



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

No. 27, August 2011

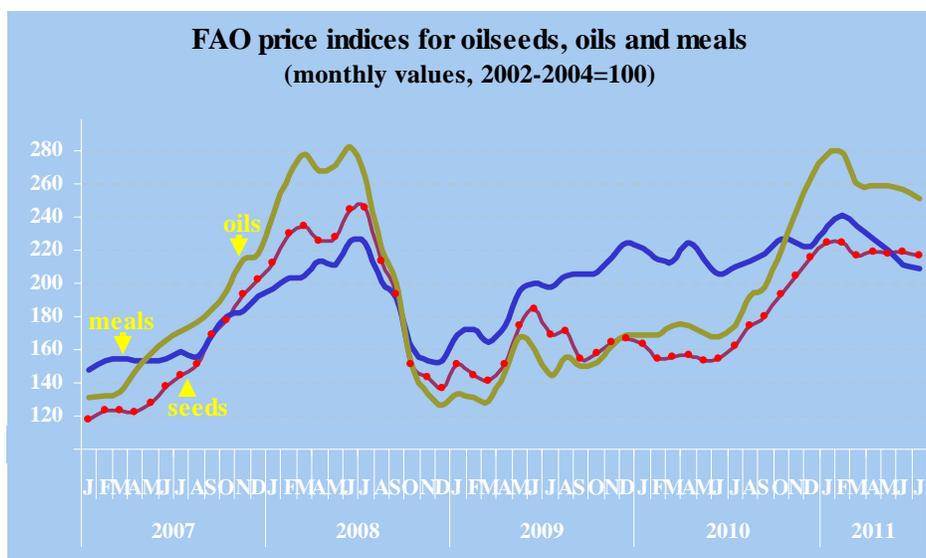
### a) Global price review

During June and July 2011, the FAO price index for oilseeds remained about unchanged compared to the three preceding months, whereas the index for oils/fats and for meals/cakes continued to lose strength. Relative to the corresponding months of 2010 and 2009, however, all three indices continued to show firmness.

With regard to the main oilseeds, the continued firmness in soybean prices is due to the prospect of prolonged supply and demand tightness at global level as well as to weather related uncertainties regarding the 2011/12 US crop. As to the forthcoming rapeseed crop, global output is set to fall for the second consecutive season, thus lending strength to prices. Sunflowerseed prices, however, has moved in the opposite direction thanks to forecasts of record global production and ample export supplies.

The drop in the FAO oils/fats price index (about 4 percent in June and one percent in July) was driven by a marked rise in palm oil output in Southeast Asia, which ends a period of about 8 months of poor production growth. With prices still relatively high, import demand has not grown sufficiently to prevent a rapid build up of stocks, which inevitably is weighing on prices. Meanwhile, quotations for soy, sun and rapeseed oil remained firm, reflecting supply concerns and steady demand.

A sharp increase in Peruvian fishmeal production and export supplies brought down FAO's global meal price index. International soymeal prices remained weak compared to the first six months of the current season, due to more limited growth in global import demand and indications of reduced domestic consumption in the United States.



\* 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 **June and July 2011**. 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 - soy export tax revenue:**

Taxes collected on soybean and derived product exports are estimated to amount to US\$ 8 billion this year, up from 6.3 billion in 2010. Since mid 2008, soybean exports are subject to a 35% tax. The expected surge in revenues comes from the recent strength in international soybean prices.

**AUSTRALIA - draft palm oil labelling**

**bill:** The Australian Senate will likely reject a draft bill about compulsory labelling of palm oil in food products (see also *MPPU no. 25, May 2011*). Doubts have arisen as to whether the issues surrounding palm oil presence in foods justify an amendment of the existing labelling laws. Also, divisions became evident between industry bodies, consumer organizations and conservation groups. Furthermore, legislators also pointed to progress being made in the adoption of specific labelling under existing voluntary arrangements.

**CANADA – rapeseed marketing**

**support:** The Canola Council of Canada has been granted C\$ 1.1 million under the government's AgriMarketing Program. The funds will be used to implement long-term international strategies focusing on foreign market development and consumer awareness as well as branding to highlight health and quality characteristics.

**CHINA - cooking oil inspections:**

Reportedly, to improve food safety, municipal health authorities in Beijing started conducting regular inspections of cooking oil used in restaurants. By verifying purchases and investigating supply channels the body aims to stop the use of illegal cooking oil.

**CHINA - retail price cap on edible oil:**

According to industry sources, the price cap on sales of edible oil introduced towards the end of last year with a view to counter food price inflation is still in place. Originally, price ceilings were supposed to be lifted by June. However, in May and June 2011, consumer price inflation has risen, respectively, 5.5% and 6.4% compared to the corresponding months of 2010, thus remaining historically very high. Private sources expect the price caps to remain in place until mid August. Reportedly, the government decided to carry out an assessment of cooking oil stocks available in the country. Only if inventories were found to be sufficiently ample, price controls would be relaxed. Meanwhile, caught between retail price caps and rising crop prices, edible oil enterprises in Heilongjiang (the country's main soybean production base) are reported to be working way below installed capacity.

**CHINA - sales from state soybean**

**reserves:** According to latest estimates, during the 2010/11 marketing campaign, only 11-12 thousand tons of soybeans were sold out of the over 3.8 million tons kept in public storage – despite regularly held auctions. The poor result is attributed to unattractive floor prices as well as uncertainties among market participants about state trade policies and measures to direct domestic markets.

**CHINA - edible oil storage capacity:**

Quoting the State Administration of Grain, national press reported that the state's edible oil storage capacity has reached 14.08 million tons, which would correspond to about 40% of estimated annual domestic consumption. If fully utilized, such capacity allows government market intervention to prevent cooking oil prices from surging when food inflation rises.

**CHINA - non-GMO soybean cultivation:**

The government is largely in favour of GM crop cultivation and has allowed the importation and domestic consumption of GM oilseeds and derived products. Domestic soybean cultivation, however, so far remained free from GM varieties, thereby preserving its characteristic higher protein content. Now, the country's first officially GMO-free soybean growing area (measuring about 130 000 ha) has been established in Heilongjiang Province.

**CHINA - biodiesel standard:** Two national standards defining the quality of specific biodiesel blends have been issued in the last few years. Now a complete trade standard for biodiesel has been officially launched. It is expected to comprehensively regulate the country's biodiesel industry. Production, distribution and sales of biodiesel will be regulated in detail. The standard includes mandatory waste treatment and by-product recycling. Reportedly, a biodiesel company that already produces according to the standard said that it expects better client confidence and increased sales. Currently, the country's sales of biodiesel as transportation fuel are reported to be minimal due to small profit margins. So far, biodiesel use (B5 blends) is mandatory only in Hainan Province.

**EUROPEAN UNION - biofuel sustainability certification:** Starting this year, in order to count towards the EU's renewable energy targets, utilization of biofuel - whether of domestic or imported origin - requires proof of sustainable production methods. The first seven voluntary certification schemes have just been approved by the European Commission, namely (i) ISCC, a German government-funded scheme covering all types of biofuels; (ii) Bonsucro-EU, a scheme focused on sugarcane-based biofuels in Brazil; (iii) RTRS-EU-RED, an initiative for soy-based biofuels in

Argentina and Brazil; (iv) RSB-EU-RED, a scheme covering all forms of biofuels; (v) 2BSvs, a French industry initiative covering all types of biofuels; (vi) RSBA, a scheme developed by biofuel producer *Abengoa* to cover its supply chain; and (vii) a programme from biofuel producer *Greenenergy* covering sugar cane ethanol from Brazil. A number of civil society groups have questioned the schemes' ability to objectively demonstrate sustainability in biofuel production.

**EUROPEAN UNION - aviation biofuel initiative:** A stakeholder group bringing together the European Commission, biofuel producers and airline companies has launched *Biofuel Flightpath*, an industry wide initiative aimed at speeding up the commercialization of renewable, sustainably produced aviation fuel in Europe. The stakeholders' ultimate objective is to reduce air transport's carbon footprint. The technical suitability of various biofuels for jet engines has been extensively tested. The European Commission sees the initiative as an opportunity to create the first industrial venture introducing biofuels for commercially competitive operations. Reportedly, group members have agreed to a target of 2 million tons of aviation biofuel produced and consumed annually by 2020. The fuel is expected to be produced in the EU from European sourced feedstock material.

**INDIA - oilseed production support:** The government has approved a 17.4% increase in the minimum support prices for kharif (summer) oilcrops: the new prices for yellow soybean and for groundnut are, respectively, Rp 16500/t and Rp 27000/t (which compares to Rp 14000/t and Rp 23000/t last year). Support prices, which are used to protect farm incomes in case market prices crash, are revised regularly to reflect rises in production costs. However, with this year's unusually high

increase, the government is also seeking to encourage oilseed production, thereby reducing the country's large edible oil deficit. The support price for rice, where government stocks are currently reported to widely exceed target levels, has only been raised by about 8%. Local observers have expressed concern that the hike in support prices could push up food prices, thus adding to inflationary pressure.

**INDONESIA - palm oil export tax:**

Following the recent drop in international quotations, the export tax on crude palm oil and its derivatives will be lowered to 15% in August, compared 20% applied in July. Reportedly, the government is also considering to lower the upper limit in the country's progressive export taxation system to 20%, compared to 25% at present. The bottom rate of the sliding tax would remain unchanged at 1.5%. The reason provided for the proposed adjustment is that the levy failed to spur local processing of palm oil into downstream products as originally envisaged.

**INDONESIA - ban on forest and peatland conversion:**

Since the nationwide 2-year moratorium on forest clearing and peatland conversion has come into effect last May (see also *MPPU no. 17, August 2010*), expansion activities by Indonesian and Malaysian oil palm firms in Borneo Island seem to have come under greater scrutiny. In particular, a recently published list of exemptions to the moratorium has attracted the attention of environmental groups. In point of fact, those concessions and licenses that were granted before the new law became effective are exempted from the moratorium.

**INDONESIA - palm oil certification:**

Mandatory certification according to the newly launched ISPO environmental standard (see also *MPPU no. 20 & 26*) is

officially expected to start no later than August. Announced in November of last year, the initiative has been slow to take off. Reportedly, the government and the main stakeholders of the palm oil value chain still need to agree on the composition and operations of an ISPO commission and secretariat. However, a dozen independent auditors have already been officially appointed and given the green light to start the certification process. The auditing exercise is expected to require about 1-2 months per oil palm firm.

**MALAYSIA/INDONESIA - oil palm plantation workers:**

In oil palm, harvesting remains predominantly manual and is difficult to mechanise. Over the last years, a chronic shortage of workers has developed in Malaysian oil palm plantations, where 80% of the labour force comes from abroad, mostly Indonesia. Reportedly, strict entry requirements and work permit rules together with better job opportunities in Indonesia have led to a drop in foreign worker arrivals in Malaysia. Plantation companies report that the reduction in labour force has negatively affected productivity (and profit margins) as they are forced to increase the intervals between harvests. The lack of labourers also led to higher wages, thus pushing up production costs. In Indonesia, where oil palm continues to expand strongly, demand for labour is high and wages have become increasingly attractive. As a result, competition between the two countries to retain labour force has increased sharply in recent years.

**MOZAMBIQUE - biodiesel policy:**

Private sources reported that the government passed into law a regulation mandating nationwide use of B3 blends by the year 2012. The development of a domestic biofuel market has been promoted since 2009 and a considerable number of biofuel projects have been

established in the country during the last few years.

**PAKISTAN - domestic marketing**

**control:** Investigations on the violation of competition principles have resulted in the government directing the national association of ghee and cooking oil manufacturers to refrain from all activities related to costing and pricing of commodities marketed by its members.

**RUSSIAN FEDERATION/BELARUS /KAZAKHSTAN - import policy:**

The three-country customs union has decided to temporarily suspend its 5% soymeal import tariff during June and July 2011 as feed grain shortages have developed among member countries.

**UKRAINE - export policy:** Since 2000, the following export control measures have been introduced for sunflowerseed and its oil: seed exports have been taxed at rates ranging 11-23%, and both, seed and oil shipments were subject to temporary quotas. According to private sources, concerned about domestic supply shortages, rising prices and high inflation, soon the government will also introduce export duties on sunflower oil (10% or not less than €90/t), rapeseed (11% or €53/t) and soybeans (8% or €30/t). By contrast, the existing export tax on sunflower seed could be lifted. For grains, new export duties have come into force last July.

**UNITED ARAB EMIRATES - recycled vegetable oil:**

The government has entered a partnership with McDonald's Restaurants to produce biodiesel based on recycled cooking oil. The country's first licensed biodiesel plant will have an annual output capacity of one million litres. Used oil will be converted into 100% biodiesel on a one-to-one basis. McDonald's committed to using the biodiesel in its logistic fleet to achieve a reduction in its carbon footprint.

**UNITED STATES - support to camelina**

**production:** Domestic production of *camelina sativa* is expected to expand thanks to a new joint private-public program. The oilseed will be produced as feedstock for aviation fuel, biodiesel and speciality chemicals. Farmers participating in the program will receive production subsidies for up to five years. Reportedly, camelina-based jet fuel has been widely tested and could become the bio-based fuel of choice for both military and commercial customers. It meets the relevant, recently approved ASTM fuel specification.

**UNITED STATES - climate change**

**adaptation:** The government started providing funds for research that will assist soybean (and maize) farmers to modify farming techniques that help dealing with climate change. To increase resilience against more variable and extreme climate patterns in the future research efforts will focus on creating conditions that enable rapid crop growth while also enhancing soil characteristics that enable soils to handle spikes in rainfall and temperature.

**UNITED STATES - agricultural policy**

**simulation:** FAPRI Institute (University of Missouri), which provides financial analysis to the U.S. Congress on proposed policy changes, has conducted a study on the potential impact of eliminating direct support payments to farmers. Reportedly, while cutting the payments would reduce federal budget outlays under that programme, the measure will likely boost farmer participation in the public income safety net programme ACRE, thus offsetting much of the budget savings.

**VENEZUELA - producer support**

**prices:** In August 2011, a 30% increase in the farm gate prices set by the government for soybeans, rice and maize should come into effect.

**Certified sustainable palm oil:**

- **Supply:** Global production of RSPO certified palm oil is reported to grow rapidly. According to industry estimates, currently about 9% of global palm oil output is being certified. Reportedly, today about 5 million tons undergo certification – compared to only 1 million tons in 2009. Around 54% of all certified produce originates from Malaysia, followed by Indonesia with 35%. A big company that runs plantations in both Malaysia and Indonesia informed that its production of certified palm and palm kernel oil has reached 1.5 million tons and is set grow to 3 million tons by 2015.
- **Industry sourcing:** *Cargill* is committed to source 100% of the palm oil products it trades from RSPO certified sustainable sources by 2020. Currently, about 70% of the palm oil traded comes from certified sources. The company's supplies to customers in Europe, the US, Canada, Australia and New Zealand will be fully certified already by 2015. This plan is supposed to help the company to meet the rising demand for sustainable produce amongst manufacturers and retailers. At the same time palm oil producers will be encouraged to adopt more sustainable practices. The company actively assists producers in the adoption of sustainable practices and specifically helps smallholders to understand the RSPO criteria. Reportedly, smallholders at a *Cargill*-owned plantation in Indonesia recently started selling certified palm oil at a premium. Other benefits reaped by the farmers are said to include increased crop productivity and enhanced operational efficiency.

**Biofuel feedstock preferences:** Global producer and supplier of certified sustainable biofuels *Neste Oil* reported the following shifts in its raw material procurement: crude palm oil now accounts for no more than 50% of total feedstock, while the proportion of waste animal fat

and by-products from vegetable oil refining has grown to 40%. Furthermore, the feedstock base has been expanded by adding *jatropha* and *camelina* oil. The company also conducts research on soybean oil, waste fish oil, used cooking oil, tall oil and entirely new materials (such as algae) continues.

**New functional oils:**

- **Clear Valley 80 Canola Oil:** A new high oleic rapeseed oil has been launched by *Cargill*. The oil is reported to deliver high nutritional and health benefits thanks to its low level of saturated fat and minimal presence of trans fat. High in oleic acid content, the oil features increased heat and oxidative stability without going through hydrogenation, fractionation and other complex processing, thus offering extended shelf life and the related cost advantages.
- **Omega-9 Sunflower Oil:** *Dow AgroSciences* has developed a new sunflower oil to address increasing customer demand for healthier products. Reportedly, the new product is free of saturated fat, has zero trans fat and is characterized by a high content of monounsaturated fats. Thanks to a high level of stability, formulations using the oil do not require antioxidants or partial hydrogenation and enjoy a high shelf life.

**Conversion of palm oil mills:** A number of palm oil processors in Malaysia and Indonesia engaged in efforts to convert their conventional mills into “green” ones via the full exploitation of waste products. The conversion includes the production (and commercial sales) of dry long fibre pellets and the breaking-up of palm oil mill effluent along with the corresponding energy extraction, which reduces waste treatment costs. The cost of converting a 60t FFB/hour mill is reported to amount to US\$ 10 million, with an alleged payback period of only 3-4 years thanks to the associated cash returns.

**Certified sustainable soy:** Certification and trading of sustainable soy has been launched by RTRS, the Round Table on Responsible Soy Association. RTRS brings together stakeholders of the entire soy value chain, including several civil society organizations. Certification requires compliance with the following five principles: (i) good business practices and legal compliance; (ii) responsible labour conditions; (iii) responsible community relations; (iv) environmental responsibility; and (v) good agricultural practices. Producers in Brazil and Argentina have already applied for certification. To facilitate trade, RTRS also launched a certificate trading platform under which soybean producers receive rewards for delivery of certified produce. First purchases of soybean and soyoil certificates have been reported by *Unilever Brazil* and the Dutch feed and food industry. The Association expects to certify 0.5 million tons of soybean this year and double that amount during 2012. Producers using RTRS certification also have the option to include a biofuel annex to the auditing process, which provides them access to the EU biofuel market, where RTRS certification enjoys official recognition.

**Revised international aviation fuel standard:** The globally recognized standards development and delivery organization *ASTM International* has revised its specification for aviation fuel to enhance blending with renewable fuels. Under the new provisions included in ASTM-D7566, up to 50% of bioderived synthetic blending components can be added to conventional jet fuel. These components, called hydroprocessed esters and fatty acids (HEFA), can be derived from vegetable oil-containing feedstock (such as jatropha, camelina and algae) or animal fats. Where the new standard is applied, blended jet fuel can be considered

identical to conventional fuel and does not differ in performance and operability. The revision of the existing standard is the result of an industry-wide cooperative effort which reflects the aviation sector's search for sustainable, environmentally friendly forms of operation that also enhance energy supply security and competitiveness.

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	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)</u>		
	Soybeans <sup>1</sup>	Soybean oil <sup>2</sup>	Palm Oil <sup>3</sup>	Soybean Cake <sup>4</sup>	Rapeseed Meal <sup>5</sup>	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
<b>Annual (Oct/Sep)</b>								
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
2009/10	429	924	806	388	220	162	173	215
<b>Monthly</b>								
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
2010 - September	468	1036	910	398	277	180	198	218
2010 - October	496	1165	998	415	285	193	220	227
2010 - November	526	1248	1117	430	292	205	243	225
2010 - December	550	1321	1229	437	289	216	263	222
2011 - January	572	1384	1279	454	313	225	278	234
2011 - February	569	1366	1286	447	290	224	279	241
2011 - March	552	1305	1172	423	264	217	260	234
2011 - April	553	1310	1148	406	277	219	259	227
2011 - May	556	1291	1155	403	280	218	259	220
2011 - June	559	1321	1137	396	289	219	257	211
2011 - July	558	1345	1100	405	262	217	251	209
<p><sup>1</sup> Soybeans (US, No.2 yellow, c.i.f. Rotterdam)</p> <p><sup>2</sup> Soybean oil (Dutch, fob ex-mill)</p> <p><sup>3</sup> Palm oil (Crude, c.i.f. North West Europe)</p> <p><sup>4</sup> Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)</p> <p><sup>5</sup> Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)</p> <p><i>Note:</i> 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.</p> <p><i>Sources:</i> FAO and Oil World</p>								