

OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 81, April 2016

a) Global price review

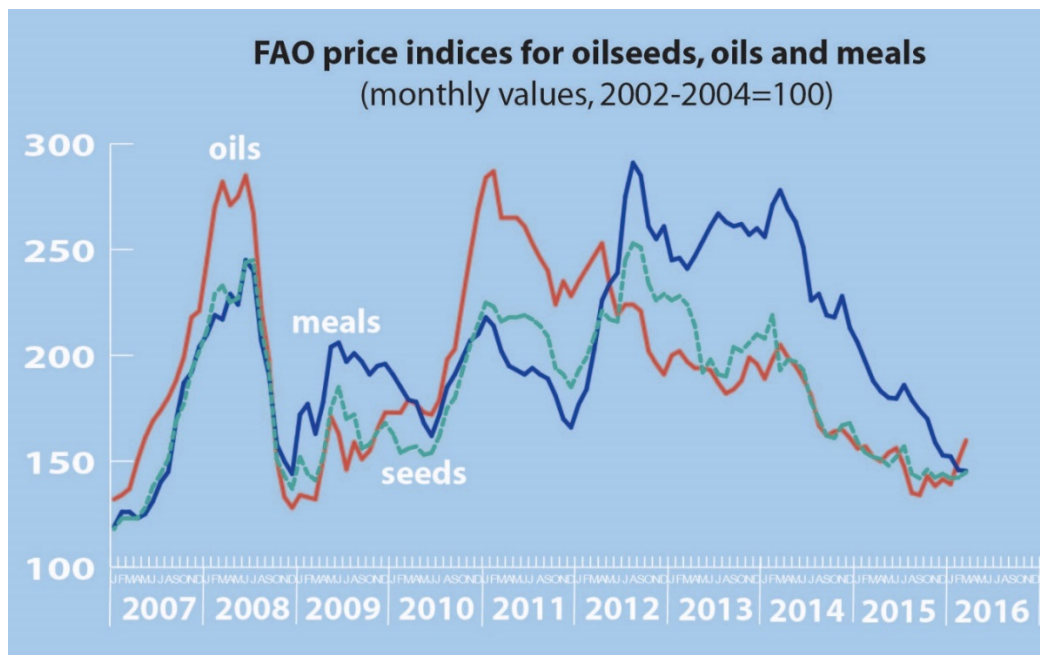
In March 2016, FAO's vegetable oils price index rose markedly for the second consecutive month, gaining as much as 9.5 points (or 6.3 percent). The oilseeds price index recorded a more modest gain (+ 2.5 points or 1.8 percent), while the index for oilmeals remained virtually unchanged (- 0.5 points or 0.3 percent).

The increase in the oilseeds index mostly reflects the recent strengthening in international soybean prices. The latter was mainly driven by robust international demand, especially for South American origins, which coincided with both, a slow start in Brazil's new-crop shipments and harvest delays and potential yield losses in certain growing regions of the country following

excessive rainfall. Overall, however, the global 2015/16 supply prospect for soybeans remains favourable.

The further leap in the vegetable oils index – which now reached a 15-month high – was led by the continued rise in palm oil prices. International palm oil quotations strengthened on concerns over stagnating production in 2016, following prolonged dry weather in Southeast Asia. In Malaysia, weak production combined with firm international demand, resulted in a sharp drop in inventories in March 2016. Global prices were also supported by the prospect of falling 2016 export availabilities in Indonesia, as domestic demand for palm oil by the biodiesel

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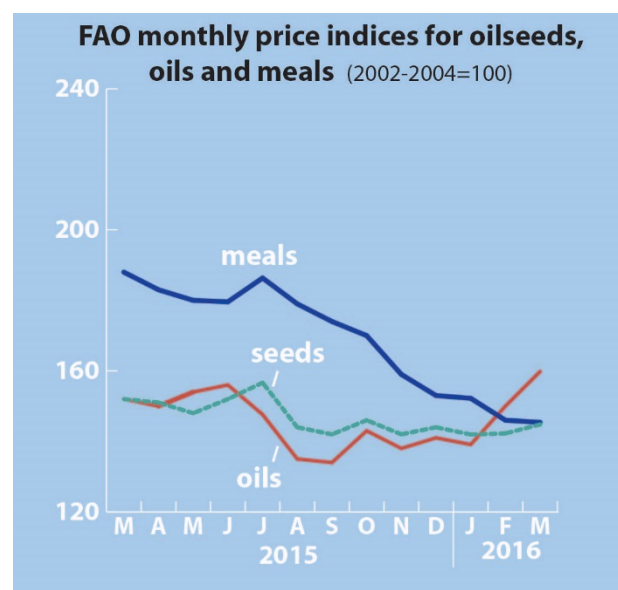


* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. Section b) of the present issue covers developments observed during **March '16**. 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

sector rises. International prices of soybean oil remained virtually unchanged on a monthly average basis. Interestingly, though, soy oil quotations weakened at the beginning of the month on prospects of ample 2015/16 availabilities, but recovered over the second half of March, under the influence of rising soybean prices and spill-over effects from palm oil. Rising world crude oil prices also contributed to stronger soy and palm oil values.

As to oilmeals, the price index remained unchanged month-on-month, reflecting stable soy meal prices. The latter continued to hover around historically low levels, on expectations of ample global supplies throughout 2015/16.



b) Selected policy developments and industry news

ARGENTINA – variable biodiesel export tax:

In March 2016, Argentina's export duty on biodiesel was raised to 6.4 percent. This follows an increase in February to 3.89 percent from a historical low of 1.62 percent in January. The mandatory biodiesel blending rate for transport diesel remains unchanged at 10 percent, the level in place since January 2014.

BANGLADESH – edible oil taxation:

The government decided to extend the value-added tax exemption on domestic edible oil trade – granted in February 2015 and due to expire in June 2016 – by one year, i.e. until 30th June 2017. The measure is aimed at stabilizing domestic retail prices of edible oils. In past years, the government has implemented a variety of measures aimed at securing domestic supplies and preventing consumer prices from rising (*see MPPU Feb'16*).

BRAZIL – agricultural policy: The government has expanded the federal programme supporting the collective bargaining of crop insurance packages by soybean farmers. Total government outlays for the programme, which was launched on a trial basis in August 2015, have been raised from BRL 30 million (USD 8.3 million) to 32 million (USD 8.9 million). The maximum subsidy available for individual groups of producers (covering at least 200 farmers or 20 000 hectares) has been raised to BRL 800 000 (USD 221 thousand).

BRAZIL – biodiesel policy: Legislation lifting the mandated share of biodiesel in diesel transportation fuel from the current 7 percent to 10 percent has been passed in Brazil. The mandatory blend rate will first be raised to 8 percent in April 2017, and subsequently to 9 percent in 2018 and 10 percent in 2019. The new legislation also requires the National Council for Energy Policies to test the feasibility of a 15 percent blend over the coming 36 months. The measures are aimed at boosting domestic biodiesel production, reducing petroleum import

dependency and lowering pollutant emissions. Based on Brazil's fuel consumption, raising mandatory blending by one percentage point lifts annual domestic biodiesel usage by about 0.5 million tonnes. The country's biodiesel industry should be able to meet the higher blending targets, considering that it currently operates with 45 percent idle capacity. The government's biodiesel policy also promotes family farming, as Brazil's 'Social Fuel Seal' programme requires a certain amount of raw materials to be sourced from family farms. In Brazil, soybean is expected to remain the main feedstock used for biodiesel production.

CHINA / CANADA – rapeseed trade:

China has agreed to delay the implementation of a stringent standard on rapeseed imports from Canada from April to September of this year (*see also MPPU Mar. '16*). The new standard, which was devised to reduce the risk of blackleg disease spreading to China, limits the allowed content of foreign material in shipments to 1 percent, which compares to a currently applied limit of 2.5 percent. Canada's rapeseed industry maintains that the stricter requirement is not scientifically justified and hopes that the 5-month delay for its introduction will allow both sides to come to a long-term agreement.

EUROPEAN UNION / ARGENTINA –

biodiesel trade: In March 2016, a panel established by the WTO dispute settlement body (DSB) circulated a report on the anti-dumping measures taken by the European Union against biodiesel imports from Argentina. The Panel, which was set up at the request of Argentina (*see MPPU May '14*), ruled in favour of several claims made by the complainant. In particular, the formula used by the European Commission to calculate the costs of biodiesel production in Argentina was found to be inconsistent with existing WTO regulations and the duties applied by the EU considered to be in excess of the margin of dumping that should have been established. The Panel therefore recommended the EU to bring the measures into conformity with its obligations. On the other hand, the Panel rejected

some of the claims made by Argentina and also recognized that the EU regulation at the heart of the dispute did not violate WTO rules. Both parties have been given a period of 60 days to appeal the panel's findings. A separate case filed by Indonesia concerning analogous EU duties on biodiesel imports from Indonesia is still being examined by the DSB (*see MPPU Dec. '15*). The two main biodiesel feedstock concerned by the disputes are soyoil (Argentina) and palmoil (Indonesia).

FRANCE – palm oil excise tax: The draft Senate bill proposing the introduction of a surtax on crude palm oil imports into France (*see MPPU Mar. '16*) has been endorsed by the country's Lower House. However, the tax has been sharply reduced compared to the initial proposal and now would not apply to palm oil that is produced in a sustainable manner. Under the revised proposal, the tax would be introduced gradually to smooth its impact: it would start at €30 (USD 34) per tonne in 2017 and augment by €20 (USD 23) per year until it reaches €90 (USD 102) in 2020. In addition to crude palm oil, the tax would also apply to palmkernel and copra (coconut) oil used as food. Legislators did not provide a definition for sustainable forms of palm oil production. The draft bill, which attracted strong criticism from palm oil producing countries, is set to go back to the Upper House for further review.

INDONESIA – variable palm oil export tax:

With palm oil reference prices below the trigger level of USD 750 per tonne, Indonesia's export tax for crude palm oil has been kept at zero in April 2016. The export tax has been nil since October 2014.

MALAYSIA – variable palm oil export tax:

Malaysia has raised its crude palm oil export tax for April to 5 percent, putting an end to a zero-tax spell that commenced in May 2015. The reintroduction of the tax follows the recent recovery in international palm oil prices. At MYR 2 500 (USD 645) per tonne, the calculated reference price has exceeded the trigger level of MYR 2 250 (USD 580). Under the sliding regime

introduced in January 2013, the export tax on crude palm oil starts at 4.5 percent and can increase up to a maximum of 8.5 percent. Although the reintroduction of the tax might dampen Malaysia's palm oil exports, the resulting rise in domestic availabilities could make local palm oil refining more profitable, eventually boosting exports of refined palm oils (which are not subject to taxation).

MALAYSIA – labour market policies:

Malaysia decided to temporarily halt the intake of foreign workers pending a review of the manpower needs of the country's economy, reported a state news agency. Meanwhile, the government also put on hold its plan to raise the levy applied on foreign workers (*see MPPU Mar. '16*), after businesses affected by the higher charges opposed the measure. Officials from the palm oil industry (which relies heavily on foreign labour force) stated that limited access to foreign labour is posing major challenges to the sector.

MALAYSIA – biodiesel policy: According to official sources, the government is poised to increase the country's mandatory biodiesel admixture rate from 7 percent to 10 percent nationwide during the course of 2016. Originally, the shift to the higher rate was scheduled to take place in October 2015. Policy makers pledged to raise the production and use of palm oil-based biodiesel despite depressed crude oil prices. The processing and blending facilities required to meet higher blending mandates are said to be available. However, the country's automotive industry has expressed reservations about the higher blend rates.

PHILIPPINES – GMO policy: In response to a December 2015 court order that banned GM products pending a reform of the country's regulatory process for GMOs (*see MPPU Feb. '16*), the government has issued a set of rules that are meant to replace existing regulations. Reportedly, the new directives, which are expected to take effect in April 2016, give more consideration to socio-economic issues and environmental impacts in risk assessment

procedures, while also fostering greater public participation in biosafety decision making. The government's prompt follow-up is expected to give relief to the Philippines' soymeal importers and maize farmers, whose activities depend heavily on GM-technology.

TANZANIA – processing industry support:

According to the local press, the Government of Tanzania is considering to offer support to local edible oil manufacturers with a view to adding value to domestic oilseed production, while reducing the volume of imported oils. Reportedly, government efforts would concentrate on local investors interested in setting up facilities for processing crops such as sesame, sunflower seed and oil palm fruit.

THAILAND – market regulation:

The government announced that it will buy up to 100 000 tonnes of palm oil, should palm fruit prices drop below a certain level. Recently, record-high palm oil inventories have driven down producer prices, threatening the incomes of growers. Public procurement will be triggered when the producer price of fresh fruit bunches drops below THB 4.20 per kg (USD 120 per tonne). Farm-gate prices are to be supported indirectly through government purchases of crude palm oil from extraction plants, at THB 26.20 per kg (USD 760 per tonne).

UNITED STATES – GMO labelling:

In the United States, the deadlock concerning labelling of GM ingredients in food products at Federal level is continuing (*see also MPPU July, Aug. & Dec. '15*). In March 2016, the US Senate could not agree on a draft bill that would introduce voluntary GM-labelling nationwide. In the meantime, initiatives to have GM food products mandatorily labelled are being pursued in several states, including Vermont, where a law requiring labels on all foods containing GMOs is poised to take effect in July 2016. Connecticut and Maine have passed analogous laws, but those will enter into force only when other states enact similar measures. Interestingly, in recent weeks, a number of food trading, manufacturing and

retailing companies decided not to wait for federal lawmakers to act: in January 2016, *Campbell Soup*, formerly an advocate for voluntary labelling, started backing nationwide mandatory labelling (see *MPPU Feb. '16*); the companies *General Mills*, *ConAgra*, *Kellogg's* and *Mars* also announced plans to use labels disclosing the presence of GMOs in food products sold throughout the country. Reportedly, the decision to implement labelling nationwide reflects the impractical nature and high costs associated with addressing state-specific labelling requirements.

UNITED STATES – marketing support:

In March 2016, the USDA authorized payments to groundnut producers in four States to help them recover nearly 100 percent of the value of produce they had lost following the bankruptcy of a groundnut processor and licensed warehouse operator. Under the US Warehouse Act, USDA is responsible for protecting all depositors in licensed storage facilities. The 100 years-old Act provides agricultural producers with high-quality storage of farm products so as to allow marketing throughout the year.

Herbicide & insecticide news

- Dicamba and dicamba-tolerant crops: Originally planned for the forthcoming planting season, the launch, in the United States, of the herbicide dicamba for use on dicamba-tolerant soybean and cotton crops is likely to face delays. The Environmental Protection Agency (EPA) still needs to deregulate a new use of the herbicide, which would expand the current timing to post-emergence applications of the herbicide, thereby enhancing the farmers' flexibility in weed control (see also *MPPU Mar. '16*). Considering that EPA has only recently invited public comments on the expanded use of dicamba, a final ruling is only expected in the second half of this year. Furthermore, some US grain elevators and traders warned that they will reject dicamba-tolerant soybean, notably the *Roundup-Ready-2-Xtend* trait, as that variety has not yet been approved in the European Union (which accounts for an important share of the US soybean export market).

- Flubendiamide: EPA informed that it was moving to halt the sale of insecticides containing the active ingredient flubendiamide. Reportedly, the substance was found to pose risks to the environment. The chemical has been registered in 2008 for use on many crops, including soybeans.

Sustainable palm oil production

- Third party pressure: According to market observers, international banks are playing an increasingly important role in influencing companies to adopt sustainable palm oil production practices. Reportedly, the number of banks that – in an effort to improve their environmental credentials – are requesting producers to apply strict environmental and social standards in exchange for receiving finance is on the rise. Apparently, such requests especially concern smaller companies, as many large producers are already in the process of adopting more sustainable practices. A number of international financial institutions have joined the Roundtable on Sustainable Palm Oil (RSPO), the industry's leading certification body, asking their clients to do the same and to abide by RSPO's standards. Also sovereign wealth funds are encouraging firms to improve their environmental record by setting higher standards for investment. Recently, a large Norwegian pension fund reported divestments from palm oil companies that were linked to deforestation and low environmental safeguards.
- Certification: The Palm Oil Innovation Group (POIG), an international collective of palm oil growers, NGOs and consumer good firms, released a new standard for sustainably produced palm oil (see also *MPPU June & Dec. '14*). Reportedly, the new norm is stricter than both, RSPO's standard set of requirements and the recently launched, voluntary 'RSPO-Next' criteria (see *MPPU Mar. '16*). The new POIG standard addresses issues such as the destruction of high carbon stock forests, the development of peatlands, the use of toxic pesticides, the exploitation of local communities, and the violation of human and labour rights. In particular, POIG claims to use a strict methodology to distinguish between forests that

have to be left untouched and land that can be cleared. POIG member companies need to undergo a third-party audit and are required to regularly publish sustainability reports.

Research & development – olive oil extraction:

Under private research undertaken in Spain, a new oil extraction technology – where extraction is assisted by pulsed electric fields (PEF) – has been developed to increase extraction yields, while raising the concentration of health-related components and consistently maintaining the oil quality. Based on the successful completion of pilot trials, the new technology is said to be ready for commercial scaling-up.

Biodiesel certification: A biofuel producer in Tunisia has earned the Roundtable on Sustainable Biomaterials (RSB) certification for biodiesel production. The concerned company – allegedly the first one in Africa – uses exclusively used cooking oil as feedstock. The finished fuel is sold to the European market. The company is also certified through the International Sustainability and Carbon Certification system (ISCC).

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	<u>International Prices (US\$ per tonne) ¹</u>					<u>FAO Indices (2002-2004=100) ⁷</u>		
	Soybeans ²	Soybean oil ³	Palm Oil ⁴	Soybean Cake ⁵	Rapeseed Meal ⁶	Oilseeds	Vegetable oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2004/05	275	545	419	212	130	104	103	101
2005/06	259	572	451	202	130	100	107	96
2006/07	335	772	684	264	184	129	150	128
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
Monthly								
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
2015 - April	396	753	657	380	263	151	150	183
2015 - May	385	781	663	371	290	148	154	180
2015 - June	397	800	670	372	282	152	156	180
2015 - July	413	746	635	389	264	157	148	186
2015 - August	375	729	544	371	270	144	135	179
2015 - September	367	725	533	362	256	142	134	174
2015 - October	377	743	581	351	255	146	143	170
2015 - November	367	726	561	328	232	142	138	159
2015 - December	372	757	568	317	215	144	142	153
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
<p>¹ Spot prices for nearest forward shipment</p> <p>² Soybeans (US, No2 yellow, c.i.f. Rotterdam)</p> <p>³ Soybean oil (Dutch, f.o.b. ex-mill)</p> <p>⁴ Palm oil (Crude, c.i.f. 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>								