



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

*No. 86, September 2016*

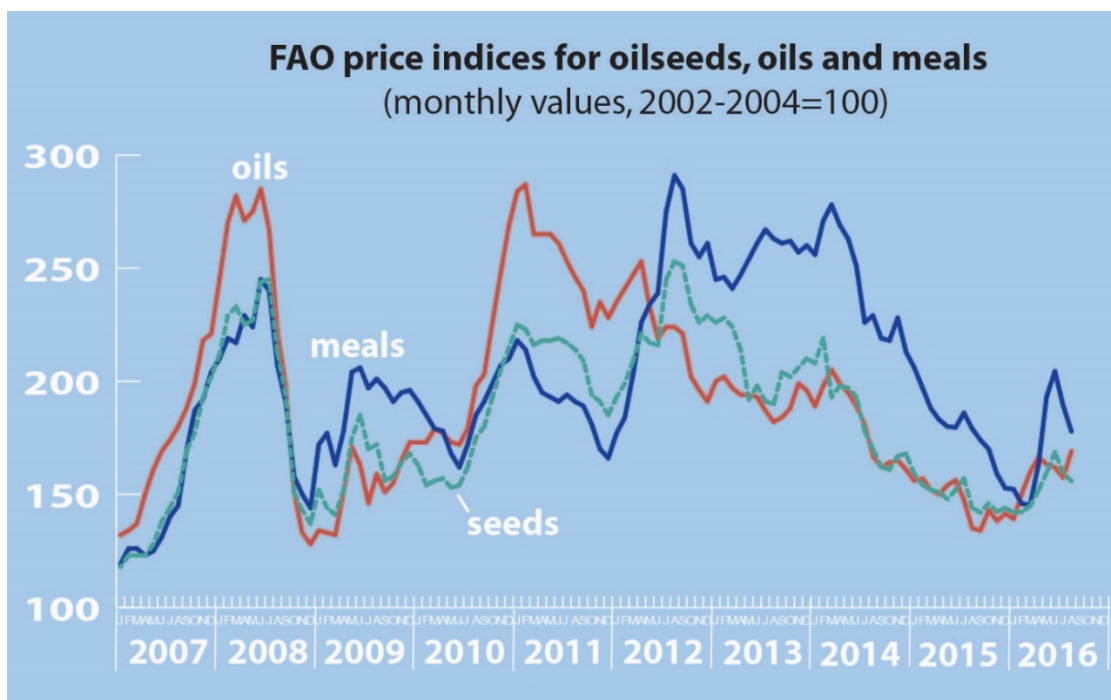
### **a) Global price review**

In August, FAO's price indices for oilseeds and for meals lost strength, similar to the previous month. By contrast the index for vegetable oils recorded an upward move, reversing the trend of the past three months. Month-on-month, the oilseed and oilmeal indices dropped by 3.5 points and 11.3 points (or 2.2 and 6 percent), respectively, while the vegetable oil index gained 11.7 points (or 7.4 percent), reaching its highest level since August 2014.

The oilseed price index, and even more so the oilmeal index, continued to fall on weakening soy quotations. US crop prospects received a strong boost from favourable weather conditions (notwithstanding recent reports of flooding in

selected regions), putting pressure on international soybean and soymeal values. With the US crop forecast being raised to 110.5 million tonnes (an all-time high), global 2016/17 soybean production is now pegged at a record level. However, price losses have been capped by firm import demand. Importers concentrated on US origin, given lower than anticipated export availabilities in South America. In the coming weeks, prices can be expected to remain volatile, given the market's current reliance on the United States' harvest. Market participants will closely watch weather developments in the US as well as planting forecasts for South America's forthcoming soybean crops.

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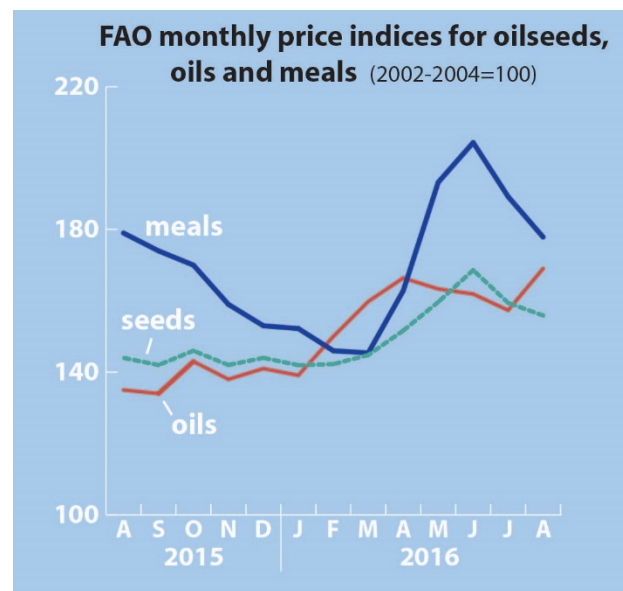
\* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of official and unofficial sources. Section b) of the present issue covers developments observed during **August '16**. 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*

International quotations for rapeseed, on the other hand, have strengthened in August, capping the drop in the oilseed index. The rebound in rapeseed values reflects deteriorating crop prospects in the EU following unfavourable weather, which could push global 2016/17 rapeseed production to a three-year low.

The rebound in the vegetable oil index has been driven primarily by palm oil. Lower than anticipated palm oil output in Malaysia and continued tightness in global inventories – which coincided with rising import demand in some key importing countries, notably China, India and the EU – have driven international quotations to 2-year highs. Firming soy and rapeseed oil values also contributed to the rise in the index. While rapeseed oil trailed the corresponding seed market, soy oil prices strengthened on

expectations of accelerating import demand, given a prospective tightening in export availabilities of other seed oils.



## b) Selected policy developments and industry news

**ARGENTINA – export policy:** According to local press reports, government officials stated that the gradual reduction (and eventual removal) of Argentina's export tax on soybeans – a pledge made by the incoming administration at the end of last year (*see MPPU Dec. '15 & Feb. '16*) – could take longer than originally envisaged, linking the announcement to the country's ongoing economic recession. After a first reduction (from 35 to 30 percent) in December 2015, farmers were expecting the levy to be lowered by another 5 percentage points early next year, i.e. before the start of the 2016/17 soybean marketing campaign.

### **CHINA / CANADA – rapeseed trade:**

China agreed to further delay the implementation of stringent rules on rapeseed imports from Canada (*see MPPU Mar./Apr. '16*). Meant to reduce the risk of blackleg disease spreading to China, the new standard – which would raise costs for Canadian exporters – was due to come into force on 1 September 2016. Reportedly, efforts to

achieve a long-term agreement (– acceptable to both sides –) on the terms of Canada's rapeseed shipments will be stepped up. In Canada, industry experts said that, in view of the remaining uncertainties, exporters could delay their shipments to China until an accord is reached. On the other hand, private sources reported that some firms already made small sales to China, conforming to the stricter terms.

**INDIA – food safety policies:** The Government postponed the enforcement date for maximum limits of trans fatty acid levels in fats, oils and fat emulsions (*see MPPU Sep. '15*) by six months – from 27 August 2016 to 27 February 2017.

**MYANMAR – export policy:** According to local press reports, the Government decided to relax export restrictions on a number of agri-based products, including sesame oil, mustard seed/oil, sunflower seed/oil, and by-products of edible oil extraction. Reportedly, the measure was taken to allow the domestic industry to tap new export opportunities. Meanwhile, the government is said to be working on ways to ensure that domestic demand for vegetable oil continues to be met.

### **RUSSIAN FEDERATION – trade policies**

- **Export policy:** The Government has lowered the country's duty on sunflowerseed exports outside the Eurasian Economic Union to 6.5 percent, but not less than 9.75 Euro per tonne. The new duty has come into effect on 1 September 2016, replacing the 9.9 percent (but not less than 14.81 Euro per tonne) tariff in place since September 2015 (*see also MPPU Sep. '15*).
- **Bilateral trade dispute:** A WTO dispute settlement panel set up at the request of the European Union ruled that import duties applied by the Russian Federation on selected products imported from the EU – including palm oil and its fractions – violated WTO rules (*see also MPPU Dec. '14*). Reportedly, the combined duty rates applied to palm oil in 2014 – i.e. 3 percent, but not less than 90 Euro per tonne – were in excess of the ad valorem bound rate the Russian Federation had agreed to upon joining the WTO in 2012. Since the establishment of the WTO dispute panel in March 2015, the government has adjusted the combined duty to its bound rate.

**UGANDA – agricultural policy:** The Ugandan Government has launched a subsidized crop insurance scheme to assist farmers. Reportedly, depending on farm size and location, 30 – 80 percent of the insurance premiums will be covered by the state. The scheme, which will be operated through a public-private partnership between the Government and the country's insurers association, is expected to limit government provision of ad-hoc assistance to farmers, help improve farmers' access to credit, and increase household food security.

### **UKRAINE / INDONESIA – free trade zone:**

In August 2016, the Ukraine and Indonesia agreed to start consultations on establishing a free trade zone between the two countries. With regard to agricultural products, Ukraine hopes to expand its exports of sunflower seed/oil to Indonesia, where demand for commodities from the oil and fat complex is expanding steadily.

### **Variable export duties**

- **Palm oil – Malaysia & Indonesia:** In September 2016, Indonesia's tax on crude palm oil shipments will remain at zero, as the reference price has remained below the threshold level of

USD 750 per tonne. Malaysia's palm oil export tax will remain unchanged at 5 percent (despite a slight drop in the calculated reference price).

- **Biodiesel – Argentina:** In May, June, July and August of this year, Argentine biodiesel exports have been taxed at 3.96 percent, 5.04 percent, 7.15 percent and 4.99 percent, respectively. The circumstance that, since mid-2015, the Government modified the tax on a monthly basis has prompted the local biodiesel industry to call for less frequent changes so as not to disrupt its business.

### **Sector development measures**

- **India – coconut palm:** The Indian Coconut Development Board will support 18 projects worth INR 128 million (USD 1.9 million) to improve processing and product diversification – and hence value addition – in the coconut sector. The board's total financial contribution will amount to INR 5.2 million (USD 78 thousand). The projects will focus on the production of copra, desiccated coconut powder, virgin coconut oil and other coconut-based foods as well as charcoal.
- **Pakistan – olive tree:** As part of a five-year programme launched earlier this year in Punjab Province to promote olive oil production (*see MPPU Feb. '16*), provincial authorities distributed – free of charge – two million olive saplings to farmers in the region of Pothohar. Beneficiaries will also benefit from training activities on olive grove management and financial support for water source development and drip irrigation.
- **Vanuatu – coconut palm:** In July 2016, the Government launched a National Coconut Strategy. The nine-year plan aims to revive the country's coconut industry after the devastation caused by Cyclone Pam last year. The strategy focuses on replanting activities and product diversification.

### **GMO policies**

- **China:** In its five-year plan for science and technology (ending 2020), the Government announced that it will support the development of GM crop varieties – including maize and soybeans – as part of new efforts to make agricultural production more efficient and boost crop output. To date, China has only approved GM technology for cotton. The new plan envisages the commercialization of pest-tolerant maize and herbicide-resistant soybean varieties. Most likely,

the Government will roll out biotech varieties of industrial crops like maize first, moving to food crops such as soya at a later stage. The launch of biotech food crops would be delayed because of consumer concerns over perceived health risks. GM soy cultivation also faces resistance from the domestic soybean industry, which sells locally grown GMO-free soybeans (for use in food products such as tofu and soy-sauce) at a premium to imported GM soybeans. In anticipation of the introduction of GM food crops into the market, the government will work on a law on GM food safety – including labelling rules for food products exceeding a certain threshold of GMO content. Reportedly, recent proposals to create separate zones for growing non-GM soybeans have been rejected by the government.

- **India:** Tasked with reviewing the available evidence on the suitability of a locally developed GM mustardseed for Indian soils and with assessing potential risks to health and ecology, the government's Genetic Engineering Approval Committee has issued a favourable assessment on safety tests carried out so far. Such technical clearance needs to be followed by multiple political approvals before the crop can be launched commercially. Meanwhile, the public opposition to GM crops remains strong, and to date only a limited number of non-food biotech crops (notably cotton) are allowed to be grown in India.
- **Philippines:** The Philippine Supreme Court informed that it reversed its December 2015 decision to stop the field testing, propagation, commercialization and importation of GM products in the country (*see also MPPU Feb./Apr. '16*). The full decision is expected to be released sometime in September 2016.
- **United States:** USDA's Food Safety and Inspection Service (FSIS) has issued a statement authorizing companies to make labeling claims that no GM ingredients were used in meat, poultry and egg products. The agency has provided detailed guidance on how to make such 'negative claims'. The absence of GM ingredients needs to be verified by a third-party certifying organization.

**GMO industry news – Australia:** Australian rapeseed growers have succeeded in capturing a premium for non-GM produce thanks to voluntary market segregation, according to industry sources.

In Australia, cultivation of GM rapeseed has been authorized in Victoria, New South Wales and Western Australia. Strict segregation (including detailed logistic and trade standards) has been introduced in 2007, to separate GM from non-GM rapeseed throughout the delivery supply chain. Industry sources estimate that out of 22 million tonnes of rapeseed exported from Australia since 2010, 15 million tonnes – or about two thirds – has been conventional produce, bought by customers preferring non-GM crops, such as the EU. Reportedly, growers have received an estimated AUD 25 per tonne premium (USD 19) for their non-GM rapeseed sales.

### **Biofuel – national policies**

- **United States:** According to its own inspector general, the US Environmental Protection Agency (EPA) has fallen behind on compliance with a number of studies, including a report to Congress on the environmental and conservation impacts of the country's Renewable Fuels Standard. Allegedly, not having the required reports and studies compromises the agency's ability to identify, consider and make policy makers aware of any adverse impacts of renewable fuels. Reportedly, EPA also failed to identify a process to update its lifecycle GHG emission analysis for individual renewable fuels. The methodology currently used relies on a report submitted back in 2010.
- **Thailand:** The Government decided to reduce mandatory blending of transportation diesel with palm oil-based biodiesel from 7 percent to 5 percent in July 2016, and further to 3 percent in August 2016. Blending requirements have been lowered in a bid to end a temporary shortage in domestic cooking oil supplies. Reportedly, national palm oil supplies have been lower than earlier anticipated (because of poor yields linked to El Niño), raising concern that soaring cooking oil prices could harm consumers. No date has been provided for the restoration of the 7 percent blending rate. Last year, confronted with a similar situation, the Government softened the blending obligations for a period of three months (*see MPPU May '15*). Interestingly, in other instances, the Government has intervened in markets to protect palm oil growers from sudden price falls (*see MPPU Apr. '16 and Aug./Oct. '15*). To better understand the recurrent swings in domestic supplies and prices, the Energy Ministry decided



to monitor movements in domestic palm oil stocks, analyzing how these affect the market. In the longer term, the Government remains committed to lift mandatory blending to 20 percent by the year 2036. Last year, the Government already offered to subsidize voluntary use of 20 percent blends by truck drivers (*see MPPU July'15*). However, the government recently advised that nationwide introduction of 10 percent blends would be postponed to 2018. Industry experts repeatedly questioned the country's ability to accomplish higher blending rates given weather uncertainties and other challenges faced by the country's palm oil industry.

### **Biodiesel – industry news**

- **New Zealand:** The country's first commercial-scale biodiesel plant was expected to commence production in August 2016, reported private sources. The concerned company is using inedible tallow (a byproduct of the meat industry typically used in the manufacturing of soap and candles) as feedstock, likely absorbing about 12 percent of the country's inedible tallow output. The plant's annual biodiesel output is pegged at 17 000 tonnes.
- **United Kingdom:** According to industry sources, palm oil is no longer present in the renewable biodiesel that is blended into fossil fuels in the UK. Reportedly, palm oil content started dropping in 2012, and UK biodiesel – whether produced in the UK or imported – is now largely made from waste feedstock, in particular used cooking oil.

### **Certified sustainable palm oil**

- **GreenPalm certificates:** The Roundtable on Sustainable Palm Oil (RSPO) confirmed that after December 2016 it will no longer endorse GreenPalm, the certificate-based book & claim system that currently accounts for about half of global trade in RSPO-certified palm/palm kernel oil. Instead, customers will be able to trade certified volumes via RSPO's recently launched *eTrace* platform, an alternative book & claim system that guarantees certificate traceability back to individual originating certified mills and crushers (*see also MPPU Mar./July'16*). Credits traded via *eTrace* will be subjected to regular RSPO audits. As any other book & claim system, also the new mechanism by-passes the physical supply chain. However, the

modified scheme will allow customers to know which certified palm oil mill they are supporting.

- **Company suspension:** RSPO ended the suspension from certification that it had imposed last April on one of its members following non-compliance with its standards (*see MPPU June'16*). Reportedly, the concerned company satisfied the conditions set for readmission. It is now expected to submit quarterly progress reports and will be subjected to independent ground verification after 12 months. Some environmental groups criticized RSPO for readmitting the company before it delivered lasting change on the ground. If global buyers who had disengaged from trading with the suspended member will resume purchases from the company remains to be seen.
- **Smallholder support:** In West Kalimantan, Indonesia, two home care multinationals, *Henkel* and *BASF*, entered into partnerships with NGOs to support smallholder palm oil production. As major buyers of palm and palm kernel oil, the two companies are committed to back the establishment of sustainable supply chains. Under the project, smallholders will be trained in sustainable farming methods with the objective to raise palm fruit yields while making producers eligible for certification according to the criteria of RSPO.
- **Smallholder certification:** RSPO reported that a large group of small oil palm growers in South Sumatra, Indonesia, has achieved RSPO certification thanks to the support of a large plantation company and to financial assistance from the RSPO's Smallholder Support Fund. Made up of seven village level cooperatives, the group counts more than 2 700 independent smallholders cultivating 5 500 hectares. The group plans to sell its certified product through RSPO's mass balance mechanism, which involves a physical supply chain. Typically, smallholders – who account for about 40 percent of global palm oil output – lack the means to comply with complex international sustainability standards. Indeed, in 2015, smallholder production accounted for no more than 10 percent of global certification (in volume terms). Generally, certification allows independent smallholders to raise their yields and gain access to international market (thereby improving their profits), while at the same time protecting the environment through the adoption of good agricultural practices.

## Olive sector

- Disease control – Italy: In July 2016, the European Commission opened a second infringement procedure against Italy over alleged delays in applying measures against the spread of the *xylella fastidiosa* bacterium in Apulia, Italy (*see also MPPU Feb. '16*). In the meantime, local authorities are working on a draft bill on the management of the disease in the territory, according to press reports. In addition to interventions to stop the further spread of the disease, measures for the recovery of damaged trees, the planting of tolerant varieties or alternative species and landscape protection schemes are under consideration, with the objective to restore the economic and environmental balance in the affected areas. Local authorities have also presented the results of experimental natural treatments and good farming practices carried out in recent months on infected trees, which, are said to have shown visible signs of improvement.
- Fraudulent marketing: In Ghana, food authorities reported instances where bottlers of edible oil have marketed low-value oils as olive oil to reap a premium. Deceptive marketing practices have also been reported in France, where Spanish olives have been imported and their oil blended with native produce for sale under local labels, concealing the products geographic origin.

## Other industry news

- Palm kernel meal: In New Zealand, a state-owned agribusiness firm plans to stop using palm kernel meal as a feed supplement in its dairy farms. Allegedly, the decision to replace palm kernel products with locally grown alternatives reflects

the company's concern with producing food in a responsible and environmental friendly way as well as efforts to anticipate shifting consumer preferences. Reportedly, the use of palm kernel meal has come under scrutiny after environmental groups linked growth in Southeast Asia's palm industry to unsustainable farming practices. Meanwhile, a large multinational dairy co-operative in New Zealand said that it had no immediate plans to stop using palm kernel meal, adding that all palm products used by its farmers are responsibly sourced, and that, by 2018, all its palm product supplies will be traceable to plantation level. Last year, the co-operative issued a guideline recommending its farmers to feed their herds a maximum of 3 kg of palm kernel meal per day, citing the need to protect the premium commanded by pasture-based dairy products. New Zealand is the world's largest single importer of palm kernel meal.

- Palm oil: In Italy, a food manufacturing group reported to have replaced palm oil with alternative oils such as sunflower and extra virgin olive oil in 25 percent of its bakery products. Reportedly, the reformulation process is part of ongoing efforts to reduce the saturated fat content of the company's food items.

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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
2014/15	407	777	658	406	270	155	153	194
<b>Monthly</b>								
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
2015 - August	375	729	544	371	270	144	135	179
2015 - September	367	725	533	362	256	142	134	174
2015 - October	377	743	581	351	255	146	143	170
2015 - November	367	726	561	328	232	142	138	159
2015 - December	372	757	568	317	215	144	142	153
2016 - January	368	722	564	316	217	142	139	152
2016 - February	370	762	639	303	203	142	150	146
2016 - March	379	761	694	301	219	145	160	145
2016 - April	398	797	723	339	242	152	166	163
2016 - May	425	790	708	406	261	160	163	193
2016 - June	455	797	679	430	259	169	162	204
2016 - July	429	790	652	400	234	159	157	189
2016 - August	414	812	736	375	228	156	169	178
<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. <i>Sources:</i> FAO and Oil World								