



OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 102, January 2018

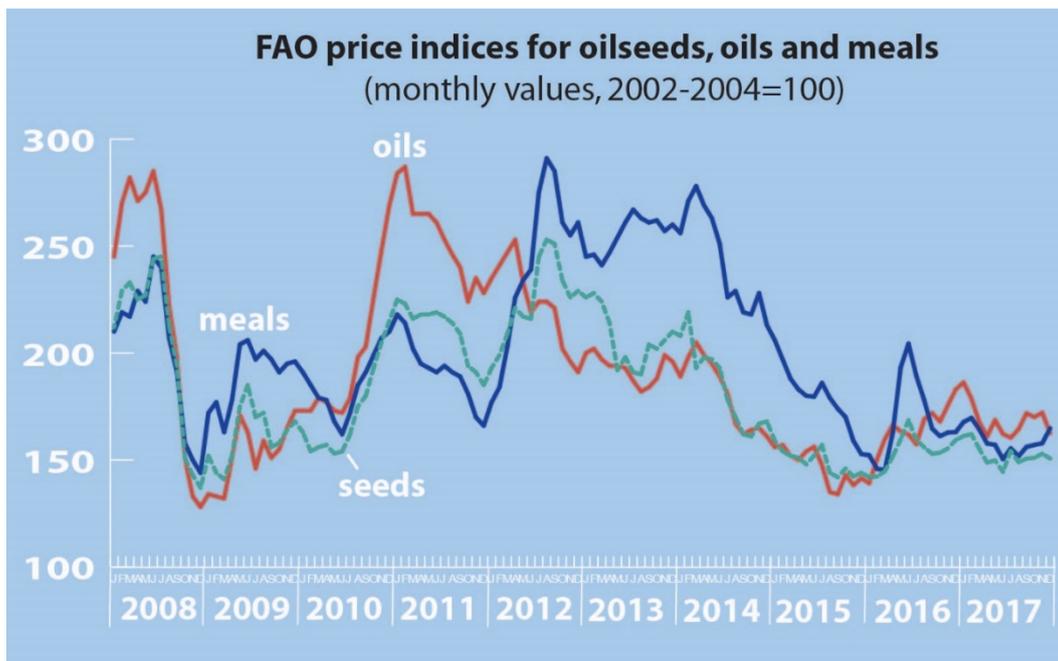
a) Global price review

In December, FAO’s price indices for oilseeds and vegetable oils fell by, respectively, 2.2 and 9.6 points (or 1.5 and 5.6 percent), whereas the oilmeal index rebounded by 7.0 points (or 4.4 percent) to a 10-month high. While the oilseed and vegetable oil indices remained below the levels recorded in the corresponding month of the previous year, the oilmeal index posted a marginal gain over the previous year’s value.

The drop in the oilseeds index, which ends the upward trend observed since September 2017, mainly reflects weakening quotations for soybeans and rapeseed. The long-awaited arrival – towards mid-December – of rains in Argentina eased the markets’ concerns over the country’s

soybean crop, which, together with higher forecasts for the Brazilian crop and an upward revision in global 2017/18 ending stocks by USDA (on 12 December) provided relief to international soybean values. Lower than expected export demand for US-origin soybeans also contributed to the weakening in prices. However, at present, uncertainties over Argentina’s soybean output still persist, as risks of dryer than normal weather remain and because past planting delays have driven up the area sown with early maturing varieties, which are characterized by lower yield potential. In the case of rapeseed, downward pressure on prices mainly stemmed from upward revisions for Canada’s 2017/18 crop and reports of large 2018/19 crop sowings in France.

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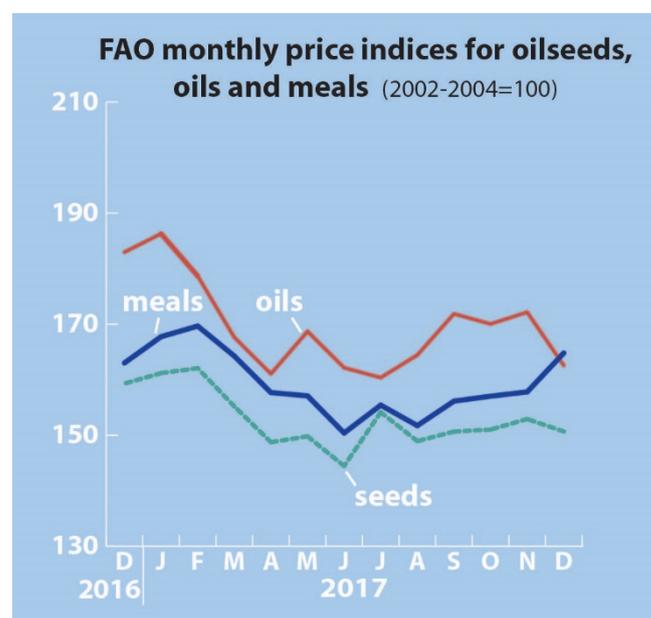
* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO’s price indices and spots important policy and market events selected from a variety of official and unofficial sources. Section b) of the present issue covers developments observed during **December 2017**. 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 rise in FAO's price index for oilmeals in December reflects a peak in international soymeal quotations earlier in the month, when prolonged lack of rainfall in the key soybean growing regions of Argentina – the world's leading exporter of soymeal – together with reports of robust feed demand in Argentina and Brazil created concern among market participants. During the second half of the month, however, the arrival of beneficial rains in Argentina, together with signs of improving global fundamentals weighed on prices.

As to vegetable oils, FAO's price index dropped to a 5-month low in December, with quotations of palm, soy, rape and sunflower oils all falling. International palm oil prices tumbled as inventories in Southeast Asian producing countries swelled to two-year highs on the back of relatively strong production and weak global import demand. Soy and rape oil values followed the downward path of the respective oilseeds, besides being pressured by rival palm oil. Sunflower oil values fell only marginally, as reports of harvesting difficulties in the Russian Federation limited downward pressure on international prices.

Looking at the annual averages of the three indices for 2017, the oilseed and oilmeal indices dropped by, respectively, 1.3 and 9.4 points, whereas the vegetable oil index gained 5.0 points compared with 2016. The indices for oilseed and vegetable oil fared above the multi-year lows recorded in 2015. By contrast, the oilmeal index continued on its downward trend, falling to a 10-year low in 2017.



b) Selected policy developments and industry news

ARGENTINA – biodiesel policy:

The Government announced a rise in the country's variable export tax on biodiesel from zero percent applied in December 2017 to a fixed rate of 8 percent, effective 1 January 2018. Considering that, at the same time, the January export tariff rate for soy oil is going to be lowered to 26.5 percent (from 27 percent applied in December), the tax difference between the two products is set to drop from 27 percent to 18.5 percent. Reportedly, the reduced tax differential could result in negotiations with the United States

regarding last year's introduction of anti-dumping and countervailing duties on imports of Argentine biodiesel (N.B. The United States likened Argentina's tax differential to a subsidy for the country's biodiesel producers – see *MPPU Sep. '17*). Market observers pointed out that the higher taxation of biodiesel exports could negatively affect Argentina's sales of the fuel to the European Union.

BRAZIL – biofuel policy: Brazil's Upper House passed 'RenovaBio', the policy package on renewable fuels endorsed by the Lower House last November (see *MPPU Dec. '17*). Markets expect the bill to be signed into law by the

President in the near future. Next steps will include the formulation of: exact mandates for domestic biofuel consumption between 2020 (the new programme's expected year of implementation) and 2030; detailed fuel standards and certification rules; and carbon credits and fiscal/financial/credit incentives for biofuel producers. In addition to bioethanol and biodiesel, the programme will also promote the commercialization of biogas, bio-methane and aviation biofuel.

CANADA – biofuel policy: The government published a regulatory framework outlining the scope and key elements of a national standard for clean fuels. Consultations with all interested parties to work through the standard's technical details will follow. The new standard will focus on reducing carbon intensity across the lifecycle of fuels. Changes in crop demand and land management practices that arise from clean fuel utilization and impact on GHG emissions will be taken into account. The existing federal mandate on blending 2 percent biodiesel and 5 percent ethanol into the country's transportation fuels will be maintained in the short term. However, in the longer term, these volumetric requirements will be replaced with fuel-specific carbon intensity requirements that are expected to become more stringent over time.

CHINA – import standards:

Concerned about the presence of weed seeds in past consignments of soybeans from the United States, Chinese authorities decided to lower – as of 1 January 2018 – the level of impurities allowed in US soybean cargoes to 1 percent. In the United States, quality specifications for No. 2 yellow soybeans – the variety dominating U.S. shipments – allow for up to 2 percent of foreign material. China's inspection and quarantine services informed they would not guarantee speedy handling of cargoes containing more than 1 percent of foreign matter, adding that consignments with higher impurity levels could be subject to additional inspections, cleaning and related measures intended to mitigate pest risk. In recent years, US farmers have been confronted

with new herbicide-resistant weeds, traces of which may indeed appear in harvested beans. According to industry sources, about half of US soybeans shipped to China last year would not meet China's more stringent standard. Experts estimated that reducing the content of foreign matter to 1 percent could raise the costs of shipping soybeans to China by 15 US cents per bushel (USD 4 per tonne). To prevent disruptions in export flows, USDA's Federal Grain Inspection Service intends to examine all soybean dispatches destined to China, holding back consignments that fail to meet the stricter standard. Furthermore, USDA will commission work on production and harvesting methods that allow reducing weed seed contamination in soybean deliveries.

CHINA – import policy: Changes in China's applied import and export tariff regime for 2018 include a reduction in the country's import duty on coconut coir from previously 8 percent to 4 percent, from 1 January 2018.

CHINA – food standards: China's food standards authorities released a new code of hygienic practice for the processing of grains, including soybeans. The new standard concerns storage and transport of unprocessed grains and comprises detailed hygienic requirements and provisions for safety control procedures.

EUROPEAN UNION – renewable energy policy

- **Policy reform:** The European Council outlined its position regarding the reform of the bloc's Renewable Energy Directive for the period 2021–2030. The Council proposed to retain the existing target of 27 percent renewable energy in total energy consumption in 2030. In the transport sector, the 14 percent target for each member state would be maintained for 2030, with a sub-target of 3 percent for 'advanced biofuels'. Also the existing 7-percent cap for first-generation biofuels (such as vegetable oil-based biodiesel) would be maintained. If a member state sets a lower cap, it would have the option of lowering its overall target for renewables in transport. By comparison, the proposals tabled by the European Commission

envisaged a progressive reduction of food-based fuels and their replacement with second-generation biofuels (*see MPPU Dec.'16*). Also the European Parliament called for more ambitious overall targets and recommended to distinguish between first-generation biofuels produced using sustainable practices and those purportedly produced in an unsustainable manner (*see MPPU June'17*).

- **Biodiesel standards:** The European Commission confirmed that rapeseed grown in Canada and Australia would remain eligible for entering the EU market as environmentally-friendly feedstock for biodiesel, as the crops have been shown to meet the bloc's increasingly stringent requirements (N.B. From January 2018, all biodiesel feedstock need to deliver GHG lifecycle savings of 50–60 percent compared to fossil fuels – up from 35 percent in 2017). For Australia, the EU represents a top rapeseed export market, with the bulk of deliveries absorbed by the bloc's biodiesel industry.

EUROPEAN UNION – GMO approval:

The European Commission authorized five new GM oilseed varieties for food/feed use, comprising three soybean and two rapeseed varieties. The authorizations, which exclude cultivation, will be valid for 10 years. All products derived from the GMOs will be subject to the bloc's labelling and traceability rules.

GREECE – olive oil marketing: From January 2018, the country's restaurant and hospitality sector will be required to serve olive oil only in its original packaging, identifying the brand. The measure is meant to prevent refilling of old bottles with lower grade olive oil, thus promoting quality and protecting consumers from fraud. While comparable regulations are in place in Italy, Portugal and Spain, efforts to introduce EU-wide legislation to this effect were suspended back in 2013 (*see MPPU June '13*).

INDIA – agricultural policy: India's central Government has raised the minimum support price for 'toria' (*brassica rapa subsp. oleifera*),

an oilseed variety mainly grown in Rajasthan, by 9.5 percent to INR 3 900 per quintal (USD 614 per tonne).

MALAYSIA – variable palm oil export tax:

Malaysia's sliding export duty for January 2018 has been set at 5.5 percent, down from 6 percent in December. The downward correction reflects a decrease in the relevant market reference price.

MALAYSIA / SRI LANKA – free trade agreement:

Reportedly, the two countries are exploring the possibility of entering into a free trade agreement. In the event that an agreement is reached, Malaysia expects several products to gain better access to the Sri Lankan market, including palm oil, on which Sri Lanka currently charges a special levy of LKR 110–130 per kg (USD 715–844 per tonne).

PHILIPPINES – coconut sector development:

The Philippine Coconut Authority plans to distribute 20 million coconut seedlings during the 2018–2020 period via its national replanting programme, in a bid to revitalize the country's coconut industry (*see also MPPU July'16 & Oct.'17*).

THAILAND – health policy: With a view to reduce consumers' risk of heart disease, the Thai Food and Drug Administration drafted a new requirement that would ban the use of partially hydrogenated oils in foods. The proposed ban is consistent with global efforts to eliminate industrially produced trans fats from foods, with complete bans set to come into force later this year in Canada and the United States (*see MPPU July'15 & Oct.'17*).

THAILAND – market regulation:

Reportedly, towards the end of last year, Thailand's inventories of crude palm oil have swollen to half a million tonnes, causing prices for fresh palm fruit to slide below THB 3.50 per kg – compared to price levels of THB 5.0 in June last year (respectively, USD 110 and 157 per tonne). In a bid to protect growers' incomes, the Government plans to i) foster the uptake of crude

palm oil by the country's energy sector, and ii) seek new export opportunities within Asia, notably in China and India. The domestic target price for fresh palm fruit has been set at THB 4.00 per kg, which compares to production costs of about THB 3.80 per kg (USD 125 and 119 per tonne, respectively). Similar measures have been implemented in past years, especially during the rainy season, when high domestic palm oil output tends to depress farm gate prices (*see MPPU Apr. '16 & July '17*). The Thai Government regularly holds consultations with farmer representatives, processors and consumers to coordinate measures to stabilize domestic palm oil supplies and prices.

UKRAINE – export policy:

On 7 December 2017, the Ukrainian Parliament voted to lift the existing value added tax refund on exports of soy, sunflower and rapeseed with effect from 1 March 2018. Subsequently, the Parliament agreed to soften the measure: based on the latest amendments, the tax refund for sunflowerseed exports will remain in place, while the refunds for rapeseed and soybean shipments will only be suspended for a limited period, namely from 1 September 2018 to end 2021 for soybeans and from 1 January 2020 to end 2021 for rapeseed. The bulk of Ukraine's rape and soy production is exported in the form of seeds, as opposed to sunflower, which is crushed locally and subsequently exported as oil and meal.

The temporary suspension of refunds for rape and soy could weigh on the crops' domestic prices, possibly leading to a drop in plantings, while Ukraine's crushers could benefit from higher seed supplies.

UNITED STATES – biodiesel import

restrictions: The U.S. International Trade Commission found that biodiesel from Argentina and Indonesia hurt US producers and that biodiesel production in the two countries is subsidized. The affirmation allows the countervailing duties set by the U.S. Commerce Department last November to come into force and remain in place for five years (*see MPPU Dec. '17*).

Transport infrastructure – Northern Brazil:

- **Railway project:** Four international grain trading companies are considering to submit a joint bid for the 'Ferrogrão' grain railroad project that would link Mato Grosso state with transshipment ports in the Amazon basin (*see also MPPU July & Dec. '17*). Another bid is likely to come from a group of Chinese state-owned firms (*see MPPU June '17*). Total construction costs for the new rail line, which would allow moving approximately 42 million tonnes of grains per year, have been estimated at BRL 14 billion (USD 4.4 billion), and contractors would be awarded a 65-year license from the government to operate the railroad. The project is said to face local opposition from indigenous communities, subsistence farmers and mining companies.

- **Port investment:** A global agri-trade company has filed environmental impact studies with the authorities of the state of Pará concerning the construction of a new river port facility. Located in the Barcarena region, the project would complement recent public and private efforts to develop the country's northern export corridors or 'Arco Norte' (*see MPPU July & Sep. '17*). The new facility would receive barges loaded in the upriver transshipment terminal of Miritituba, carrying grains coming primarily from Mato Grosso state. The port's annual handling capacity would amount to 6 million tonnes of grains.

Pest control and pesticide regulation

- **Dicamba regulation – United States:** Since federal authorities restricted the use of the herbicide dicamba late last year (*see MPPU Oct. & Dec. '17*), additional, state-specific restrictions have been imposed in Arkansas, Minnesota, Missouri and North Dakota. The measures are meant to reduce instances of the herbicide drifting and damaging neighbouring fields. Agri-business company *Monsanto*, which markets dicamba-based herbicides along with genetically engineered dicamba-tolerant varieties of soybeans and cotton to help farmers control weeds that developed resistance to other herbicides, maintains that the chemicals are safe when properly applied. Reportedly, *Monsanto* decided

to offer US soy farmers a cash incentive if they agree to use the herbicide on the company's GM soybeans. The recently imposed regulatory restrictions are expected to drive up the costs of using dicamba, which *Monsanto* is aiming to counter with its cash-back offer.

- Glyphosate safety – United States:

A draft human risk assessment released by the U.S. Environmental Protection Agency (EPA) concludes that glyphosate – a widely used though controversial herbicide – is not likely to be carcinogenic to humans. The agency added that no other meaningful risk to human health was found when the product is used according to label instructions. EPA has called for public comments on its assessment. The agency's final decision, which is scheduled for 2019, will outline any proposed risk mitigation measures, should these be deemed necessary. Meanwhile, in the state of California, products that may contain glyphosate are required to carry warning labels stating the chemical is known to the state to cause cancer – a decision that has been challenged by US farm groups and producers of the chemical.

- Xylella control – European Union:

Ten EU member countries agreed on a road map outlining next steps to combat the bacterial disease *xylella fastidiosa* that was first detected on olive trees in Italy in 2013 and is now present in four member states, threatening a range of crops (*see also MPPU Feb. '17*). The European Food Safety Authority agreed to update its 2015 risk assessment of the disease, and the European Commission offered to make available EUR 10 million (USD 12.1 million) to support research, improve prevention measures and combat the pest. Concerned countries highlighted the need to i) restrict the movement of risky material within the EU, ii) enhance detection and surveillance and maintain an updated list of locations where the disease is present, and iii) consider containment strategies where eradication is not possible. Currently, no treatment exists for the insect-transmitted pest. The European Union's past focus on culling infected trees in Italy's Apulia region met with resistance by local growers (*see MPPU July '16*).

Food ingredients & health – United States:

A study undertaken by the United States Department of Agriculture, assessed product turnover in the U.S. food industry and looked into implications for nutrient content – focusing on three health-relevant ingredients: salt, sugar and fat. Upon examining product entries and exits in high-turnover food categories (i.e. breakfast cereals, yogurts, snacks and refrigerated/frozen meals), it emerged that, over the 2008–2012 period, sugar content has either fallen or remained unchanged in all five categories, while sodium content was gradually reduced in four categories. By contrast, saturated fat content has increased by statistically significant amounts in the four food categories that contain fat in meaningful quantities. Reportedly, these contradictory trends support the contention that policies focusing on reducing a single nutrient (such as salt) may not lead to overall healthier products as food manufacturers may compensate for deterioration in taste by increasing levels of other nutrients (such as fat). As for trans fatty acids, the study suggests that new federal labelling regulations and dietary guidelines have effectively reduced the trans fat content of US food products. Claims by some researchers that trans fats have for the most part been replaced by saturated fats are not corroborated by the study.

Research and product development news

- High-oleic/low-linoleic soybean:

Using gene-editing technologies, a company in the United States is working on a new soybean variety characterized by both high oleic acid content and low linoleic acid content – a fatty acid profile that is known to increase an oil's shelf life and frying capability, without having to be hydrogenated (i.e. avoiding the formation of harmful trans fats). Given that gene-editing techniques are not subject to regulation by USDA, the company expects the approval process for the new variety to be short and plans to begin commercial sales later this year.

- High-oleic/low-saturated fat rapeseed oil:

In accordance with global industry efforts to offer food ingredients perceived as more healthy,

a multinational agri-business firm launched a new high-oleic rapeseed oil derived from hybrid seed (i.e. without genetic modification). According to the company, the new oil's saturated fat content is 35 percent below that of conventional rapeseed oil. Despite its low saturated fat content, the oil is said to offer strong frying performance, long shelf life and fresh taste. Furthermore, growers of the hybrid rapeseed are promised of their high yields and disease resistance quality.

- **Omega3-rich rapeseed:**

Early trials conducted in Norway with an omega3-rich oil derived from a GM rapeseed developed in Australia (*see MPPU Dec. '16 & June '17*) would indicate that the product is suitable for use as salmon feed. Results suggest that there is no difference between fish fed with traditional fish oil (– supplies of which are limited –) and fish fed with the modified plant oil.

Pending regulatory approvals, commercialization of the new rapeseed variety in the United States, Canada and Australia could start in 2018 or 2019. Reportedly, seeds would be sold to growers under license, for segregated cultivation and processing.

- **Food-grade rapeseed protein:**

Canadian researchers developed a membrane-based process to obtain food-grade protein from defatted rapeseed meal. Currently, due to its poor taste and the presence of antinutrients, rapeseed meal is exclusively used as animal feed, notwithstanding its high nutritional value.

- **Palm oil origin identification:**

In Spain, a group of scientists claims to have developed a quick and accurate method to identify the geographical origin of palm oil – which, according to the group, could help governments and industry to detect oils fraudulently labelled as 'certified sustainable'. Reportedly, the newly developed method combines liquid chromatography with chemometric and data-fusion strategies.

- **Enzyme-assisted biodiesel production:**

An Indian company embarked on biodiesel production from low-grade waste feedstock using a newly developed, enzyme-based technique. As feedstock, the company intends to use wasteoils with a high content of free fatty acid, including brown grease, used cooking oil and palm fatty acid.

Sustainably produced palm oil

- **RSPO initiative:** The Roundtable on Sustainable Palm Oil (RSPO) announced the formation of the North American Palm Oil Network (NASPON). Reportedly, in an effort to accelerate collaboration within the market, NASPON's mission will be to educate and assist North American companies in making and delivering on commitments to source sustainably produced palm oil. The newly formed coalition comprises industry associations, civil society groups, consumer goods manufacturers, food-service retailers and palm oil traders.

- **Certification impact:** A group of US researchers reported on efforts to measure the actual effect of sustainability certification on deforestation and fire within oil palm plantations in Indonesia. The analysis of data of RSPO-certified and non-certified oil palm plantations for the 2001–2015 period suggests that certification significantly reduced deforestation among participating plantations, but not fire occurrence or clearance of carbon-rich peatland. Moreover, it emerged that certification was mostly adopted in older plantations that comprised little remaining forest and, consequently, the actual area conserved appears to be rather small. The study concludes that certification schemes have the potential to contribute to the protection of endangered tropical forests. However, broader adoption of certification by oil palm growers – targeting especially oil palm companies that develop forest frontiers as opposed to those working with well-established plantations – is likely needed for palm oil certification to result in meaningful protection of total forest area, the study says.

Environmental governance – soybean, Brazil:

According to the Brazilian oilseed industry association, ABIOVE, growing soybean cultivation has not been a significant driver behind deforestation in the Amazon basin. The finding is based on recently released Government material providing satellite imagery of soybean production in the Amazon biome. Allegedly, during the last decade, soybean farming only accounted for 1.2 percent of total

deforestation in the area – a circumstance that is linked to the launch of the Brazilian Soy Moratorium in 2006 and to improvements in public environmental governance. Reportedly, although the area planted with soy continued to rise strongly, the expansion occurred primarily on former pastureland and areas cleared prior to the

introduction of strict deforestation limits. The Brazilian Soy Moratorium bans the trading and financing of soybeans grown on land illegally cleared in the Amazon region. The voluntary initiative is supported by a multi-stakeholder coalition bringing together the private sector, NGOs and the government.

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	<u>International Prices (US\$ per tonne)</u> ¹					<u>FAO Indices (2002-2004=100)</u> ⁷		
	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
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
2015/16	396	773	655	351	232	151	155	168
2016/17	404	806	729	336	225	154	160	171
Monthly								
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
2016 - September	403	825	755	344	219	153	172	165
2016 - October	404	853	712	340	214	153	168	161
2016 - November	409	875	755	343	218	155	176	163
2016 - December	420	902	783	344	211	159	183	163
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
¹ Spot prices for nearest forward shipment ² Soybeans (US, No2 yellow, c.i.f. Rotterdam) ³ Soybean oil (Dutch, f.o.b. ex-mill) ⁴ Palm oil (Crude, c.i.f. North West Europe) ⁵ Soybean meal (44/45% Hamburg fob ex-mill) ⁶ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill) ⁷ The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each commodity for the 2002–2004 period. The indices are based on the international prices of five selected seeds, ten selected vegetable oils and five selected cakes and meals.								
Sources: FAO and Oil World								