OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE [1]

No. 54, December 2013

a) Global price review [2]

In November, FAO's price indices for oilseeds and vegetable oils strengthened, whereas the index for oilmeals eased compared to the previous month. While the index for oilseeds gained 4 points (or almost 2 percent), the oils index increased by as much as 11 points (or 5.6 percent), causing the indices to reach, respectively, 7 and 9-months highs. The meals/cakes index fell by 6 points (or 2.3 percent), but still remains at historically high levels.

The rise in the oilseed index reflects renewed strengthening in international soybean quotations. Continued strong soybean import demand by China – while the market is basically relying on a single supplier, the United States – has driven prices up, notwithstanding US harvest pressure and the prospect of record global soybean supplies for the 2013/14 season. The United States' soybean crop estimate has been adjusted upward on improved yields; however, the forecast for US end-of-season stocks has been lowered, lending support to prices. Additional upward pressure has

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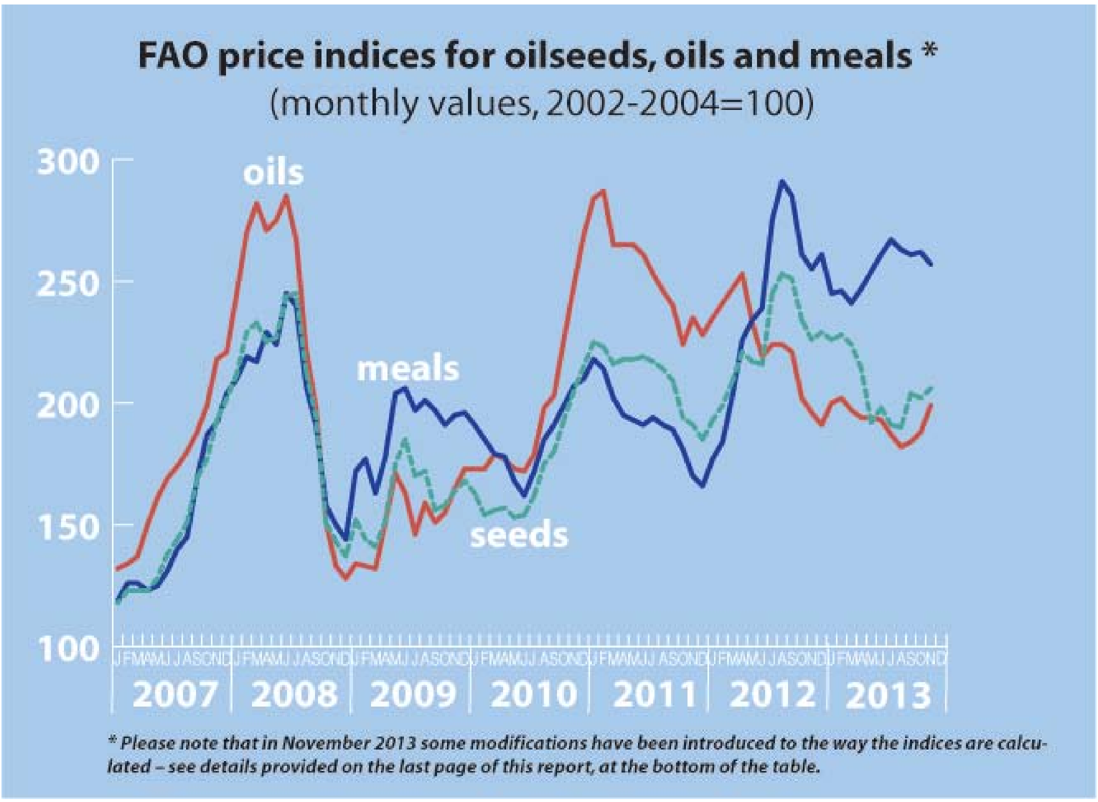


[1] The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **November 2013**. 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/

2 Please note that in November 2013 some modifications have been introduced to the way the indices are calculated – see details provided on the last page of this report, at the bottom of the table.

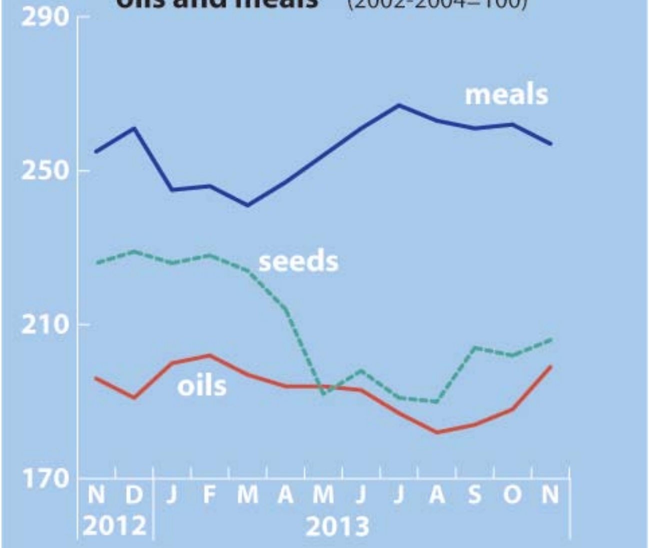
Global price review – *cont'd*

come from reports of harvest losses in India due to heavy rainfall, and from slow forward sales of South America's 2014 soy crop.

With respect to the global vegetable oil market, the appreciation in prices has been mainly driven by palm oil, whose value rose by 6 percent on average (month-on-month), reaching a 14-months high. The second consecutive gain in palm oil prices reflects the concurrence of strong consumption and import demand, including for biodiesel production, and below-expectation output in Southeast Asia (following excessive rainfall), which led to a downsizing of stocks. Firm international prices for soy, sunflower and rapeseed oil – due to sustained demand – also contributed to the rise in the index. Finally, November has seen a surge (more than 30 percent month-on-month) in international coconut oil prices, reflecting a deterioration in global production and trade prospects after typhoon Haiyan brought serious damage to plantations in the Philippines.

As to the meals/cakes index, soymeal plays the dominant role: international soymeal quotations lost strength due to the prospect of record global supplies – as well as export availabilities – in 2013/14. The latest forecasts for global production and supplies of soybean meal point to a 7 percent rise compared to last season. Recent upward revisions concerned in particular the United States, Argentina and Paraguay, while the forecast for Argentina could be subject to further upward corrections, as actual soybean plantings in the country may exceed initial expectations.

FAO monthly price indices for oilseeds, oils and meals * (2002-2004=100)



** Please note that in November 2013 some modifications have been introduced to the way the indices are calculated – see details provided on the last page of this report, at the bottom of the table.*

b) Selected policy developments and industry news

ARGENTINA – biodiesel policy:
The government decided to raise mandatory blending of diesel transportation fuel with soyoil-based biodiesel from formerly 8% to 10%. The new rate will apply from 1st January 2014 and also concerns fuel burned for power generation. The increase was introduced to compensate domestic biodiesel producers for European trade lost after the EU imposed strict anti-dumping duties on biodiesel imports from Argentina earlier this year. Once fully implemented, the higher rate is estimated to raise annual domestic biodiesel consumption by 450 000 tons. Private sources estimate current biodiesel consumption at no more than 850 000 tons per year. According to government officials, the sales price of blended fuels is going to remain unchanged. The government-set price is said to guarantees producers a fixed profit margin of 4%.

BRAZIL – biodiesel policy: Reportedly, the government is evaluating the possibility of an increase in the mandatory blending rate of biodiesel. Although no further details have been provided, private sources believe that the rate would be raised from 5% (in place since January 2005) to 7%. Currently estimated at 2.65 million tons, annual domestic biodiesel demand would climb to 3.7 million tons as a result of the higher blending rate. Estimates for the country's current biodiesel production capacity range between 6 and 7 million tons. During the last two years, the industry has expanded strongly due to investments by multinational trading firms and crushers.

BRAZIL – port investment: According to industry sources, the new federal law regulating investment in port infrastructure *(see MPPU no.48, June'13)* is likely to favour exportations of soybeans over shipments of soy products, in particular meal. The new regulations are said to benefit those ports that move most product by weight, thus putting at a disadvantage operators that ship higher-value products. Loading soymeal is more time consuming – and thus more expensive – than moving soybeans; consequently, meal exports are expected to suffer (in terms of volume) despite their higher value.

BRAZIL – pest control: To control the latest outbreak of caterpillar *helocoverpa armigera* the government has declared the state of emergency in four of the country's central states – all of them growing soybeans. By doing so, it temporarily permitted the importation of a powerful pesticide. As fighting the pest involves multiple applications of insecticide and destruction of plants, a surge in production costs is expected. Last season, the caterpillar's attacks throughout the country caused an estimated loss of 4.7 billion USD. First identified in February 2013, the insect has spread rapidly due to inadequate farming practices, say researchers.

CHINA – state rapeseed oil reserves: Official resources have confirmed the presence of imported produce in the state's temporary rapeseed oil reserves – thus revealing transactions in violation of state procurement policies that require state purchases to come exclusively from domestic sources so as to protect the interest of local producers *(see also MPPU no. 51, Sep'13).*

CHINA – biodiesel policy: Reportedly, the government will start taxing the consumption of fuels blended with biodiesel whenever the biodiesel content is less than 30 percent. The planned tax will match the existing consumption tax on conventional fuel. Blends with higher biodiesel content will remain tax exempt. Reportedly, the measures is meant to stop tax-free importation of low-rate blends into the country. Imports of such blends are said to have surged this year – encouraged by the absence of consumption taxes.

CHINA – soybean support

- Import policy: Reportedly, imported soybeans will be barred from entering Northeast China and Inner Mongolia. The ban aims at shielding soybean production in the country's traditional soybean growing areas, where plantings have been falling strongly in recent years.
- Public stock releases: A total of 2.43 million tons of soybeans have been sold through state auctions between August and October this year. Public sales aimed at improving the domestic supply situation, in particular for processors in the Northeast who primarily use domestically grown soybeans.
- Local procurement: Public procurement of soybeans from this year's harvest has been confirmed at Yuan 4 600 per ton (760 USD) – unchanged from last year. State purchases will be concentrated in Northeast China and are scheduled to last until April 2014.

EUROPEAN UNION – biodiesel trade

- Anti-dumping duties: Provisional anti-dumping duties on biodiesel imports from Argentina and Indonesia have been replaced with definitive ones. For the next five years, Argentina's producers will have to pay between 217 and 246 Euros per metric ton (corresponding to an ad-valorem rate of 24.6 percent on average), while Indonesian producers will be faced with duties ranging 122 to 149 Euros (or 18.9 percent on average). Both countries said they will formally appeal the duties.
- Supply control: Reportedly, Spain has confirmed that during 2014-2015 it will only

allow a given volume of biodiesel imports from selected EU companies – effectively barring suppliers from non-EU countries.

INDIA – groundnut procurement: Not used since 2001, state procurement of groundnuts is set to resume following this year's bumper harvest which drove local prices for the crop below the government's minimum support price. With market prices reported between 30 000 and 37 500 Rp per ton (unshelled basis) – as against the farmer support price of 40 000 Rp (USD 653) – local purchase operations on behalf of the central procurement agencies are ready to start, notably in Gujarat, the nation's main groundnut growing state.

INDONESIA – soybean policy: Reportedly, the government again instructed BULOG, the state-run Board of Logistics, to import soybeans with a view to stabilize prices in the domestic market *(see also MPPU Aug./Sep./Nov.'13)*. In August this year, BULOG and other selected players were granted permission to import soybeans for direct distribution to the country's tofu and tempe producers. Reportedly, imports are allowed whenever the domestic soybean price rises above Rp 7 400 per kg (USD 0.62). At the same time, according to unofficial sources, the government is about to reconsider its official self-sufficiency policy for soybeans – possibly replacing the same with more realistic targets, acknowledging that the country lacks comparative advantages for growing soybeans.

INDONESIA – variable palm oil export tax: Following the recent gradual strengthening in international palm oil values, for December, the country's export tax on crude palm oil has been set at 10 percent, compared to the 9 percent rate in place since September.

MALAYSIA – variable palm oil export tax: Following the recent gradual strengthening in international palm oil values, for December, the country's export tax on crude palm oil has been set at 5 percent, compared to the 4.5 percent rate in place since last March.

MALAYSIA – oil palm support: According to unofficial sources, the government may limit financial support provided to the palm oil sector in 2014. Reportedly, the following programmes could be affected: National Key Economic Area programmes for palm oil, Palm Oil Industry cluster projects, schemes to replant aging palm trees, and the Cocking Oil Subsidy Scheme.

SPAIN – olive oil consumption: From January 2014, the country's restaurants and hospitality sector will be required to serve olive oil only in its original packaging, identifying the brand. The measure is meant to prevent refilling of old bottles with lower quality oil. Similar regulations are said to be in place in Italy and Portugal. Attempts to introduce EU-wide legislation to this effect have been abandoned earlier this year *(see MPPU no.48, June '13)*.

UNITED STATES – artificial trans fats: The US Food and Drug Administration (FDA) has published a proposal to ban artificial trans fats from the food supply, citing proven adverse health effects (heart diseases). The public and the industry have been given 60 days to comment on the FDA proposal. Since 2006, FDA requires man-made/artificial trans fats (i.e. those generated during vegetable oil hydrogenation – a process widely used in food manufacturing) to be listed on product nutrition labels, and proper bans are in place for parts of the food chain in a number of US states. As a result of these measures, the presence of trans fats in the American diet is reported to have fallen considerably *(see MPPU July'10, Feb.'11, Mar.&June'12)* – as food manufacturers started reformulating their recipes to reduce trans fat content and thanks to the development of functional oilseeds whose oils don't require hydrogenation *(see MPPU Jan.&Mar.'09, Oct.'10, Feb.'11, June&Aug.'13)*. However, concerns remain that current labeling practices are misleading to the public, while, on health grounds, zero intake of trans fats is widely recommended *(see also MPPU no. 22, Feb'11)*. Reportedly, complete elimination of trans fats (and hence partially hydrogenated oils) from the food chain – as now proposed by the FDA – would prove technically challenging to food processors. FDA estimated the initial cost of removing trans fats from the food supply at about USD 8 billion. With respect to individual oils, soybean oil is particularly affected by hydrogenation and, as a result, a trans fat ban could raise (at least temporarily) demand for oils other than soyoil, notably rapeseed and sunflower oil but also tropical oils.

UNITED STATES – biofuel policy:
On November 15th, the US Environmental Protection Agency (EPA) proposed to keep next year's mandatory consumption of biomass-based diesel at 1.28 billion gallons (or 4.28 million tons) – the same level as this year. EPA will accept comments for a period of 60 days, following which it is going to publish its final decision. The targets proposed for 2014 diverge from the RFS standard issued in 2007, which envisaged a gradual expansion in consumption up to the year 2022, with total biodiesel consumption possibly reaching 2 billion gallons in 2014. Reportedly, EPA has adjusted the original targets for current market and technology realities. The proposed 2014 target ranges well below the industry's installed production capacity – estimated at close to 3 billion gallons – and compares to an actual total output this year of about 1.7 billion gallons. Although this year's excess production (relative to the compliance target of 1.28 billion gallons) may be carried over into 2014, that would reduce next year's effective target even further. Already braced for another expiration of the blenders tax credit at the end of December, the country's biodiesel producers are very concerned about EPA's proposal. The national biodiesel federation has suggested that the 2014 target be raised to today's actual production level (i.e. 1.7 billion gallons). Furthermore, it claims that, with consumption level stalled at 1.28 billion gallons, close to 8 000 biodiesel-supported jobs would be lost and USD 4.6 billion of total economic impact would be foregone.

Certified sustainable palm oil

- Certificate trading: International trade in *GreenPalm* certificates for palm oil, palmkernel oil and palmkernel expeller is reported to continue expanding: in November 2013, a record 717 431 certificates (worth USD 3.2 million) have been traded, of which an all time-high 667 982 concerned palm oil. It appears that the *GreenPalm* book & claim mechanism continues to be the mostly widely used means for RSPO-certified products to reach consumers – compared to the alternative means of mass balance calculation, full segregation, and identity preservation. The *GreenPalm* option allows certified growers to convert their product into certificates: one ton of certified product corresponds to one certificate. Certificates are then offered for sale through a central, dedicated platform. Product manufacturers seeking palm products can buy these certificates, offsetting their physical oil with the equivalent amount of certificates – which allows them to claim that their product supports the production of sustainable palm oil. In fact, the full value of each certificate is channeled to RSPO-certified producers who thus earn a premium for applying sustainable production methods. The value of one crude palm oil certificate currently stands around USD 2.60 (way below the level recorded when certificate trading was launched in 2008). It is important to remember that certificate trading bypasses the supply chain and therefore does not entail product segregation and traceability, which remains the most effective – as well as the most demanding and costly – means to source sustainable produce. *(See also MPPU Dec.'10, June&Dec'11, Oct.'13)*
- Competing certification systems: Reportedly, two competing certification programmes, the Roundtable on Sustainable Palm Oil (RSPO) and Indonesian Sustainable Palm Oil (ISPO) are ready to enter into strategic cooperation. The initiatives, which builds on the collaboration of RSPO, the ISPO Commission, the Indonesian Ministry of Agriculture, the United Nations Development Program (UNDP) and representatives of the private sector, aims at assisting in particular Indonesian palm oil companies, especially growers, in their efforts towards fully adopting sustainable practices. The first initiative under the new partnership is going to be a joint study to closely examine both voluntary international standards (such as RSPO) and mandatory national standards (like ISPO). Conducted by an external, independent certification body, the planned study

is expected to clarify disparities and identify synergies between RSPO and ISPO. The goal is to remove barriers and challenges faced by growers due to the existence of two different standards, and to facilitate certification while guaranteeing a rigorous audit process. According to market experts the use of alternative standards is leading to high costs for producers as well as unnecessary confusion among buyers – while contributing little to enhancing sustainability in palm oil production. Furthermore, a key challenge that remains largely unaddressed consist in providing small producers with access to an affordable and credible certification system – also taking into account that certified products are fetching an only modest premium in the market (see above). Overall, criticisms continue that the various certification mechanisms in place lack credibility and are not sufficient to stop unsustainable production practices.

Sustainable palm oil production/sourcing:

- Production commitment: One of the world's leading producers and traders of palm oil, Singapore-based *Wilmar International*, pledged to end deforestation throughout its supply chain. The company also committed not to destroy carbon-sequestering peatlands, to protect forests that are habitat for endangered species, and to protect the rights of workers and of the forest communities where it operates. Reportedly, steps will also be taken to progressively reduce greenhouse gas emissions on the company's existing plantations. Market observers said that, if fully implemented, *Wilmar's* commitment could represent a major step forward for firms seeking sustainable palm oil. However, experts also cautioned that the necessary adjustments along the supply chain will require considerable time and are likely to pose numerous challenges.
- Sourcing commitment: Global consumer goods company *Unilever*, a major buyer of palm oil, stepped up its commitments towards sourcing sustainable palm oil: by the end of 2014, all palm oil bought will be traceable to known sources, and, by 2020, all purchases will come from traceable and certified sources. The company expects – once it manages to fully trace its palm oil – to be able to identify and exclude suppliers that use unsustainable or illegal production methods. To be in a position to trace all its sources, the company plans to limit its roster of suppliers to between 10 and 20, compared to well over 100 at present. Furthermore, *Unilever* is determined to build its own palm oil facilities in Indonesia with a view to control the entire process from source. To achieve its goals, *Unilever* decided to join forces with global supplier *Wilmar International*.

Adulterated edible oils: Cases of edible oil adulteration have been reported from Sri Lanka and Taiwan Province. Most instances concern the blending of high-value oils – notably olive, grapeseed, coconut and sesame oil – with cheaper oils, resulting in consumer misleading. Reportedly, concerned health authorities have fined violators and stepped up their inspections and their consumer information services.

GMO labeling: In a public ballot in the US state of Washington electors voted against a petition to introduce mandatory labeling of genetically modified ingredient in food products. The close miss follows a similar defeat in California last year. Supporters of mandatory labeling pointed to progress in other parts of the United States (notably Massachusetts, New York and New Hampshire) and said they would pursue their cause with lawmakers and regulators at federal level.

Africa oilcrop development:

- R&D projects: Two US-funded R&D projects have been launched, both focusing on soybeans. First, a consortium of US universities and NGOs has secured a 5-year US federal research grant to work on soybean production in Sub-Saharan Africa. Aiming at increased food supply in the continent, the project is set to focus on (i) the improvement of soybean yields (via the identification of appropriate seed material, training of breeders and the introduction of best practices for production and seed management), (ii) finding ways to connect growers with crushers and markets, and (iii) the development of soy-based diets for poultry. Project activities will concentrated on Ethiopia, Ghana, Malawi, Mozambique and Zambia. Second, funding for a 4-year project to support smallholder soybean production in Tanzania has been made available by the USDA. Under the project, assistance in production and marketing will be provided to up to 11 000 farmers. Project interventions will aim at improving the country's soybean value chain and are expected to include the promotion of soy-based poultry farming.

- Private investments: In addition to enticing Asian palm oil plantation companies (*KLK*, *Olam*, *SIFCA*, *Sime Darby*, *Wilmar* and others), the continent, and in particular West Africa, is also attracting oilseed crushers and seed oil manufacturers, given the region's production deficit in edible oils. French oilseed company *Sofiprotéol* has announced new investments in Guinea and Senegal. Through various joint ventures, the company will be involved not only in edible oil imports but also in the cultivation and processing of groundnut and other annual oilseeds for the local market. *Sofiprotéol* launched similar enterprises last year in Morocco and in Senegal.

Brassica carinata: A Canadian producers of carinata oil secured Roundtable on Sustainable Biomaterials (RSB) certification. The plant oil is primarily used as feedstock for fuel substitutes, including for the aviation sector *(see also MPPU no.42, Dec'12)*. Reportedly, RSB certification is used by the airline industry to ensure that procured renewable aviation fuel is produced in an environmentally sustainable manner.

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of FAO.

	International Prices (US$ per tonne) [1]					FAO Indices (2002-2004=100) [7]		
	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
Monthly								
2012 - October	617	1183	844	555	359	234	202	261
2012 - November	595	1148	816	539	378	226	196	255
2012 - December	603	1153	772	553	396	229	191	261
2013 - January	591	1192	838	512	367	226	200	245
2013 - February	597	1164	862	513	381	228	202	246
2013 - March	588	1117	853	503	367	224	197	241
2013 - April	559	1099	841	521	300	214	194	247
2013 - May	498	1077	849	527	404	192	194	254
2013 - June	523	1036	858	551	321	198	193	261
2013 - July	514	997	838	568	304	191	187	267
2013 - August	514	995	824	564	277	190	182	263
2013 - September	554	1028	823	557	291	204	184	261
2013 - October	544	989	866	555	318	202	188	262
2013- November	556	992	921	541	316	206	199	257

[1] Spot prices for nearest forw ard 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 cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)

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

[7] 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, ten selected vegetable oils and five selected cakes and meals.

Sources: FAO and Oil World

Please note that in November 2013 some modifications have been introduced to the way the indices are calculated, the most significant one being the following changes in commodity coverage: the new oils index refers only to vegetable oils, i.e. fish oil and tallow have been removed; the new meals index only refers to soybean, sunflowerseed, rapeseed, copra and palmkernel meal, i.e. fishmeal and groundnut meal have been removed. The coverage of the oilseed index has remained unchanged. Except for the oilcake/meal index, the changes introduced did not significantly alter the values of the series.