



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

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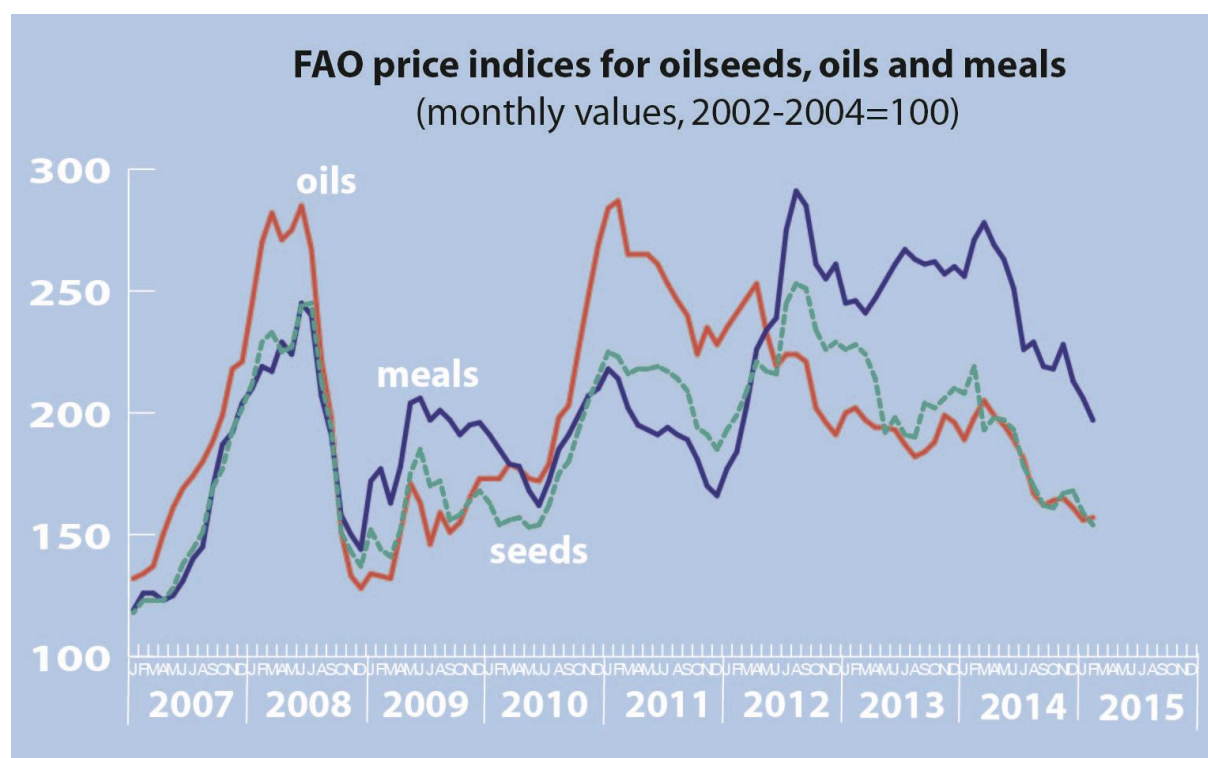
a) Global price review

In February, the FAO price indices of oilseeds and oilmeals fell by 3–4 percent (shedding respectively 5 and 9 points), while the index for vegetable oils rose, but by only 0.4 percent (or 0.6 points). All three indices fared at multi-year lows: while the oilseeds and oils indices stood at 5-year lows, the index for oilmeals recorded a 3-year low.

Global oilseed and oilmeal prices continued losing strength, mainly reflecting prospects of large soybean availabilities in 2014/15 and beyond. Indeed, although soybean crop forecasts

for Brazil and Paraguay had to be lowered somewhat (as poor weather conditions impaired yield prospects), world production in 2014/15 is still expected to surpass last season's all-time record by 3 million tonnes or 10 percent. Assuming current forecasts materialize, global soybean output would exceed demand for the third consecutive season, boosting global end-of-season stocks. Concerns over slow farmer selling in Argentina and recent truck driver strikes in Brazil – which could trim shipments from South America – averted an even steeper slide in soybean prices in February. The steady decline in international soybean prices also dragged down

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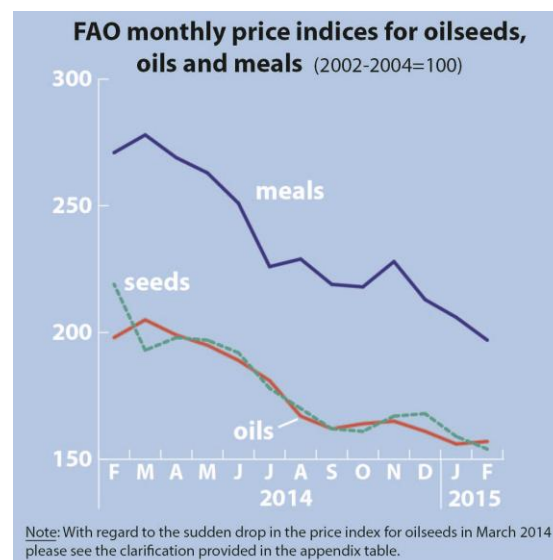
* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **February 2015**. 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*

those of rape and sunflower seed – despite somewhat tighter global supply prospect for those oilcrops.

As to vegetable oils, the marginal gain in the index was mainly caused by an appreciation of international prices of palm oil, while those of soyoil and other major vegetable oils continued to fall. Interestingly, the rebounding of palm oil was limited to the first week of February, following which prices eased again. The temporary spike is attributed to changes in Indonesia's biofuel policy (see below on page 3) that are likely to bolster domestic palm oil consumption, hence reducing availabilities for export. As to soyoil, the decline in prices that commenced in mid 2014 continued in February (with spill-over effects on other vegetable oils), mostly reflecting larger than

anticipated shipments and the prospect of bumper soybean harvests in South America.



b) Selected policy developments and industry news

ARGENTINA – market control:

Formal reporting requirements on grain transactions between farmers and buyers are to be tightened, notably for soybeans and maize. In particular, the sale of soybeans kept in silo-bags – a new means of on-farm storage used by farmers as a hedge against high domestic inflation – will have to be reported. The move would follow other measures that aimed at stimulating the release of soybeans into the market (*see MPPU Dec. '14*). Based on government estimates, in February (i.e. towards the end of the 2013-14 marketing season), about 10 million tonnes or some 18 percent of last year's soybean harvest were still in the hands of farmers – a situation that has strong negative repercussions on government tax revenues.

CANADA – internal trade:

Canada's Saskatchewan Province has won a dispute against the government of Quebec Province concerning trade in vegetable oil-based

dairy substitutes (*see also MPPU June '14*). On 25 February, an appeal panel issued a final ruling that requires Quebec to abandon labelling laws which prohibit using the terms 'milk', 'butter', and 'cheese' for dairy substitute products. The decision may foster a greater use of rapeseed and soybean (grown in Saskatchewan) in margarines, non-dairy coffee creamers and dessert toppings sold in Quebec.

CHINA – rapeseed oil state auction: Out of 5 500 tonnes of rapeoil from state reserves offered in January 2015, only 2 600 tonnes have been sold, at prices varying between CNY 5 800 and 5 850 (USD 926 and 935) (*see also MPPU Feb. '15*).

CHINA – biodiesel policy: China's National Energy Administration published new policy guidelines for the development of the country's biodiesel industry. The guidelines' overall objective is to promote biodiesel use while protecting local resources. Reportedly, priority will be given to areas with the greatest air pollution problems. Attention is also given to

the implementation of enhanced market regulations and to sustainable raw material supply systems. Apparently, waste and non-edible products (such as wood- and grass-biomass) will be favoured over edible vegetable oils for use as feedstock. The new policy also focuses on (i) encouraging engine manufacturers to develop improved diesel motors for biodiesel usage, (ii) promoting corporate social responsibility, and (iii) improving recycling laws. New industry standards, including restrictions on energy and freshwater use and on waste disposal, are expected to lower the environmental impact of biodiesel production. Furthermore, biodiesel producers will enjoy tax advantages, and foreign investments into China's biodiesel industry will be encouraged. Interestingly, the government does not envisage to use mandatory blending requirements and direct production subsidies to strengthen the biodiesel sector. Reportedly, industry representatives raised questions about the implementation of the new guidelines at the local level. They expressed concern that provincial administrations could continue to lack clear targets and the required authority and stated that biodiesel producers would likely continue to suffer from feedstock shortage.

EUROPEAN UNION / RUSSION

FEDERATION – trade dispute: Following the failure of bilateral consultations over Russia's import duties on selected products including palm oil (*see MPPU Dec. '14*), the European Commission requested the establishment of a WTO dispute settlement panel. According to the EU, the minimum tariff amount Russia charges on its palm oil imports can be higher than the WTO-agreed duty expressed as a percentage of the product's value.

INDIA – vegetable oil export policy:

The government decided to reduce the minimum export price for packaged and branded edible oil from USD 1 100 to USD 900 per tonne. Shipments of branded consumer packs of up to 5 kg were liberalized in 2013 – subject to minimum export prices (*see also MPPU May '14*). India's ban on bulk exports of vegetable oil remains in place.

INDONESIA – biodiesel policy: The government decided to change the method for setting the domestic retail price for biodiesel: starting in March 2015, pump prices will be determined based on the prevailing price of crude palm oil (plus processing costs and a 3 percent margin) rather than on the Singapore-based price for conventional diesel. Furthermore, biodiesel producers have been granted an almost threefold increase in state production subsidies, which passed from the IDR 1 400 (USD 0.11) per litre of biodiesel produced, paid until the end of 2014, to IDR 4 000 (USD 0.30) per litre. The annual volume of subsidized biodiesel has been set at 1.5 million tonnes, with government outlays to be financed from funds previously used to subsidize mineral fuel sales. The new method to set biofuel retail prices and the increase in producer subsidies are both aimed at stimulating domestic biodiesel production and guaranteeing its profitability amid falling international crude oil prices. Reportedly, the slump in crude oil quotations recorded since June 2014 has compromised the economic viability of the domestic biodiesel sector.

MALAYSIA – palm oil export tax:

After announcing that taxation of palm oil exports would resume after February 2015, the government informed that the tax exemption would remain in place in March 2015. In line with the variable export tax regime introduced two years ago, the current reference price for palm oil (MYR 2 233 or USD 602 per tonne) justifies the tax suspension; for the tax to be reactivated, the reference price would need to rise beyond MYR 2 250 (USD 607). In place since September 2014, the current duty exemption is said to have been instrumental in stimulating export demand and reducing domestic supplies, thus lending support to domestic palm oil prices.

REPUBLIC OF KOREA – import policy:

Reportedly, the government of the Republic of Korea announced revisions to the tariff schedule for 2015 with a view to stabilizing domestic consumer prices of certain agricultural products. The changes include the introduction of voluntary tariff-rate quotas for soybeans, animal or vegetable fat for animal feed, soybean

oilcake for feed and oilcake of cottonseed. Within-quota purchases will be exempt from import tariffs.

UKRAINE – import policy: Effective end February 2015 and until the end of the year, all agricultural and food product imports into Ukraine will be subject to a temporary duty surcharge of 10 percent, regardless of the country of origin and of treaties signed by Ukraine. The measure is meant to contribute to the stabilization of the nation's balance of payment and is therefore deemed to be in compliance with the provisions of the General Agreement on Tariffs and Trade (GATT).

UNITED STATES – state biodiesel policy: In the State of Iowa, a new law raises taxes on diesel sales by USD 0.10 per gallon, but also provides for a USD 0.03 per gallon break for fuel blends containing at least 11 percent of soy-based biodiesel. The local biodiesel industry has welcomed the measure, saying that it will spur usage of biodiesel in the state. At federal level, the tax credit for biodiesel in place since 2004 was allowed to expire at the end of 2014 (*see MPPU Jan. '15*).

UNITED STATES – agricultural policy outlays: According to USDA, with lower crop prices over the next several years, direct government payments to U.S. farmers could rise in 2015 and remain high in 2016 and 2017, mostly reflecting growing outlays under the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programmes. Beyond 2017, direct government payments are projected to decrease again and should fall below the average of 2001-2010.

GMO policies

- **India:** The introduction of GMOs has always been controversial in India. Since the approval, in the early 2000s, of GM cotton – the only GM crop grown commercially in the country – no new GM events have been authorized. Reportedly, GMO supporters argued that GM crops will be critical for raising poor farm productivity in

India. But civil society groups expressed concern about (i) potentially unknown effects on biodiversity and on human health, and (ii) the longer-term prospect of heavy farmer reliance on patented seeds. They also called for flaws in the regulatory system to be addressed before allowing field trials so as to avert contamination with untested GM materials. Interestingly, last year the federal government began approving a number of GM field trials, conditional to applicants obtaining no-objection certificates from the states where the trials were to be conducted. According to press reports, field trials with GM mustard seed are now in their final stage at the state-run Indian Agricultural Research Institute. Scientists associated with the project said that clearance for commercial release could come within the next two years.

- **China:** According to official sources, the Chinese government is committed to step up domestic research on GM crops, while at the same time improving regulatory mechanisms and educating the public so as to address specific risks and safety concerns (*see also MPPU Dec. '14*). According to some government officials, China's large population and scarce arable land impose environmental and resource-related challenges, which mean that the country cannot afford to lag behind in GM research. In this regard, China is said to be well placed to take the lead in global research on GM rice and maize. Reportedly, the government will give special attention to setting up legal, technological and administrative mechanisms to regulate all aspects of genetic modification – from research to testing, production, processing, marketing and trade. Currently, China only allows the commercial production of two GM products, cotton and papaya. Commercial cultivation of any GM staple food remains prohibited. At the same time, in recent years, the country's reliance on imports of a number of GM crops – especially soybeans – has increased sharply.

Sector development measures

- **Kenya – coconut:** A new body, the Nuts and Oilcrops Directorate, has been established within Kenya's Agriculture, Fisheries and Food

Authority to oversee the development of the coconut industry in coastal regions. Reportedly, the sector is suffering due to a large population of non-productive palms as well as pests, diseases and climate change. The new directorate has been tasked with bringing together farmers, processors, traders and financial institutions to coordinate the industry's rehabilitation.

- International market information – coconut:

In February, the ministerial meeting of the Asian and Pacific Coconut Community (APCC) discussed a proposal to set up an international market information centre for coconut in Kochi, India. The centre would focus on production and marketing, with a view to improve price discovery mechanisms for the key coconut products. Currently, producers are said to depend strongly on buyers' markets in Northern Europe. The proposed centre would promote trade in coconut products and facilitate discussion about easing trade barriers. Producers in APCC member countries would be provided with enhanced marketing tools and benefit from improved pricing for value added products. The proposal still requires formal APCC approval.

- Soy food processing – Africa:

Successful introduction in Ghana of a small-scale, simple technology to produce soya milk and tofu from soybeans has been reported. A USAID-funded programme promoted the installation of so-called soya cow machines in the selected regions. Apparently, women in particular have shown interest in the technology, which is said to be labour-saving and more hygienic than traditional extraction practices. Reportedly, the technology's introduction helped raise the incomes of concerned soybean farmers and soyfood producers.

Biodiesel standards

- Aviation fuel: The US-based standard setting organization *ASTM* revised its international aviation turbine fuel standard to adapt to the growing use of biodiesel (or fatty acid methyl esters, FAME) in jet fuels throughout the world. In the past, the requirement was to maintain FAME presence in jet fuel at an undetectable level – a practice that, due to the spread of

biofuels, started to entail high costs. *ASTM*'s revised standard increases the allowable presence of FAME from 5 to 50 parts per million (ppm). Considering that no discernible negative impacts on jet fuel quality have been observed with up to 400 ppm, industry officials mentioned a potential future revision of the standard to bring the permitted level to 100 ppm.

- Coconut oil-based biodiesel:

Reportedly, a private research institute in India developed a process for standardizing the production of coconut methyl ester (CME) from coconut oil. The research comprised optimization of CME production, studies of its physico-chemical properties, and testing its efficiency as a fuel in diesel automobile engines. Reportedly, concerned departments at central government level have expressed interest to fund further research in this field.

Certified-sustainable and traceable palm oil:

The following initiatives suggest rising awareness of environmental and social sustainability issues among private firms involved in palm oil trade.

- Ferrero: The confectionary group informed that, as of January 2015, its products are produced exclusively with palm oil that is both 100 % certified as sustainable and segregated – i.e. fully traceable to known sources. Reportedly, the company has achieved this goal one year ahead of its original target.

- Unilever: The global consumer good company announced that 58 % of its global palm oil consumption is now traceable to known sources. With regard to its EU food business, the firm renewed its pledge to use exclusively sustainable and traceable palm oil.

- Wilmar International: Reportedly, the global palm oil processing and trading firm committed to make its palm oil supply chain transparent via an on-line platform, thereby opening its sourcing practices to public scrutiny. On-line maps will show where its refineries are located in Indonesia and Malaysia and will include a traceability summary for each site. Reportedly, the platform is to include a mechanism to report improper activities, and all grievances, progress and findings will be made public. The initiative

reflects the firm's commitment to stop purchasing palm oil from suppliers whose product is grown on deforested land or through socially unsustainable practices.

Varietal developments

- **Non-GMO soybean:** Reportedly, a non-genetically modified soybean developed by scientists at the University of Arkansas (United States) stands out for its high yield and elevated protein content. The new variety yielded 3.95 tonnes per ha on average in field trials, which compares to standard yields of around 2.9 tonnes (in the state of Arkansas). Bean protein levels at maturity were reported to exceed 45 percent, while the protein content in meal was reported at 52 percent; the respective values for conventional soybean varieties are around 36 percent and 44 percent. Livestock producers, especially poultry companies, have expressed interest in the new variety because of its potential to offer higher nutrition value per weight in animal feed. University officials informed that the new variety will cost substantially less than most GM-soybean varieties. The new seed material will be released to private companies through license agreements for multiplication and commercialization.
- **GM-soybean:** *Bayer CropScience* announced the commercial launch of a dozen new GM soybean varieties. Allegedly, the new cultivars will help growers maximize performance while combating weed resistance to herbicides of the glyphosate family (*see MPPU Sep. '14 on the emergence of so-called super weeds*). The new varieties, which will be available for the 2015 growing season, are tailored for specific growing areas in the United States.
- **Spanish groundnut:** A new genetically modified groundnut variety belonging to the Spanish market type has been released by USDA and partnering universities. Reportedly, the new

variety's key characteristics are high productivity, disease resistance, and – thanks to elevated levels of oleic acid – longer shelf life and beneficial effects on human health. The new cultivar has been developed to suit the needs of farmers in the United States' South-west. The new variety is being released for multiplication purposes before being made available for commercial use.

International land deal: Reportedly, in Uganda, an international joint venture is set to be taken to court as farmers seek compensation for land ceded in 2011. An environmental group backing the concerned farmers claims that the oil palm project in question displaced local communities without proper compensation. Furthermore, the project is said to have increased food insecurity, spoiled local water sources and caused large-scale deforestation.

Port infrastructure – Brazil: Reportedly, at *Tegam*, a newly opened grain terminal in Brazil's north-eastern state of Maranhão, a first load of soybean is ready for vessel loading. Completion of the new terminal – originally scheduled for 2014 – was eagerly expected: along with other port infrastructure projects in the North-East, the new terminal is expected to relieve the burden on the country's highly congested ports on the southern-eastern and southern coast (*see also MPPU Feb. '15, May '14 and June '13*). During 2015, *Tegam* operators expect to ship some 2 million tonnes of soybeans and maize grown in north-eastern and central Brazil. The terminal's total capacity should climb to 5 million tonnes over the next 2–3 years, with an additional 5 million tonnes envisaged in a subsequent phase.

*For comments or queries
please use the following Email contact:
Peter.Thoenes@fao.org*

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	International Prices (US\$ per tonne) ¹					FAO Indices (2002-2004=100) ⁷		
	Soybeans²	Soybean oil³	Palm Oil⁴	Soybean Cake⁵	Rapeseed Meal⁶	Oilseeds	Vegetable oils	Oilcakes/ Meals
Annual (Oct/Sep)								
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
Monthly								
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 ⁸	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
2014 - December	446	816	694	449	278	168	161	213
2015 - January	421	789	681	431	279	159	156	206
2015 - February	407	775	693	412	273	154	157	197
¹ Spot prices for nearest forward shipment ² Soybeans (US, No 2 yellow, c.i.f. Rotterdam) ³ Soybean oil (Dutch, f.o.b. ex-mill) ⁴ Palm oil (Crude, c.i.f. North West Europe) ⁵ Soybean meal (44/45% Hamburg fob ex-mill) ⁶ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill) ⁷ 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. ⁸ The drop in the price index for oilseeds seen in March 2014 is due to structural breaks in the underlying price Sources: FAO and Oil World								