



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

No. 109, August 2018

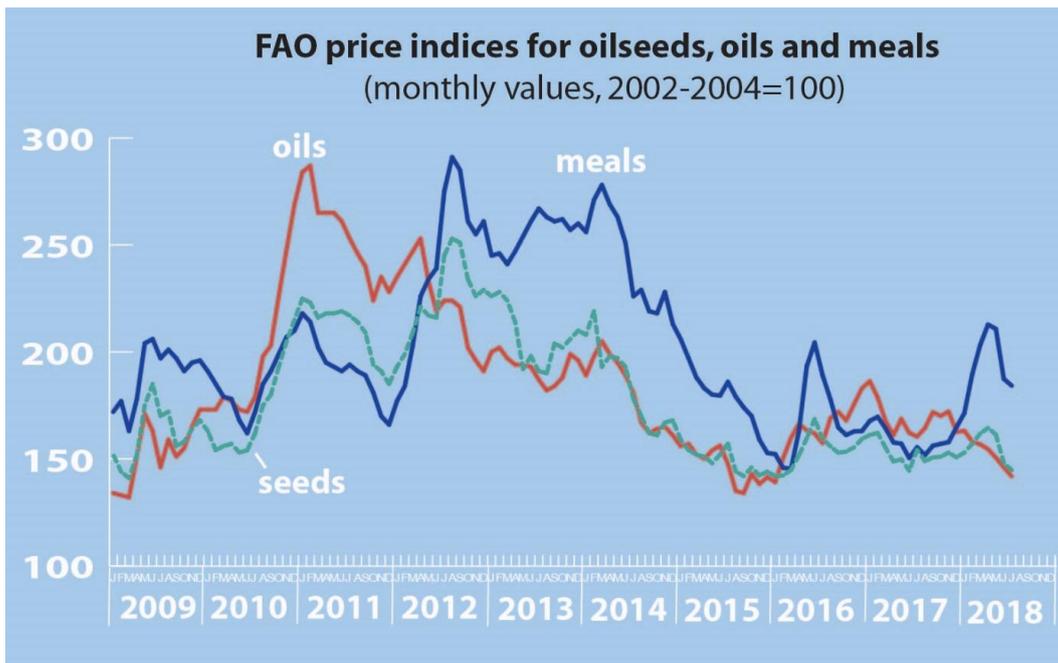
a) Global price review

In July, prices across the oilcrops complex continued to slide. The FAO price indices for oilseeds and oilmeals both declined for a third consecutive month, shedding another 3 points (or about 2 percent). While the oilseed index dropped to a 13-month low, the index for oilmeals fared above the level recorded in the corresponding month of last year. In the case of vegetable oils, FAO’s price index lost an additional 4.2 points (or 2.9 percent), reaching the lowest level in the past two-and-a-half years.

The fresh drop in the price indices for oilseeds and oilmeals continued to be driven primarily by developments in the international soybean market. As per previous announcements, on 6 July 2018 the Chinese government started imposing an additional 25 percent import tariff on US soy-

beans, in retaliation for tariffs imposed by the United States on the same day (see policy section below). Reflecting China’s duty adjustment, the United States lowered its export forecast for 2018/19, while pegging end-of-season stocks at record-high levels. This, together with a positive global production outlook, kept international soybean prices under downward pressure (NB: soybean prices had already dropped significantly in June, when deepening trade tensions between the United States and China increased the likelihood of China implementing its retaliatory tariff on US soybeans). Interestingly, towards the end of the month, the following factors led to a moderate rebound in international soybean values: i) reports of less favourable weather conditions in a number of U.S. soybean growing regions; ii) the U.S. Government announcement that it would provide financial

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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 **May, June and July 2018**. 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/>.

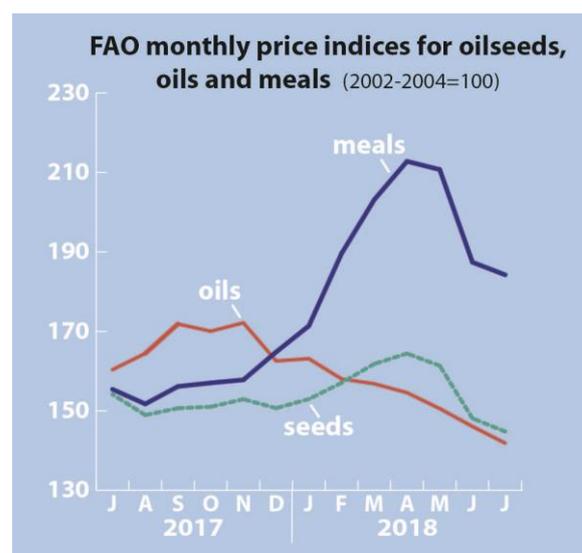
Global price review – cont'd

assistance to farmers affected by the trade dispute with China; and iii) higher than anticipated import demand for US soybeans from countries other than China, notably in the EU. International rapeseed prices, on the other hand, firmed in July, reversing the previous four months' downward trend. Price gains mainly reflect heightened concerns over the EU's deteriorating production outlook, following prolonged, extreme heat and dryness. Talk that China might step up its purchases of rapeseed in the world market as it tries to trim soybean imports also influenced prices. By contrast, sunflowerseed values dropped to multi-month lows on improved crop prospects in the Black Sea region.

With respect to soybean meal, international prices weakened on spill-over effects from the soybean market as well as larger than expected meal supplies in the United States and Brazil and subdued demand in China. Reportedly, authorities in China considered recommending lower protein levels in animal feed rations, which, if implemented, could curb global oilmeal demand in the longer term.

As for vegetable oils, the further slide in the price index was mainly driven by fresh declines in palm oil values and, to a lesser extent, soy oil prices, which outweighed gains in sunflower oil values and continued strength in rapeseed oil markets. In July, international palm oil quotations posted a

6 percent loss that pushed the commodity's price to a 30-month low. The depressing effect of sluggish global export demand and large stocks held by the leading producing countries was amplified by expectations of higher southeast Asian production in the coming weeks and continued price weakness in the rival soy oil market. In the case of soy oil, persistently high crushing rates in the United States, due to exceptionally attractive crush margins, underpinned the downward trend in international prices. Sunflower oil quotations, on the other hand, recovered from the multi-year lows recorded in June, supported by output contractions in CIS countries. Rapeseed oil values continued to trend upward, sustained by improving demand from biodiesel producers and negative crop prospects in the EU.



b) Selected policy developments and industry news

ARGENTINA – biofuel policy: In May, the Argentine Government raised the export tax on (soybean oil-based) biodiesel from 8 percent to 15 percent, effective 1 July 2018. The upward adjustment was aimed at bringing the tax closer to the export duty for soybean oil, which, in May, stood at 24.5 percent. Past duty differentials were among the reasons that led the United States to

impose countervailing and anti-dumping duties on biodiesel imports from Argentina and the EU to launch a new investigation on whether Argentine producers benefit from state subsidies (*see MPPU May '18*). The higher export duty is expected to make it more difficult to sell Argentine biodiesel to countries where blending occurs on a discretionary rather than mandatory basis. Regarding Argentina's internal market, private sources reported that the Government is

considering to raise the country's mandatory biodiesel blending rate from currently 10 percent to 12 percent (and eventually 15 percent), in a bid to foster domestic consumption.

BRAZIL – transportation policy:

In May, a nationwide 10-day strike by Brazil's truck drivers to protest high fuel prices paralysed large parts of the economy. Reportedly, the country's agricultural production, processing, distribution and exportation networks faced serious disruptions. In an effort to appease truckers, the Brazilian Government introduced temporary reductions in fuel taxes and imposed minimum freight rates. The latter measure has been challenged in the country's Supreme Court by agriculture and industry groups. Freight costs play a crucial role in many sectors because Brazil's transport matrix is highly dependent on road transport. Reportedly, uncertain about how transport costs are going to develop, farmers are delaying purchases of fertilizers and other inputs for the next season, while traders are reluctant to sign forward contracts for the forthcoming crop – despite expectations of stronger sales due to the ongoing U.S.-China trade dispute (see below). Private sources reckon that the current, state-imposed minimum freight rates push up average transportation costs for soybean and maize by 17–28 percent.

BRAZIL – agricultural policy:

The Brazilian Government presented its agricultural support programmes for 2018/19. The package envisages an increase in outlays for the following schemes:

- farm loans (including a downward correction in concessional interest rates and greater attention to: investments in on-farm grain storage, low carbon agriculture and the livestock/aquaculture sector);
- marketing support programmes; and
- crop insurance systems.

The soybean minimum reference price to be used under the Government's income protection programmes has been raised by 2.4 percent to BRL 36.84 per 60 kg (USD 157 per tonne), which compares to an average increase across entitled commodities of 6.5 percent.

CANADA – transportation policy:

Canada's federal Government renewed and expanded the country's transportation law (known as Transportation Modernization Act), to ensure that Canadian farmers have timely access to reliable rail services (including under adverse weather conditions), while preserving shipping rate competitiveness and providing sufficient economic incentives for rail companies to continue investing in rail infrastructure.

CHINA – government auctions:

This year, public sales from state-held inventories of soybean and soybean oil started in June, whereas those of rapeseed oil resumed – after a first round in January and early February – in July. As for soybeans and soybean oil, up to end-July, total volumes offered amounted to, respectively, 3.1 and 0.3 million tonnes, of which 33 percent and 19 percent, respectively, have found a buyer. The average price achieved for soybeans was CNY 3 008 (USD 437) per tonne, and CNY 5 001 (USD 727) per tonne for soybean oil. Regarding rapeseed oil, in the first round, total offers, the actual purchase rate and the average price achieved amounted to, respectively, 212 000 tonnes, 98 percent, and CNY 6 211 (USD 902) per tonne, whereas the corresponding figures for the month of July were 122 000 tonnes, 47 percent and CNY 6 039 (USD 877).

CHINA – agricultural policy:

Private sources reported that government efforts to stimulate soybean cultivation in China's northeastern provinces have been stepped up this year. Reportedly, in Heilongjiang and Jilin, this year's area-based payments will amount to CNY 350 per *mu* (USD 763 per ha). The payment comprises:

- a soybean producer subsidy of CNY 200, which exceeds payments provided in 2016 and 2017 by, respectively, 15 and 70 percent and is twice the amount provided to maize producers; and
- a CNY 150 premium for farmers that plant soybeans instead of maize (*see also MPPU Oct./Dec. '17 & May '18*).

Based on market prices observed in early May, and depending on yield levels, the CNY 350

per *mu* subsidy is estimated to add 50–75 percent to the gross income per *mu* from growing soybeans. The provincial soybean-planting campaigns represent a continuation of China's 5-year structural adjustment policy to shift land from maize to alternative crops. On the other hand, this year's higher payments have also been linked to: i) a drop in the domestic soy/maize price ratio, which risked eroding the profitability of soybeans for Chinese farmers; and ii) increased policy efforts to reduce China's reliance on soybean imports – also in light of the on-going Sino-US trade dispute (see below). While official sources have reported a further expansion in the country's soybean acreage this season, some private sources questioned the Government's estimates.

CHINA – import policy: China announced the removal, as of 1 July 2018, of tariffs on a large number of products – including soybeans, soybean meal, rapeseed and fishmeal – imported from Bangladesh, India, the Lao People's Democratic Republic, the Republic of Korea and Sri Lanka. The measure follows amendments in trade facilitation instruments under the Asia-Pacific Trade Agreement (APTA) that were planned since March 2018. For the above listed commodities, the tariffs applied prior to the removal were the Most Favoured Nation (MFN) rates of, respectively, 3 percent, 5 percent, 9 percent and 2 percent. Considering that, in recent years, none of the five trade partners sold substantial amounts of the named commodities to China, the tariff removal is unlikely to impact China's trade, at least in the near term – even against the backdrop of the on-going Sino-US trade dispute (see below) and its repercussions on China's sourcing of soybeans and other feedstuffs.

CHINA / KAZAKHSTAN – bilateral trade arrangement: According to media reports, the two countries agreed to relax sanitary requirements related to agricultural product trade – a development that could boost Kazakhstan's shipments of rapeseed and rapeseed meal to China. (*See also MPPU Jan. & Apr. '17*).

EURASIAN ECONOMIC UNION – food safety standards: As of 1 January 2018, in the Russian Federation and the remainder of the Eurasian Economic Union, the maximum permitted percentage of trans fats in food product has been set at 2 percent of total fat content. Lowered gradually from 20 percent in 2013, the new threshold applies to margarines, fat-vegetable spreads and rendered mixtures, milk fat substitutes, cacao butter and cacao butter equivalents. Trans fat levels as a percent of total fat must be indicated on product labels.

EUROPEAN UNION – agricultural relief measures: On 2 August, the European Commission announced set of support measures for European farmers affected by the current season's extreme drought. Farmers will be allowed to receive their direct and rural development payments earlier than scheduled and have been granted more flexibility in using fallow land and other areas that would normally not be available for production in order to feed their animals. Additional support can be provided under the existing state aid rules. In particular, extraordinary purchases of fodder may qualify for aid in cases of either material damage or income loss. Member states will be allowed to provide compensation for damage without notifying the Commission. The EU's Rural Development programme also provides a range of possibilities to assist farmers facing exceptional circumstances.

EUROPEAN UNION – biodiesel import restrictions: In the context of on-going trade investigations regarding the alleged subsidization of biodiesel production in Argentina, the European Commission ordered to register, as of 25 May 2018, all imports of biodiesel from Argentina. While the decision does not prejudice the outcome of the case, the measure would facilitate retroactive application of any future anti-subsidy measures. Reportedly, since the investigation's launch last January, biodiesel imports from Argentina have increased sharply, especially after the bloc removed anti-dumping duties that had been in place since 2013 (*see MPPU May '18*).

EUROPEAN UNION – biofuel policy:

In mid-June, the EU's Parliament, Council and Commission reached a provisional, informal agreement regarding the bloc's renewable energy policy after 2020. The package, which is part of a broader policy aimed at reducing the bloc's GHG emission levels comprises:

- binding overall and sector-specific targets for renewable energy use;
- caps on the amount of crop-based (or 'first-generation') biofuels in transport at 2020 levels, with a maximum of 7 percent;
- ambitious and binding targets for 'advanced' biofuels;
- significant, mandatory presence of waste-based biofuels, such as used cooking oil and animal fats; and
- a freeze on the use of biofuels that bring about strong indirect land use changes (ILUC) at 2019 levels, with a mandatory phase-out by end-2030.

With regard to the latter point, the European Commission has been assigned the responsibility to develop – by February 2019 – a precise methodology to define the 'green credentials' of individual biofuels, so as to distinguish high-risk ILUC biofuels produced on high carbon-stock land from others produced with lower risk of causing adverse effects. While it remains to be seen how individual biofuel feedstock will be affected under the new classification, Malaysia and Indonesia stated that they would consider retaliatory measures in case palm oil-based fuel fell under the 'high-ILUC/low sustainability' category, adding that they consider the EU's envisaged measures are discriminatory. Meanwhile, the two palm oil producers intensified their efforts to identify new markets for their biofuel exports. Furthermore, representatives from the EU biofuel industry questioned the rationale for restricting the contribution of those first generation biofuels that can be produced in a sustainable manner. The text of the new EU directive still has to be formally approved by the European Parliament and the Council, following which the bloc's member states would have 18 months to transpose the directive into national law.

INDIA – farmer support measures

• Support prices: The Indian Government significantly raised the minimum support prices for the major 2018/19 Kharif crops. The announcement came at a time when plantings were already in full swing. For oilcrops, the new per-tonne support prices (including crop-specific bonuses) and the corresponding year-on-year increases (in percent) are as follows:

- soybeans INR 33 990 (USD 485), 12%
- groundnuts INR 48 900 (USD 698), 10%
- sunflowerseed INR 53 880 (USD 769), 31%
- sesameseed INR 62 490 (USD 892), 18%
- nigerseed INR 58 770 (USD 839), 45%

According to private sources, actual market prices stood well below the new support prices for groundnuts and sunflowerseed, but well above for soybeans and sesameseed. The support prices for cereals, cotton and pulses also saw important increases, possibly intensifying competition for acreage. Although support prices are announced for a large number of crops, public procurement operations are mostly limited to rice and wheat (*see also MPPU May'18*).

• Public procurement (federal level):

According to the local press, in the 2017/18 season, the Central Government procured a record amount of pulses and oilseeds from farmers at minimum support prices. Following bumper 2017/18 harvests, prices of most crops fell below the government-announced support prices. Reportedly, until 22 June 2018, total procurement of oilseeds at support prices amounted to 1.97 million tonnes or 6.4 percent of total production.

• Public procurement (state level): To shield growers from sharp price drops, in Haryana State, procurement of sunflowerseed at government-set minimum prices started on 11 June, i.e. ahead of the originally scheduled date.

INDIA – food safety and standards

• Labelling requirements:

According to media reports, the country's Food Safety and Standards Authority (FSSAI) proposed to make it mandatory for manufacturers of blended oils to disclose the exact blend in percentage terms on product labels and to add the following mention: 'Blended Edible Vegetable

Oil’ and ‘Not to be sold loose’. The measure is aimed at enabling consumers to make informed choices. FSSAI also issued new norms, effective 1 July, for food business operators to monitor the quality of edible oils during frying.

- **Product ban:** On 2 June, the food safety authorities of Kerala State banned the manufacture, storage, sale and distribution of 45 brands of coconut oil with immediate effect, according to local press reports. The decision was taken after samples were found adulterated and unsafe for human consumption (*see also MPPU Mar. '18*).

INDIA – biofuel policy: The Food Safety and Standards Authority of India (FSSAI) initiated discussions with India’s Biodiesel Association on setting up a system for the collection of used cooking oil and its conversion into biodiesel, local media reported. Private sources estimated that, out of 23 million tonnes of cooking consumed annually in the country, up to 3 million could be recovered and used as biodiesel feedstock.

INDIA – import policy: In June, the Indian Government further raised the import duties for crude and refined soybean, sunflower, groundnut and rapeseed oil (*see also MPPU Mar. '18*). At 35 percent for refined grades and 45 percent for crude grades, the tariffs for the referenced oils now stand at the highest level in more than a decade – just as the country’s palm oil import tariff. The measure is aimed at curbing imports while protecting the interests of the country’s oilseed growers and processors. Unexpectedly, since the hike in duties, sharp increases in edible oils deliveries from Bangladesh and Sri Lanka have been reported, mainly involving shipments of palm oil originating in Indonesia and Malaysia. Apparently, traders have taken advantage of the South Asian Free Trade Agreement (SAFTA), which, by maintaining a duty-free zone in the region, allowed traders to circumvent India’s high import tariffs.

INDONESIA – biofuel policy: Further to its recent decision to extend mandatory biodiesel use to the country’s mining and railway sector, the Indonesian Government plans to require all diesel

fuel sold in the country to contain biodiesel, starting 1 September 2018 (*see also MPPU Mar. & Apr. '18*). While, currently, blending obligations only apply to subsidized diesel outlets, under the new rule, fuel pumps countrywide would only be allowed to sell diesel blends containing biodiesel. Besides allowing Indonesia to lower its mineral fuel imports (and thus reduce the nation’s current account deficit), the envisaged measure is aimed at boosting domestic palm oil consumption, thereby helping stabilize palm oil prices and lower the oil palm industry’s dependence on the export market. Moreover, the biodiesel industry’s capacity utilization rate, which currently is lingering around 25 percent, would improve. Reportedly, encouraged by a more favourable mineral oil-to-palm oil price ratio, the Government is also considering to bring forward the planned shift in the country’s mandatory blending rate, from 20 percent to 30 percent, to 2019 (i.e. one year earlier than anticipated) – despite resistance from both regulators and the automotive and oil industries. Furthermore, the Government started offering incentives for the development of a new 100% palm oil-based fuel called “green diesel”. Produced using hydro-treated vegetable oils, the fuel is said to be free from the adverse effects found in esterification-based biodiesel (*see also MPPU Nov. '15*). With regard to total domestic consumption, the latest official estimates project next year’s biodiesel use at 5.3–5.4 million tonnes, compared to estimates for 2018 ranging between 2.9 and 3.5 million tonnes. Actually, according to observers, the existing B20 target has yet to be met fully. The delay is attributed to logistical bottlenecks and to past gaps between mineral oil and palm oil prices, which reduced the effectiveness of the financial support provided to the industry.

MALAYSIA – biofuel policy: Malaysia’s long-standing plan to raise the country’s mandatory blending rate for biodiesel is back on the agenda. The planned move from B7 to B10 (which would require transport diesel to be mixed with 10 rather than 7 percent of palm oil-based biodiesel) has been postponed several times, as large price discounts of mineral oil over palm oil made

implementation of higher mandates costly (*see MPPU Dec. '16*). Recently, however, the price gap between mineral oil and palm oil has narrowed, making higher blending rates more viable. According to official sources, the Government could outline its plans on how to implement new mandates by the end of this year. Higher blending rates would allow to reduce domestic palm oil supplies, hence lowering stocks and supporting prices. The country's biodiesel industry confirmed that it could raise output anytime, as producers are currently operating well below installed capacity.

MEXICO – farmer support measure:

In May, Mexico's Agricultural Ministry increased the target prices used to determine support payments under its income target programme for grain and oilseed farmers in the 2017/18 fall/winter and 2018/19 spring/summer seasons. Reportedly, target prices have been raised to offset increases in production costs. Oilseed producers are expected to benefit the most, with target prices for soybean, rapeseed and safflower set at MXN 8 400 per tonne (USD 442), up 27 percent from last season's level. In addition, to help producers cope with depressed crop prices, farmers who chose to sell maize, wheat, sorghum and soybeans through the Ministry's forward contract programme will be entitled to subsidies. Under the latter programme, the bulk of the funds has been earmarked for grain producers.

PAKISTAN – import policy: Pakistan's fiscal budget for 2018/19 includes provisions for a rise in the custom duty on crude soybean oil from formerly PKR 9 050 per tonne to PKR 12 000 (USD 73 and 97 respectively). In addition, the Government envisaged an increase in the 'additional custom duty' applied to all oils and fats from 1 percent to 2 percent. The measures are aimed at protecting local soft oil production.

THAILAND – food safety standards:

Thailand's ban on the production, importation and sale of partially hydrogenated oils (PHOs) and foods containing the same has come into force on 13 July 2018 (*see also MPPU Jan. '17*). Generated when plant oils are processed to increase their stability and functionality, PHOs represent the

primary dietary source of artificial trans fat in processed foods. The ban builds on evidence of trans fat intake raising the risk of coronary heart diseases. To allow for an orderly transition in the marketplace the industry has been granted a 180-day grace period, which shifts actual enforcement to 9 January 2019.

TURKEY – import policy: To stimulate imports and ensure that domestic demand for edible oils is met, the Government decided to temporarily lower the import tariffs for sunflower seed and oil. From 5 June to 1 August, the import duty for the seed was reduced from 27 to 13 percent, while that for oil stood at 23 percent instead of 36 percent.

UKRAINE – export policy: The abolition of the VAT refund on exports of soybeans and rapeseed (*see MPPU Jan. '17*) has been postponed to 31 December 2021, but only for farmers and companies exporting their own crops – implying that traders will no longer be eligible for refunds as of 1 September 2018. In the case of sunflowerseed, all tax refunds have been suspended since March 2018.

UNITED STATES / INDIA – trade dispute:

In response to the United States' introduction of higher duties on imports of steel and aluminium from India, the Government of India has filed a WTO notification, which includes a list of US products that could be subject to retaliatory import duties. The list includes wheat, crude soybean oil and refined palm olein.

UNITED STATES / CHINA – trade dispute:

On 6 July, after several rounds of bilateral trade talks, the United States imposed a 25 percent import tariff on mostly industrial Chinese products worth USD 34 billion, prompting China to levy import taxes on the same value of US products, including several agricultural goods (*see also MPPU May '18*). Of particular relevance is China's 25 percent retaliatory tariff on imports of US soybeans, both black and yellow, which brought the total duty charged on such imports to 38 percent (NB: for China, by far the world's largest soybean buyer, the United States is the

second largest provider; on the other hand, about 60 percent of the United States' soybean exports are directed to China). Besides triggering an abrupt slowdown in China's soybean purchases from the United States, the measure has affected prices for soybeans and several other commodities in several countries, giving rise to a succession of adjustments in global trade flows. Additional adjustments in overall trade patterns can be expected if the concerned tariff barriers remain in place. The trade tension between the two countries could escalate further, considering that the United States confirmed its intention to start collecting tariffs on an additional USD 16 billion of Chinese imports as of 23 August – a measure China is expected to reciprocate. While grains and oilseeds do not feature in the list of commodities targeted under the second round of tariffs, China's catalogue includes US fishmeal.

UNITED STATES – agricultural support

measures: The U.S. Government announced a set of measures to assist farmers suffering from trade damage following China's introduction of retaliatory tariffs on certain US agricultural exports (see above). As a one-time, short-term relief package, USDA has been authorized to implement support programmes worth USD 12 billion, in line with an estimated USD 11 billion impact of China's new tariffs. To help producers meet the costs arising from market disruptions, three types of measures will be implemented:

- incremental, output-based payments to producers of selected crops (including soybeans) to compensate farmers for price-induced losses and to expand new markets at home and abroad;
- government purchases of unexpected surplus of affected commodities for distribution to public nutrition programmes; and
- trade promotion activities conducted in conjunction with the private sector to assist in developing new export markets.

According to government officials, the special aid package complies with the WTO-mandated thresholds for trade-distorting farm support. While farmer representatives welcomed the

support measures, they also expressed concern about the long-term risks associated with potential export market losses.

UNITED STATES – biofuel policy:

The Environmental Protection Agency (EPA) proposed its target for 'biomass-based diesel' in 2020 (see also *MPPU Dec. '17*). The proposed 2.43 billion gallons blending mandate compares to a volume of 2.1 billion gallons applied in both 2018 and 2019. Furthermore, EPA proposed a 2019 target for the 'advanced biofuel' category – for which biodiesel also qualifies – of 4.88 billion gallons, which compares to a 2018 mandate of 4.29 billion gallons. The proposed increases would lead to rising demand for soybean oil and other biodiesel feedstock. As for the other biofuel categories, EPA proposed to keep the 2019 target for 'conventional biofuel' (mostly ethanol derived from maize starch) frozen at 2015 levels, while significantly raising mandatory blending of 'cellulosic biofuel'. EPA's deadline for issuing the final volumes is 30 November. Regarding the proposal for biomass-based diesel, the country's biodiesel producers had called for a 2020 volume of at least 2.8 billion gallons. The industry also urged EPA to reduce the uncertainty it caused by issuing retroactive small-refiner hardship exemptions. In this regard, the National Biodiesel Board estimated that the exemptions granted in 2016 and 2017 reduced actual demand for biodiesel by 375 million gallons. However, EPA has decided against reallocating exempt volumes.

UNITED STATES – GMO labelling:

In the United States, discussions about product coverage under a GMO labelling legislation passed in 2016 go on (see *MPPU Aug. '16 & Oct. '17*). Responding to a USDA call for public comments, food industry representatives reiterated that all ingredients that have undergone genetic modification should be subject to labelling, whereas farmers maintain that labels should exclude food ingredients refined and processed to the point that they no longer contain transformed genes. Food manufacturers argued that comprehensive labelling is important for both consistency and for meeting consumer

expectations on transparency, adding that excluding refined ingredients would result in 78 percent fewer products being disclosed on labels. Industry players also see a need for further clarifications in the following areas:

- content thresholds triggering labelling;
- mutual recognition arrangements for imported foods;
- the treatment of organisms obtained through gene-editing techniques; and
- exemptions applying to very small food manufacturers as well as to incidental additives, food from animals fed with GM feed, food served in restaurants and organic food.

UNITED STATES – food safety standards:

In line with legislation passed in 2015, as of 18 June 2018, food products manufactured in the United States are no longer allowed to contain partially hydrogenated oils, or PHOs (*see MPPU July'15*). Generated when plant oils are processed to increase their stability and functionality, PHOs represent the primary dietary source of artificial harmful trans fat in processed foods. For certain specified applications of PHOs, the U.S. Food and Drug Administration (FDA) decided to extend the compliance date to 1 June 2019. More importantly, to allow for an orderly transition in the marketplace, FDA also allowed more time for all products produced prior to 18 June 2018 to work their way through distribution. For these foods the compliance date has been extended to 1 January 2020.

Variable palm oil export tax – Malaysia,

Indonesia: Malaysia – after suspending its duty on palm oil exports for four months at the start of the year to stimulate demand and support prices – reintroduced export taxation at 5 percent in May. While the rate remained unchanged in June and July, it was lowered to 4.5 percent in August, reflecting a slide in the reference market price. In Indonesia, the export tax on crude palm oil stays at zero, as benchmark prices remained below the threshold that triggers taxation. August marks the 16th month in succession with no export tax.

International food standards: The World Health Organization (WHO) issued a call for public comments on draft guidelines about the intake of saturated fatty acids and trans-fatty acids, with the aim to reduce the risk of cardiovascular diseases in adults and children. Furthermore, the organization released a step-by-step guide for the elimination of harmful industrially-produced trans-fatty acids from the food supply chain. The guide recommends six strategic actions, namely: reviewing dietary sources of trans fats and the landscape for required policy change; promoting the replacement of trans fats with healthier fats and oils; legislating regulatory actions to eliminate trans fats; assessing trans fat content in the food supply chain and monitoring changes in trans fat uptake; creating awareness of the negative health impact of trans fats; and enforcing compliance of policies and regulations. The WHO's target is to eliminate the harmful compound worldwide by 2023.

Biotechnology regulation – European Union, United States, China:

The Court of Justice of the European Union ruled that crops and other organisms obtained through recently improved genome editing techniques (also known as 'gene-editing' or 'mutagenesis') fall under EU laws regulating the use of GMOs. The ruling subjects the named organisms – as well as food and feed products containing them – to lengthy approval processes and stringent traceability, labelling and monitoring requirements. Only such organisms that have conventionally been used in a number of applications and have a long safety record may be exempted. Mutagenesis refers to a set of techniques that, unlike trans-genesis, make it possible to alter the genome of a living species without the insertion of foreign DNA, while causing mutations by changing (or 'editing') a few pieces of DNA code. Seed companies and research institutes around the world have shown interest in the new technique as it allows for faster and more precise breeding (*see also MPPU Dec. '16, Jan. '18 & May '18*). While the EU's biotech industry pointed out that gene-editing hardly differs from mutagenesis that occurs naturally (or from long-established techniques that use chemical, radiation or other physical stimuli

to induce mutations), the Court maintained that the risks linked to the new breeding methods might prove to be similar to those resulting from the production and release of GMOs. The Court's position differs from that adopted in the United States, where, in March 2018, USDA chose not to regulate innovative plant breeding techniques such as genome editing, thereby lowering the cost for meeting regulatory requirements and expediting market entry. Other countries, including China, have taken a similar approach. According to private sources, in the last ten years, the highest number of patent applications using the new breeding techniques has been filed in China, followed, at some distance, by the U.S. and the EU, where uncertainties regarding regulation and consumer acceptance persisted.

Sector development measures

- Ecuador – palm oil:

The Government of Ecuador presented a five-year action plan to make the country's palm oil supply chain more sustainable. A key objective of the USD 1.2 billion programme is to make RSPO (Roundtable on Sustainable Palm Oil) certification the norm, nation-wide.

The Government is planning to place taxes collected from palm oil exporters into a public/private-controlled fund for the support of smallholders shifting to more sustainable production methods and, eventually, certification. The envisaged jurisdictional certification would rely entirely on RSPO's internationally recognized norms as opposed to a purpose-made national standard (*see also MPPU Nov. '16*).

- India – palm oil:

The Government of Telangana State encouraged farmers to embark on oil palm cultivation.

By promoting palm oil production for the domestic market, the local initiative would contribute to reducing India's dependence on imported vegetable oils. Across the state, 283 000 ha of land have been identified as being suitable for oil palm cultivation.

- Malaysia – palm oil: The Malaysian Palm Oil Council (MPOC) informed that it will increase its efforts to promote sales of Malaysian palm oil to markets other than the European Union, citing

concerns about the possible introduction of import barriers in the EU.

- Spain – olive oil: Spain's olive oil industry has launched a campaign to promote olive oil sales across Europe, America and Asia. The three-year initiative enjoys co-financing from the European Union. Promotional activities will be directed mainly to consumers in Spain, Germany, the United Kingdom, Belgium, the Netherlands, China, Japan, and the United States.

- Zimbabwe – soybean: In a bid to stimulate domestic soybean production, the Government of Zimbabwe has raised the price for soybeans delivered to the state-run Grain Marketing Board from USD 610 to USD 780 per tonne. Meanwhile, the country's oil crushers are seeking permission from the Government to buy soybeans at the import parity price of USD 400 per tonne, in a bid to maintain cooking oil prices at a level affordable to consumers (*see also MPPU Sep. '17*).

Seed market news – Brazil, patent dispute:

Pending the outcome of litigation over a patent dispute between Brazilian soybean growers and seed company *Monsanto*, a judge in Mato Grosso State ordered *Monsanto* to deposit royalties collected on soybean variety 'IntactaRR2Pro' in an escrow account (*see also MPPU Mar. '18*). Soybean growers expect *Monsanto* to collect BRL 800 million (USD 205 million) in royalties in the 2017/18 crop cycle.

Biofuel news (private sector)

- Groundnut waste: In Argentina, a large peanut producer began commercial operation of a groundnut shell-powered bioenergy plant, according to media reports. The facility is expected to consume 50 000 tonnes of groundnut waste per year and the power produced will be fed into the national grid. The project is part of the Argentine Government's renewable energy programme RenovAr.

- Used cooking oil: In India, global foodservice retail company *McDonald's* started recycling into biodiesel its used cooking oil for powering the company's refrigerated supply delivery trucks, local media reported.

Overseas investments – China: Amid escalating trade tensions between China and the United States (see above), market observers reported fresh efforts by China’s state-owned grain trading group *COFCO* in positioning itself to raise soybean purchases in Brazil. To increase its ‘origination capabilities’, the company is said to have strengthened its local team of buyers. While increasing its ability to source directly from farmers, the company also remains involved in the improvement of the country’s shipping infrastructure. Reportedly, *COFCO* is applying for the renewal of its port concessions with a view to pave the way for further investments. (See also *MPPU Feb. ’16 and June/Oct./Dec. ’17*)

Research & Development

- **Xylella fastidiosa:** A group of researchers supported by the European Commission developed a remote, airborne imaging method capable of scanning orchards and detecting olive trees infected by the *xylella fastidiosa* bacterium before any visible symptoms appear, thus allowing for rapid and accurate mapping of infected plants. Reportedly, once trees are infected, they may show no symptoms for up to one year, during which time ordinary sap-feeding insects may be transmitting the infection. Therefore, early detection is deemed crucial for controlling damage and preventing the disease from spreading.
- **Vegetable oil-based plastic:** Household goods company *IKEA* and biofuel producer *Neste* informed that they joined forces to develop bio-based plastic products from sustainably produced vegetable oils and used cooking oil. The joint, commercial scale operation is scheduled for launch in the fall of 2018. Some years ago, Malaysia and Indonesia also reported about research initiatives to produce plastics from palm oil (see *MPPU Apr./May ’15*).
- **Olive oil provenance:** Italian researchers presented a scientific method that allows certifying the authenticity and geographic provenance of olive oil – a commodity prone to fraudulent labelling and adulteration. Under the technique, which has been compared to taking an oil’s fingerprint, detailed genetic information as

well as external parameters such as soil and climate data of the area where the oil originates are recorded using nuclear magnetic resonance (NMR). Similar techniques have been developed for the authentication of groundnut oil as well as to verify the purity of biodiesel (see *MPPU June ’17*).

- **Protein-rich rapeseed:** Seed company *DowDuPont* intends to launch a high protein-content rapeseed variety next year, targeting pig, poultry as well as aquaculture farms in Canada, China and the United States. While conventional rapeseed meal is sold at a 30–35 percent discount to soybean meal, for the protein-rich variety, the discount would be lowered to 10 percent, the seed company claims. (See also *MPPU Mar. ’16 & July ’18*)

Palm oil sustainability – Indonesia / India joint promotion effort: Private sector and social society groups in India and Indonesia have joined forces to promote the production and trade of sustainably produced palm oil. Recognizing Indonesia’s state-backed national certification scheme, Indonesian Sustainable Palm Oil (ISPO), and the Indian Palm Oil Sustainability Framework (IPOS) as central sustainability initiatives, the initiative is aimed at expanding the market for sustainably produced palm oil in the two countries and in the region as a whole. Private sector representatives from both countries pledged to work together to reduce trade barriers and protect the competitiveness of the palm oil industry. In particular, the partners envisage to conduct public awareness campaigns. Officials from the Indonesian Government, which has backed the initiative, have been quoted as saying that the project ought to address the Indian consumers’ misconception that palm oil is of inferior quality because it costs less than other oils. India is the world’s largest importer and second-largest consumer of palm oil. Considering India’s weight in the global palm oil market, the WWF recently highlighted the critical role Indian companies could play in promoting sustainable production practices in the countries where oil palm is cultivated (see *MPPU Oct. ’17*).

Palm oil sustainability – RSPO news

- **Member suspension:** RSPO, the industry-led, globally recognized palm oil certification body, decided to temporarily suspend global food and drinks company *Nestlé* from its members, citing conduct breaches. As a result, for three weeks the company could not claim to use certified sustainable palm oil in its products. Reportedly, the company had failed to comply with obligations to submit annual reports detailing past actions and future plans on how it was ensuring the use of certified sustainable palm oil. *Nestlé*'s membership was reinstated after the company submitted a time-bound action plan to achieve 100% RSPO certified sustainable palm oil by 2023, while working actively on solutions within the RSPO system. The incident led a number of civil society groups to renew their calls on the RSPO to strictly enforce its standards. Some underlined that – irrespective of certification – all palm oil end-users needed to step up their efforts to prevent palm oil linked to unsustainable practices from entering their supply chains. All brands were urged to take direct responsibility for identifying the producers of their palm oil and for ensuring that all those producers apply sustainable practices.

- **Member withdrawal:** A large oil palm company based in Liberia decided to voluntarily withdraw its RSPO membership. Reportedly, RSPO had filed a number of complaints against the company concerning the clearance of land without the free, prior and informed consent (FPIC) of customary land owners. At the same time, the company presented a new action plan to strengthen and restore confidence in its sustainability credentials. Reportedly, the plan is time-bound, encompasses social and environmental components, and will be implemented with the support of independent partners including the NGO The Forest Trust.

- **China initiative:** The RSPO, the Chinese Chamber of Commerce of Foodstuffs and Native Produce (FFNA) and the World Wildlife Fund (WWF) jointly launched the China Sustainable Palm Oil Alliance to create a platform for cooperation among stakeholders in the palm oil supply chain and promoting sustainable palm oil in China. Reportedly,

a number of key players in China's supply chain pledged to promote the adoption of certified sustainable palm oil in the domestic market. Although China is the world's third-largest importer and fourth-largest consumer of palm oil, certified palm oil only accounts for a small share of the domestic market. However, the RSPO said it noticed a very positive momentum towards its target to achieve a 10% market share by 2020. Reportedly, Chinese membership in the body has surged in the past few years.

- **Nigeria initiative:**

The RSPO informed that its Principles & Criteria have been 'interpreted' for Nigeria. National interpretations allow to adapt the general standard to a country's specific market conditions and requirements. The successful completion of the Nigeria National Interpretation document is seen as an important milestone for the future of certified sustainable palm oil in the region.

- **Ghana smallholder support:**

The RSPO set up – jointly with the Farmers Association of Ghana – a national platform to facilitate collaboration between potential project partners or market players and independent smallholder oil palm farmers. The initiative is aimed at enabling more smallholders to engage in modern, sustainable supply chains, including product certification. The average yield level of smallholder producers is estimated to be well below potential, due to poor agronomy, limited use of fertilizer and low-yielding planting material. The platform has been created to encourage millers, government agencies, NGOs and other development partners to provide the required training and extension assistance to small growers. Reportedly, Ghana's smallholders provide more than 70 percent of the palm fruit processed in the country.

Palm oil sustainability – company initiatives

- **Sourcing policy:** Global beverage company *PepsiCo* renewed its commitment to exclusively source sustainably produced palm oil by 2020. Reportedly, the company's annual purchases of palm and palmkernel oil amount to around 450 000 tonnes. The company reported that 50 percent of its palm oil supply is on track to be RSPO-certified by the end of 2018.

- **Sourcing policy:** *3F Industries*, an Indian company operating in the edible oil imports and production sector pledged to procure certified palm oil and its derivatives, the RSPO informed. The company also committed to proactively create awareness about sustainably produced palm oil among Indian businesses and consumers. Reportedly, the firm imports, produces and processes about 200 000 tonnes of palm oil products per year.
- **Traceability efforts:** The media reported that *Golden Agri-Resources*, one of the largest palm oil companies in Southeast Asia, is testing new GPS-based technologies to establish traceability for the palm oil it sources from third-party mills in Indonesia. Reportedly, 60 percent of the company's supplies come from more than 400 third-party mills who in turn buy their palm fruit from thousands of growers. The company acknowledged that the traceability standards it applies to its own mills are difficult to extend to the other suppliers, one of the main reasons being the 'unregulated nature' of the middlemen who buy palm fruit from farmers to sell it to mills. Reportedly, the fact that farmers are free to sell to any intermediary makes tracing the provenance of individual batches of palm fruit very challenging. Furthermore, it is not feasible to obtain assurances from middlemen that they exclusively buy from verified sustainable plantations. Similarly, global agribusiness firm *Cargill* has entered into a partnership with the World Resources Institute to test the institute's satellite mapping tool called Global Forest Watch Pro. Reportedly, the device could allow management to track issues all along the company's supply chain and address concerns in line with its grievance procedure. *Cargill's* supply chain is said to rely on 11 company-owned mills and over 1 500 third-party mills. Currently, the company appears to attach greater importance to achieving full traceability than to obtaining 100% RSPO-certification.

Palm oil sustainability – third-party assessments

- **Brazil policy impact:** In 2010, Brazil's Federal Government launched the Sustainable Palm Oil Production Program (SPOPP), which,

inter alia, was aimed at encouraging producers in Legal Amazonia to expand oil palm cultivation without clearing primary or secondary forest, using already cleared, degraded land instead. According to a recently published study, during the 2006-2014 period, in Pará State (where commercial palm oil cultivation in the Amazon Basin is concentrated), 91 percent of production expansion has occurred on former pasture land, not forest, and the direct conversion of intact forests is reported to have declined since the inception of SPOPP. However, referring to a possible acceleration in oil palm expansion in the near future, the researchers warned that pressure to deforest could increase. In particular, the study points out that SPOPP lacks the means to prevent 'indirect deforestation', that is the clearing of rainforest for grazing purposes, followed by conversion into plantations.

- **RSPO impact:** The effectiveness of existing certification schemes and related initiatives in furthering sustainable palm oil production remains under public scrutiny (*see also MPPU Jan. '18*). According to news media, a new study undertaken to assess how effective the RSPO has been in achieving its sustainability goals by comparing certified and non-certified concessions in Kalimantan, Indonesia, claims that no significant differences were found between the two types of plantations for most of the sustainability metrics investigated. The findings are notable, given that the RSPO – thanks to its comprehensive set of requirements – is generally regarded as the leading certification scheme for palm oil. Reportedly, the RSPO called into question the validity of the study's findings, citing ample evidence in independent assessments showing the positive impact of its certification activities. Recognizing that many areas for improvement remain, the body informed that it had commissioned studies to determine the actual performance of its certification scheme against its stated standards.
- **Private sector commitments:** A report released by an environmental advocacy group, claims that a number of palm oil firms operating in Indonesia, Malaysia and Papua New Guinea use unclear corporate structures to conceal

their ties to unsustainable production practices such as rainforest and peatland clearance. Allegedly, such practices allow growers to continue using harmful production methods, while still marketing their products through companies that are committed to ‘No Deforestation–No Peat–No Exploitation’ sourcing policies. On a similar note, a group of environmental NGOs claimed that palm oil sourced from illegally cleared rainforest areas in Indonesia has flown through traders to major consumer good brands, despite widespread company commitments to purchase exclusively sustainably produced oil.

Futures markets

- *Bursa Malaysia* has launched an enhanced USD-denominated futures contract for refined, bleached and deodorized palm olein, to provide more trading opportunities and flexibility to a wider group of investors, both domestic and foreign.
- The *Chicago Mercantile Exchange Group* considered raising the maximum storage rates warehouses are allowed to charge holders of maize and soybean futures, to address concerns that its contracts are not adequately reflecting the underlying U.S. cash grain markets.

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	<u>International Prices (US\$ per tonne) ¹</u>					<u>FAO Indices (2002-2004=100) ⁷</u>		
	Soybeans ²	Soybean oil ³	Palm Oil ⁴	Soybean Cake ⁵	Rapeseed Meal ⁶	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
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
2015/16	396	773	655	351	232	151	155	168
2016/17	404	806	729	336	225	154	160	171
Monthly								
2017 - January	425	879	806	355	216	161	186	168
2017 - February	428	838	779	357	241	162	179	170
2017 - March	408	809	735	346	238	155	168	164
2017 - April	389	788	693	331	240	149	161	158
2017 - May	392	827	732	329	239	150	169	157
2017 - June	379	821	681	313	238	144	162	150
2017 - July	409	836	665	326	220	154	160	155
2017 - August	391	854	678	318	216	149	164	152
2017 - September	395	879	729	329	209	151	172	156
2017 - October	397	869	721	331	207	151	170	157
2017 - November	401	885	719	333	204	153	172	158
2017 - December	397	863	666	348	219	151	163	165
2018 - January	404	865	679	361	239	153	163	171
2018 - February	416	848	660	400	265	157	158	190
2018 - March	432	830	684	427	294	162	157	203
2018 - April	441	824	663	447	304	164	155	213
2018 - May	432	787	659	443	282	161	151	211
2018 - June	389	783	631	391	264	148	146	187
2018 - July	378	774	591	382	267	145	142	184
<p>¹ Spot prices for nearest forward shipment</p> <p>² Soybeans (US, No2 yellow, c.i.f. Rotterdam)</p> <p>³ Soybean oil (Dutch, f.o.b. ex-mill)</p> <p>⁴ Palm oil (Crude, c.i.f. Rotterdam)</p> <p>⁵ Soybean meal (44/45%,Hamburg f.o.b. ex-mill)</p> <p>⁶ Rapeseed meal (34%,Hamburg f.o.b. ex-mill)</p> <p>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.</p> <p>Sources : FAO and Oil World</p>								