



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

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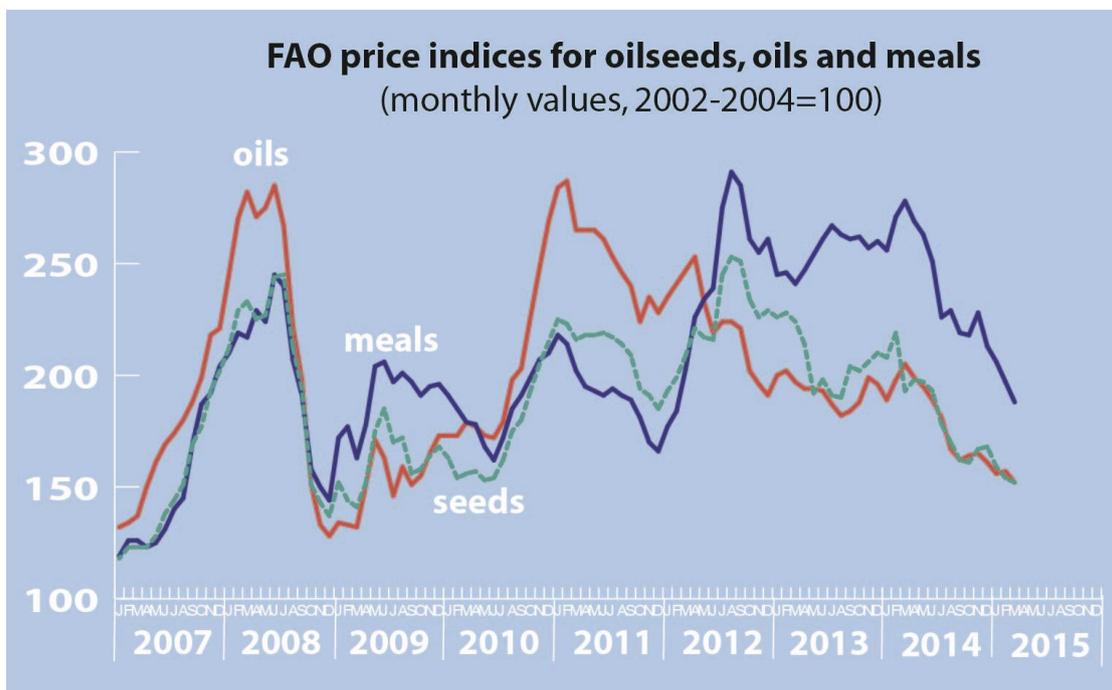
### a) Global price review

FAO's price indices for the oilcrop complex dipped further during March. The strongest decrease occurred in the index for oilmeals, which dropped by 9 points (or about 5 percent), while the indices for oilseeds and vegetable oils lost respectively 2 and 5 points (or 1 and 3 percent). All three indices continue to fare at multi-year lows: while the oilseeds and oils indices stand at 5-year lows, the price index for oilmeals has fallen to a 3-year low.

The slide in international oilseed and oilmeal values continued to be driven by developments in the soy market, mostly reflecting good progress in

South America's bumper soybean harvest as well as rising global inventories and first anticipations of record soybean plantings in the United States for the 2015/16 season, which, if confirmed, could lead to yet another record-breaking global output. A slowdown in Chinese import orders as well as persistent U.S. dollar strength also weighed on global prices. However, with regard to South America, there continues to be uncertainty about the impact of heavy rainfall during February and March on soybean yields in Argentina. Market participants also expressed concern about the relatively slow start in export flows due to strikes and other problems at ports in Argentina and Brazil. As to rape and sunflower seed, their

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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 sources. The present issue covers developments observed during **March 2015**. Previous issues can be downloaded from the FAO website at the following URL:

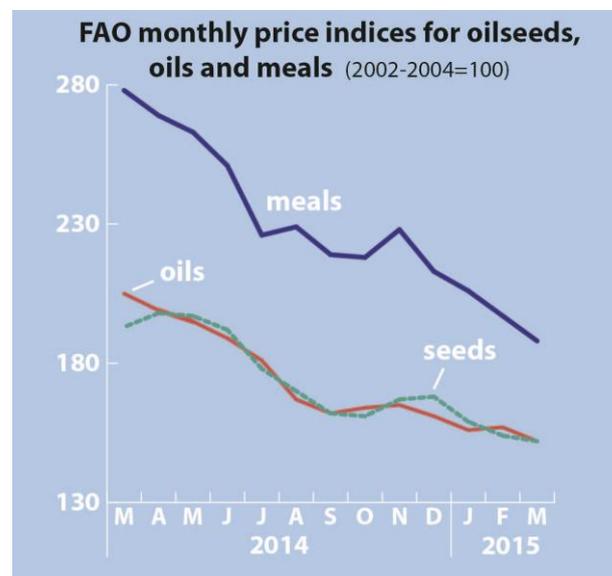
<http://www.fao.org/economic/est/publications/oilcrops-publications/monthly-price-and-policy-update/en/>

## Global price review – cont'd

international quotations continued to weaken under the influence of depressed soybean values – notwithstanding lower than earlier anticipated supply estimates for the two oilcrops.

The vegetable oils index weakened again during March, after the marginal gain that was recorded in February. Palm oil values fell along with those for soyoil and all the other major vegetable oils, marking a 6-year low. The temporary rebound in palm oil prices observed in February actually lasted into the first week of March, but thereafter prices faltered in response to both subdued global import demand, notably from China, and a weaker Malaysian currency. Eventually, on a monthly basis, palm oil price decreased by about 3 percent. A more pronounced price drop was prevented by

concerns that recent spells of dry weather in Malaysia might affect the country's palm oil output in the coming months.



## b) Selected policy developments and industry news

### ARGENTINA – agricultural policy:

The government decided to set up a fund worth ARS 2.5 billion (USD 283 million) for the specific support of small and medium-size grain and oilseed producers, i.e. those with a total annual production capacity of less than 700 metric tonnes. Funded by existing taxes on the exports of large farms, the measure is meant to relieve the problems afflicting small farms, caused mainly by the continuous drop in international prices that started in 2013. Reportedly, the new fund, which is expected to be in place in April, will allow to reduce the export tax burden faced by small/medium producers by up to fifty percent. The around 46 000 farms qualifying for the support represent some 70 percent of all farms but only account for 12 percent of the country's total output of grains and oilseeds, pointing to an skewed distribution of land and revenues in the sector.

### CANADA – transportation policies:

The requirement that railway companies move minimum volumes of grains ended in March 28<sup>th</sup> (see also MPPU Jan. '15). The government decided not to extend the measure introduced one year ago to ensure that the record 2013 harvest reached markets in a timely manner. Reportedly, the government's intervention has had its intended effect: grains and oilseeds were reported to have moved more smoothly during the 2014/15 marketing season, and carry-overs from the 2014 harvest are projected at about average levels. However, government officials informed that mandatory shipping volumes might be reintroduced in future if warranted. Reportedly, railway representatives welcomed the government's decision, underlining that the trade would benefit from a stable regulatory environment and free commercial relationships.

### EUROPEAN UNION – GMO policy:

After passing the EU Parliament in January, new rules allowing member states to either restrict or ban GMO cultivation in their own territory have

been formally adopted by the EU Council in March and are expected to come into force soon (*see MPPU Feb. '15*). Under the new policy, issues related to the importation and marketing of GMOs within the EU will continue to be regulated at union level, while cultivation issues are expected to become the domain of individual member countries. Meanwhile, EU officials informed that the Commission intends to work on a reform of the GMO authorization process at EU-level.

**INDIA – biodiesel policy:** The central government confirmed that producers, suppliers and authorized dealers of biodiesel will be allowed to sell their product directly to all types of domestic consumers (*see also MPPU Dec. '14*). Until now, biodiesel manufacturers were required to sell their production at a uniform price to designated oil marketing companies for distribution to end consumers. By liberalizing trade, the government hopes to foster the production and usage of biodiesel in the country. All national biodiesel sales will be required to comply with the prescribed quality standards.

**INDIA – oilseeds procurement:** In India, public procurement and sale of oilseeds – a government programme aimed at stabilizing domestic prices and protecting farmers' incomes – is managed by the National Agricultural Cooperative Marketing Federation (NAFED). Reportedly, important losses have been incurred in NAFED's operations last year: during fiscal year 2013-14, some 383 000 tonnes of oilseeds were procured, while sales did not exceed 82 000 tonnes. The unsold stocks are said to have triggered large inventory carrying costs. In volume terms, the most important item procured by NAFED is groundnut, followed by copra; purchases of mustard, soybean and sunflower seed are relatively small. Procurement operations are effected when market prices drop below the government set minimum prices (*see MPPU July & Nov. '14*).

**INDONESIA – biodiesel policy:** The government decided to raise nation-wide mandatory blending of palm oil-based biodiesel

into transport diesel fuel to 15 percent. The current rate – in place only since last October – is 10 percent. It is not clear when the new rule will become effective. The move is aimed at boosting domestic biodiesel consumption so as to help contain the country's outlays for fossil fuel imports, while also reducing CO<sub>2</sub> emissions and lending support to the country's oil palm sector. The latter has been adversely affected by the recent slump in international petroleum prices, which, by eroding the competitiveness of biodiesel, curtailed domestic palm oil demand. Under the higher blending mandate, the government expects domestic biodiesel consumption to reach 4.8 million tonnes per year – which compares to only 1.6 million tonnes used in 2014. Private sources questioned the effectiveness of higher blending requirements, pointing out that even existing targets could not be enforced due to a variety of obstacles (*see MPPU July '14*). Reportedly, to support its ambitious biodiesel policy, the government is considering a number of accompanying measures. First, the government may require plantation owners to set aside 15 percent of their output for domestic usage (possibly offering tax breaks in return), which would help secure the raw material needed for the expansion in biodiesel production. With respect to the biodiesel industry, the government will have to find additional resources to subsidize the increased blending volumes that stem from higher blending mandates (*see also MPPU Mar. '15*). To this effect, the government is considering to introduce a fixed levy of USD 50 on each tonne of crude palm oil shipped outside the country – which would be in addition to the existing ad valorem export tax. Finally, with regard to setting the domestic biodiesel price (i.e. the price at which distributors purchase biodiesel), the government has already reached the following agreement with biodiesel manufacturers: a reference price for biodiesel will be calculated by adding a fixed amount of USD 125 to the prevailing price for crude palm oil, thereby accounting for processing costs and profits. In conclusion, barring a recovery in international mineral oil prices, the government will likely implement a selection or all of the

above measures with a view to ensure that biodiesel producers can continue producing and distributors can continue purchasing biodiesel, without passing the price gap to end-users.

#### **INDONESIA – palm oil export tax:**

In Indonesia, export taxes are traditionally higher for crude palm oil than for refined palm oil – a policy aimed at promoting value addition in the downstream sector. Since 2007 crude palm oil exports are subject to a variable tax regime, whereby export taxation kicks in when the reference market price for crude palm oil rises above USD 750 per tonne. The ad valorem tax ranges from a minimum of 7.5 % to a maximum of 22.5 %, depending on how much average market prices climb above the threshold price. With market prices ranging below the threshold since September 2014, shipments of crude palm oil were tax-exempt during the last six months. Thanks to the exemption, crude palm oil exports increased at the expense of refined palm oil shipments (which lost their traditional tax advantage over crude palm oil). With a view to protect the interests of the domestic palm oil processing industry, the government is now considering to lower the threshold at which crude palm oil taxation kicks in from the current USD 750 to USD 500–600. In fact, at recent market prices – i.e. the average of USD 673 recorded during March – the lower threshold would lead to the reinstatement of the tax on crude palm oil exports.

#### **MALAYSIA – biodiesel policy:**

Government officials confirmed that the possibility of raising nationwide mandatory blending of palm oil-based biodiesel with regular diesel from currently 7 percent to 10 percent was being explored. Extending compulsory blending from road transportation to other sectors, such as industry and power generation, is also being considered. The implementation of such policies is expected to raise annual use of palm oil for biodiesel to 1.2 million tons in the longer run. It is important to note that the current 7 % blending target is only in place since last November and that its implementation had to

be delayed several times on technical grounds (*see also MPPU Sep., Nov. & Dec '14*). The government's biodiesel policy (in place since 2011) aims at stimulating local demand for crude palm oil while promoting renewable, 'green' sources of energy.

#### **MALAYSIA – palm oil export tax:**

Following recent improvements in crude palm oil prices, the government announced that, in April, a 4.5 % tax will be imposed on crude palm oil shipments. Under Malaysia's sliding export tax regime, shipments are subject to progressive taxation once the reference market price for crude palm oil rises beyond MYR 2 250 (USD 612) per tonne. Since September of last year, exports were tax-exempt as prices remained below that threshold. Reportedly, the duty exemption help mitigate the decline in prices caused by poor export demand and rising domestic stocks. By contrast, the duty's reinstatement in April is meant to help secure adequate supplies for the domestic palm oil refining industry.

**THAILAND – market control:** According to official sources, no new government imports of crude palm will be authorized. At the beginning of this year, to address domestic supply shortages, the government had approved state imports of 40 000 – 50 000 tonnes of crude palm oil, in addition to revising the internal retail price of refined palm oil (*see MPPU Feb. '15*).

Considering that domestic stocks are expected to return to adequate levels from April, new state imports are said to be unnecessary. To guarantee stability in supplies and prices, the government will continue its joint consultations with farmer representatives, processors, consumers, business operators and concerned government agencies. Reportedly, processors will be urged to pay at least THB 5 (USD 0.15) per kg of fresh fruit bunches.

**ZAMBIA – import policy:** Reportedly, the Zambian government decided to suspend the issuance of licenses for edible oil imports. The decision was taken to allow experts to study the impact such imports have on the domestic

market. The government had been urged to take action by agricultural producers, manufacturers and consumers who claimed that the country was flooded with cheap imported edible oils. The expert study will be made public as soon as the investigations are concluded, government officials said.

**Sector development measures – France, olive oil:** In France, where production dropped by 60 percent last year as a result of a pest outbreak and bad weather, olive oil producers will benefit from financial assistance and other measures. Reportedly, the government will offer the following support measures to olive producers: social payment exemptions; interest payment deferrals; tax reimbursements; and facilitated access to loans. Furthermore, assistance will be provided to a national producer federation for technical activities to prevent, control and eradicate the concerned pest.

#### **Illicit trade**

- **China – soybean smuggling:** According to official sources, soybean smuggling worth CNY 5.46 billion (USD 879 million) has been uncovered last year in Qingdao City, Shandong Province. China is the world's leading soybean importer, accounting for more than 60 percent of global registered trade. The official forecast for soybean import in the 2014-15 marketing year amounts to 74 million tonnes.

- **India – coconut oil adulteration:** In Kerala State, following reports on contamination in rice, the local government informed that measures to prevent adulteration in all food items would be strengthened. With respect to past cases of coconut oil adulteration (*see MPPU May '14*), official sources said that no new instances of adulteration with mineral oil had been detected. However, numerous samples of coconut oil contaminated with edible palm and palm kernel oil had been found, triggering action against concerned manufacturers and distributors. Meanwhile, a local association of coconut oil producers is said to have launched a website to throw light on brands that sell adulterated oil in the market. Customers can have their oil checked

for adulteration at government approved laboratories, and the results of these tests will be published on-line along with the brand's name.

- **Ghana – palm oil smuggling:** Industry sources denounced the practice of illegal imports of sub-standard palm oil into the country. Reportedly, over the past six months, illicit palm oil imports amounted to about 48 000 tonnes. The industry urged the government to ensure that all vegetable oils entering the country meet the quality standards and are properly priced. Ghana's domestic annual palm oil consumption is estimated at 370 000 tonnes, of which 70 percent is imported. According to private sources, domestic production has the potential to meet a growing portion of local demand, which is likely to grow rapidly in the coming years.

**Herbicide news:** The International Agency for Research on Cancer (IARC), an extension of the United Nation's World Health Organization (WHO), assessed the carcinogenicity of selected insecticides and pesticides, including glyphosate. The herbicide glyphosate has been classified as 'probably carcinogenic to humans', implying limited evidence of carcinogenicity in humans, but sufficient evidence in experimental animals. Glyphosate currently has the highest global production volume of all herbicides and is extensively used in agriculture. Its use has increased sharply since the development of crops that have been genetically modified to make them resistant to glyphosate. Soybean falls under these crops and glyphosate-resistant GM soybean varieties (such as *Roundup Ready*) are widely used in the Americas, which account for nearly two thirds of global soybean production. The use of herbicide resistant GM soy largely depends on farmers spraying their fields with glyphosate to kill weeds. According to the IARC study, glyphosate has been detected in the air during spraying, in water and in food. The general population is said to be exposed primarily through residence near sprayed areas, home use and diet, although the levels observed have been generally low. Global seed producer *Monsanto*, who patented glyphosate as a herbicide in the 1970's, questioned the impartiality and scientific rigour

of the IARC's assessment. The company reckoned that IARC's conclusions were inconsistent with comprehensive safety reviews conducted by national regulatory and health authorities around the world that found all labeled uses of the herbicide to be safe for humans. It should be noted that IARC's evaluations will not alter glyphosate's label, current registrations or use, given that the responsibility for regulations, legislation or public health interventions rests entirely with individual governments and other international organizations. Interestingly, in recent years, the development of glyphosate resistance in weeds is reported to be on the rise – a development which prompted concerns that farmers may need to use increasing amounts of herbicide to control so-called 'super weeds' (see MPPU Feb. '11, Feb. & Nov. '14 and Mar. '15).

#### **Biodiesel news**

- **R&D:** In Canada, a provincial grant has been made available to the University of Saskatchewan to carry out research on glycerol purification and conversion technologies. Currently, raw glycerol – a byproduct of vegetable oil-based diesel production – is said to have limited commercial value, but improved technologies could double the price that companies can charge for the substance, thus adding considerable value to biodiesel production.
- **Health issues:** New research conducted in Australia seems to suggest that exhaust from rapeseed oil-based biodiesel may be more harmful to human epithelial cells than exhaust from traditional diesel. Allegedly, the ultrafine size of fuel exhaust particles from refined and blended rapeseed oil may lead to respiratory problems.
- **Industry news:** *Neste Oil*, a global producer and supplier of certified sustainable biofuels, informed that, in 2014, waste-based raw materials accounted for 62 percent of the company's feedstock while certified sustainable palm oil accounted for the remainder, which basically inverted the proportions in place two years earlier. The company informed that it was constantly searching for new waste-based raw materials of increasingly poorer quality. Currently, the prime

raw materials used are fat residues from the animal and fish industry, used cooking oil, and various residues generated during vegetable oil refining.

#### **Oil palm industry news**

- **Indonesia – palm oil-based biogas:** In Indonesia, the government is seeking to promote public-private partnerships for the production of POME-based biogas in the context of rural electrification projects. Using palm oil mill effluent (POME) – a high organic-content waste product of the milling process – as feedstock in biogas plants is considered as one of the most cost-effective forms of power generation in remote rural areas featuring oil palm plantations. Although incentives have been provided to POME-biogas developers, palm oil mills are said to show limited interest in the initiative. Reportedly, palm oil companies feel not familiar with the energy business and find it more attractive to invest in their core business rather than POME-based power generation. Apparently, this means that much of the available POME continues to be either discharged into watercourses or gets emitted as biogas into the atmosphere. For recent private sector initiatives on POME-biogas in other countries see MPPU May'14.
- **Indonesia – oleochemical industry:** The Indonesian government has allocated state funds for research on palm oil use in the manufacture of plastics. Reportedly, the initiative aims at cutting back industry costs by sourcing cheaper and renewable raw materials. Under the programme, the possibility of substituting mineral oil-based propylene (a building block for engineering plastic polypropylene) with palm oil-based propylene will be explored.
- **RSPO membership:** The Roundtable on Sustainable Palm Oil (RSPO), a globally recognized self-regulating industry body, expelled 15 members and suspended 62 others that failed to comply with the body's reporting requirements. RSPO members are expected to regularly submit reports that allow to measure progress towards certifying palm oil operations or purchasing certified sustainable palm oil. Reportedly,

terminated members are mostly small processors and traders, while suspended members include a broader range of firms. RSPO acknowledged that some of the terminated/suspended members are not in compliance because they have ceased operations or no longer source palm oil. Terminated/suspended entities will see their membership privileges revoked, meaning in particular that their certificates, trade and trademark licenses will cease to be valid. Overall, the failure of some firms to report on progress made in sustainable sourcing seems to be in open contrast with the tendency of private companies to voluntarily commit to ‘greening’ their commercial practices.

- **RSPO investigation:** Reportedly, the planting practices of a very large palm oil producers are under investigation at the Complaints Panel of RSPO. According to a civil society group, the company had acquired land from local people without free and informed consent, thus violating RSPO guidelines aimed at protecting local peoples’ land rights. Allegedly, the company also breached national laws and failed to carry out proper HCV (high conservation value) assessments prior to developing new plantations. Reacting to these complaints, the company confirmed its commitment to on-going dialogue and multi-stakeholder collaboration to improve processes and find solutions for sustainable palm oil production. Moreover, the company decided to stop planting on any new land and displacing any farmers while the RSPO investigation was underway.

#### **Sourcing responsibly produced soy:**

FEFAC, the European Feed Manufacturers' Federation, published a first version of its Soy Sourcing Guidelines. The guidelines reflect what

the federation considers to be the minimum social and environmental requirements for soy cultivation. The aim is to foster European mainstream market supply for responsibly produced soy. Intended as a professional recommendation for interested member associations seeking to enter the market for responsible soy, the guidelines build upon six basic principles: legal compliance, environmental responsibility, good agricultural practices, protection of community relations, respect for land rights and responsible working conditions. *See also MPPU June '14 and Feb. '15.*

**High-oleic soybean oil:** According to research conducted on animals in the United States, high-oleic soybean oil can cause obesity, glucose intolerance and fatty liver in a nearly identical manner to that of conventional soybean oil, when part of a typical American high-fat diet. Reportedly, this is the first time high-oleic soybean oil has been tested for long-term metabolic effects. Obtained from genetically modified soy varieties, high-oleic soyoils (and similar oils obtained from other oilseeds) are generally claimed to be beneficial for human health thanks to the absence of trans fat and to an elevated content of monounsaturated fats (*see also MPPU June '13 & May '14*). Industry sources expect demand from farmers for these varieties to be high as premiums on crop sales are reported at USD 0.15 – 0.18 per tonne. Notwithstanding, concerned seed companies decided to delay the new varieties’ full commercial launch in the U.S. because some countries, notably the EU and China, still have to approve the new strains.

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	<b>International Prices (US\$ per tonne) <sup>1</sup></b>					<b>FAO Indices (2002-2004=100) <sup>7</sup></b>		
	<b>Soybeans<sup>2</sup></b>	<b>Soybean oil<sup>3</sup></b>	<b>Palm Oil<sup>4</sup></b>	<b>Soybean Cake<sup>5</sup></b>	<b>Rapeseed Meal<sup>6</sup></b>	<b>Oilseeds</b>	<b>Vegetable oils</b>	<b>Oilcakes/ Meals</b>
<b>Annual (Oct/Sep)</b>								
2004/05	275	545	419	212	130	104	103	101
2005/06	259	572	451	202	130	100	107	96
2006/07	335	772	684	264	184	129	150	128
2007/08	549	1325	1050	445	296	216	246	214
2008/09	437	849	682	409	206	157	146	179
2009/10	429	924	806	388	220	162	177	183
2010/11	549	1308	1147	418	279	214	259	200
2011/12	562	1235	1051	461	295	214	232	219
2012/13	563	1099	835	539	345	213	193	255
2013/14	521	949	867	534	324	194	189	253
<b>Monthly</b>								
2013 - October	544	989	866	555	318	202	188	262
2013- November	556	992	921	541	316	206	199	257
2013 - December	568	979	907	548	336	210	196	260
2014 - January	566	935	871	539	337	208	189	256
2014 - February	594	991	911	571	361	219	198	271
2014 - March	501	1001	959	582	396	193	205	278
2014 - April	516	1005	911	563	375	198	199	269
2014 - May	522	973	896	552	340	197	195	263
2014 - June	514	933	859	531	304	192	189	251
2014 - July	480	886	839	477	272	178	181	226
2014 - August	457	855	755	485	265	170	167	229
2014- September	433	850	714	463	265	162	162	219
2014 - October	430	835	724	463	258	161	164	218
2014 - November	447	827	728	485	265	167	165	228
2014 - December	446	816	694	449	278	168	161	213
2015 - January	421	789	681	431	279	159	156	206
2015- February	407	775	693	412	273	154	157	197
2015 - March	402	748	673	392	262	152	152	188

<sup>1</sup> Spot prices for nearest forward shipment

<sup>2</sup> Soybeans (US, No2 yellow, c.i.f. Rotterdam)

<sup>3</sup> Soybean oil (Dutch, f.o.b. ex-mill)

<sup>4</sup> Palm oil (Crude, c.i.f. North West Europe)

<sup>5</sup> Soybean meal (44/45% Hamburg fob ex-mill)

<sup>6</sup> Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

<sup>7</sup> The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each commodity for the 2002–2004 period. The indices are based on the international prices of five selected seeds, ten selected vegetable oils and five selected cakes and meals.

Sources: FAO and Oil World