



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

No. 85, August 2016

a) Global price review

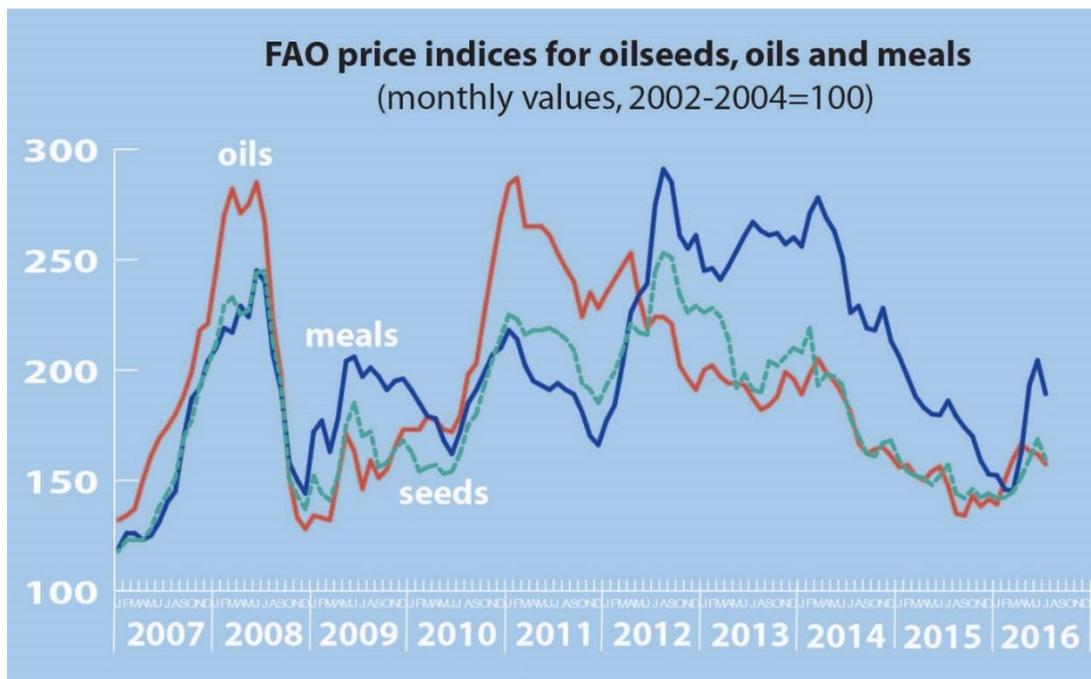
In July, all three of FAO's price indices for the oilcrop complex decreased compared to June. The oilseed and oilmeal indices dropped by, respectively, 9 and 15 points (or 5.5 and 7.4 percent) – after posting gains for the past 3–5 months, while the vegetable oil index has fallen for the third consecutive month, shedding another 5 points (or 2.8 percent).

The easing in the price indices for oilseeds and oilmeals primarily reflects developments in the soy market, which (given the high protein content of soybeans) explains the marked response in the meal index. In July, harvest estimates for the U.S. soybean crop, which has entered the pod setting

stage, have been revised upwards on reports of widespread rainfall in the main growing regions – ending earlier concerns about hot and dry weather. Typically, at this time of the year, prices tend to be volatile as markets are particularly responsive to weather developments in North America. Sizeable inventory drawdowns in South America and the possibility that, during the coming months, world markets will depend strongly on U.S. crops also generated uncertainties.

International quotations for sunflower seed and meal also lost strength in July, mainly reflecting improved production forecast for main players, notably Argentina and CIS countries, which, if

– *cont'd on next page* –



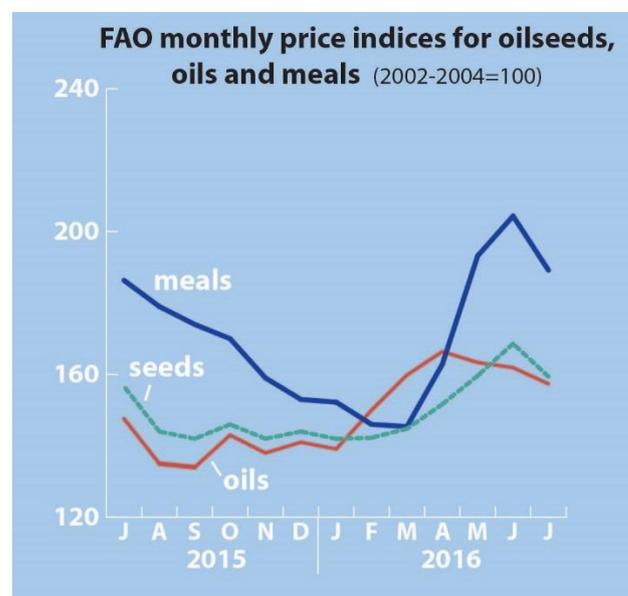
* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market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

Global price review – cont'd

confirmed, would entail a record global crop. Rapeseed prices as well eased on better than earlier anticipated crop outcomes, especially in Canada – although forecasts of a year-on-year drop in global production are confirmed.

The fall in the vegetable oils price index was mostly driven by palm oil, whose quotations dropped to 5-month lows – although soybean, sunflower and rapeseed oil prices also eased, influenced by the lower values of the corresponding seeds. International palm oil prices weakened further on reports of steady, beneficial rainfall across the key palm oil growing regions of Indonesia and Malaysia, which, in addition to supporting the current recovery in output, have improved the production prospects for 2017. As higher than anticipated palm oil supplies coincided with prolonged subdued global import

demand, inventory levels have risen (especially in Malaysia), exerting continued downward pressure on world prices.



b) Selected policy developments and industry news

CHINA – sales from state reserves

- Rapeseed oil: According to private sector estimates, since the resumption of sales from state reserves in December 2015, 1.8 million tonnes of rapeseed oil have been sold through public auctions (see also MPPU July'16). Additional sales are expected to take place in the coming months.
- Soybeans: In July 2016, the Government of China resumed soybean sales from state reserves via weekly auctions (which last took place during the 2014/15 campaign), in a bid to help ease tight domestic supplies. Based on official sources, during the first three auctions, which included soybeans from the country's 2010, 2012 and 2013 harvests, a total of 716 000 tonnes have been sold. Reportedly, discounted prices – ranging around CNY 3 300 per tonne (USD 497) – attracted buyers from both the food and animal feed sectors. Market observers expect the government to put on sale its entire soybean reserves, which private sources estimate between 4–6 million tonnes. Provided auction prices remain attractive, demand by the industry could remain strong as the country's food

sector is said to face a shortage of non-GM soybeans, while lower quality beans could be absorbed by crushers producing soymeal for animal feed.

EUROPEAN UNION – biofuel policy and climate action

- European Commission: In a paper outlining measures to accelerate the EU's transition to a low-carbon economy, the Commission proposed to gradually phase out – from 2020 – conventional food-based biofuels, while providing incentives for the development of more advanced ('second-generation') biofuels, including fuels produced from agricultural residues. According to the document, conventional biofuels play a limited role in decarbonizing the transport sector and should not receive public support after 2020. The Commission also proposed – for the first time – a set of ambitious, binding GHG emission reduction targets for the transport, buildings, agriculture, waste, land-use and forestry sectors – i.e. the sectors that are not included in the bloc's Emissions Trading System. The proposed targets are country-specific and refer to the period 2021–2030, using 2005 emission levels as a baseline. A special treatment is proposed for

land use, land use change and the forestry sector (or LULUCF), which, while presenting only limited scope for emission reductions are capable to remove CO₂ from the atmosphere.

- **European Court of Auditors:** Weaknesses in the system certifying sustainable biofuels could undermine the basis of the EU's 2020 targets for renewable energy in transport, according to a recent report by the European Court of Auditors (ECA). Under EU rules, member states can only use biofuels certified as sustainable to reach their targets (*see MPPU Aug. '11*). While most biofuels are certified through voluntary schemes recognized by the European Commission, the auditors expressed the opinion that, because of weaknesses in the Commission's recognition procedure and in the supervision of the schemes, the EU's biofuel certification is not fully reliable. They also pointed out that member country statistics might overestimate the use of sustainable biofuels by including fuels whose sustainability was not fully verified. ECA called on the Commission to ensure that all certification schemes (i) assess whether biofuel production entails significant socio-economic risks and indirect land-use change; (ii) verify that feedstock producers comply with environmental requirements for agriculture; and (iii) provide sufficient evidence of the origin of waste and residues used for biofuels.

EUROPEAN UNION – GMO policy:

On 22 July 2016, the EU Commission authorized three new GM-soybean varieties, whose approval was keenly awaited by the international trade (*see MPPU July '16*). The varieties have been authorized for import and processing for food and feed use, but not for cultivation. The varieties concerned are Monsanto's 89788x87708 (known as Roundup-Ready-2-Xtend) and 89788x87705 (Vistive Gold), and Bayer's FG72 (Balance GT). The authorizations are valid for 10 years. Any products produced from these GMOs will be subject to the EU's labelling and traceability rules. The EU's approval clears the way for the varieties' worldwide cultivation and will allow grain traders and processors in North America to lift recently introduced marketing restrictions for the varieties in question (*see MPPU June '16*).

INDIA – market policies

- **Kerala:** In Kerala state, the government proposed the introduction of several taxes – including a 5 percent levy on coconut oil sales and a 14.5 percent 'fat tax' on selected food products sold through branded outlets. Allegedly, the fat tax is aimed at promoting healthy eating habits, while the revenues from the proposed coconut oil levy would be earmarked for procurement of copra from coconut growers.
- **Centre:** Concerned over rising inflation, the Central Government has asked the states to remove all local taxes that are levied on essential food items (including edible oils), local newspapers reported. Apparently, the move is aimed at ensuring nationwide adequate supplies of essential food items at prices affordable to consumers. State governments should also reduce the number of intermediaries in the supply chain and allow farmers to sell their produce at any place of their choice. Moreover, to enhance the availability of essential foods and check price rises, local governments have been invited to introduce pricing policies, implement market intervention schemes, and set up market information systems.

INDONESIA – environmental policies:

Indonesia is expected to soon release a presidential regulation that would serve as a basis for the recently announced 5-year moratorium on new oil palm plantations in the country (*see MPPU June '16*). According to press reports, the decree could comprise a ban on approvals of planting expansions into forested areas within existing concessions. Furthermore, plantation areas that are not used as stipulated in concession permits as well as concessions that have been transferred to new owners may also be subjected to the moratorium. Reportedly, the Government will make use of a single reference map that harmonizes the maps used by different state agencies so as to identify overlapping land concessions. Overall, the moratorium is said to concern about 3.5 million hectares of land, starting with 950 000 hectares that have been proposed by plantation companies for expansions. The nation's total area under oil palm cultivation is estimated at 11.4 million hectares. Industry sources reiterated their concern that the new moratorium threatens output growth and investment in the palm sector.

MALAYSIA – biodiesel policy: The planned shift from B7 (i.e. transportation diesel containing 7 percent of biodiesel) to B10 (10 percent blends) has been delayed pending the outcome of talks between the government and industry stakeholders, notably car manufacturers and petrol station operators (*see MPPU July '16*). Reportedly, some automakers are concerned about the alleged adverse impact of higher-grade biodiesel on the performance of diesel engines and hence on warranty coverages. Government officials informed that relevant ministries would study and address the concerns raised, adding that the government remains committed to implement mandatory B10 use before the end of 2016.

SRI LANKA – import policy: In May 2016, the Government raised the import levy for vegetable oils by LKR 20/kg. The new levies for crude oils and refined oils are, respectively, LKR 130/kg (USD 0.89) and LKR 150/kg (USD 1.03).

RUSSIAN FEDERATION – GMO policy: A bill signed in July 2016 prohibits the cultivation of GM crops on the territory of the Russian Federation. The new law also strengthens state control over the importation and processing of GM organisms (and products derived from such organisms) and requires relevant state agencies to monitor the effects of GM organisms on both the environment and human health. The importation of GM organisms and products for scientific research and for food/feed use will continue to be allowed, provided they have been formally registered for such uses.

RUSSIAN FEDERATION – palm oil standard: The government dropped its earlier plans to introduce new safety standards for tropical oils, notably palm oil, citing a lack of scientific evidence for alleged hazards of palm oil consumption to human health. Previously, the government had considered regulating the use of palm oil in food production and introducing stringent requirements regarding the maximum allowed content of hydrogen peroxide in tropical oils (*see MPPU Nov. '14 & Aug. '15*).

UKRAINE / CANADA – free trade agreement: In July 2016, negotiations of a free trade agreement between the two countries have been completed. The new agreement will take effect after its

ratification by the parliaments of both countries. Under the trade pact, import duties on all agricultural goods are set to be lifted in one go – except for some Canadian tariff lines concerning selected ‘sensitive’ items, including products derived from vegetable oil, such as margarine. However, considering that Canada’s duties on oilseeds, oils and meals are earmarked for immediate elimination, Ukraine’s exports of sunflower oil, rapeseed and soybeans products will enjoy instant duty-free access to the Canadian market.

UNITED STATES – GMO policy: The U.S. Congress passed a federal bill regulating mandatory labelling of food products containing GMOs. The bill, which has been signed into law by the U.S. President on 1 August 2016, will override more stringent measures recently passed in the state of Vermont and considered by other states (*see MPPU July '16*). The new legislation gives regulators two years to write detailed rules for the industry to follow, and small food manufacturers will have three years to comply. When reworking and updating their labels to inform customers about GM content, companies will have the choice of using straightforward language, symbols or digital bar codes that can be scanned by smartphones. The US Department of Agriculture will determine which biotech crops fall under the new labelling requirement. USDA will also be required to evaluate the effectiveness of digital symbols a year after the law is implemented. The country’s food industry welcomed the compromise bill, saying that it will avoid inefficiencies in the food system and prevent higher food costs. However, critics warned that the option to use electronic labels could limit the bill’s scope and create confusion. They reckon that few customers would click on the digital codes displayed on labels. They also expressed concern that food ingredients that, by the time they are processed, contain almost no GM material (such as soybean oil and beet sugar) might not fall under the law’s definition of GM food.

Variable export taxes – palm oil: In August 2016, Indonesia’s tax on crude palm oil shipments will remain at zero, while Malaysia’s tax will drop to 5 percent (from 6 percent applied in July 2016), based on a fall in the calculated reference price.

Biodiesel news – Indonesia: State-owned power company PLN informed that it cannot comply with government rules on burning diesel containing 30 percent of palm oil-based biodiesel (known as B30) because such blends would damage its generators. Under regulations released last year, starting in January 2016, Indonesian power firms are required to use B30. Commenting on PLN's statement, market observers pointed out that lower than expected uptake of biodiesel by the country's electricity sector could weigh on domestic and international palm oil prices – given that domestic supplies (and hence export availabilities) of palm oil could experience a significant rise. The government's 2016 target for total domestic uptake of palm oil-based biodiesel (by both, the transportation and power generation sectors) is 6.1 million tonnes, a level industry experts consider to be out-of-reach.

Environmental measures

- **Colombia:** According to the local press, a Colombian environmental authority ordered a palm oil company to suspend various operations due to alleged violations of environmental regulations, including wastewater dumping and allowing compost-runoff to leach into the local forest.
- **Indonesia:** The Indonesian Palm Oil Pledge (IPOP), a private initiative launched by leading palm oil producing and trading companies in 2014 to promote sustainable production and jointly establish what land could be cleared to develop new oil palm plantations, has been dissolved. According to the IPOP signatories, the initiative's original purposes have been fulfilled by recent measures taken by the government – notably the moratorium on peat land development, the creation of a Peat Restoration Agency, the launching of a national standard for sustainable palm oil (ISPO), and the new moratorium on oil palm expansion licenses. Former IPOP members committed to continue their sustainability policies independently and pledged to support the government's efforts to strengthen and improve ISPO. Some environmental groups commented that the dismantling of IPOP could increase the risk of haze and forest fires in Southeast Asia, given that ISPO standards tend to be less strict than those applied under IPOP, notably with respect to land clearing rules.

Sector development measures

- **Ghana – oil palm:** Reportedly, in Ghana, the government is ready to approve the establishment of an oil palm board. The board would be tasked to regulate and create a conducive environment for the growth of the oil palm sub-sector. The body would offer a platform for formal interactions between the government and the private sector, especially regarding the implementation of relevant policies, including measures to ensure environmentally sustainable growth. In this regard, the government reiterated its commitment to protect the country's tropical forests while developing the oil palm sector. Ghana is one of nine countries participating in the Africa Palm Oil Initiative (APOI), a multi-stakeholder programme launched by the Tropical Forest Alliance to help transform the palm oil sector into a sustainable driver of long-term, low-carbon development in the region – in a way that is socially beneficial and protects tropical forests.
- **India – olive cultivation:** In India, the Government of Rajasthan has set up an olive oil crushing/refining plant and started planting olive saplings imported from Italy, Spain, Israel and elsewhere on state-owned fields. Reportedly, Rajasthan's agro-climatic conditions are fully suitable for olive cultivation. The state-level project is meant to help reduce the nation's heavy dependence on imported edible oils (*see also MPPU Sep. '15*). According to private sector representatives, access to advanced processing technology will be critical for the industry's development.
- **Sri Lanka – coconut oil:** Blaming poor adherence to international quality standards for the recent drop in the country's coconut oil exports, the Government of Sri Lanka is working on measures to ensure that, from next year, only coconut oil products meeting international standards are exported. Recurrent problems affecting coconut oil shipments are said to include fungus contamination and high residue levels of pesticides and polycyclic aromatic hydrocarbons. Reportedly, the government is ready to enforce a new national standard on food safety management, and producers are required to obtain certification prior to exportation.
- **Tanzania – sunflower seed:** Sunflower oil processors in Tanzania's central regions are exploring possibilities of entering into commercial

partnerships with the Indian Solvent Extractors' Association – under the aegis of SITA (Supporting India's Trade Preferences for Africa), a multilateral initiative implemented by the International Trade Centre. The government-backed partnerships initially envisage the transfer of processing technology from Indian companies to Tanzanian counterparts and, subsequently, the exportation of high-value refined sunflower oils from Tanzania to India.

Transport infrastructure – Brazil: Mato Grosso state officials deem improved transport options via Brazil's northern export corridors (the so-called 'Arco Norte') to be the main driving force behind the on-going expansion of soybean plantings in the state. The improvements consist of road upgrades that provide direct access to new terminals on the Amazon River and to seaports along the northern Atlantic coast. These northbound routes reduce the state's need to ship grains through the highly congested southbound highways to distant ports on Brazil's southeastern and southern coast (*see also MPPU Feb. '16*). According to industry estimates, in 2016, a record 34 percent of Mato Grosso's soybean shipments will transit through the Arco Norte, with the remaining 66 percent heading south. In 2014, the corresponding shares were, respectively, 18 and 82 percent.

Standards

- **Olive oil – global:** The International Olive Council (IOC) approved a revision in its standard for extra virgin olive oil in a bid to allow oils produced from two specific olive cultivars to meet the parameters for that grade. Under the revised standard, the maximum allowed content of three fatty acids (heptadecanoic, heptadecenoic and eicosenoic acid), which characterize oils produced

from the Italian varieties Carolea and Coratina, have been raised. Possibilities that the increased limits could facilitate fraud have been ruled out by a group of experts advising the IOC.

- **Feed labelling – European Union:** A code of good labelling practices for compound feed jointly developed by Europe's feed industry and farmer associations has been officially endorsed by the European Commission. The code, which will harmonize practices across EU member states, aims to guide feed manufacturers on how to label their products while enabling farmers to make informed decisions. The code includes a section on claims, which provides guidance on the substantiation of claims and lists permitted/prohibited claims.

Certified sustainable palm oil: In July 2016, RSPO, the industry-led standard setting body for palm oil, held a multi-stakeholder forum in China to promote the trade and consumption of certified sustainable palm oil in the country. Considering that China is the world's second largest importer and third biggest consumer of palm oil, an increase in Chinese demand for certified produce could provide fresh impetus for global trade in an production of certified sustainable palm oil. In recent years, RSPO members started paying increased attention to developing country markets, notably in Asia, where edible oil consumption is growing at a steady pace – whilst certified sustainable palm oil accounts for an only small part of the market (*see also MPPU May & Sep. '12*). For China, RSPO's 2020 target for the share of certified sustainable produce in total palm oil uptake has been set at 10 percent (*see MPPU July '15*).

*For comments or queries
please use the following Email contact:
Peter.Thoenes@fao.org*

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by FAO in preference to others of a similar nature that are not mentioned.

The views expressed in this information product are those of the author and do not necessarily reflect the views or policies of FAO.

	<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								
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
2016 - April	398	797	723	339	242	152	166	163
2016 - May	425	790	708	406	261	160	163	193
2016 - June	455	797	679	430	259	169	162	204
2016 - July	429	790	652	400	234	159	157	189

¹ Spot prices for nearest forward shipment

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

³ Soybean oil (Dutch, f.o.b. ex-mill)

⁴ Palm oil (Crude, c.i.f. North West Europe)

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

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

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.

Sources: FAO and Oil World