OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 30, December 2011

a) Global price review

During the months of October and November, the FAO price indices for oilseeds and oilmeals kept losing strength, whereas the oil index in November increased to 235 points, up 11 points (or 5 percent) from October, reversing the downward trend that started last March. All three index values remain, however, high in historical terms.

Overall, markets felt the downward pressure caused by concern over a possible further slowdown in global economic growth. The Eurozone debt crisis and the lack of debt reduction plans in the United States raised fears of recession, inducing price pressure across equity and commodity markets.

With relatively tight US soybean supplies, the global oilseed market is becoming increasingly dependent on next year's South American soybean crop. Even though plantings in the southern cone have been affected by a falling soybean/maize ratio and weather uncertainties, overall, supplies and export availabilities from the region are still forecasted to be ample, which has kept markets confident. As to oilmeals, international prices remained under downward pressure due to subdued demand from the livestock sector and strong competition from attractively priced maize and feed wheat.

The upswing in the oils and fats index reflects expectations of tightening global supply and demand for vegetable oils and related trade developments. A slowdown in soy oil output combined with strong absorption of vegetable oils by the biodiesel industry resulted in falling inventories for the main players (USA, Argentina and Brazil). Furthermore,

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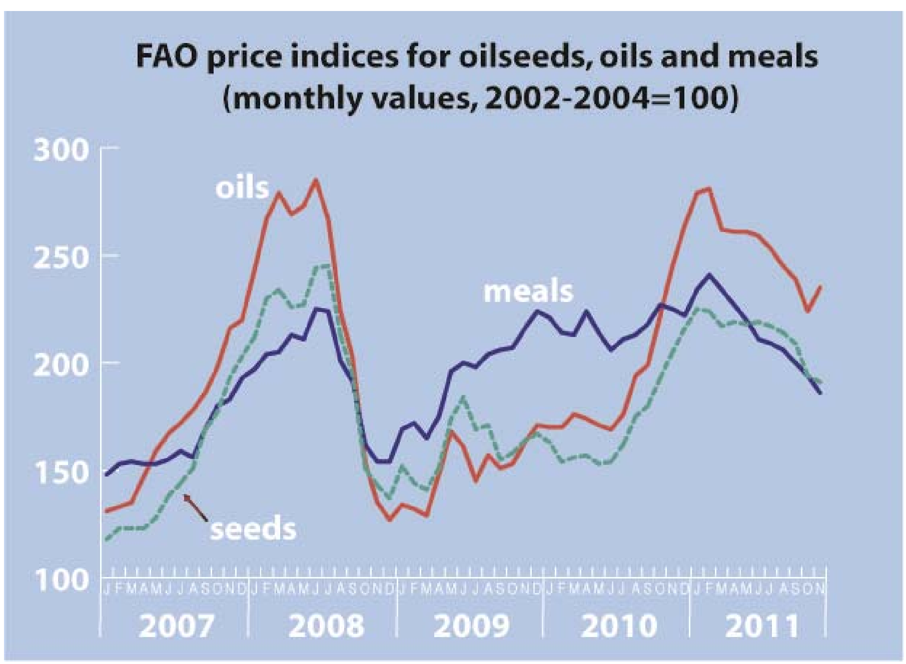

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* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's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

Global price review - *cont'd*

China's import demand for oilseeds and oils has picked up due to mediocre domestic harvests, the need to reconstitute government stocks and further expanding domestic consumption. At the global level, reduced soyoil export supplies resulted in strong import demand for palm oil – the key driver in the oil price index – as well as sunflower oil. The rise in palm oil demand clashes with a prospective slowdown in palm oil output in Southeast Asia – based on unfavourable weather conditions and the tree's yield cycle. It appears that markets are also reacting to Indonesia's recent change in palm oil export policies – a move that has caused shortfalls in crude palm oil export availabilities, hence contributing to the rise in palm oil prices.

b) Selected policy developments and industry news

BELARUS – export restrictions: Reportedly, in order to prevent the development of domestic shortages after a poor domestic oilcrop harvest, the government has decided to ban exports of rapeseed and rapeseed oil from September 2011 to March 2012.

BRAZIL – soybean moratorium: Launched in 2006, the voluntary moratorium on trading and financing of soybeans grown on land illegally cleared in the Amazon region has been extended for another year until January 2013. Triggered by consumer concerns, the private sector initiative, which is backed by the government as well as civil society groups, is said to have contributed to a slowdown in deforestation. The governance programme includes extensive land mapping and control schemes and actively supports land regularization efforts. Concerned about consumer demand for sustainably grown soy, European customers of Brazilian soybean fully recognize the commitments made under the moratorium. Brazilian stakeholders are determined to strengthen their commitment further and want to create a permanent governance basis so as to provide the market with a guarantee that its demand for zero deforestation in the commodity chain is met.

CANADA – oilseed crop development: A private company has been granted public funding to advance the sustainable production of camelina and safflower-based oils to be used as renewable feedstock in a variety of high-value industrial applications other than fuel.

CANADA – rapeseed oil export for biodiesel production: The United States' recent approval of Canadian rapeseed oil as feedstock for the production of biodiesel sold in the US is expected to significantly expand opportunities for Canadian exports to the United States. According to estimates by the Canadian rapeseed industry, sales of rapeseed destined for biodiesel production could be worth up to Can$ 450 million per year (a value corresponding to between 0.7 and 1 mill tons of rapeseed, depending on the market price).

CHINA – overseas soybean investment: Reportedly, one of the county's largest state-owned grain companies is making a major investment in soybean crushing in Bahia, Brazil. The first initiative of its kind, the project is said to create the largest Chinese overseas production base for cooking oil, which will be destined for both sales on the Brazilian market and shipping to China. The company, which currently imports soybean from Brazil, expects its requirements to expand strongly. Reportedly, in the medium term, the company is also planning to invest in soybean growing, soybean oil refining, biodiesel production and soy lecithin manufacturing in Brazil.

CHINA – public stock policies

- State purchases: After large public sales effected during the 2010/11 season to combat domestic food price inflation, new purchases of soybeans to reconstitute public reserves are expected to commence in November. Restocking, which will involve both imports and local purchases, is done with a view to protect domestic markets from possible price surges in 2012. Reportedly, first overseas purchases have been made. As to local purchases, which will last until April 2012, the price has been set at 4000 Yuan/t – or 5% higher than in the last three seasons – with the intention shore up farm gate prices and support farmers' incomes. However, with market prices currently reported at Yuan 4100/t, domestic sourcing could prove difficult. Market observers also noted that, at the government's current floor price, preventing farmers from reducing soybean plantings further next year may prove difficult.
- State sales: Reportedly, limited amounts of rapeseed and soybean from state reserves have been offered to the market in November.

EUROPEAN UNION – GM approval: Reportedly, EU member states failed to agree on a proposal by the European Commission to approve two genetically modified soybean varieties destined for food and feed use (i.e. not for cultivation). The two products were previously declared as safe for humans, animals and the environment by the EU's Food Safety Agency. Now the proposal needs to be submitted to a newly created appeal committee. The impasse is likely to frustrate the bloc's feed industry and soy importers and risks creating potential friction with trade partners such as Argentina where grain production relies heavily on transgenic seeds.

EUROPEA UNION – biofuel policy and industry concerns

- EU policy on ILUC: Although the European Commission committed to improve EU biofuel policy by introducing guidelines on the influence of indirect land use changes (ILUC) on carbon savings, the release of new rules has been postponed repeatedly because of persisting scientific uncertainties. The ILUC concept attempts to measure the effects of local production of a particular biofuel feedstock on global land use and GHG emission levels as well as on the production and prices of basic foods. On this matter, a group of scientists and economists urged EU policy makers to formally recognize that biofuel production can have indirect impacts on land-use, and called for the resulting emissions to be taken into account fully when assessing which biofuels help in the fight against global warming. The petition states that without addressing ILUC, the EU's targets for renewable energy in transport may fail to develop genuine carbon savings in the real world; ignoring ILUC in the bloc's policies could in fact cause increases in GHG emissions rather than reductions. Attention was drawn to numerous studies indicating that emissions related to biofuels expansion are significant and can be quite large – possibly exceeding those related to conventional fuel. While the discussion centres on environmental gains and social justice, also the fate of the EU's biofuel industry seems to be at stake, notably that of biodiesel producers. Observers point out that a policy which ignores ILUC effects leaves the industry in a turmoil and doesn't allow biofuel producers to plan properly for the future. Interestingly, EU bioethanol producers are reported to have come out in support of accounting for ILUC, because, allegedly, bioethanol stands to gain an advantage over biodiesel when land-use impacts are factored in. In the meantime, the bloc's biodiesel industry has produced studies claiming that the impact of ILUC has been greatly overestimated.

- EU biodiesel production and trade: Total biodiesel output is estimated at 9-10 mill tons this year, implying that expansion in production has come to a halt and that no more than 40-45% of the EU's installed production capacity is being used. The low utilization rates could force part of the industry to close down. Apparently, the sector's weak performance is not the result of falling demand for biodiesel. Rather, with prices for rapeseed oil (the main feedstock) rising markedly, domestic biodiesel production has became less profitable and more exposed to import competition. Importing of soyoil and palmoil-based biodiesel has become increasingly attractive. For the current year, those imports have been tentatively estimated at 2.5 mill tons, 21% higher than in 2010. Main origins are Argentina, Indonesia and Singapore. The EU biodiesel industry claims that part of these imports involve dumping and therefore decided to call on the EU Commission to investigate on the issue. In recent, similar cases the EU decided to impose anti-dumping duties.

INDIA – oilcrop production support

- Rapeseed support price: The government has raised the 2011/12 minimum support price for rapeseed by 35% to Rp 25 000/t, stating that recent rises in production costs warranted such upward adjustment. The rise is also meant to encourage farmers to expand plantings, and thereby contribute to reducing the country's edible oil deficit. Recent planting increases in the current rabi rapeseed crop are attributed to both record market prices and the lift in support prices.
- Olive cultivation: Reportedly, the government is planning to promote olive cultivation in Punjab and Azad Kashmir with a view to raise olive oil production, thereby helping to reduce the country's dependence on edible oil imports. Awareness and training programmes will be conducted to attract potential growers.

INDIA – palm oil import policy: As anticipated, the recent change in Indonesia's export duty structure for palm oil and derived products represents a major threat to India's vegetable oil refining industry *(see also MPPU no. 28 & 29)*. After initial calls to lift the country's import duty on refined oils (so as to stem the inflow of refined palm oil from Indonesia), the industry is now asking for an upward revision in the base prices on which import taxes are calculated. So far the government has not yielded to the industry's request, supposedly out of concern that the proposed measures could propel domestic food price inflation upward. Market observers are warning that, eventually, the country could find itself faced with both higher landed costs for refined palm oil and rising international prices for crude palm oil. In any case, protecting the domestic refining industry may prove difficult in the long run: the sector is said to suffer from inefficiencies and poor infrastructure, which weakens its position vis-à-vis international competitors. According to the latest media reports, the Indian government is determined to seek a reduction in Indonesia's export tax on crude palm oil, possibly in lieu of low-cost supplies of Indian rice to Indonesia.

INDIA – edible oil export: Reportedly, exportation of limited quantities of edible oil will be allowed under a long term government-to-government deal with neighbouring country Bhutan. In India, edible oil exports are banned since 2008 (with the exception of consumer packs of up to 5 kg, subject to a quantitative ceiling of 10 000 tons per year) with a view to keep a lid on domestic oil prices.

INDIA – biodiesel policies and industry concerns: The government biofuel policy issued in 2009 has come in for criticism by the country's biodiesel industry. The *Biodiesel Association of India* reported that much of the country's biodiesel production capacity is lying idle, and is blaming red tape, complicated taxing, insufficient incentives and concessions and, most importantly, the lack of a concrete roadmap on how to enhance step-by-step the production, marketing and consumption of biodiesel over the coming years. The government-set target of 58 mill tons biodiesel output and 20% mandatory admixture by 2017 is seen as totally unrealistic. Reportedly, the currently installed annual capacity – estimated at merely 1.2 mill tons for the whole country – would be sufficient to manage at best 3% blending. Meanwhile, the industry claims that it would be able to sell biodiesel without need of subsidies – as opposed to conventional diesel, whose sales are heavily subsidized. From a cultivation perspective, underutilized land is said to offer ample opportunities for growing a variety of bio-energy crops.

INDONESIA - palm oil export policies

- Export tax: Based on a decrease in international palm oil quotations, the country's export tax on crude palm oil has been lowered from 16.5% in October to 15% in November. The export tax on refined palm oil was also lowered. During December, the export tax rates will remain unchanged.
- Concerns of oil palm growers: Reportedly, oil palm planters and smallholders used to ship crude palm oil are complaining that the government's recent export tax restructuring is forcing them to pay more for their exports than processors who export refined oil. Such situation is said to lower the incentive for smallholders to replant and improve productivity levels. In addition, the higher crude oil export tax may also encourage smuggling.

INDONESIA – biodiesel exports: The country's exports of palm oil-based biodiesel (mainly to the European Union) are reported to be on the rise. After a slow start in the mid 2000s, since 2008 shipments (most of which are bound to the EU) have gone through a four-fold increase and are estimated at 700-750 thousand tons this calendar year by private sources. The estimate implies that about three quarters of domestic production are exported – a development that reflects the government's policy to set export taxes for palm oil-based fuel at a lower rate than crude palm oil. In the recent tax structure change, the tax on biodiesel has been capped at 7.5 %. In addition biodiesel exports are reported to enjoy a tax-free threshold.

JORDAN – olive oil marketing and trade: The government assured farmers that it will continue to provide assistance in the marketing of the country's olive oil crop. Reportedly, the market is faced with temporary surpluses that push domestic prices below production costs. Intervention measures will include public purchases and distribution initiatives, a temporary import ban and exceptional export permits. Pointing at chronic marketing problems and market imperfections, industry representatives have called for a permanent ban on olive oil imports and tighter export controls.

KAZAKHASTAN – export restrictions: To prevent domestic shortages and improve the country's food security situation, the government decided to ban exports of vegetable oil from September 2011 to January 2012. ST & REUTERS 13.10

MALAYSIA/INDONESIA – palm oil policies: The recent change in Indonesia's export duty structure for palm oil and derived products potentially reduces the competitiveness of refined palm oil production and export in Malaysia *(see also MPPU no. 28 & 29)*. The country's refining industry is concerned about both a possible build-up in stocks of refined oil as well as growing difficulties in sourcing sufficient amounts of crude palm oil (CPO). With the country's refined palm oil becoming more expensive compared to Indonesia, Malaysian exporters could lose market share, especially in price-sensitive countries like China and India. To address these concerns, officials from the two countries are engaged in talks, focusing on review of their respective export policy measures. Joint measures that will benefit downstream palm oil processing industries in both countries are expected to be announced before year-end. Recent official sources confirmed that the two countries agreed to review their respective tax structures. Options examined include a revision of Indonesia's export duties on refined palm oil and a reduction in both countries' high CPO export tax. Considering that Malaysia also imports crude oil from Indonesia (as domestic refining capacity has grown beyond the country's own output) a duty-free quota on Indonesian-origin CPO bound for Malaysia might also be considered. Apparently, the two countries are determined to come up with mutually beneficial solutions and strategies.

MALAYSIA – biodiesel programme: Launched in June of this year, mandatory sales of B5 biodiesel in the three central states of Peninsular Malaysia are reported to proceed as planned. A total of 890 000 tons of is expected to be required to satisfy demand (based on an estimated annual diesel consumption of 2.49 billion litres). The programme relies on public subsidies to the tune of RM 106 mill per year. The subsidy is required to maintain the price of biodiesel at RM 1.80 per litre, the same as regular diesel. At present, the subsidy provided per litre amounts to RM 0.0426. Nationwide introduction of B5 is scheduled for early 2013.

NETHERLANDS – refining industry affected by Indonesian export policy: After India and Malaysia, the Netherlands has voiced concerns about adverse effects Indonesia's revised palm oil export policy is having on the Dutch vegetable oil refining industry. Recent trade reports suggest that Indonesia's new export tax structure has conferred global trade in refined palm oil with an edge over crude oil – thus leading to significantly lower margins for refiners in traditional crude palm oil importing countries. The Netherlands, one of the EU's main import hubs, offer home to massive processing plants owned by domestic and foreign investors. Indonesia could be exposed to growing criticism for using tools like export taxes, which potentially affect palm oil businesses worldwide.

PHILIPPINES – coconut sector development: PCA, the government agency tasked with the promotion and development of the nation's coconut sector, is set to step up its efforts with respect to the replanting of senile coconut palms on smallholder farms. The agency's replanting budget for 2012 has been raised to Ps 512 mill from Ps 60 mill this year. Reportedly, promising market prospects for non-traditional coconut products such as coconut water have greatly improved the sector's prospect for growth.

UKRAINE – export policies

- New export tax proposal: Reportedly, the government decided to drop its plan to introduce taxation on *sunflower oil*, rapeseed and soybean exports. In particular the country's export oriented sunflowerseed refining industry would have been adversely affected by the proposed tax.

- Bilateral free trade agreement with the European Union: Official sources reported that negotiators have reached the following agreement regarding Ukraine's *sunflower seed* export policy: the country will be allowed to tax EU bound seed exports for a period of 15 years at a rate equivalent to the currently applied export duty. The duty is going to be phased out over 10 years and replaced by a fee (or tax) that compensates the gradual reduction in the duty. The agreement is expected to maintain intact the protection provided to the country's seed processors and oil exporters.

UNITED STATES – GMO labelling: A national consumer advocacy organization has filed a formal petition with the U.S. Food and Drug Administration (FDA) seeking mandatory labelling of all foods containing genetically modified ingredients. In the past, FDA's stance has been that labelling is not required because GM products proved to be safe and substantially equivalent to conventional ones – a position shared by the biotech industry. The new petition requires a formal response from FDA and could be followed by the filing of a lawsuit. Reportedly, the share of processed food on American grocery store shelves containing GM ingredients amounts to circa 60%.

UNITED STATES – biofuel policy issues

- External policy evaluation: The US Congress had requested the *National Academies of Science* to undertake a study on the potential economic and environmental effects of the country's current biofuel policy, as laid down in the Renewable Fuels Standard (RFS). The recently published findings cast serious doubt about the effects of the policies in place: it is considered unlikely that the United States will meet some specific biofuel mandates specified in the RFS by 2022 unless innovative technologies are developed or policies change. The report also states that the RFS may be an ineffective policy for reducing global GHG emissions. Furthermore, achieving the standard would likely increase federal budget outlays and have mixed economic and environmental effects. The report has triggered mixed reactions from the domestic biofuel sector. Scepticism prevailed at the *Renewable Fuels Association*, which recommended extreme caution in interpreting the study's findings. By contrast, the *National Biodiesel Board* was pleased to see the study classify biodiesel as an 'advanced biofuel' that can meet the biomass-based diesel targets set under RFS. The Board welcomed the study's recognition of several environmental and economic benefits from biodiesel, but also agreed that biofuels must be produced in a fully sustainable manner.
- Government support: Reportedly, USDA announced that it will grant US$ 44.6 mill to some 150 biofuel producers in the US to help support their production and product development efforts. The subsidy will be allocated based on the amount of biofuel a company produces from renewable biomass.

UNITED STATES – commodity futures trading: The U.S. *Commodity Futures Trading Commission* decided to restrict, starting next January, the volume of future contracts that financial investors can trade. The curbs are aimed at investment firms and others who trade in futures to profit from swings in market prices – a speculative practice that has been blamed for magnifying price movements and for contributing to recent rises in global food prices. Under the new rule, agriculture companies and others groups will be exempt from the cap.

Biodiesel production and GHG emissions: According to new research undertaken to measure GHG emissions associated with palm oil-based biodiesel production, the scale of emissions from oil palm plantation on tropical peatland in Southeast Asia could be higher than previously assessed. CO_2 emission levels have been estimated at 86 tons per ha per year annualized over 50 years (or 106 tons when annualized over 20 years). The research programme is meant to help regulators assessing the level of GHG reductions associated with alternative biofuel pathways.

Castor oil industrial application: Chemical company *BASF* and car manufacturer *FORD* informed about the development of a castor oil-based foam that is going to be used for car interiors. The new application could open up new market opportunities for a second tier oilcrop that can be grown throughout tropical regions.

Certified sustainable palm oil

- Global market challenges: Current production of certified sustainable palm oil is estimated at 5.2 mill tons globally – hence accounting for less than 10 percent of world supply. If supply is limited, demand seems to be even smaller: reportedly, less than 60 percent of the certified product is finding a buyer. According to market participants, lack of demand is more of a problem than lack of supply. Although major users of palm oil have pledged to move towards sourcing sustainably produced product, many of them are said to remain reliant on offsetting *GreenPalm* certificates rather than physical oil to meet their commitments. Moreover, part of the global market seems unwilling to pay a premium for sustainable oil. As a result, incentives for sustainable production tend to remain inadequate. Means to expedite the production and use of sustainable palm oil are being debated at RSPO, the multi-stakeholder, non-governmental initiative that has led sustainability efforts at the international level. Reportedly, increased attention is being given to possibilities of involving governments more closely. One proposal is to encourage national governments to reduce import duties for certified sustainable palm oil so as to offset the price premium coming with the product. Indeed unofficial sources reported that EU policy makers have been invited to consider exempting eco-friendly palm oil from the bloc's 3.8% import duty. Reportedly, the initiative is supported by the Dutch government and could be included in the EU's on-going free-trade negotiations with Malaysia and Indonesia.
- Indonesian initiative: The Indonesian Palm Oil Association (GAPKI) announced its withdrawal from RSPO. Reportedly, the industry body decided to focus on assisting the government in launching ISPO, the country's own certification system for sustainably produced palm oil.

Certified palm oil-based fuel: Renewable energy business *Mission NewEnergy* has obtained ISCC certification (International Sustainability and Carbon Certification) for its palm oil-based biodiesel, which is said to allow GHG emission savings of 41-47%. With ISCC fully meeting European Union RED-requirements, the company has begun selling palm oil-based diesel to the EU market. The company informed that it has also submitted an application to the EPA in the United States, which is currently evaluating compliance with relevant US requirements.

For comments or queries
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	International Prices (US$ per tonne)					FAO Indices (2002-2004=100) [6]		
	Soybeans[1]	Soybean oil[2]	Palm Oil[3]	Soybean Cake[4]	Rapeseed Meal[5]	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2004/05	275	545	419	212	130	105	104	105
2005/06	259	572	451	202	130	100	108	125
2006/07	335	772	684	264	184	129	148	153
2007/08	549	1325	1050	445	296	217	245	202
2008/09	437	849	682	409	206	156	145	180
2009/10	429	924	806	388	220	162	174	215
2010/11	550	1308	1147	418	279	215	256	221
Monthly								
2009 - October	427	891	676	413	187	158	153	207
2009 - November	442	939	728	422	196	164	163	216
2009 - December	448	931	791	425	219	167	171	224
2010 - January	435	919	793	407	243	163	170	221
2010 - February	406	915	804	393	230	154	170	214
2010 - March	410	920	832	381	200	156	176	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	171	214
2010 - June	408	860	794	342	194	154	169	206
2010 - July	426	911	811	361	225	162	176	211
2010 - August	457	1002	901	389	245	175	194	213
2010 - September	468	1036	910	398	277	180	199	218
2010 - October	496	1165	998	415	285	193	222	227
2010 - November	526	1248	1117	430	292	205	245	225
2010 - December	550	1321	1229	437	289	216	264	222
2011 - January	572	1384	1279	454	313	225	279	234
2011 - February	569	1366	1286	447	290	224	281	241
2011 - March	552	1305	1172	423	264	217	262	234
2011 - April	553	1310	1148	406	277	219	261	227
2011 - May	556	1291	1155	403	280	218	261	220
2011 - June	559	1321	1137	396	289	219	259	211
2011 - July	558	1345	1100	405	262	217	253	209
2011 - August	557	1327	1080	402	248	214	245	206
2011 - September	546	1310	1065	396	255	209	239	200
2011 - October	502	1216	995	378	243	194	224	194
2011 - November	491	1228	1054	353	224	191	235	196

[1] Soybeans (US, No.2 yellow , c.i.f. Rotterdam)
[2] Soybean oil (Dutch, f.o.b. 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)
[6] Please note that the indices for historic years have undergone a revision in December 2011

Note: The FAO indices are calculated using the Laspeyres formula; the w eights 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, tw elve selected oils and fats and seven selected cakes and meals.
Sources: FAO and Oil World