



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

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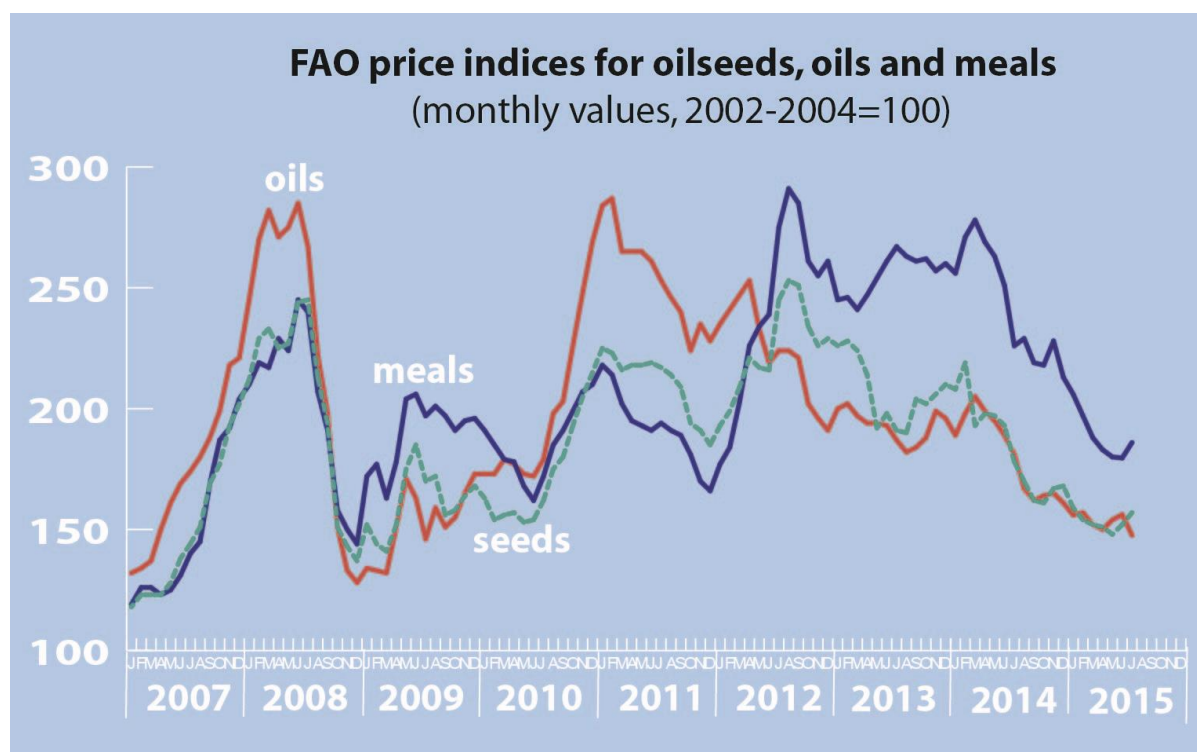
### **a) Global price review**

In July, the FAO price indices for oilseeds and meals rose by 3–4 percent compared to the previous month, gaining, respectively, 4 and 7 points. By contrast, after strengthening for two consecutive months, the index for vegetable oils decreased by 6 percent (or 9 points). In historical terms, all three indices continue to fare at multi-year lows.

The rise in the oilseed and oilmeal price indices mainly mirrors developments in the soybean market. International soybean prices strengthened in response to (i) lower estimates for global 2014/15 closing stocks (mostly reflecting downward revisions in the United States),

and (ii) lingering concerns about the impact of the unusually wet conditions on 2015/16 planting and yield prospects in the United States. Signs of a possible slowdown in purchases by China, due to weak economic growth and deteriorating crush margins, also weighed on soybean prices. Notwithstanding the recent downward revisions, the global supply outlook for soybeans in 2015/16 remains positive. As to the other oilseeds, prices for sunflower seeds also appreciated, reflecting poor production prospects in a number of key producing regions. As to rapeseed, international quotations strengthened slightly month-on-month.

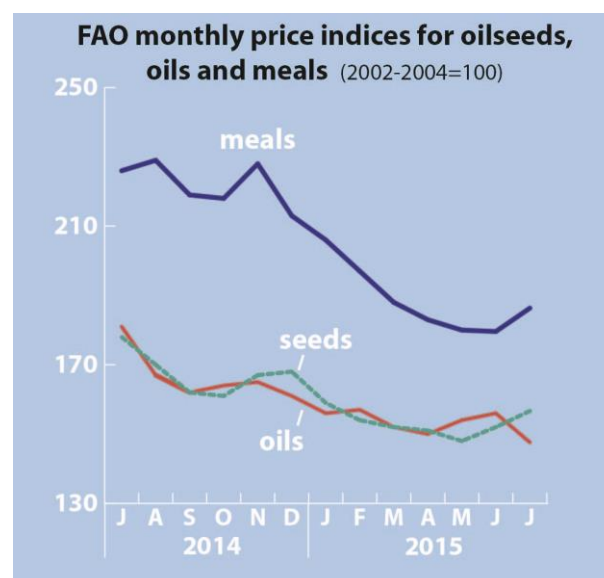
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\* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's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

The slide in the vegetable oils price index mainly reflects developments in the palm and soy oil markets. Palm oil quotations eased as increased production in Southeast Asia coincided with a slower pace of exports, especially from Malaysia. Soy oil prices also weakened – different from soybean and soymeal prices – amid ample export availabilities in South America and a favourable global supply outlook for 2015/16. Among the factors driving up global stocks is a subdued demand for palm and soy oil by the biodiesel sector in, respectively, Indonesia and Argentina.



## b) Selected policy developments and industry news

### CANADA / UKRAINE – trade agreement:

The two countries successfully concluded negotiations towards the Canada–Ukraine Free Trade Agreement (CUFTA). Under the trade pact, which still requires parliamentary approval, Canada's exports of rapeseed and rapeseed oil would enjoy improved access to Ukraine's market. Conversely, Ukrainian exports would benefit from preferential access to the Canadian market, which is likely to stimulate Ukrainian sales of refined sunflowerseed oil to Canada.

### CHINA – stock policies (rapeseed):

According to market observers, following the decision to terminate its nationwide rapeseed procurement and storage scheme (*see MPPU July '15*), the Chinese government will likely ramp up sales of stockpiled rapeseed oil. Public stocks are estimated at 6 million tonnes, of which 600 000 tonnes could be sold on the marketplace during 2015/16. If realized, such sales could limit the country's rapeseed imports, especially taking into account the recent appreciation in world prices. Reportedly, government sales could be affected by quality issues, as part of the product has been kept in storage for several years.

**EGYPT – import policy:** To date, in Egypt, the importation of basic foodstuffs destined for public distribution programmes has been effected through public tenders. Now, official sources informed that the government would begin importing cooking oil and other foods through direct order agreements, so as to cut out middlemen and reduce transaction costs (*see also MPPU Sep '14*).

**ETHIOPIA – trade policy:** The government decided to lift its ban on edible oil imports by the private sector (*see also MPPU June '15*). From August 2015, selected private businesses will participate in the country's imports. Reportedly, the government will set import quotas and profit margins for each company, also granting access to foreign currency.

### EUROPEAN UNION – GMO policy:

Regarding the EU new regulation that allows member states to opt-out of GM crop cultivation (*see MPPU Apr. '15*), a number of governments declared to support national bans, although it remains unclear when and how exactly the EU directive will be translated into national legislation. As to the proposed regulation that would allow member states to restrict or ban the use of GM food or feed on their territory

(see MPPU May'15), a majority of governments seems to be opposed on the grounds that such measures would not be compatible with the EU's single market rule nor with WTO regulations. Reportedly, some member states would like the European Commission to carry out an impact assessment so that economic and other risks could be better determined. As anticipated, the draft law has been subject to strong criticism by the EU's feed, livestock and poultry industry, which relies heavily on imported GM products, notably GM soybeans. Concerns have also been expressed by members of the European Parliament. Reportedly, MEPs from all political groups reiterated that national bans could violate single market and WTO rules, that various terms in the draft texts were legally undefined, that an impact assessment was needed, and that the proposed law could prove unworkable. A plenary vote on the file is scheduled for October 2015. Reportedly, the draft EU regulation has also been questioned during the July meeting of the WTO Committee on Sanitary and Phytosanitary Measures. On a related matter, the European Food Safety Authority (EFSA) has issued a positive safety assessment for two new herbicide-tolerant GM soybean varieties (for import into the EU for food and feed uses), thus paving the way for eventual authorization by the EU Commission.

#### **EUROPEAN UNION – biofuel policy:**

The EU Council of Ministers formally adopted revised EU rules on the use of biofuels as transport fuels, including a limit on the contribution of crop-based (or conventional/first-generation) biofuels (see also MPPU May'15). The EU Commission issued a statement criticizing the deal, stating that (i) it lowered the level of ambition in mitigating the ILUC impacts of conventional biofuels, and (ii) contained no significant incentives for the transition towards advanced biofuels and other non-ILUC options. Meanwhile, the union's biofuel industry – which blamed years of policy uncertainty for slowing growth and investment – urged member states to transpose and implement the new rules quickly so as to allow the EU to meet its climate and energy targets. In the case of biodiesel, EU-wide blending

with crop-based fuels has been estimated at 4.3 percent in 2014 – possibly offering scope for crop-based biodiesel consumption to expand by about 60 percent until 2020. However, given current market conditions, the new 7-percent cap is not likely to be reached over the coming five years, according to market observers.

#### **EUROPEAN UNION / INDONESIA – WTO**

**dispute panel:** According to unofficial sources, the Indonesian government's request to set up a WTO dispute panel against the EU's anti-dumping duties for Indonesian biodiesel has been opposed by the European Union. Should Indonesia decide to renew its request, the panel would be automatically formed. At the core of the dispute is a cost adjustment methodology used by the EU during its anti-dumping investigations. A related WTO dispute panel – in which Argentina challenges the EU's anti-dumping duties – is expected to produce its report at the end of this year (see also MPPU May/July/Nov'14).

**INDIA – trans fat policy:** The government's Food Safety and Standards Authority has published a draft regulation to update labelling requirements pertaining to the declaration of trans fatty acid content in packaged food products. The agency has invited comments from interested public stakeholders.

**INDIA – trade policy:** State and industry officials from Kerala State urged the central government to give necessary directions to the State Trading Corporation to stop importing crude and edible grade coconut oil. Allegedly, such imports would be detrimental to coconut farmers and traders in Kerala, who are already suffering from declining coconut oil prices and rising palm oil imports.

#### **INDONESIA – palm oil export taxation:**

The government announced a change in the way the country's progressive export tax on palm oil is calculated. From August 2015, the escalating export tax (which kicks in when the government's reference price for crude palm oil exceeds USD

750 per tonne) will be expressed in US dollar instead of a price percentage. The former tax rate, which ranged between 7.5 to 22.5 percent of the per-tonne price, will be replaced by a dollar tax running from 3 to 200 USD per tonne.

The government also informed that the flat export levy introduced last month (*see MPPU July'15*) will be collected irrespective of the reference price for crude palm oil – i.e. contrary to initial announcements stating that the levy would not need to be paid when prices exceeded USD 750 per tonne. Therefore, when the reference price is above USD 750 per tonne, palm oil exporters will need to pay both the export tax and the levy.

#### **MALAYSIA / TURKEY – trade agreement:**

A free trade agreement between the two countries is expected to come into force in August 2015. Exporters from Malaysia and Turkey will enjoy preferential access for most products in each other's territories. Concerning Malaysian palm oil, Turkey has offered a one-off duty reduction of 30 percent from the current MFN rates, which should place Malaysian products at a competitive advantage over similar goods originating from other countries. Currently, Malaysia is Turkey's second-largest supplier of palm oil, after Indonesia. Turkey's exports of oilseeds and vegetable oil to Malaysia are comparatively small.

**NEPAL – import policy:** Reportedly, the government suspended a national tax and halved the import duty on selected foodstuffs, including oilseeds and edible oils, in an effort to lower consumer prices. Effective 16 July 2015, the custom duty on palm oil – the vegetable oil that dominates imports and domestic consumption – has been cut from 5 percent to 2.5 percent.

**PERU – trade policy:** The country's consumer defense and competition authority initiated anti-dumping investigations about imports of pure biodiesel from Argentina. Reportedly, the move is in response to allegations by the domestic palm oil and biodiesel producers claiming unfair competition by Argentinian manufacturers. Back in 2009, Peru imposed anti-dumping and countervailing duties on biodiesel originating

from the United States. According to the private sector, although diesel fuel sold in Peru must contain 5 percent of biodiesel since 2011, efforts to promote domestic biodiesel production have been idled by the availability of competitively priced foreign biodiesel.

#### **RUSSIAN FEDERATION – import policy:**

The Russian government is considering regulating the use of palm oil in food production. While there have been no indications on why such measures might be imposed, potential restrictions might include limiting the use of the oil in certain products (such as foods consumed primarily by children) and measures to increase market transparency and improve labeling. Palm oil consumption by domestic food manufacturers is said to have grown significantly since 2014. While some sources associate the rise in consumption with Russia's sanctions on EU food imports, others point to surges in the domestic price for sunflowerseed oil.

#### **THAILAND – market regulation:**

The government is determined to resume public purchases of palm oil in an effort to support producer prices, which seem to have tumbled as a result of burdensome supplies (*see also MPPU July'15*). Official sources informed that funds will be set aside to allow the Public Warehouse Organization to absorb 100 000 tonnes of palm oil during the second half of 2015.

#### **UNITED STATES – GMO policy**

- **Regulatory framework:** The White House has called on the three federal agencies that have oversight responsibilities for biotech issues – the Environmental Protection Agency, the Food and Drug Administration and the Agriculture Department – to modernize the country's regulatory system for biotechnology products. While the current, 30 year-old framework is said to effectively protect health and the environment, the administration recognizes that (i) recent advances in science and technology have altered the product landscape; (ii) the complexity of current regulations can make it difficult for the public to understand how product safety is



evaluated; and (iii) navigating the regulatory process can be unduly challenging, especially for small companies. The action aims at ensuring public confidence in the regulatory system by improving the latter's transparency, predictability, coordination and efficiency. The White House proposed three initial steps: clarifying the roles of the three federal agencies; developing a long term strategy; and commissioning an independent analysis of the future landscape of biotech products. The update of the regulatory system will undergo public notice and comment before it is finalized.

- **Labeling legislation:** The U.S. Lower House passed draft legislation that would create a unified, national framework and standard for food labeling regarding the inclusion or exclusion of GM ingredients. The draft law rules out compulsory labeling of foods produced with GM ingredients, including over-riding state laws that mandate such labeling (*see also MPPU July '15*). Instead, under the draft bill, federal regulatory agencies would be required to examine the safety profile of new GM foods (replacing a voluntary consultation process) and to develop a national standard for voluntary GMO labeling. Supporters of the draft bill argued that mandatory labeling is unnecessary and would burden the food industry with cumbersome and costly requirements. However, opponents claim that evidence on the safety of GMOs remains mixed. They also point out that consumers have asked for more information and have a right to know whether or not a product contains GMOs. Furthermore, they called for stringent measures to prevent contamination of non-GM crops by GM-crops. Representatives of the agricultural and food industry expressed their support for federally-set guidelines on voluntary labeling and voiced concerns about the confusion caused by the diverse labeling standards currently in place at state level.

#### **UNITED STATES – biofuel policy**

- **Mandatory consumption targets:** Different groups, in particular officials representing the agricultural sector and biofuel industry as well as a group of U.S. senators,

have urged the Environmental Protection Agency (EPA) to raise the biodiesel consumption volumes proposed under the Renewable Fuels Standard for the 2014–2017 period (*see MPPU July '15*).

Allegedly, by setting lower limits than originally envisioned by the U.S. Congress, EPA failed to recognize the country's biodiesel production capacity. EPA's public comment period closed on 27 July 2015 and the agency is expected to finalize its volume ruling by 30 November 2015.

- **Cottonseed oil-based biodiesel:**

The EPA has evaluated the lifecycle GHG emissions for biodiesel produced from cottonseed oil and proposed to apply the same values established in 2010 for soybean oil. This implies that cottonseed oil-based fuels can meet the criteria for renewable fuels set under the Renewable Fuel Standard programme.

EPA believes that its determination provides a conservative estimate of potential emissions associated with the production and use of cottonseed oil-based biodiesel. The agency has invited public comment on its preliminary analysis.

- **Tax incentives:** U.S. lawmakers are reviewing a proposal to extend the tax break of 1 USD per gallon of marketed biodiesel (as well as the small agri-biodiesel producer credit of US cents 10 per gallon) through 2016. In effect since 2004, the tax break has been allowed to expire at the end of 2014 (*see MPPU Jan '15*). Lawmakers are also considering changing the tax break from a 'mixture credit' to a 'production credit', so as to ensure that the measure benefits only domestic biodiesel production and doesn't subsidize imported biofuels.

**ZIMBABWE – biofuel policy:** According to local press, the government is considering to introduce mandatory blending of transportation diesel with 2 percent biodiesel by the end of this year. Currently, consultations with the industry are being held and comments from stakeholders evaluated. The policy would be aimed at reducing the country's import bill for crude oil and creating employment opportunities for rural people.

## Sector development news

- **Canada – oilseeds:** In an effort to improve the quality and output of oilseed and grain production in the country's three Maritime provinces (Nova Scotia, Prince Edward Island, and New Brunswick), the federal government has allocated a grant worth CAD 800 000 (USD 609 000) to the Atlantic Grains Council (AGC). The public-private partnership builds on AGC's agreement to make available producer contributions from a new research checkoff fund.
- **Nigeria – oil palm:** The Central Bank of Nigeria is taking action to revive the country's oil palm sector. Apparently the initiative aims at rising domestic production as a means to reduce edible oil imports. As a first step, the bank will implement an "Anchor Borrowing Program" designed to foster partnerships and create financial links between smallholders and processors, including through the promotion of producer cooperatives. Furthermore, importers of edible oil may be denied access to foreign exchange.

**Plant protection – rapeseed:** While the use of neonicotinoid-based pesticides has recently been outlawed in parts of Canada to protect honeybees (*see MPPU July'15*), in the United Kingdom, where such pesticides are banned since 2013 based on an EU-wide moratorium, the government has approved temporary emergency uses of the pesticides in selected areas in an attempt to protect the crops from heavy pest attack. Reportedly, similar exceptions have been authorized in other EU member states.

**Disease spread – olive tree:** A first case of *xylella fastidiosa* infection has been reported from outside Italy – specifically from Corsica, France. After the discovery of heavy infection in olive groves in Italy's Apulia region in 2013, EU-wide measures were introduced to combat the further spread of the disease, while France banned the importation of susceptible plant material (*see MPPU Mar'14 & May/July'15*). The infection detected in Corsica concerns an evergreen shrub, which confirms an earlier finding by EFSA that the bacterium can thrive on a wide range of host

plants, making it difficult to prevent the disease from spreading.

## Certified sustainable palm oil:

Malaysian producer associations reported that some 400 000 independent oil palm smallholders are going to have their estates certified under the government-backed Malaysian Sustainable Palm Oil (MSPO) certification standard. Thanks to initial public funding of MYR 50 million (USD 13 million) earmarked for that purpose, certification of independent smallholders, i.e. autonomous producers with oil palm estates of up to 40 hectares, should receive a boost. Auditing of independent smallholders is expected to start as soon as the public grants will be disbursed. To facilitate the auditing process, smallholders will be encouraged to form cooperatives. Smallholder representatives stressed that it will be paramount that the government actively promotes the recently launched MSPO standard for it to become a globally recognized norm (*see also MPPU May/July/Dec. '14*). Reportedly, the majority of plantation companies as well as smallholders organized under the FELDA settlers schemes have opted for the internationally recognized RSPO certification, accepting stringent rules and elevated costs.

## Research findings

- **Rapeseed meal:** According to research conducted in the United States, rapeseed meal could be an effective replacement for soybean meal in dairy cow rations. Although rapeseed meal is characterized by a low level of crude protein (relative to soymeal), its reduced protein degradation and favourable amino acid profile have proven to be effective in low protein dairy diets.
- **Asian rust:** Brazilian researchers warned of a critical situation developing for soybeans in South America due to the outbreak of Asian rust brought about by the practice of farmers to plant two soybean crops within a single crop year, instead of opting for crop rotation. While in Brazil the practice has been curbed by new rules mandating soybean-free periods (*see MPPU May'15*), planting of a second soybean crop is

said to keep expanding in neighbouring countries, such as Paraguay. As spores of the Asian rust fungus migrate easily over long distances, production agreements involving all concerned countries are urgently recommended. In addition to regulations regarding second soybean cropping, agronomists also advised that measures to reduce the presence of host plants in the fields are needed.

**Quality control – Sri Lanka:** According to edible oil manufacturers, sales of inferior, substandard coconut oils have increased in Sri Lanka's local markets, jeopardizing the health

of the people. Citing numerous cases of product adulteration and deceptive product labelling, producers of branded edible oil called on responsible government authorities to strengthen the country's food control mechanisms so as to better safeguard the interests of both consumers and producers. Reportedly, quality, nutritional, safety and hygienic issues are not adequately addressed under existing food certification schemes.

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	International Prices (US\$ per tonne) <sup>1</sup>					FAO Indices (2002-2004=100) <sup>7</sup>		
	Soybeans <sup>2</sup>	Soybean oil <sup>3</sup>	Palm Oil <sup>4</sup>	Soybean Cake <sup>5</sup>	Rapeseed Meal <sup>6</sup>	Oilseeds	Vegetable oils	Oilcakes/ Meals
<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>								
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	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
2015 - March	402	748	673	392	262	152	152	188
2015 - April	396	753	657	380	263	151	150	183
2015 - May	385	781	663	371	290	148	154	180
2015 - June	397	800	670	372	282	152	156	180
2015 - July	413	746	635	389	264	157	148	186
<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 meal (44/45% Hamburg fob ex-mill) <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.  Sources: FAO and Oil World								