OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 44, February 2013

a) Global price review

In January, FAO's price index for oils/fats moved upward, reversing the trend observed in the last four months, whereas the indices for oilseeds and, more pronouncedly so, for meals saw a downward correction. The oils/fats index has risen by 9 points (or 4 percent), but remained below the level recorded in the corresponding months of the last two years. The indices for oilseeds and meals fell by respectively 3 and 11 points (or 1 and 4 percent) compared to December, although both indices continue to range well above the average of the past three seasons.

The rebound in the oils/fats index has been driven primarily by palm oil on account of fresh import demand and concerns that abundant rains could disrupt harvesting operations in Southeast Asia, where, in addition, a seasonal production slowdown is expected for the coming months. Furthermore, the prospect that Malaysia's record high palm oil inventories may come down (as a result of the country's recently introduced lower export taxes) is believed to weaken the downward pressure on prices observed during the last few months. A renewed strengthening in international soy and rapeseed oil values also lent support to the index: apparently, the market is anticipating a possible acceleration in soyoil import demand as export availabilities of other seed oils are expected to tighten. The gradual firming of crude oil values has also been underpinning the global oils/fats market.

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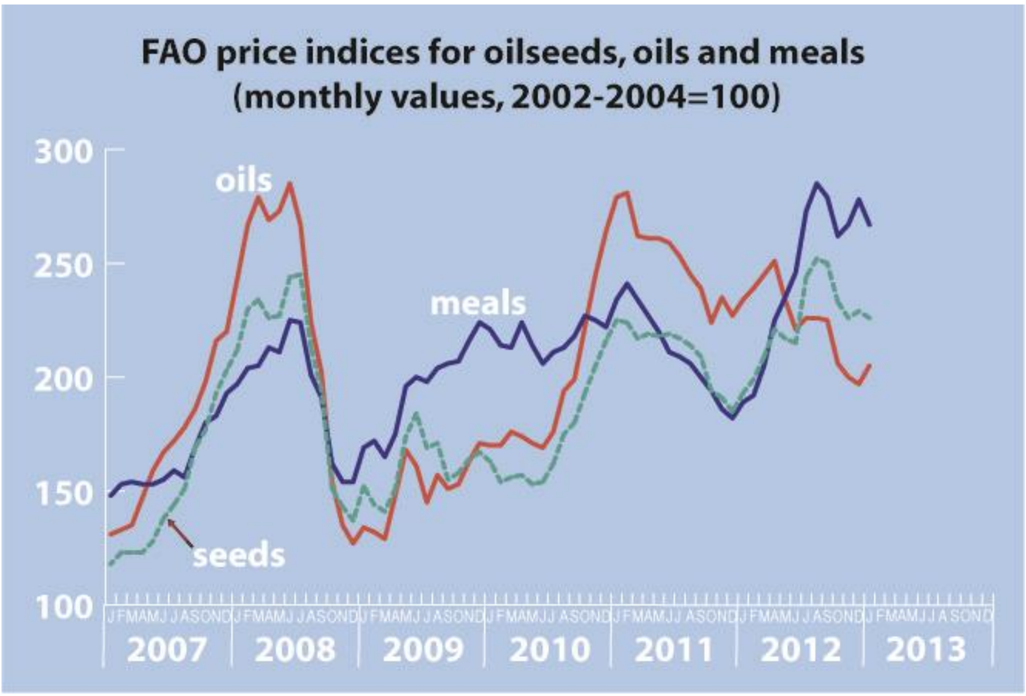
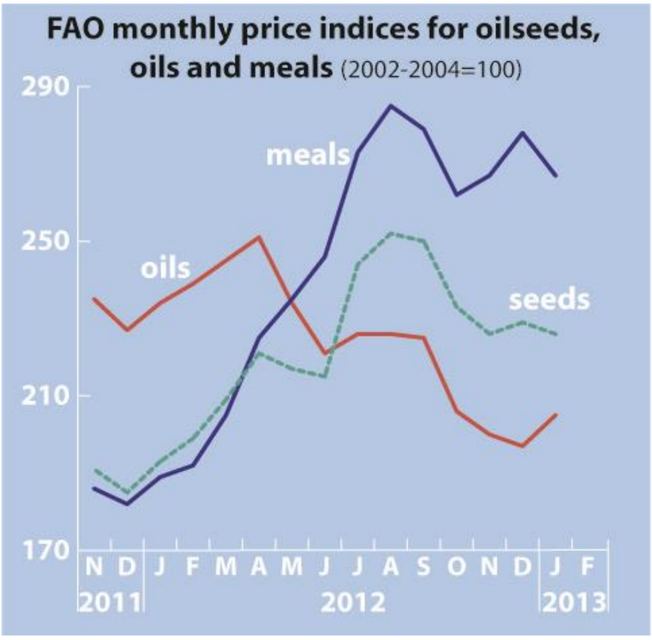


* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market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

The oilseed price index, and even more so the oilmeal index, lost strength in January under the lead of soybeans. Another upward correction in the soy production estimate for the United States, combined with improved weather conditions in both Brazil and Argentina seem to have eased the trade's concerns about global soybean availabilities during the remainder of this season. Other factors contributing to the relaxation of soybean and soymeal prices include reports of a temporary slowdown in Chinese import demand and the gradual easing observed in international maize and wheat values. However, considering the market's continued high reliance on South America's forthcoming soybean harvest, prices can be expected to remain volatile depending on how climatic conditions evolve during the coming weeks and on logistical problems that might affect shipments from that regions. With regard to the meal index, the fall in soy and rapeseed meals values overshadowed developments in the fishmeal market, where prices climbed to a new historic record. The enforcement of marine catch quotas in Peru is expected to maintain global fishmeal supplies tight also through the second half of the season.



b) Selected policy developments and industry news

ARGENTINA – vegetable oil import duty: Argentina has implemented a MERCOSUR decision that allows member states to raise import tariffs for selected products above the levels established in the bloc's common external tariff. The products selected by Argentina include vegetable oils, for which import duties will be raised from 10% to 35%. The tariff increase will remain in place for 12 months, although it can be extended through December 2014.

CHINA – rapeseed importation: Similar to the agreement reached with Canada last year *(see MPPU no.33-Mar'12)*, China is now reported to consider removing a 3-year old ban imposed on rapeseed imports from Australia. The import restrictions were put in place in late 2009 due to concerns over fungal disease contamination. If an agreement was reached, Australian rapeseed would only be allowed to enter non-rapeseed growing regions in China.

CHINA – soybean crushing industry: Private sources estimate China's current soybean crushing capacity at 139 million tons per year, which compares to 100 million tons in 2010. Reportedly, state controlled enterprises such as COFCO, Sinograin and Chinatex have contributed strongly to the rapid expansion. Interestingly, the industry has grown despite severe problems of overcapacity: over the last few years, the average utilization rate is estimated to have ranged 60 %

or lower. Reportedly, China's National Development and Reform Commission actively supported state processing expansion projects in an effort to reduce the dominance of foreign-controlled enterprises and to exert better control over domestic edible oil supplies and prices. State-owned enterprises are now estimated to account for about one fourth of the country's total processing capacity. Overall, foreign companies still account for the largest share of the industry, followed by state enterprises and then local private firms.

EUROPEAN UNION – biodiesel trade issues

- Argentina/Spain dispute: Reportedly, Argentina has put on hold a complaint filed at the WTO against the European Union over Spain's biofuel import policy *(see MPPU 35-May'12 and 43-Jan'13)*. The decision was taken after Spain amended its import regulations, restoring access to the Spanish biofuels market. Argentina announced that it would closely monitor the application of the new regulations with a view to ensure that Argentine biodiesel can compete in the Spanish and EU markets in non-discriminatory conditions.
- EU import monitoring: On January 30th, the European Commission introduced EU-wide mandatory registration of biodiesel imports originating from Argentina and Indonesia. Related to the bloc's on-going anti-dumping and anti-subsidy investigations *(see MPPU no. 41, November 2012)*, the initiative is meant to ensure that future countervailing duties can be levied retroactively in case such policy is introduced. Where blends are imported, importers are obliged to specify the biodiesel content in the blends. The registration measure will remain in force for nine months. The bloc's biodiesel industry is confident that a decision on provisional duties will be taken in the next few months.

INDIA - vegetable oil import duty: Encouraged by easing food prices and reduced inflation rates, the government decided to reintroduce import duties on crude vegetable oils and to lift a six-year old freeze on the taxable value of cargoes. The import tariff, which had been suspended in 2008 to curb domestic food price inflation, has been fixed at 2.5% and might be raised further later this year. The benchmark prices used to calculate tax collection have been lifted from USD 447 per ton to USD 802 in the case of crude palm oil, and from USD 580 to USD 1 190 for soybean oil. The tariff values are going to be reviewed on a fortnightly basis with a view to align them with international price movements. The government's new trade policy aims at protecting local farmers and maintaining production incentives. In fact, growing importation of low-priced palm oil is believed to have discouraged domestic production, in particular of palm oil. Especially Malaysia's new export policy *(see MPPU no. 41-Nov'12 and no.43-Nov'13)* could harm Indian producers. With regard to refined vegetable oils, import charges have been left unchanged at 7.5%, supposedly reflecting government concerns about new retail price hikes. Consequently, the duty differential between crude and refined oil has fallen from previously 7.5% to 5%, which is expected to hurt the domestic refining industry. Reportedly, representatives from the private sector are calling for both, additional increases in tariff rates as well as a tax differential of no less than 10%, so as to fully protect the interests of both growers and refiners.

INDIA – vegetable oil export policy: While the country's ban on bulk exportation of edible oils remains in place, shipment of premium edible oils in branded consumer packs of up to 5 kg has been liberalized further in that such sales will no longer be subject to a quantitative ceiling of 20 000 tons per year. However, in order to check exportation of low-priced edible oils (which account for the bulk of domestic consumption), a fixed minimum export price of USD 1 500 per ton will be applied. Subject to periodic calibration, the minimum price is expected to be used as a flexible instrument to regulate export flows. At current price levels, only exports of groundnut and sesame oil should be viable. In the past, exports in consumer packs concerned groundnut, rapeseed and coconut oil, with most shipments directed to the United States, Middle East and Europe to meet the needs of expatriate Indians. With respect to coconut oil, the government has lifted the restriction that shipments could only leave from the port of Kochi.

INDONESIA – biofuel policy: Reportedly, in an effort to further stimulate domestic consumption of palm oil-based biodiesel, the government raised the biodiesel distribution subsidy from Rp 2 500 to 3 000 per liter, effective this year. The subsidy was introduced in 2009, when it amounted to Rp 1 000 per liter. Furthermore, the government is expected to announce a new formula for determining biofuel prices, which would ensure that renewable fuel production remains profitable.

INDONESIA – palm oil exports

- Taxation: Based on new firmness in international benchmark prices, during February, the tax Indonesia collects on crude palm oil exports will return to 9% (compared to 7.5% applied in January), marking the first tax increase in nine months. The tax applying to refined palm oil has been set at 3%, compared to 2% last month.
- Export policy: It would appear that recent policy measures introduced by key trade partner India (i.e. imposition of import tariffs) and main competitor Malaysia (i.e. suspension of export taxes) could harm Indonesia's palm oil exports. However, Indonesia is said not to plan countervailing policy moves. The government seems determined to maintain the current export tax regime, which it considers to be effective in promoting growth in downstream sectors: according to government officials, the refining industry's capacity utilization rate has risen from 70% in 2011 to 90% at present. Furthermore, policy makers plan to maximize the absorption of crude palm oil for domestic biodiesel production. In addition, local palm oil producers are expected to invest in storage capacity so that, in the event of unfavourable market conditions, larger quantities may be sent to store. Meanwhile, representatives from the private industry have urged the government to make adjustments in the country's sliding tariff scale: they believe that lower tariff levels are needed to restore the country's competitive position vis-à-vis Malaysia.

INDONESIA – soybean import duty: Last month, Indonesia reinstated its 5% duty on soybean imports. The tariff had been suspended during August-December 2012 in an effort to ease the impact of high international prices on local markets *(see MPPU no.39-Sep'12)*. The duty's reintroduction was triggered by the gradual weakening in international soybean quotations. During the last years, the government repeatedly decided to suspend the duty with a view to check rises in domestic prices for tempe and other soy-based foods.

MALAYSIA – palm oil export tax: Despite the recent recovery in the relevant benchmark prices, the country's export tax on crude palm oil is reported to remain at zero for the month of February. The second consecutive month of duty exemption should further stimulate exportation, thus helping to curb the country's record stockpiles.

MALAYSIA – biodiesel consumption: With a view to check the rise in domestic palm oil inventories, the government plans to expedite implementation of the country's B5 programme (i.e. mandatory blending of diesel fuel with 5% of palmoil-based biodiesel) at the national scale, while moving towards B10 by the end of 2013. Currently, the B5 blending requirement only applies to the three central states of Peninsular Malaysia, absorbing no more than 200 000 tons of palm oil per year. Nationwide B5 implementation is estimated to translate into an annual requirement of 500 000 tons of palm oil.

THAILAND – palm oil market support: Reportedly, excess supply caused by unusually wet weather combined with weak domestic demand has ramped up palm oil inventories at the country's extraction plants and refineries. To stem the resulting fall in farm gate prices the government accepted to take palm oil into public stock. The Public Warehouse Organization is said to be ready to buy 50 000-100 000 tons of palm oil at Baht 25 000 per ton, which would allow mills to purchase palm fruits from farmers at Baht 4.0-4.5 per kg. Only small individual farmers (owing a maximum of 8 hectare) are allowed to participate. Reportedly, public reserves will be utilized (i) for distribution under the government's low-price Blue-Flag Programme, (ii) for the production of biodiesel, (iii) in power plants, fishing boats and agricultural machinery, and (iv) for export.

UNITED STATES – farm legislation: The 2008-12 Farm Bill that expired last September has been extended for nine months, i.e. through the 2013 crop growing season. The extension allows farmers to know the relevant policy parameters while making planting decisions and ensures that critical foreign market development operations can continue. However, funding of 37 programmes is said to stop due to the lack of clear spending projections. The latter comprise conservation provisions and various emergency relief measures.

VIETNAM – import policy: According to Reuters, Vietnam is considering charging 'emergency import tariffs' on refined soybean oil, palm olein and palm stearin so as to prevent rising imports from hurting domestic producers. Emergency tariffs, also defined as 'safeguards measures' in WTO, are meant to protect a specific domestic industry from a sudden rise in imports which is causing, or threatening to cause, serious harm to the industry. According to data submitted by state-owned trade company VOCARIMEX, the recent rise in imports has led to a sharp decline in domestic production, productivity and profits.

Biodiesel and respiratory health: According to a group of Australian scientists, biodiesel emissions contain compounds known to cause respiratory problems. The biologically active compounds are defined as reactive oxygen species. The research team believes that the discovery could lead to restrictions in the use of biodiesel within the transportation industry. Reportedly, the researchers are now looking at ways to obtain biodiesel fumes free of the compound by studying how the compounds form and how they can be eliminated.

Biodiesel use as aviation fuel: Dutch airline *KLM*, which started using biofuel on commercial flights in 2011, informed that it plans to raise its biofuel use to 1% of its total fuel consumption by 2015, provided this can be achieved in a sustainable manner. Reportedly, the carrier focuses on second generation feedstock and strictly adheres to the standards issued by the *Roundtable on Sustainable Biofuels*. Prior to their use, all feedstock undergo a lifecycle analysis. Main challenges are said to include insufficient availability of suitable feedstock, the need to reduce the price premium over conventional aviation fuel, and the absence of a level playing field in the aviation sector. To overcome these problems the company fosters cooperation in the fields of supply chain development and new conversion technologies, while also seeking support from national and EU governments.

GHG footprint of soyoil-based biodiesel: According to new analyses published by Brazil's *Association of Vegetable Oil Industries (ABIOVE)*, emission savings of locally produced soyoil-biodiesel (relative to fossil diesel) amount to 70% in the case of domestic consumption and 65-68% when the product is shipped to Europe. Reportedly, calculations are based on scientific methodologies and include life-cycle analyses. For comparison, the default emission reduction values used for soyoil-based biodiesel under the United States RFS2 and European Union RED policies amount to, respectively, 57% and 31%.

Biofuel feedstock camelina sativa: In the United States, additional public funding has been granted for research on camelina oil as feedstock for energy and other bio-based products. The grant aims at enhancing the value of non-edible oilseeds as resource for biofuels, chemicals and bio-products, while ensuring minimal negative impact on food crop systems and the environment. According to previous studies, camelina oil-based aviation fuel cuts GHG emissions by almost 80% compared to conventional jet fuels.

Certified sustainable palm oil: India, the world's leading importer and consumer of palm oil, is reported to show increasing interest towards sustainably produced palm oil. Reportedly, the number of Indian trading and processing firms belonging to *RSPO (Roundtable on Sustainable Palm Oil)* has increased over five times between 2011 and 2012, comprising leading market players – a trend indicating rising awareness of the benefits associated with sustainable palm oil.

RSPO welcomed this development, underlining that India is a critical market with a global footprint and therefore has the potential to influence market transformation across the world. Multinational firms operating in India are said to have contributed strongly to this process by stimulating their Indian counterparts.

Certified sustainable soybean: For the year 2012, the *Roundtable on Responsible Soy Association (RTRS)* reports certification of almost 1 million tons of soybeans, compared to a volume of 450 thousand tons in 2011. Certification based on RTRS' standard for responsible soy production started in June 2011 and is now concentrated in Argentina, Brazil, India, Paraguay and Uruguay. First certification requests have been received from Bolivia and China. Reportedly, out of the produce certified in 2011 some 90% was actually taken up by the market; information for 2012 is not yet available. The RTRS target for 2015 is to reach 5 million tons of certified soy to match growing demand for certified product from feed and food companies in Europe.

GM soybean – Brazil: Private sources estimate that GMO soybean varieties account for 89% of the Brazil's 2012/13 crop, compared to 83% in 2011/12 and 73% in 2010/11. Reportedly, conventional, non-GM varieties continue to be used by farmers catering for the niche market for conventional beans especially in Europe, where buyers are willing to pay a premium for traditional varieties.

Jatropha toxins: Grown in sub-tropical and tropical regions, jatropha curcas has gained increasing attention for the use of its non-edible oil as feedstock for biodiesel production. Reportedly, in the United States, the food industry has been officially notified of hazardous toxins contained in parts of the plant. Found primarily in glycerin and protein by-products, the toxic compounds can also be detected in the plant's oil. Although unaware of any intentional substitution or contamination in food products from the jatropha plant, US authorities invited suppliers and manufacturers to take appropriate steps to prevent the use of ingredients that might be intentionally or otherwise adulterated with jatropha.

Fat consumption tax: In October 2011, Denmark was the first country to introduce a tax on fat consumption meant to address growing obesity and cardiovascular diseases problems affecting its population. The across-the-board tax applied to all foods with a saturated fat content above 2.3%. Reportedly, last November, after just one year, lawmakers in Denmark decided to repeal the tax. Allegedly, the tax was withdrawn because it did not produce the desired changes in people's eating habits, apart from unduly increasing companies' administrative costs and negatively affecting consumers' buying power. Supporters of the tax said that one year was too short a period to be able to assess the measure's effectiveness and impact.

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								
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
2012 - December	603	1153	772	553	396	229	197	278
2013 - January	591	1192	838	512	367	226	205	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 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