OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 42, December 2012

a) Global price review

In November, FAO's price indices for oilseeds and oils/fats continued to lose strength, falling for the third consecutive month. By contrast, the index for meals recorded a small upward correction, after falling for the two previous months.

The indices for oilseeds and oils/fats both dropped by about 3% from the October level, which pushed the oils/fats index to a 2-year low, whereas the oilseeds index continued to fare above the average of the last four seasons. Meal prices, on the other hand, increased by around 2% on average, thus remaining close to the record highs observed last August.

International oilseed prices continued easing in response to reduced concerns about tight market availabilities, mainly reflecting better than earlier anticipated yield levels in the recently harvested US soybean crop. Reports about adequate precipitation in Brazil, where the new crop started to be sown, also contributed to calm the market – although, in Argentina, planting operations continued to be hampered by excessive rainfall. During the coming weeks, the market is expected to increasingly follow weather developments in South America, as the prospected improvement in global supply in 2012/13 will depend heavily on that region.

With respect to the global oils/fats market, palm oil continues to play a dominant role: abundant palm oil production, combined with weak import demand, has led to historically high stock levels in both Indonesia and Malaysia. Furthermore,

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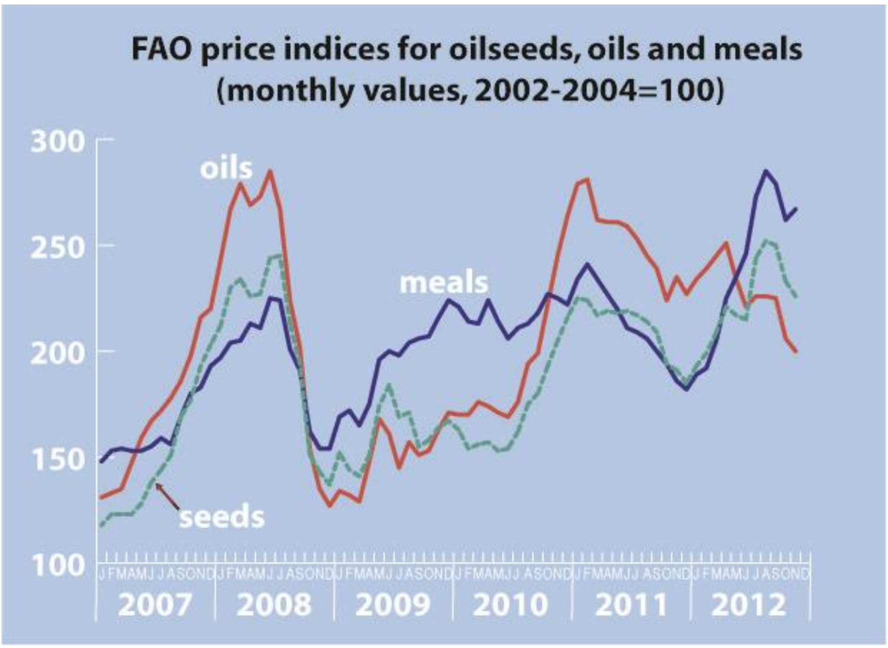

* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during ***November* 2012**. Previous issues can be downloaded from the FAO website at URL
http://www.fao.org/economic/est/publications/oilcrops-publications/oilcrops-monthly-price-and-policy-update/en/

Global price review - *cont'd*

palm oil production is expected to turn out larger than anticipated in Central and South America, in particular in Colombia and Ecuador, thus boosting export availabilities from that region. With respect to global consumption, a recent slowdown in vegetable oil demand, notably for rapeseed oil by the EU biodiesel sector, also weighed on the index, with global availabilities of rape as well as sunflower-seed oil anticipated to remain unusually large.

As to meals, the main driver behind the index' renewed strengthening is near-record fishmeal prices, which have outweighed the influence of declining soymeal prices. Last month's surge in global fishmeal quotations was triggered by Peru's decision to drastically cut the official quota for commercial catches during the key December'12–January'13 period. Given the country's leading position in global fishmeal trade, the new fishing restriction is expected to tighten global fishmeal supplies over the first half of next year. Also weighing on the meal price index is the prospective reduction in output of oilmeals other than soybean meal during 2012/13.

b) Selected policy developments and industry news

BRAZIL – biodiesel production: Private sources reported plans by major international trading houses to expand their biodiesel production capacity in the country, eyeing both the domestic and export market. Expansion plans seem to hinge on the introduction of a higher mandatory target for domestic consumption – a move that the government keeps postponing based on concerns about the country's limited supply of vegetable oil as biodiesel feedstock. Thus, Brazil's mandatory blending rate for biodiesel remains at 5%. In 2012, the country's biodiesel output is estimated at around 2.3 million tons, while total installed biodiesel production capacity is estimated at a much higher 6.9 million tons.

BRAZIL – soybean moratorium: Launched in 2006, the private sector 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 2014. The initiative, which is backed by the government as well as civil society groups, is meant to complement and reinforce the environmental provisions contained in the recently amended National Forest Code *(see MPPU no. 30&36, Dec'11&June'12)*.

CHINA – quality standards for imported vegetable oil: Reportedly, starting in January, edible oil imports will be subject to stricter quality controls. Quarantine authorities are expected to require comprehensive guarantees for all landed oils, in particular regarding stearic acid and peroxide content in cargoes (– two parameters that determine product safety for food use as well as storage life –), implying that shipments of palm oil may be more affected than those of soy and rapeseed oil. Cargoes that fail to meet the new standards will be required to undergo costly additional refining before they can be marketed; consequently, importers are expected to develop a preference for crude oil imports for subsequent, single refinement within China – a trend likely to affect countries such as Indonesia, which invested heavily in local processing capacity with the aim to spur exportation of value-added, refined products. According to market observers, the prospective change has prompted Chinese traders to intensify foreign oil purchases in recent weeks, even though details about the new regulation have yet to be published.

CHINA – state soybean procurement and sales

- State procurement: Reportedly, the official procurement price for soybeans harvested this year has been set at Yuan 4 600 per ton, which compares to current market prices between Yuan 4 400 and 4 450; last year's procurement price amounted to Yuan 4 000 per ton. This will be the fifth consecutive procurement campaign for public stockpiling purposes – aimed at protecting farmers' interests by keeping domestic soybean prices above those of imported beans. Total state purchases to date are estimated at about 14.6 million tons. For this year's crop, official procurement is going to last until next April and state warehouses have been instructed to accept any amount farmers wish to sell. As long as prices for home-grown beans continue to exceed those charged for imported produce, soybean import demand by crushers can be anticipated to remain strong.

- Public sales: As anticipated by private sources, recent public offers of soybeans from state reserves (– meant to ease domestic supply tightness and contain renewed food price inflation –) have attracted scarce buyers' interest, given that the initial bidding price was fixed at Yuan 4 500 per tons, i.e. around the market prices buyers need to pay for domestic and imported beans. Reportedly, as of mid November, state auctions might be temporarily suspended with a view to prevent traders from selling their purchases from state reserves back to the government as it starts procurement operations.

EUROPEAN UNION – olive oil regulations: Reportedly, possible amendments to key regulations concerning olive oil production and marketing within the EU are currently under discussion at the European Commission (for subsequent consideration by the Council and Parliament). The main areas covered under the so-called "Olive Oil Action Plan" are: (i) anti-fraud measures, including obligatory authenticity tests and subsequent reporting of results, (ii) product labeling, comprising detailed rules on the positioning of information and font size, (iii) use of non-refillable containers in the restaurant and hospitality sector, and (iv) the use of higher trigger prices for EU private storage aid.

FRANCE – palm oil tax: Reportedly, a French Senate committee proposed to raise taxation of palm oil consumption from currently Euro 100 per ton to Euro 400, citing concerns about the oil's environmental footprint and health properties. The initiative caused a considerable stir among oil palm industry players in Southeast Asia. To come into force, the proposal needs to first receive final approval by the Senate and then pass the Lower House. Meanwhile, concerned governments are reported to have set up a joint task force charged to the resolve the issues raised.

INDIA – import policy: Since doubling the base import value for refined palm olein in last August *(see MPPU no. 39, Sep'12)*, India's government has twice lowered the value used for calculating custom duties so as to reflect price movements at the global level. Originally raised to USD 1 053 per tons, the value was first brought down to USD 889 and then to USD 887. Meanwhile, base import values for other types of crude and refined palm oil were kept unchanged.

INDIA – oilseed support prices: After significantly lifting the support prices for kharif (summer) oilcrops earlier this year, India recently raised the procurement price for rabi (winter) rapeseed from Rs 25 000 per ton to Rs 30 000 per ton. This season's 20 percent rise follows a 33 percent increase for last year rabi crop, thus reflecting the government's continued effort to encourage domestic oilseed production and slow down import growth. For comparison, the support prices for kharif rice and maize have been raised by, respectively, 16 and 18 percent, whereas the procurement price for wheat has been left unchanged.

INDONESIA – palm oil export policy:

- Policy impact: According to industry sources, last year's change in Indonesia's export tax regime (– favouring the exportation of refined oils over crude oils –) has led to the following developments: (i) accelerated investment in the downstream palm oil industry, spurring growth of a wide range of oleochemicals and refined products; (ii) a surge in the number of refined palm oil items produced in the country (from approximately 45 to 80); and (iii) a rise in the export share of refined products from 40 to 60%.
- Revisiting policies: Reportedly, prompted by Malaysia's recent announcement of reduced taxation of crude palm oil exports from January 2013, the Indonesian government is reviewing its export policy for crude palm oil. Apparently, Indonesian traders are concerned that Malaysia's move (– which itself was introduced in response

to the export incentives Indonesia introduced late last year –) could reduce the competitiveness of their exports.

NIGERIA – oil palm investment: Reportedly, an environmental rights group challenged a land acquisition project by a major oil palm firm, claiming that the principles of the Roundtable for Sustainable Palm Oil have not been followed, especially with regard to the rights of the concerned local communities. Allegedly, the company failed to reach – prior to starting land development activities – an agreement with the local landlord communities. The company meanwhile informed that it respected all obligations by paying compensations to the local government in favour of the concerned communities.

PAKISTAN – sunflower support price: Reportedly, Pakistan's government and the country's oil extraction companies agreed to raise the purchase price of sunflower seed from currently Rs 42 500 to Rs 52 500 per ton. The initiative reflects efforts to stimulate growth in domestic production.

PARAGUAY – soy export taxation: The country's Senate has passed a bill that would impose a 10% tax on soybean exports. The proposal emulates policies applied in neighbouring Argentina, where higher-value added soymeal and soyoil exports are encouraged over raw bean via differential export taxation. Paraguay, the world's fourth largest supplier of soy, currently is exporting most of its soy in unprocessed form. The proposed measure would support the country's nascent soy-crushing industry and promote the exportation of higher value-added products. The bill still requires approval by the Lower House and by the President. Reportedly, farmers are opposed to the draft law, saying that export taxes would translate directly into lower farm gate prices.

PERU – fishmeal supplies: Production in the world's leading supplier of fishmeal is set to drop sharply this season following the government's decision to drastically cut the official catch quota for the key fishing months of December 2012 and January 2013. Reportedly, cutting the allowance to the lowest level recorded in 25 years was unavoidable as warm water temperatures and controversial fishing practices risk depleting the population in particular of anchovy in the country's fishing areas. Reduced export availabilities from Peru are expected to push international fishmeal prices upward.

THAILAND – coconut development policy: Last year, the Thai government decided to liberalize the importation of coconut products, followed, earlier this year, by the introduction of state procurement of home-grown copra (at Baht 21 per kg for copra with ≤ 5% MC). The measures aimed at securing domestic supplies, while also encouraging local production. Now the government has presented a 5-year action plan for coconut with the objective to raise the nation's average yield level and overall output, while reducing production costs.

THAILAND – mandatory biodiesel blending: In November, the Thai government decided to raise the country's mandatory blending rate to 5 percent (B5), up from 4 percent in effect since late 2011. Originally planned for end 2011, the government preferred to delay B5 implementation several times due to seasonal shortfalls in domestic palm oil production that led to shortages in edible oil supplies. Finally, B5 has been approved, based on improved and stable supplies of crude palm oil, which remains the principal biodiesel feedstock.

UNITED STATES – biodiesel consumption mandate: The country's petroleum industry urged the Environmental Protection Agency to reconsider its decision to raise the nation's biodiesel consumption mandate for 2013 *(see MPPU no. 41, Nov '12)*, arguing that the costs associated with increased biodiesel requirements could outweigh the benefits, The sector also claimed that fraudulent biofuel credits have plagued the system since last year, a situation that could inhibit the industry's ability to meet the higher mandate..

ZIMBABWE – soybean production: Reportedly, soybean production is attracting significant public and private funding in Zimbabwe, driven by rising demand for the crop and its by-products. Soybeans in the country are used in the production of cooking oil, livestock feed (especially for poultry) and a variety of edible foods high in nutritional value (e.g. soya milk, mince and bread). Farmers are reported to have switched from cotton to soybeans. Soybeans are said to grow well in the country, especially on red soils where fertilization requirements are relatively low. Although soybean seed is expensive, farmers are reported to break even with a yield level of 1.5 tons per ha.

Biofuel feedstock

- Brassica carinata: In Canada, government-backed work on industrial applications of carinata oil – the oil of a minor oilcrop belonging to the brassica family – has led to the development of carinata-based aviation fuel. The fuel has recently been tested on a civilian flight using 100 percent of the renewable product. Tolerant to cold, heat and drought, carinata is said to thrive on marginal farmland not suited for other agricultural crops. Unpalatable for food uses, the plant oil lends itself as fossil fuel substitute.
- Camelina sativa: Additional public funding of research on camelina oil as biodiesel feedstock has been made available in the United States. The oilseed is believed to hold significant potential as a bio-energy crop in the Delta region. Planned research and outreach activities will focus on: (i) developing genetically transformed varieties suitable for the region, featuring high yield potential and other desirable traits; and (ii) analyzing the seeds oil/meal and optimizing processing technologies.

Specialty oil applications: Two US companies formed a joint venture to produce renewable biosynthetic lubricant oils from high-oleic soy oil. Allegedly, the new products are well suited for various applications in the automotive and industrial lubricant sectors (as well as in the personal care and cosmetics field) and match or exceed the performance characteristics of the corresponding petroleum-based oils. The development is expected to enhance the market opportunities for high-oleic soybean varieties, whose full commercial launch is envisaged for the year 2014. The oil derived from high-oleic varieties is said to also provide benefits in food applications: compared to traditional soy oil it contains less saturated fat, while its higher oxidative stability means that it does not require hydrogenation, thus remaining trans fat free.

Certified sustainable palm oil

- Preferential trade: The Roundtable on Sustainable Palm Oil renewed its call to importing countries to grant preferential tariffs for certified sustainable palm oil. RSPO believes that the introduction of discounted rates by countries like China, India and the EU would go a long way towards stimulating production and trade in sustainably produced palm oil. Lower duties would help offset the additional costs associated with producing certified oil, making it competitive with non-certified produce. Currently, the premium commanded by certified produce is said to reduce demand in what are known to be very price sensitive markets. To persuade governments to grant preferential duties, RSPO intends to work through the various national industries. One market participant expressed concern that not all countries would benefit from the proposed policy: especially smaller countries that are distant from main import markets and where palm oil production is dominated by smallholders – who, typically, lack the means to obtain certification – could find themselves disadvantaged.
- Indonesia certification status: In spite of being the world's leading producer of RSPO-certified palm oil in absolute terms, Indonesia appears to require more time to adopt certification on a wide scale. According to RSPO, to date only 12% of palm oil companies in the country (exactly 68 firms, including growers, processors and trading companies) have obtained certification, and only 3 million tons out of 25 million tons of palm produced in the country are certified. Many producers seem reluctant to recognize the demanding (but internationally respected) standards set by RSPO. Most market experts believe that, in a few years time, as international buyers start acquiring only certified produce, most producers will have little choice but to adopt RSPO standards. However,

smallholder production, which accounts for around 40 percent of Indonesia's total output, continues to pose challenges in that small independent growers cannot afford to hire auditing firms, a key requirement to obtain certification. Apparently, to address this issue, RSPO has set aside 10 percent of its income to help smallholders acquire certification and is currently working on specific procedures and modalities to assist such growers.

Rapeseed research: A team of researchers in the UK informed that using biotechnology it has developed a rapeseed that yields 8% more oil than conventional material. Reportedly, to obtain the higher oil content, a naturally present enzyme responsible for oil breakdown during seed development has to be deactivated. The next step will be to transfer the technology from the laboratory to the field. Possibilities to apply the technology to other oilseeds will also be investigated.

For comments or queries
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	International Prices (US$ per tonne)					FAO Indices (2002-2004=100)		
	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	549	1308	1147	418	279	215	256	221
2011/12	562	1235	1051	461	295	214	232	224
Monthly								
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	186
2011 - December	476	1163	1026	346	227	185	227	182
2012 - January	500	1223	1062	371	234	193	234	189
2012 - February	512	1245	1100	385	255	199	239	192
2012 - March	542	1283	1152	426	287	209	245	205
2012 - April	575	1308	1182	474	335	221	251	225
2012 - May	570	1210	1081	492	330	217	234	235
2012 - June	570	1187	996	503	315	215	221	246
2012 - July	660	1234	1010	584	353	244	226	273
2012 - August	682	1254	994	619	365	252	226	285
2012 - September	669	1276	960	604	374	250	225	279
2012 - October	617	1183	844	555	359	233	206	262
2012 - November	595	1148	816	539	378	226	200	267

[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)

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, twelve selected oils and fats and seven selected cakes and meals.
Sources: FAO and Oil World