



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

No. 18, September 2010

a) Global price review

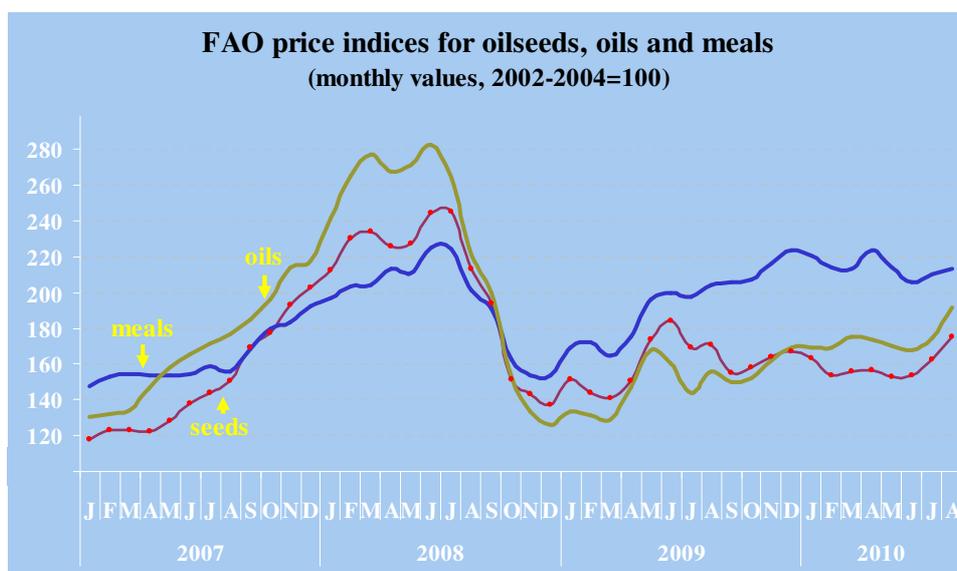
In August 2010, international prices for oilseeds and derived products edged upward, clearly exceeding the levels recorded in the corresponding period of past years (with the exception of 2008).

The latest increase in prices concerns mainly oilseeds and oils/fats, and much less oilmeals. The month-to-month rise in the FAO indices for the three commodity groups was, respectively, 8 percent, 10 percent and 1 percent.

Quotations for the three most widely traded oilseeds (soy, rape and sunflower) shot up by 8 or more percent. For soybeans, price strength was initially caused by solid export demand (coming particularly from China), coupled with continued weather uncertainty in North America. Then, prices came under the firm influence of surging global wheat prices. Only towards the end of August, forecasts of a record crop and rising stocks in the USA helped to partly cool down the market. By contrast, the increasing

likelihood of marked shortfalls in global rape and sunflowerseed production lent additional firmness to the respective markets throughout the month.

In the oils/fats market, soyoil prices mostly followed those for soybeans. For palm oil, the leader in global vegetable oil trade, prices continued growing in August, rising by more than 11 percent compared to July. The conspicuous rise was driven by strong export demand (stemming from China as well as countries where Ramadan is celebrated), coupled with a drop in Malaysian inventories to the lowest level in one year, which occurred in spite of a recovery in production. Sustained mineral oil prices also contributed to the price firmness. As the month progressed, the palm oil market also started reacting to concerns that the onset of a new La Niña weather pattern (i.e. increased rainfall in Southeast Asia) might hamper harvesting and thus lower production over the coming months. Finally, the expected need to compensate for prospective shortfalls in global supply of rape and sunfloweroil also seems to lend strength to palm oil prices.



* The **Monthly Price and Policy Update**, or MPPU, is a new information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **August 2010**. Previous issues can be downloaded from the FAO website at URL <http://www.fao.org/economic/est/publications/oilcrops-publications/monthly-price-and-policy-update/en/>

b) Selected policy developments and industry news

ARGENTINA - grain export taxes: The government's special legislative power to set export taxes expired last month. Consequently, the authority to fix export duties on soybeans and other grains has reverted back to Congress, which could be open to the idea of adjusting the taxes downward. Most observers concur that the debate on whether or not and by how much export taxes should be cut is going to be a long, complex and open-ended one. Reportedly, one proposal that is being discussed in the Lower House foresees an immediate reduction in the soybean tax from 35 to 30 percent, and its gradual further lowering to 10 percent by 2015. The Upper House, however, seems likely to oppose such drastic cuts, because part of the tax revenue is channelled to provinces and provincial lawmakers are strongly represented in the Senate.

ARGENTINA - use of herbicides: Reportedly, proposals to limit the use of herbicides (notably glyphosate, which is extensively used in the widespread cultivation of GM soybeans) are under consideration in two of the country's principal soy-producing states. The initiatives are driven by concerns about the environmental sustainability of current production practices. Proposed legislation would prohibit spraying around urban areas and envisages a complete phasing-out of the herbicide over the next decade.

CANADA – measuring environmental footprint of biofuels: A study commissioned by Environment Canada found gaps in the way biofuel plants measure emissions of GHG and other pollutants. Differences in the way biofuel facilities gather and report data make it difficult to accurately determine the

environmental footprint of biofuels. According to the report, more work is needed to improve baseline data to measure pollution from biofuels plants. This could include getting the industry to agree to common standards for gathering and reporting pollution data.

CANADA - assistance to farmers: Reportedly, special aid will be provided by the government to farmers affected by recent adverse weather conditions, especially in the provinces of Alberta, Manitoba and Saskatchewan. The programmes are to be funded jointly by the provincial and federal governments. Wheat, rapeseed and barley are expected to benefit from the assistance.

EUROPEAN UNION - investigation on trade in biodiesel: Reportedly, the European Commission decided to investigate whether (i) biodiesel produced in the United States is being shipped into the EU via third countries, and (ii) whether US exporters shifted to blends containing less than 20 percent biodiesel so as to circumvent the bloc's anti-dumping and countervailing duties (imposed on US imports in March 2009). The decision follows a confidential complaint lodged by the European Biodiesel Board. Investigations are expected to take about nine months.

EUROPEAN UNION - biofuel consumption targets: Unofficial sources estimate that the EU is falling short of its target for biofuel use in the transportation sector. According to EU directives, by end of 2010, biofuels were supposed to account for 5.57% of total transport fuel sales. Instead of the corresponding 18 million tons, EU biofuel sales have been estimated to reach only 15 million tons of oil equivalent this year. Year-on-year rise in biofuel consumption is estimated at around 20% in 2010, which compares to considerably higher rates in previous years.

As to the type of biofuel used, consumption of biodiesel, which accounts for roughly 80% of biofuel transport fuels (expressed in energy content), is reported to be growing less strongly than bioethanol and biogas use.

INDIA - vegetable oil import taxation: In response to rumours that the government might raise import duties in an effort to support domestic farmers, official sources stated there was no intention to reintroduce or raise tariffs since such measure could increase the inflationary effect of growing global vegetable oil prices on the domestic market. As in recent years, the government's main preoccupation concerns the effect of rising domestic oil prices on consumers.

INDONESIA - palm oil export tax: Following the recent rise in the global price of palm oil, the government decided to lift, in September, the ad-valorem export tax from 3 to 6 percent - the highest level since November 2008. The export tax is adjusted on a monthly basis with a view to ensure adequate domestic supplies, thereby preventing surges in domestic prices.

LIBERIA - land concession for oil palm development: Reportedly, a concession was signed between the government and an Indonesian company to set up a 200 000 ha oil palm plantation. In addition to generating local employment, the project comprises the development of smallholder production with access to dedicated purchasing centres and extension services.

PAKISTAN – government support to flood affected areas:

- **Oilseed production:** The government decided to raise the official purchase price for sunflower and rapeseed from Rs 1600 to Rs 1800 per 40 kilo in flood-affected areas, effective September. Furthermore, concerned farmers will be provided with subsidized credit to purchase seed and

other inputs, and additional centres will be set up to guarantee public and private crop procurement. Increased support to the two oilcrops is also meant to respond to the expected drop in cottonseed production, following extensive flood damage.

- **Oil manufacturing:** Ghee and cooking oil manufacturing units in flood-affected areas have been granted permission to import required raw material free of duties.

SRI LANKA - special assistance to coconut in Northern Province: The Coconut Development Board is planning to provide special relief measures to farmers engaged in coconut cultivation in the country's war-stricken Northern Province.

THAILAND - soya import tariff: Reportedly, the government is planning to suspend the 2% ad-valorem tariff starting January next year. The measure would aim at curbing the rise in feed costs, thereby allowing to check overall food price inflation and costs of living increase. In the past, soy imports were subject to quantitative restrictions. Purchases were then freed in 2007, when an initial duty of 4% was introduced. Industry obligations to first absorb domestic production will remain in place.

THAILAND - biodiesel blending rates: Biodiesel consumption seems set to increase further in coming years. Reportedly, voluntary blending has been replaced earlier this year by mandatory B3 fuel nationwide, and mandatory B5 is scheduled for January 2011. Furthermore, the government seems committed to develop B10, which is currently being engine-tested. The B10 target requires further expansion in the domestic oil palm plantation area so as to avoid competition between food and fuel uses and to stay away from the need to import biofuel feedstock.

UNITED STATES - rapeseed meal

imports: The Food and Drug Administration has lifted restrictions on rapeseed meal imports from selected Canadian suppliers. The restrictions were introduced in December last year after detection of harmful salmonella bacteria in shipments. Reportedly, in August, two plants operated by *Bunge* have been freed from special import inspection at border.

Rise in palm oil production costs:

Triggered by Indonesia's prospective planting moratorium (see August 2010 MPPU issue), concern about future, gradual rises in production costs is reported to be spreading among palm oil producers in Asia. The prospect of rising limitations on future expansion in plantations - based on increasingly stringent environmental regulations - could have important repercussions across the sector, such as (i) rises in the cost of land, (ii) consolidation among companies to increase their land base, (iii) increasing investments outside of Indonesia and Malaysia (e.g. in PNG and West/Central African states), and (iv) increased efforts to raise productivity levels.

Reformulation of fat profile in food

products: Reportedly, confectionary manufacturer *Mars* is reformulating chocolate products sold in France and the UK to reduce the content of saturated fats by 15-20 percent. Reformulation involves shifts in the type of vegetable oils employed. The company informed that by changing the fat profile it is aiming at improving the nutritional composition of its products.

Global framework for palm oil

development: The *World Bank* and the *International Finance Corporation* have presented a draft framework for future engagement in the palm oil sector. In the framework, priority areas and options for action are outlined. The four thematic areas

identified as being crucial are: (i) policy and regulatory environment, (ii) mobilization of sustainable private sector investment, (iii) benefit sharing with smallholders and communities, and (iv) sustainability codes of practice.

Vegetable oil-based aviation biofuel

- **Camelina seed:** A member of the mustard family, camelina produces an oil that seems to show promise as an aviation fuel, the specifications of which are distinct from biodiesel used for land-based vehicles. Extensive trials are being carried out, especially in North America and Europe, by both, military and civil aviation. The sector's potential demand is reported to be high. In the United States, for instance, half of the continental military jet fuel requirement is mandated to be met by alternative fuels by 2016. The interest of commercial airlines for renewable fuels that can be sustainably produced is also rising. As an aviation fuel, camelina oil can be blended with conventional fuel at inclusion rates as high as 50%. With final approval and certification of the fuel expected next year, private sources anticipate camelina jetfuel production to rise to over 3 million tons by 2025. Allegedly, camelina can be grown in dry regions, not best suited for food crop production. To date the crop is cultivated primarily in the United States and Canada, mainly in rotation with wheat and using conventional equipment. Yield improvements via varietal selection still present major challenges. Camelina is expected to remain a regionally based feedstock and will have to compete with other feedstock.

- **Mexico:** Reportedly, the country aims at becoming a major player in the production of renewable jet fuels. Public-private partnerships started exploring non-edible plants and vegetable oils that could be used as feedstock for renewable aviation fuel. Production would be for both the domestic market and exportation to the United

States. Non-edible plants such as jatropha and salicornia would be planted on land unsuitable for food production. Currently, the country seems to lack the required refineries and part of the technology involved.

- **Thailand:** Reportedly, the country is planning to develop jet biofuels with the objective to meet demand from 2012, when European aviation regulations calling for the introduction of renewable fuels in airplanes are expected to come into effect. The goal is to become South-East Asia's hub for the supply of green aviation fuel. Although palm oil is considered a suitable feedstock, areas for expanding oil palm seem to be limited and competing uses for food purposes and as fuel for land-based transport pose problems. Other crops, such as sweet sorghum or algae seem to offer better potential.

Fully segregated sustainable palm oil:

Cargill has signed an agreement with *Unilever Europe* to supply fully segregated, sustainable palm oil, certified by RSPO. The oil will be physically segregated at every step of the supply chain. *Cargill* is in a position to offer segregated, refined oil after having received RSPO certification on selected plantations as well as refineries run by the company.

RSPO certified smallholder palm oil:

Certification of the first smallholder oil palm scheme has been reported from Indonesia. Some 8 800 smallholders

organized in 17 cooperatives have been certified to comply with the RSPO 'Smallholder Principles and Criteria' for sustainable production. The smallholder scheme in question is linked to a large, already certified plantation and mill operated by *Cargill*. Certification is expected to lead to rising incomes for producers as demand for certified palm oil is anticipated to continue expanding in coming years.

Palm oil sourcing policies: Private sources reported that a number of major, global food companies decided to stop purchasing palm oil from a particular supplier in Indonesia, based on a recently published audit of the producer's cultivation practices. Reportedly, in the audit, concerns were raised about the sustainability of the company's production practices, the possible breach of national laws, and the environmental impact of past deforestation and peatland conversion.

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	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)</u>		
	Soybeans ¹	Soybean oil ²	Palm Oil ³	Soybean Cake ⁴	Rapeseed Meal ⁵	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2003/04	322	632	488	257	178	121	116	114
2004/05	275	545	419	212	130	105	105	104
2005/06	259	572	451	202	130	100	125	107
2006/07	335	772	684	264	184	129	153	148
2007/08	549	1325	1050	445	296	217	202	243
2008/09	437	849	682	409	206	161	150	194
Monthly								
2008 - January	536	1270	1061	434	308	212	242	197
2008 - February	579	1426	1178	452	346	230	265	204
2008 - March	576	1467	1248	445	359	234	277	205
2008 - April	556	1430	1175	476	328	226	268	213
2008 - May	570	1430	1200	464	348	227	272	211
2008 - June	625	1531	1206	515	329	244	283	225
2008 - July	634	1506	1121	506	292	245	265	224
2008 - August	557	1323	884	435	247	213	222	201
2008 - September	508	1227	760	406	199	194	200	191
2008 - October	394	928	545	338	156	151	153	162
2008 - November	378	824	488	323	155	143	133	154
2008 - December	366	737	508	307	172	137	126	154
2009 - January	411	788	553	369	202	152	134	169
2009 - February	386	744	571	378	215	144	131	172
2009 - March	380	728	590	346	208	141	129	165
2009 - April	410	802	699	383	220	151	147	175
2009 - May	472	893	799	441	230	174	168	196
2009 - June	504	894	734	445	227	184	160	200
2009 - July	467	834	641	428	186	169	144	198
2009 - August	474	891	722	437	186	171	156	204
2009 - September	424	850	676	428	192	155	150	206
2009 - October	427	891	676	413	187	158	152	207
2009 - November	442	939	728	422	196	164	162	216
2009 - December	448	931	791	425	219	167	169	224
2010 - January	435	919	793	407	243	163	169	221
2010 - February	406	915	804	393	230	154	169	214
2010 - March	410	920	832	381	200	156	175	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	170	214
2010 - June	408	860	794	342	194	154	168	206
2010 - July	426	911	811	361	225	162	174	211
2010 - August	457	1002	901	389	245	175	192	213

¹ Soybeans (US, No.2 yellow, c.i.f. Rotterdam)

² Soybean oil (Dutch, fob ex-mill)

³ Palm oil (Crude, c.i.f. North West Europe)

⁴ Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)

⁵ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

Note: 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 oils and fats and seven selected cakes and meals.

Sources: FAO and Oil World