



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

No. 17, August 2010

a) Global price review

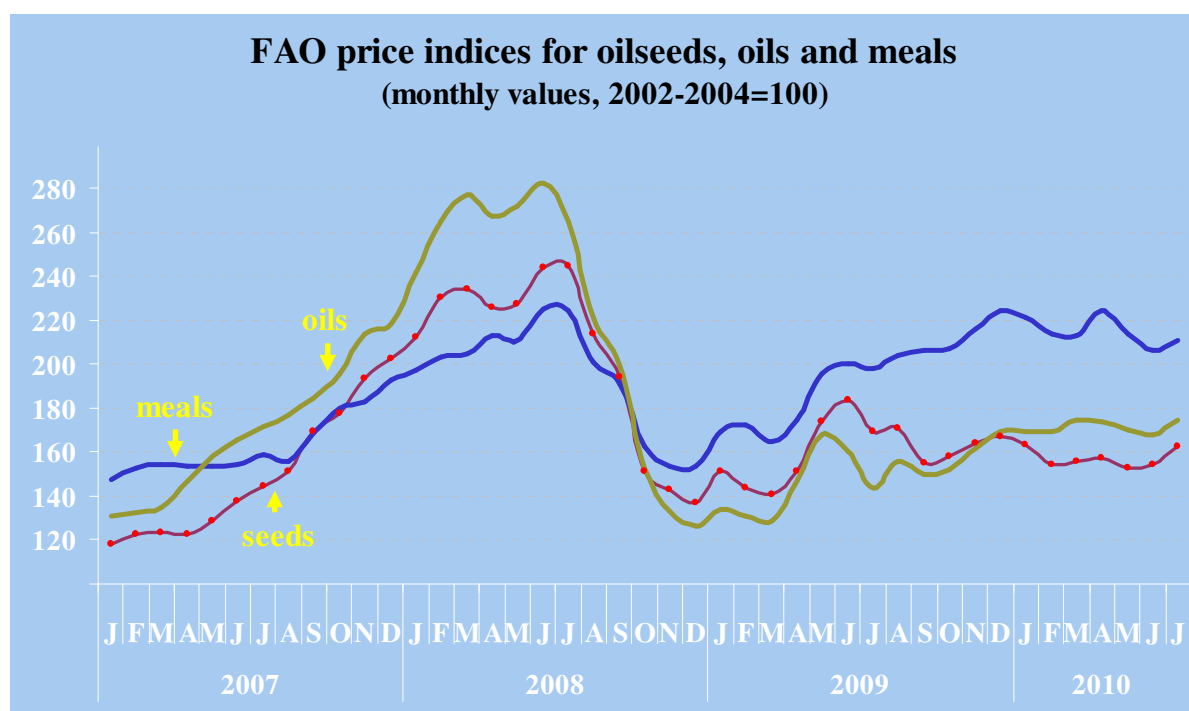
The recent downward movement in prices for oilcrops and their products was reversed in July. All three FAO price indices (covering, respectively, oilseeds, oils and meals) moved upward, ranking well above the pre-2007/08 level and exceeding, in the case of oils and meals, the values recorded in July 2009.

Prices have strengthened despite recent bumper soybean harvests in South America and a promising production outlook for soybeans in the United States, which should allow inventories to grow, leading to a comfortable level of global supplies.

The unexpected strength in soybean and soymeal prices partly stems from price firmness in the markets for maize and wheat as well as in the energy market. Furthermore, in the United States, the

soybean crop outlook remained subject to weather uncertainties, while tightening old crop-stocks and persistently strong export demand also influenced the market. The strong likelihood of production shortfalls in Canada's and Europe's forthcoming rapeseed crops added further to the pressure.

As to vegetable oils, palm oil prices firmed because production growth in Malaysia slowed down due to poor yields, while import demand remained strong and lead to lower than anticipated stock levels. Furthermore, the market was concerned about possible adverse, short-term effects of the developing La Niña weather pattern on palm oil production in Southeast Asia. A pick up in global import demand, together with reduced export availabilities due to rising biodiesel consumption in Argentina and Brazil also affected prices.



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

b) Selected policy developments and industry news

ARGENTINA - biodiesel blending

mandate: The government announced the imminent issuance of a resolution that increases the mandatory biodiesel blending rate from 5% to 7%. Furthermore, the intention to lift the rate further to 10% by the end of this year was confirmed. The country is the world's leading exporter of soyoil - Argentina's primary feedstock for biodiesel. Expanding local demand for biodiesel may eventually reduce export availabilities. Reportedly, the measure is meant to provide support to domestic soyoil sales and reduce dependence on soyoil exports as well as to reduce outlays on fossil fuel imports.

ARGENTINA/CHINA - soyoil trade:

Reportedly, at a recent meeting of heads of state no agreement emerged regarding China's import requirements, which brought Argentina's soya oil sales to the country to a standstill last April.

BRAZIL - sustainable soy production:

The country's private sector has launched *Soja Plus*, an environmental and social management initiative adapted to the Brazilian context that includes certification of sustainable soybean production. In an effort to contribute to the conservation of natural resources, the voluntary programme aims to promote environmentally and socially sustainable production. To obtain certification, producers need to comply with a list of criteria that foresee the observation of environmental and social laws and land title regulations, the use of best agricultural practices and adoption of socially and environmentally responsible production methods. Criteria compliance is to be verified through transparent and independent auditing procedures.

CANADA - support to rapeseed sector:

Reportedly, the federal government has allocated C\$ 1.5 million to the *Canola Council of Canada* for activities aimed mainly at increasing international demand for rapeseed products. Improved market access is sought especially in the United States, Mexico, India, Japan and China. Public funds shall be matched by an equal amount coming from rapeseed growers and the industry.

EUROPEAN UNION - butter sales from intervention stocks:

The sale of close to 12,000 tons of butter from intervention stores was reported. Last year's sharp fall in price had led to intervention purchases amounting to 76,000 tons. Reportedly, 51,000 tons of butter were already disposed of earlier this year. The decision to release stocks was taken against the backdrop of improving farmgate prices.

EUROPEAN UNION - GMO traces in imported animal feed:

The Commission signalled its readiness to ease the EU's stringent rules on the presence of unauthorized GMO traces in imported feed material. The current 'zero tolerance' approach is supposed to be replaced later this year by a more workable threshold that addresses the difficulties of completely avoiding presence of GMO traces. In the autumn of last year, shipments of soymeal to the EU came to a standstill following the detection of GMO traces at EU ports.

EUROPEAN UNION - application of GMO soybean patent:

The European Court of Justice ruled that a patent is only valid up to the point where the GM trait is performing its patented function. This implies that once processed, i.e. after transformation into soyoil and meal, soybeans no longer enjoy patent protection. The case was referred to the Court after seed producer *Monsanto* claimed patent rights on EU imports of

soymeal produced from Roundup Ready soybeans in Argentina, where the GM variety is planted freely without patent protection. The court found extending seed patent protection to final products to be impractical as in such case an unspecified number of derivative products would come under the control of whoever had patented the DNA of a plant. The ruling ends a long-standing dispute, allowing importation and commercialization of Argentinean meal in the EU to continue without triggering payment of royalties.

EUROPEAN UNION - Community GMO legislation: The EU Commission proposed to overhaul current EU legislation on GMO cultivation and marketing. First, legislation has been adopted that envisages the immediate relaxation of coexistence guidelines governing side-by-side cultivation of GM and conventional crops. Member states will be allowed to take more stringent measures to keep GMO cultivation isolated from other cultures, possibly outlawing biotech crops altogether in a given region or member state. Second, the following modification of community legislation on the authorization of GMOs is proposed: while science-based, EU-wide authorization procedures would remain in place, individual member states may opt for permanent moratoria on cultivation (of specific biotech varieties or GMO as a whole) purely on ethical grounds - rather than based on the assessment of adverse health or environmental effects. While this would authorize individual states to prevent GMO crops from being cultivated, they would not be allowed to ban the importation and marketing of EU-approved material.

EUROPEAN UNION - seed production competition issues: Reportedly, the European Commission decided to carry out a market investigation with regard to the planned merger of *Monsanto's* and

Syngenta's sunflowerseed businesses. In view of the proposed consolidation, the Commission wants to ensure that effective competition is preserved, so as to maintain innovation and prevent prices from rising.

INDIA - soya oil futures contract: Allegedly as the first regional exchange in the country, *Rajkot Commodity Exchange (RCX)* in Gujarat State has added a contract for refined soyoil to its portfolio, after gaining approval to do so last March. Gujarat is the country's main soyoil importing state.

INDONESIA - palm oil export tax: In response to the past fall in global palm oil prices, the government decided to lower, in August, the ad valorem export tax from 4.5 % (in place since April this year) to 3 %.

INDONESIA/NORWAY - joint initiative to halt forest conversion: The Indonesian government announced a 2-year moratorium (starting next year) on concessions for clearing forest and peatland - an important source of GHG emission and thus global warming. Past forest/peatland conversions into plantations and for industrial use constitute a major source of livelihood in the country. The decision to stop new concessions is part of a deal reached with Norway, which agreed to assist the country in preserving its forests. Funding for sustainable forestry programmes (worth up to USD 1 billion) shall be released from 2014, contingent on progress made in deforestation/emission reduction. Meanwhile support would be provided to set up appropriate control mechanisms, run pilot projects and to work on the issue of conflicting claims on land. Conditions for cooperation and performance-based criteria still need to be negotiated. Logging concessions already granted to companies shall be honoured, although revocation of existing licenses might be considered in particular cases, with financial compensation or land swaps

granted to affected companies. Government officials pointed out that sufficient non-forest, degraded but still suitable land was available to accommodate further growth of the vitally important plantation industries. In this regard, reaching general consensus on methodologies and procedures for identifying acceptable areas for sustainable oil palm expansion will be important. If implemented successfully, the initiative could boost international cooperation in forest preservation in line with the UN-backed REDD scheme. Norway has already signed similar agreements with Brazil, Guyana and a number of African nations, and several other developed countries have pledged funds at last year's Copenhagen Climate Conference.

NEW ZEALAND - biodiesel subsidy: The subsidy so far granted on biodiesel blends of up to 20% (42.5 cents per litre) has been extended to blends up to and including 100%. The measure is meant to further stimulate consumption of domestically produced biodiesel. Meanwhile, private sources estimate that uptake will still fall short of the scheme's overall funding capacity and that imports would continue to dominate domestic consumption.

RUSSIAN FEDERATION - rapeseed export duty: Reportedly, the Russian Grain Union is proposing to the Government to lift export duties on rapeseed. Should this happen, rapeseed production for export could receive a strong boost - considering the amount of land reported to be available in the country for expanding rapeseed cultivation. Introduced in 2001 to encourage domestic crushing of seeds, in 2007 the ad valorem tariff was lowered from 20 to 15 percent. Allegedly, suspension of the duty is proposed because the domestic crushing industry has exhausted its growth potential and in order to enable the industry to

benefit from growing demand by the EU's biodiesel industry.

TURKEY - sunseed & oil importation: Reportedly, 2010/11 import quotas for sunflower seed and oil will remain unchanged from their 2009/10 level, i.e. 650,000 mt for seed and 260,000 mt tons for crude oil. However, the import tariff for seeds will be lowered from currently 5% to 0% and from 17% to 15% for crude oil, effective January 2011. To support domestic production, only crushers who process domestic seed will be allowed to benefit from the lower duties.

UNITED STATES - rapeseed oil biodiesel: The Environmental Protection Agency, which oversees implementation of renewable fuel legislation and related support programmes, informed that based on comprehensive life cycle analyses the rapeseed oil biodiesel pathway creates a 50 percent reduction in GHG emissions compared to the mineral oil baseline. The fuel is thus ready to join soyoil-based biodiesel on the list of fuels meeting RFS-2 requirements for biomass-based diesel. Analysis of other vegetable oil-based fuels, including palm oil biodiesel, is yet to be completed. Regarding overall demand for biodiesel, the agency informed that, in 2011, 800 million gallons will be required to comply with current legislation.

Soy applications in automotive industry: After using soy-based foams in car seats and other automotive applications, motor company *Ford* reported to have engineered a patent-pending formula to use renewable soy products to improve rubber parts in cars while at the same time reducing the environmental footprint. Allegedly, soy oil and soy fillers can replace up to 26% of the petroleum-based content in rubber parts. Research has been supported by the United Soybean Board of the United States.

Sustainable sourcing of palm oil: Global food producer and trader *Cargill* decided to partner with the World Wildlife Fund to undertake an assessment of its palm oil sources in Indonesia. The objective is to measure progress amongst suppliers in the implementation of the principles established by RSPO thereby encouraging the adoption of socially responsible and environmentally sustainable production methods. The assessment shall be used to identify gaps vis-à-vis the RSPO standards and suppliers will receive specific

assistance to improve their production practices. Reportedly, Cargill aims at buying 60% of its overall palm oil from certified sources by the end of 2010.

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

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

² Soybean oil (Dutch, fob ex-mill)

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

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

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

Note: The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each commodity for the 2002-2004 period. The indices are based on the international prices of five selected seeds, ten selected oils and fats and seven selected cakes and meals.

Sources: FAO and Oil World