boulder Brands* and *Stephenson*.

### **Sustainable palm oil – company news**

- **Zero deforestation commitments:** Reportedly, Singapore's *Musim Mas*, Malaysia's *Kuala Lumpur Kepong* and Dutch firm *IOI Loders Croklaan* – three large palm oil producers – have joined the list of companies that committed to zero-deforestation practices. Other producers include *Golden-Agri Resources*, *Wilmar*, *Cargill* and *Bunge*. *IKEA* household stores, although relatively small users of palm oil, also committed to sustainable sourcing as well as zero deforestation and peatland conversion. According to private estimates, about two thirds of the world's traded palm oil are now bound to zero deforestation commitments. Although relying on RSPO principles for other elements of sustainability, the policies of the listed companies are said to go beyond RSPO standards in that palm oil linked to deforestation (and peatland conversion) will not be considered. Civil society groups insisted that companies concerned adopt time-bound action plans and agree to independent scrutiny of implementation progress.
- **Sourcing policies:** The following trade, food and consumer goods companies pledged to intensify their efforts in responsible and traceable

sourcing of palm oil, in part detailing time-bound action plans and committing to regular reporting about implementation progress: *Bunge*, *Cargill*, *Unilever*, *Hershey Co.*, *Dunkin' Donuts*, and *Krispy Kreme*. Some firms decided to partner with *The Forest Trust*, an international NGO that assists companies to develop verification methods that allow evaluation of progress made.

**Sustainable soy:** Swedish food retailer *Axfood* committed to move towards sustainably produced soy. By 2015, all of the soy used in own label products will either come from certified farms or be covered by tradable certificates. When certificates are used, for every tonne of soy traded, soybean growers in Brazil, Argentina and India that comply with the standards of RTRS (Roundtable on Responsible Soy) are going to receive a fixed payment. As a start, *Axfood* committed to purchase certificates so as to help increase the availability of certified soy.

**Biodiesel sales – China:** Global petrol company *Shell* started selling a 5-percent biodiesel blend product in the country's Special Administrative Region of Hong Kong. Reportedly, sales are

directed to large corporate customers that seek to reduce their environmental footprint. Reportedly, uncertain demand and limited storage capacity are preventing *Shell* from introducing biodiesel at its network of retail fuel stations throughout China. Biodiesel demand is said to be minimal due to the absence of mandatory blending requirements and production subsidies. *Shell* sources its biodiesel from local producers whose principal feedstock are waste cooking oil and grease trap waste collected from restaurants and caterers. Reportedly, Chinese biodiesel producers face difficulties in sourcing such feedstock locally as the absence of waste oil disposal regulations means that much of the available waste oil is sold at lucrative prices to biodiesel producers abroad. In the meantime, China resorted to importing biodiesel, with total imports tentatively estimated at 800 000 tonnes in 2014.

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	<b>International Prices (US\$ per tonne) <sup>1</sup></b>					<b>FAO Indices (2002-2004=100) <sup>7</sup></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
2013/14	521	949	867	534	324	194	189	253
<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 <sup>8</sup>	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
2014 - March	501	1001	959	582	396	193 <sup>8</sup>	205	278
2014 - April	516	1005	911	563	375	198	199	269
2014 - May	522	973	896	552	340	197	195	263
2014 - June	514	933	859	531	304	192	189	251
2014 - July	480	886	839	477	272	178	181	226
2014 - August	457	855	755	485	265	170	167	229
2014 - September	433	850	714	463	265	162	162	219
2014 - October	430	835	724	463	258	161	164	218
2014 - November	447	827	728	485	265	167	165	228
<sup>1</sup> Spot prices for nearest forward shipment <sup>2</sup> Soybeans (US, No2 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) <sup>7</sup> 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, ten selected vegetable oils and five selected cakes and meals. <sup>8</sup> The drops in the price index for oilseeds seen in May 2013 and in March 2014 are due to structural breaks in the underlying price series for soybeans (US no2 yellow, c.i.f. Rotterdam), the component with the highest weight. For a detailed explanation of the anomalous trend in the soybean reference price, please refer to issues no. 48 and no. 58 of the Oilcrops Monthly Price and Policy Update (MPPU), which can be downloaded at the following link: <a href="http://www.fao.org/economic/est/publications/oilcrops-publications/oilcrops-monthly-price-and-policy-update/en/">http://www.fao.org/economic/est/publications/oilcrops-publications/oilcrops-monthly-price-and-policy-update/en/</a> Sources: FAO and Oil World								