



OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

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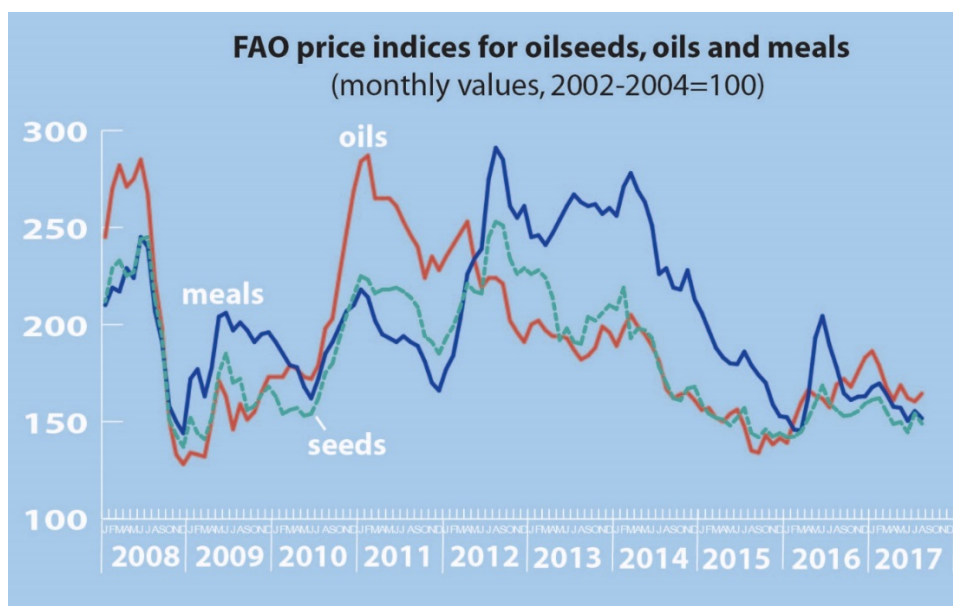
a) Global price review

In August, FAO’s price indices for oilseeds and oilmeals fell by around 5 and 4 points respectively (or 3.5 and 2.4 percent). By contrast, the vegetable oils index gained 4 points (or 2.5 percent), after declining in the two preceding months. All three indices fared below the level recorded in the corresponding month of last year.

The global market for oilseeds and oilmeals was mainly characterized by falling international soybean prices: month-on-month, the value of soybeans (the dominant component in the oilseed index) dropped by 4.4 percent, mainly in response to new crop forecasts for the United States. Notwithstanding mixed and partly unfavourable weather conditions in July and part of August, USDA raised its forecast for the country’s 2017/18 crop by as much as 3.3 million tonnes (or almost 3 percent) on improved weather conditions

towards the end of August, which raised yield expectations. As a result of this revision, the FAO forecast for global 2017/18 soybean production was lifted to levels closer to the 2016/17 all-time record. Rising export availabilities in South America also weighed on international soybean prices. However, the downward pressure on prices was capped by persistently firm import demand from China and concerns about weather developments in the coming weeks, i.e. when northern hemisphere crops will approach the harvesting stage and soy plantings are set to begin in the southern hemisphere. As to the other oilseeds, rapeseed prices kept strengthening as production prospects in two major producing countries, Canada and Australia, deteriorated on adverse weather conditions. Based on the latest forecasts, global rapeseed output was lowered to

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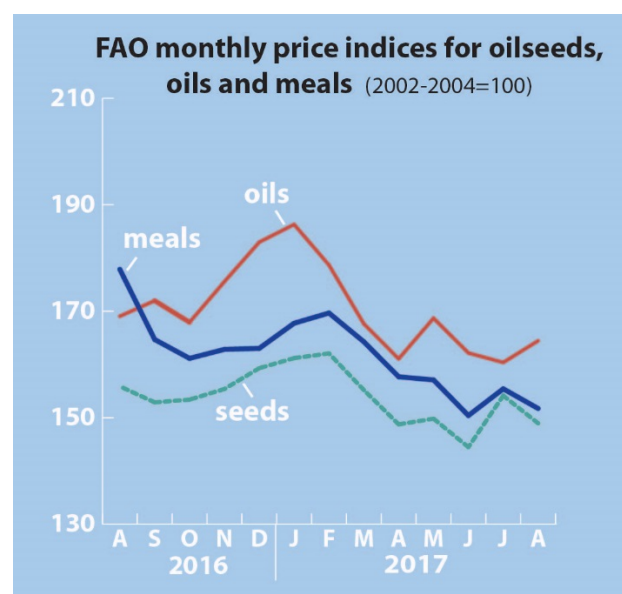
* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO’s price indices and spots important policy and market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

a six-year low, pointing to another tight season in 2017/18. With respect to oilmeals, the prospect of ample availabilities of soybean – predominantly a meal crop – took its toll on international oilmeal prices. Also contributing to the retreat in global meal values were a slackening in world import demand for soybean meal (fueled in part by ample availabilities of feed grains and maize by-products) and a surplus of soybean meal in the United States (where crushing has been primarily driven by demand for oil).

As to vegetable oils, the latest appreciation in the price index reflects rising quotations for palm oil as well as the other major oils. International palm oil values strengthened on smaller than expected production in Southeast Asia and steady global import demand, which slowed down the replenishment of stocks in producing countries. Regarding imports, international demand was underpinned by the improved competitiveness of palm oil relative to soy oil. Prices for the latter strengthened, posting a 7-month high, notwithstanding the promising global production outlook. Soyoil prices mainly appreciated in

response to adjustments in the United States' biodiesel import policy that are expected to spur domestic soy oil uptake. Rapeseed and sunflower oil values, on the other hand, firmed on lower than expected global availabilities. The anticipated drop in global supplies of high oil-yielding oilcrops (especially rapeseed) was seen to increase the market's reliance on palm and soy oil in 2017/18, possibly underpinning prices for both oils.



b) Selected policy developments and industry news

EUROPEAN UNION / ARGENTINA – biodiesel tariff dispute: Regarding the EU's commitment to bring the bloc's anti-dumping duties on biodiesel imports from Argentina into conformity with a recent WTO ruling (*see MPPU Jan.&Aug. '17*), the two parties agreed to extend the EU's time limit for removing or altering the named tariffs until 28 September 2017 (as opposed to the originally agreed upon date of 10 August 2017).

INDIA – farm support measures

- **Public procurement:** India's National Federation of Agricultural Marketing Cooperatives (NAFED) – the agency responsible for the procurement of agricultural commodities under the

country's federal Price Support Scheme (PSS) – is preparing the launch of an electronic platform for countrywide procurement of oilseeds and pulses. By managing farm-gate purchases, storage and disposal operations through an efficient, transparent and competitive e-platform, NAFED expects to help growers obtain more remunerative prices, while also containing consumer prices.

- **Price support:** The state Government of Madhya Pradesh announced the launch of a scheme to compensate farmers for distress sales at prices below the minimum support prices (MSP) that are set annually by the central Government. The scheme will initially apply to selected oilseeds and pulses, where physical procurement tends to be limited unlike for rice and wheat. The initiative comes on the back of a bumper harvest that caused crop prices to decline, triggering protests by farmers calling for

loan waivers and more remunerative prices (*see also MPPU July '17*). Under the scheme, farmers will be compensated when crops are sold at less than the MSP. Such deficiency payments will be capped at a modal price, which is defined as the average market price observed over a two-month period in Madhya Pradesh and two other states.

INDIA – import policy: In India, the world's top buyer of vegetable oils, import duties on selected crude and refined oils have been raised to protect local farmers from low-priced imports and thereby encourage domestic oilseed production. Reportedly, the concurrence of copious imports with a bumper domestic crop led to stock surges and sharp price falls. The import levies for crude palm oil, refined palm oil and crude soybean oil – have been raised to, respectively, 15 percent, 25 percent and 17.5 percent (up from, respectively, 7.5, 15 and 12.5 percent). By widening the import duty differential between crude and refined palm oil – from 7.5 percent to 10 percent – the Government also aims to assist domestic oil processors, who find it increasingly difficult to compete with imports of low-priced refined oils.

TURKEY – GMO news: Turkey's Biosafety Board has approved the importation of three genetically modified soybean varieties and their products for feed use, raising the total number of approved GM soy events to ten. For another two GM varieties approval remains pending.

UNITED STATES – biodiesel policy

• **Imports – countervailing & anti-dumping duties:** The U.S. Department of Commerce (DOC) announced affirmative preliminary determinations in the *countervailing* duty investigations related to Indonesian and Argentine exports of biodiesel to the United States. DOC claimed that Argentine and Indonesian exporters received subsidies of, respectively, 50–64 percent and 41–68 percent. The department also determined that 'critical circumstances' exist in both cases, which allows for retroactive collection of duties (*see also MPPU Aug. '17*). Final duty determinations are due on 7 November 2017. While DOC finalizes its investigations, biodiesel importers will be required to pay cash deposits on purchases from Argentina and Indonesia based on the indicated subsidization

rates, going back to May 2017. As to the companion *anti-dumping* investigations, preliminary determinations are expected in October 2017. DOC's initial notice has led to temporary spikes in US and international soybean oil prices. Evidently, market participants are concerned that, in the United States, demand for domestically produced biodiesel – which is mainly produced from soybean oil – could increase once retaliatory import duties are imposed. Argentina would be particularly affected by the envisaged trade policy change: in 2016, U.S.-bound exports accounted for approximately 90 percent of Argentina's overall biodiesel sales, with imports from Argentina representing two-thirds of the United States' total biodiesel purchases. Reportedly, Argentina has offered to collaborate with the U.S. DOC during its final duty determination. The two parties may also consider the introduction of tariff rate quotas, according to press reports.

• **Local blending mandate:** Minnesota – the first state in the nation to mandate biodiesel use back in 2005 – is set to raise its biodiesel standard from 10 to 20 percent in May next year. Accordingly, only diesel containing 20 percent biodiesel may be sold between May and October, when fuel stations will switch back to 5 percent, as biodiesel turns from fluid to gel under colder temperatures. The higher blending mandate is meant to (i) help preserve and protect Minnesota's air and water quality, (ii) reduce the state's reliance on fossil fuels, and (iii) support demand for locally grown biodiesel feedstock, notably soybeans. Fuel producers and the trucking industry expressed concern about the new measure, stating that the infrastructure required to handle the higher blends was not yet available.

UNITED STATES – health regulations:

Responding to a petition filed by a large agribusiness and food company, the U.S. Food and Drug Administration decided to allow food manufacturers and restaurants to make qualified health claims linking soybean oil to a reduced risk of coronary heart disease. The decision is based on 'supportive but not conclusive evidence' that eating soybean oil – which contains unsaturated fatty acids – may provide heart health benefits, provided soybean oil is to replace (or not to increase) saturated fat intake and does not raise daily caloric intake.

Palm oil trade policies

- Intergovernmental export promotion:

Under the framework of CPOPC, the Council of Palm Oil Producing Countries set up by Malaysia and Indonesia to foster collaboration on palm oil, the two founding countries have agreed to (i) jointly explore the possibility of supplying China, India and other countries with palm oil for their nascent biodiesel industries, and (ii) conduct joint campaigns in key import markets to publicize palm oil's environmental credentials. Moreover, the CPOPC Secretariat was tasked to invite other palm oil producing countries to join the Council.

- Variable export tax: In September 2017, Indonesia's sliding export tax on crude palm oil will stay at zero (for the fifth consecutive month), as the commodity's reference price remained below the threshold that triggers taxation. In Malaysia, the variable tax for September remains unchanged at 5.5 percent, as the relevant benchmark price remained virtually unchanged compared with the previous month's level.

- National certification programmes:

- Indonesia: To date 1.9 million hectares of oil palm plantations – i.e. 17 percent of the country's total area under oil palm cultivation – have been certified under the Indonesia Sustainable Palm Oil (ISPO) standard. Launched with the support of the Government in 2011 and implemented on a mandatory basis since 2015, ISPO was designed to guarantee the adoption of comprehensive environmental and social standards and ensure compliance of plantations with national rules and regulations.

- Malaysia: Government officials confirmed that certification through the Malaysian Sustainable Palm Oil (MSPO) scheme will become mandatory for all palm oil growers by end 2019. The MSPO standard was developed to promote the adoption of best practices on sustainability throughout the supply chain, while conforming to domestic laws and regulations and taking into account the specific needs of local producers. To date about 244 600 hectares of oil palm – or 4.1 percent of the country's total area under oil palm – have undergone voluntarily certification, involving mostly large estates rather than small growers. Recognizing that small producers – who contribute about 40 percent of the country's palm oil production – struggle to meet the costs of

certification, the government announced that independent and organized smallholders will receive financial incentives. Reportedly, the Government decided to set aside MYR 130 million (USD 31 million) to support some 650 000 small growers cultivating around two million hectares of oil palm. Furthermore, the Government renewed its commitment to promote MSPO overseas to ensure the standard is accepted in international markets.

(See also MPPU Apr. '17 on efforts to accelerate the adoption of MSOP and ISOP certification and to raise international recognition of the two national standards.)

Bilateral trade arrangements

- China / Argentina – soybean oil: As part of comprehensive talks on balancing trade between the two countries, China agreed to resume imports of soybean oil from Argentina. China's state-owned grain corporation Sinograin confirmed it was ready to purchase soybean oil from the world's top supplier. China started restricting imports from Argentina on phytosanitary grounds in 2010, when annual purchases dropped from 2 million tonnes to less than 500 000 tonnes.

- Indonesia / Russian Federation – palm oil: Government officials informed that a preliminary deal to barter military jets for commodities – including palm oil and copra – has been signed between an Indonesian and a Russian state trading company. Details about the quantities of produce to be shipped by Indonesia were not made available.

Sector development measures

- Brazil – transport infrastructure:

Brazil's Transport Ministry has allocated the sum of BRL 128.5 million (USD 41.2 million) for paving 65 km of highway BR-163, i.e. the last unpaved stretch of the key artery that links Mato Grosso state – the country's Centre-west grain hub – to Brazil's newly opened ports on the north-Atlantic coast. Based on government estimates, upon the works' completion, Brazil's northern export corridor (or 'Arco Norte') would absorb around one-fourth of Brazil's aggregate maize and soybean production (*see MPPU July '17*). Industry sources, on the other hand, pointed to the need for additional investments in the region's infrastructure. With northbound shipments from Mato Grosso depending on a single

highway, the likelihood of temporary disruptions remains high, private sources opined (*see also MPPU Aug. '17*).

- **Zimbabwe – soybean cultivation:**

For the 2017/18 season, the Government of Zimbabwe fixed the price for soybeans delivered to the state-owned Grain Marketing Board at USD 610 per tonne, i.e. 22 percent above the prevailing price of USD 500. The measure is meant to stimulate domestic soybean production, thus helping to reduce the country's dependence on imported edible oil.

- **Indonesia – oil palm replanting:**

The Government of Indonesia issued an oil palm replanting plan involving 4.7 million hectares of plantation. The initiative is aimed at boosting the crop's productivity. Reportedly, average yields dropped to 2–3 tonnes of palm oil per hectare due to the deteriorating age structure of the country's oil palms.

- **Vanuatu – coconut palm replanting:**

The Government of Vanuatu pledged to support the planting of 1 million coconut trees by 2026.

Reportedly, apart from growing old, existing palms have withered because of cyclones. Unproductive trees will be felled and used as timber.

Industry initiatives

- **Biodiesel feedstock – the Philippines:**

In the Philippines, the national federation of industries urged the Government to review the product specification in the country's Biofuels Act, with a view to include palm oil as a biodiesel feedstock in addition to coconut oil. The private sector views palm oil as an economical alternative to coconut oil. Reportedly, chronic shortages in domestic coconut oil supplies relative to demand have driven up coconut oil prices – hampering growth in biodiesel production and preempting the planned introduction of higher blending mandates (*see MPPU Oct. '15 & Aug. '17*). Low-priced palm oil, by contrast, is said to be widely available, and permission to use that oil as biodiesel feedstock would allow to channel more coconut oil towards the production of high-value added products for export.

- **Non-GM soybeans – Brazil:** An alliance for the promotion of conventional, non-GM soybeans – named Soybean-Free Institute – has been launched in the state of Mato Grosso, where most of the country's non-GM soy production for niche markets

in Europe and Asia is located (*see also MPPU June '17*). Members of the newly created institute include growers, seed producers, suppliers of chemical inputs, food manufacturers, traders and civil society groups.

- **Palm oil-free certification:** An independent certification scheme, the International Palm Oil Free Certification Accreditation Programme (POFCAP), has been launched to allow interested food makers to demonstrate that their products were manufactured without using palm oil or palm oil derivatives. The new scheme was developed to respond to growing consumer demand for transparency over the use of palm oil in processed foods. Reportedly, POFCAP has been approved by regulators in Australia and the UK, while applications are still pending in several other countries. POFCAP bars companies from using language implying that POFCAP recommends a given product over competing products.

- **Indonesia / Japan – palmkernel shell:**

Indonesia's oil palm industry is looking into the possibility of expanding the sales of palmkernel shell to Japan. Reportedly, underpinned by Government policies calling for a higher renewable energy portion in the country's energy mix, Japan's import demand for palmkernel shell is growing as biomass power plants use the product as bioenergy feedstock.

Olive oil – quality control: 'Oleum', a four-year project supported by the European Union's Horizon 2020 Research and Innovation Programme, entered its second year of implementation. The initiative is aimed at better guaranteeing olive oil quality and authenticity by empowering detection and fostering prevention of olive oil fraud. Reportedly, the consortium of 20 international partners has identified knowledge gaps in four areas that the project will address: legislation and regulation; analysis; harmonization and coordination; and consumer and market confidence.

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	International Prices (US\$ per tonne) ¹					FAO Indices (2002-2004=100) ⁷		
	Soybeans²	Soybean oil³	Palm Oil⁴	Soybean Cake⁵	Rapeseed Meal⁶	Oilseeds	Vegetable oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2004/05	275	545	419	212	130	104	103	101
2005/06	259	572	451	202	130	100	107	96
2006/07	335	772	684	264	184	129	150	128
2007/08	549	1325	1050	445	296	216	246	214
2008/09	437	849	682	409	206	157	146	179
2009/10	429	924	806	388	220	162	177	183
2010/11	549	1308	1147	418	279	214	259	200
2011/12	562	1235	1051	461	295	214	232	219
2012/13	563	1099	835	539	345	213	193	255
2013/14	521	949	867	534	324	194	189	253
2014/15	407	777	658	406	270	155	153	194
2015/16	396	773	655	351	232	151	155	168
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
<p>¹ Spot prices for nearest forward shipment</p> <p>² Soybeans (US, No 2 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. North West Europe)</p> <p>⁵ Soybean meal (44/45% Hamburg fob 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>								

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