



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

No. 22, February 2011

a) Global price review

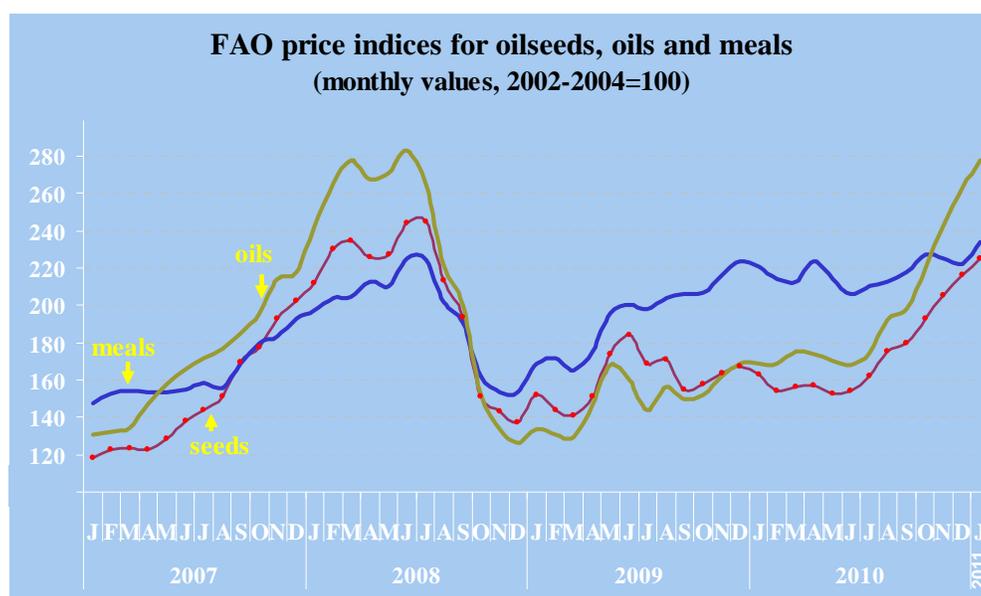
The month of January saw yet another conspicuous upward move in prices across the oilseed complex. Compared to December, FAO's price indices for oilseeds, meals and oils/fats rose by about 4, 5 and 6 percent respectively. Year-on-year, the three indices went up by 38, 6 and 64 percent. Finally, prices in the oilseed complex have almost reached the 2008 record level, with meal prices even exceeding that peak.

The price surge reflects tight fundamentals across the oilseeds complex as well as in basic food markets as a whole. In the last 3-4 months, oil and meal production levels could not keep pace with accelerating demand and, as a result, inventories have fallen to uncomfortably tight levels - a situation that might persist for the next couple of months.

Regarding oilseeds, markets have been faced with yet another downward revision

in the official estimate of last year's US soybean harvest. As to crops currently in the ground, even though beneficial rainfall has finally been received in Argentina, the continent's soy output is expected to remain well below potential this year. Lastly, considering the current supply tightness across sectors, an intense fight for acreage between grains, cotton and oilseeds is set to start soon in the northern hemisphere.

With regard to the uninterrupted steep rise in oils/fats prices, the main contributing factor was continued weak production (notably of palm oil) relative to global consumption, which has put considerable pressure on international reserves for the last 4 months, combined with strong export demand for palm as well as soy and sunflower oil. The latest spikes in soybean and grain prices, firm mineral oil values and this season's supply deficit in rapeseed and lauric oils provided additional support to oils/fats 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 during **January 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/>

b) Selected policy developments and industry news

ARGENTINA - soybean trade:

Reportedly, the market suffered from temporary disruptions as farmers halted all grains and oilseed sales in response to government restrictions on exports and because of new strikes by truckers and port workers over pay levels.

BRAZIL - Amazon deforestation:

Government sources reported that deforestation reached, for the second consecutive year, the lowest rate recorded since 1988. The record-breaking decrease in forest clearance is seen as a major contribution to reducing Brazil's greenhouse gas emissions. Policies that contributed to this development include sectoral pacts - such as the private sector supported effort to halt forest conversion for soybean production. In July 2010, the voluntary ban on the commercialization of soy grown in the Amazon had been extended for the fourth consecutive year.

BRAZIL - oil palm expansion: Oil palm cultivation seems set to expand over the coming years in the northern state of Pará, close to the eastern Amazon forest. Reportedly, important investments are planned by a biofuels subsidiary of state-controlled mineral oil giant *Petrobras* and other companies. Production would be geared primarily towards the biodiesel market, mostly for exportation (or exportation of oil for subsequent transformation into biodiesel abroad). Apparently, investors are responding to a government backed programme launched last May that offers soft loans and other incentives. Strict adherence to environmental and social safeguards is envisaged. Brazil's biodiesel demand for domestic use and export is set to grow steadily. Over 2 million tons are estimated to be required for domestic mandatory

blending alone. Current biodiesel production relies primarily on soyoil as feedstock.

BRAZIL - soybean futures: Sao Paulo based exchange *BM&FBovespa* announced the launch of a new, cash-settled soybean derivative. The new contract is meant to offer exporters the opportunity to arbitrage with CME in Chicago.

CANADA - rapeseed biodiesel GHG savings: According to a study presented by the country's canola industry, rapeseed based biodiesel reduces GHG emissions by 90% compared to fossil diesel. The study is based on comprehensive lifecycle analysis and uses a model deemed capable of measuring the energy balance and emissions of contaminants associated with the production and use of transportation fuels. In this regard, in September last year, a study commissioned by *Environment Canada* found gaps in the way emissions of GHG and other pollutants were currently measured.

CANADA - research on oilseeds value addition

- *Camelina sativa* and *brassica carinata*: Federal and provincial funding has been announced for the development of new camelina and brassica varieties for industrial applications. The crops can be grown on less productive, marginal lands. Research will focus on engineering the seeds' oil profile for use as petroleum substitutes in a variety of high value, non-fuel applications such as lubricants, hydraulic fluids and polymers. The ultimate aim is to diversify oilseed production, introducing industrial end-products that generate greater value than traditional oilseed products.
- Soybean and rapeseed: The federal government will invest in quality and yield improvement with a view to create new market opportunities. New short-season

soybeans, rapeseed varieties with improved oil content, and better disease and pest management strategies are envisaged in the programme.

- **Rapeseed protein:** Federal funds for the development of new, value added products in agriculture will be spent for research on how to increase the value and use of rapeseed protein in the food/feed ingredient market. Ways to incorporate rapeseed protein into a variety of food/feed components will be explored.

CHINA - rapeseed oil standards:

Reportedly, the country's standards for rapeseed oil (last changed in 2004) are under review and could be amended to meet the quality and safety requirements of the domestic market. Private sources see the initiative as an effort to raise the competitiveness of the domestic rapeseed industry. Domestic rapeseed production has stagnated in recent years, and the share of rapeseed oil (from domestic sources) in total vegetable oil consumption has kept declining.

CHINA - high yielding soybean:

Reportedly, national researchers managed to raise the yield level of locally developed soybean variety 'Zhonghuang 35' to the record level of 6075 kg per ha. The high yielding, high oil content variety is said to be adaptable to a wide range of production zones in the country's northern provinces, where it is proposed for future dissemination. Similar to rapeseed, domestic production of soybeans has stagnated in recent years (as both, yields and area remained largely unchanged), and the share of soy oil (from domestic sources) in total vegetable oil consumption has dropped sharply.

CHINA - public reserve sales: The release of soya and rape seeds from public reserves continued in an effort to rein in rises in domestic prices for edible oils. However, until recently, actual sales have

been limited, apparently because of unappealing floor prices used for the state auctions. Lately, sales seem to have improved thanks to the surge in prices for imported oilseeds. According to private sources, the government was also considering to release a sizeable amount of soy oil. The oil would be channelled to four companies which the government had previously ordered not to raise retail prices until March.

ETHIOPIA - refinery inspection:

Reportedly, 60 vegetable oil refineries have seen their licenses suspended as they failed to meet relevant quality standards. Apparently, several processors did not employ proper machinery or resorted to mixing oilseeds to refine the oil, a practice that is not allowed.

EUROPEAN UNION - biodiesel

production: According to private market observers, the recent surge in rapeseed oil prices - which has led to large premiums of the oil and of biodiesel over fossil diesel - could lead to the non-fulfilment of mandatory consumption levels in some member states, notably Germany. Reportedly, some processors and end users (particularly in power generation) have opted to temporarily suspend uneconomic biodiesel production/consumption, accepting to pay non-compliance fines instead.

EUROPEAN UNION - biofuel

environmental footprint: Release by the European Commission of guidelines on the impact of land use changes (ILUC) on carbon savings in biofuel utilization has been postponed by six months in order to ensure that best available science is used. An interim report states that ILUC could lessen carbon savings from biofuels. A new strategy on the effects of biofuels on land use and development issues in third countries is not going to be issued before summer 2011. Reportedly, the

Commission also stated that, in future, the sustainability criteria could be extended to raw materials used for the production of foods and feedstuffs.

INDIA - jatropha biodiesel: Reportedly, a government backed study found that, to create a financially viable and sustainable biodiesel market, jatropha based diesel need to be priced at Rs 36 per litre. The current price is reported at Rs 26.5. The study therefore recommends the introduction of public incentives, grants and other support measures.

INDONESIA - soybean import duties: Reportedly, to prevent consumer protests over rising food prices and stabilize markets, the government decided to suspend import duties on selected food and feedstuffs, including soybeans.

INDONESIA - palm oil export tax: In view of further rising international palm oil prices, the government decided to lift the country's export tax to 25% in February - the highest level since the sliding tax scheme was introduced in 2007.

LIBERIA - oil palm expansion: Malaysia-owned oil palm giant *Sime Darby* announced that this year it will start planting oil palms on a 220,000 ha concession granted by the government. Initially, the creation of some 30-35,000 new job opportunities is envisaged. The country's total land under oil palm amounted to 90,000 ha in 2009.

MALAYSIA - oil palm productivity:

- **Smallholders:** MPOB has launched a government backed programme aimed at raising productivity among smallholders. The current average **yield** of 12-15 tons of FFB per ha is to be lifted to 18-20 tons in the short term. Interventions will focus the adoption of good agricultural practices and the production of higher quality fruit bunches. Furthermore, the government

announced that it will support **replanting** activities over the 2011-2013 period. Independent smallholders will be granted a one-off replanting sum followed by monthly payments for two years so as to compensate the loss of income from replanting activities. The supply of high-yielding hybrid planting material by the private sector is said to be adequate. Finally, sustainability **certification** of smallholder production according to RSPO principles will be facilitated. In Malaysia, smallholders are estimated to account for 40% of total oil palm area and 28% of national oil output.

- **Plantation sector:** During 2011-2013, **replanting** by large-scale private and government-linked plantation companies will also be encouraged via financial incentives. Reportedly, in order to avoid formation of a backlog, every year some 125,000 ha of oil palm need to be replanted countrywide.

MALAYSIA - palm oil subsidies: Reportedly, public outlays for edible oil sales at subsidized prices have grown in line with rising palm oil prices. In an effort to counter hoarding and tight supplies, last month the government ordered producers to raise subsidized oil supplies by 20%.

NIGERIA/MALAWI - improved soybean varieties: High performance varieties developed by IITA have been released in Nigeria and Malawi. The varieties were shown to give higher yields in multiple locations under both, on-station and on-farm trials. Reportedly, in the region, soybean is rapidly gaining in popularity as animal feed, food and raw material for high-quality protein products, and because of its capacity to improve soil fertility.

SRI LANKA - coconut production incentives: In an effort to encourage coconut cultivation and raise output, the government decided to offer chemical

fertilizers at subsidized prices to coconut producers nationwide.

THAILAND - consumption policies, palm oil: Palm oil production costs have surged after domestic production was affected first by drought and then by widespread flooding, while global prices also rallied. As a result, an increasing shortage of palm cooking oil has developed in the domestic market. To avoid adverse effects on consumers, the government has taken the following measures:

- Manufacturers have been urged to refrain from hoarding in light of soaring prices. Reportedly, the government managed to persuade leading producers to step up inventory releases and to abide by the capped price.
- Eventually, in first week of January, an increase in the government set retail price to 47 Bath (from currently 38 Bath) has been approved so as to reflect the rise in production costs.
- The government also promised to speed up palm oil imports (the first in three years) and said it would rethink the export plans for crude palm oil, also because of growing domestic demand from biodiesel producers.
- The shift in mandatory biodiesel blending from B3 to B5 planned for January 2011 (which would lift CPO demand by the biofuel industry to around 1 million tons) will be postponed until at least the middle of 2011. The government's first priority remains to produce enough palm oil for food demand.
- Finally, the government informed that it was exploring the possibility to set up a fund for subsidizing palm oil sales so as to help consumers deal with escalating prices at times of supply shortages. Several funding options were under consideration, including state-financed as well as private-public formulas.

THAILAND - consumption policies, meat/soymeal: Concerned about rising costs of living, the government plans to use the tariff income earned from soybean meal imports (2% duty per ton) to subsidize meat production. The objective is to lower retail prices of meat through a reduction of the costs of animal feed.

UNITED STATES - groundnut aflatoxin contamination: According to one industry source, this year, aflatoxin contamination will be above average and possibly the highest in the last two decades - a situation that raises concern due to the stringent limits in place today. Reportedly, the industry has learned how to reduce the aflatoxin risk via improved agronomic practices and thanks to technological innovations. Contaminated product can be cleaned using blanching and sorting; however, a considerable amount of produce is lost in the process and processors lack the blanching capacity to clean the crop in a timely fashion.

Trans fat policies

- Japan - trans fat utilization: Following in the footsteps of other food companies, an important retail conglomerate, *Seven & I Holdings Co.*, decided to accelerate its efforts at removing trans fat from house brand products and will call on food suppliers to follow suit. Towards the end of last year, the government started promoting voluntary indication of trans fat content and said it was considering mandatory labelling for the future.
- United States - soybean oil market share: Industry sources report that since 2006, when mention of trans-fat content was made compulsory on food labels, the share of soybean oil in the domestic edible oils and fats market has dropped significantly - from 80% in 2006 to 65% in 2009. Once high-oleic soybean varieties start entering the market, that market share is expected to improve again. The oil derived from high-oleic varieties does not

require hydrogenation (thus remaining trans fat free) and contains less saturated fat - two main attributes of what are considered more healthy oils. The food industry's demand for such oils is expected to expand steadily. Leading seed companies expect high-oleic soybean varieties to be commercially available from 2012 onward.

- **United States - labelling practices:** An academic source recommends revising of the current labelling protocol on trans fat content in food items so as to better protect consumers from inadvertent intake of medically significant amounts of the harmful fat. Currently, when a product contains less than 0.5 grams of trans fat, labels can list the trans fat content as zero. Such labelling practice may make it difficult for the public to estimate the actual amount of trans fat consumed - an important task, considering that maximum recommended intake has been set at 1.11 grams per day.
- **United States - local utilization ban:** In the State of California, the ban on trans fats in restaurants introduced in January 2010 is now followed by an identical ban regarding all bakery goods.

Coconut water

Increased interest in coconut water as a sports beverage and health drink is being reported from various regions. Allegedly, the liquid, found inside the young coconut and naturally rich in vitamins and minerals, has become one of the fastest growing categories in the global beverage industry. As the market for coconut water grows in both, main coconut growing countries as well as developed economies, harvesting young nuts for coconut water could develop into an economically attractive alternative to conventional copra processing into oil/meal. Thanks to the introduction of state-of-the-art processing and packaging techniques, international trade in coconut water is expected to expand. Import demand is seen rising in

the United States, where beverage companies like Pepsi Cola and Coca Cola have started to develop coconut water based sports and 'wellness' drinks.

Jatropha investment

Further private investments in the cultivation of jatropha as biofuel feedstock are reported from Asia. A newly formed joint venture is set to expand cultivation in India and to explore possibilities in Malaysia and Indonesia. The project envisages improving productivity via comprehensive breeding programmes. The key objective is to develop hybrid plants with higher yields, synchronized maturation and desirable self branching patterns.

Sustainable palm oil

- **Sourcing policies:** Dutch bakery ingredient firm *Sonneveld* will join the list of food processors that commit to use (from 2013 onward) exclusively RSPO certified sustainable palm oil. Challenged by developments in consumer markets, the company started supporting sustainable production practices last year by buying Green Palm certificates. The decision to switch to certified palm oil consolidates the company's efforts in this field. In this context, last year, the Netherlands – Europe's leading hub for the import and distribution of palm oil – said it was aiming at importing exclusively certified palm oil from 2015 onward.
- **World production and trade:** RSPO reported that in 2010 global production of certified palm oil amounted to 3.8 million tons compared to 2.3 million in 2009, while sales rose from less than 500,000 tons to around 1.6 million tons.

GM soybean issues

- **Sourcing non-GM soy** has become increasingly difficult in recent years as GM crops are gradually taking over the marketplace. According to a private source in the EU some feed compounders cannot

fulfil contracts due to difficulties in sourcing non-GM soy. The cost of non-GM food ingredients is said to exceed that of their GM equivalents by 10-20%. An EU farmers association stated that this cost premium is not being reflected in returns to farmers. Consequently, in the long run, processors and retailers might be forced to drop non-GM ingredients for all but (higher priced) organic products.

- Weed herbicide resistance: A group of scientists has warned that, in the long term, the widespread adoption of GM soy varieties resistant to the herbicide *glyphosate* is bound to lead to weed resistance problems. Reportedly, farmers in Australia are already facing such problems after heavy relying and overusing glyphosate, and also US farming is said to be at risk. Herbicide rotation and mechanical means to destroy weed seed

ought to be considered, in particular where no-tillage is practiced.

- Brazil GM soy: Local sources estimate the adoption rate of GM soybeans to reach 76% in the current season, compared to around 60% in 2008 and only 13% in 2004. Interestingly, the following factors are reported to have slowed down the spread of GM soybean lately: the spread of glyphosate resistant weeds; price premiums for GM seed and payment of royalties (or trade charges in case the royalties are avoided); and market campaigns in favour of conventional soybean.

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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
2009/10	429	924	807	389	221	162	173	215
Monthly								
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
2010 - August	457	1002	901	389	245	175	192	213
2010 - September	468	1036	910	398	277	180	198	218
2010 - October	496	1165	998	415	285	193	220	227
2010 - November	526	1248	1117	430	292	205	243	225
2010 - December	550	1321	1229	437	289	216	263	222
2011 - January	572	1384	1279	454	313	225	278	234

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