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

No. 56, February 2014

a) Global price review

In January, all three of FAO's price indices for the oilcrop complex fell, though the vegetable oil index dropped more markedly. Month-on-month, the indices for oilseeds and oilmeals fell by 2 and 4 points respectively (or 1 – 1.5 percent), whereas the prices index for vegetable oils dipped by as much as 7 points (or 3.8 percent). In historical terms, the oilseeds and oils indices continued to fare below the average of the past two seasons, while the meals index remained at historically high levels.

The global oilseed and oilmeal markets eased under the influence of prospective record soybean crops in South America. Recent rains – ending a spell of dry weather that had created considerable moisture stress, especially in Argentina – have been very beneficial for the region's soybean crops, with first harvest reports from Brazil and Paraguay confirming expectations of record crops. The prospective shift of global import demand from US origin soybeans to South American sources is also taking off pressure from prices, although logistic difficulties, especially in Brazil, are expected to remain of concern.

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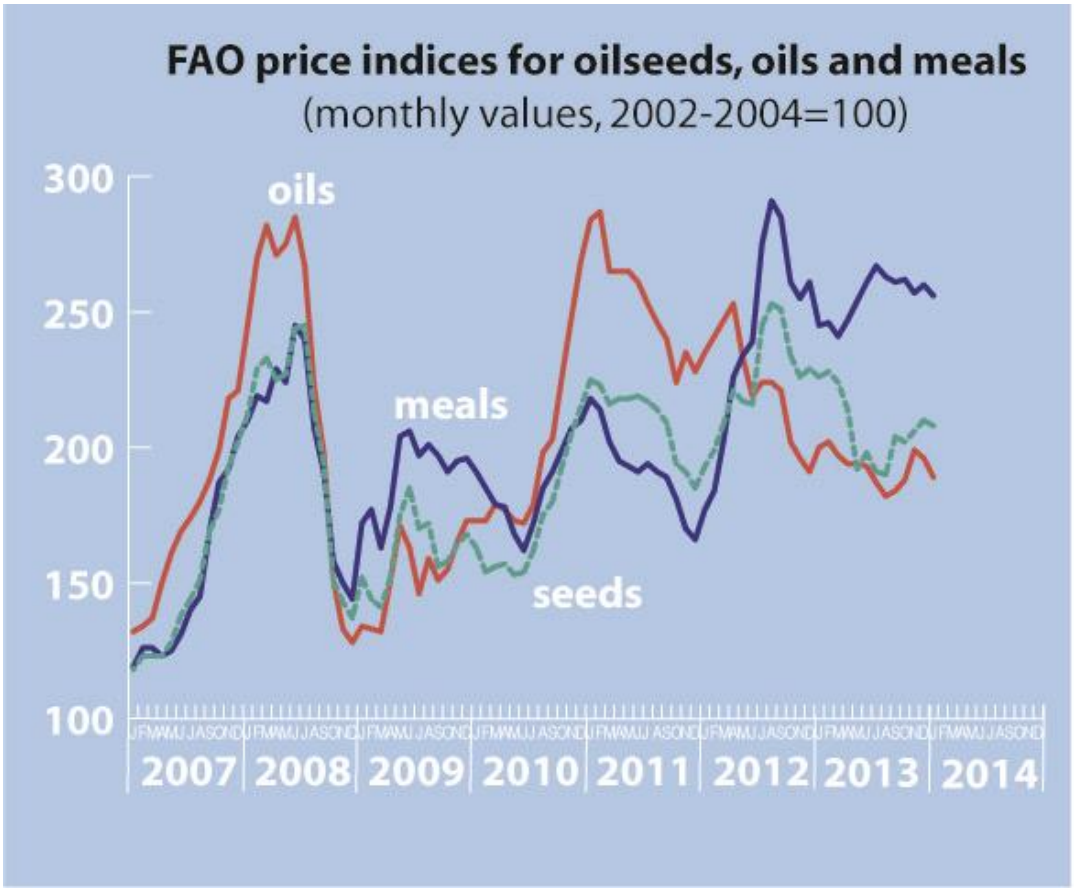
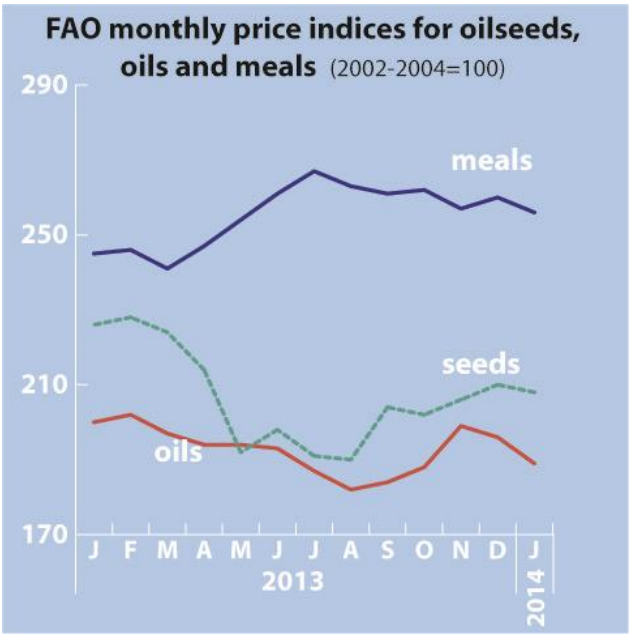


[1] The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **December 2013 and January 2014**. Previous issues can be downloaded from the FAO website at the following URL: http://www.fao.org/economic/est/publications/oilcrops-publications/monthly-price-and-policy-update/en/

Global price review – *cont'd*

International rapeseed prices weakened in response to ample global supplies – despite the recent slowdown in exports from Canada that may lead to higher than earlier anticipated end-of-season stocks in that country. Finally, abundant availabilities of sunflower seed, in particular in the Black Sea region, also contributed to the general slackening in prices.

With respect to the global vegetable oil market, prices have been primarily driven by developments in the palm oil and soy oil sector. Continued slow export demand for palm oil, coupled with abundant production in both Malaysia and Indonesia, has led to concerns over growing palm oil inventories. Reportedly, the outlook of rising palm oil uptake by the local biodiesel industry in Indonesia has prevented prices from falling even more markedly. International soy oil quotations eased further, following the global market for soybeans, but also in response to weaker demand from the biodiesel sector in Argentina and the United States. Large export availabilities of both sunflower and rapeseed oil also weighed on the index.



b) Selected policy developments and industry news

ARGENTINA – WTO complaint: Argentina's government has filed a formal complaint with the World Trade Organization (WTO) over the European Union's decision to impose definitive anti-dumping duties on biodiesel imports from Argentina and Indonesia *(see MPPU Nov. & Dec.'13)*. Allegedly, the EU's calculations of the final anti-dumping duties were based on improper data. Should consultations to find a mutually a agreeable solution fail, Argentina may request that an independent panel of experts be established to look into the issue.

CANADA – export promotion: Federal funding has been granted to a provincial farmer association for the promotion of food-grade soybean exports. The funding is part of Agri-Food Canada's AgriMarketing Program. Currently, the country's soybean exports, which have expanded considerably in recent years, are primarily directed to Japan, the EU and China.

CHINA – border inspections, import permits/restrictions

- Olive oil: A number of olive oil shipments originating from the EU have been denied entry to the Taiwan Province. The rejected cargoes are said to contain an unauthorized colouring agent. Reportedly, provincial authorities had increased border inspections of cooking oil imports in November last year, after the colouring agent had been detected in products sold on the local market.
- Rapeseed: Reportedly, Chinese customs authorities detected hazardous pest bodies in a rapeseed cargo originating in Australia.
- Ukrainian soybean: Soybeans (and barley) from Ukraine are now allowed to enter China as protocols on phytosanitary and inspection

requirements have been signed by the two countries. Reportedly, Ukraine aims at reaching similar agreements for rapeseed and wheat.

- Canadian rapeseed meal: Imports of rape meal from Canada – which had been banned in January 2013 – are expected to resume pending the completion of on-site inspections of Canadian crushing facilities by Chinese officials. Canadian exporters hope to raise the volume of their exports to China to the levels recorded prior to 2013.
- US origin DDGS: A number of US cargoes of dried distillers' grains (DDGS) have been rejected by Chinese officials following the detection of traces of a non-approved GM maize variety. The resulting temporary slowdown in DDGS imports could boost China's import demand for soybeans (the country's main protein source in livestock feed).

CHINA – stock policies: According to official sources, in 2014, China's public stockholding system for soybeans is to be abandoned and replaced with direct subsidies to farmers. Details on when and how exactly the policy change will be implemented have yet to be provided. The new income protection system for soybeans will likely be introduced on a trial basis in the Northeast and in Inner Mongolia; region-specific subsidy payments should be based on target prices, with subsidies being granted to producers (or to consumers) whenever market prices fall below (or exceed) given target levels. The current procurement system for soybeans was introduced in 2008/09. The policy was aimed at stimulating domestic production in particular of non-GM soy varieties, which provide the basis for preparing tofu and similar products for local human consumption. The government started procuring soybeans when farm gate prices would fall below certain levels. Sales from public stocks were effected through public auctions, often with a view to check rises in local consumer prices. Over the years, this policy led to the accumulation of large and costly public inventories. The system attracted increasing criticism for generating distortions between domestic and global prices. In fact, crushers found it increasingly convenient to import soybeans rather than buying domestic produce. Furthermore, the procurement policy did not succeed in stimulating domestic soybean production. Reportedly, along with soybeans, the government is planning to dismantle also cotton stockpiling. By contrast, procurement and stockholding operations for rapeseed, maize and sugar should remain in place for the time being, as would minimum farm gate prices for wheat and rice. According to market observers any change in China's cotton support policy are bound to significantly affect world trade, production and prices of cotton. For soybean, the impact should be smaller and only of a temporary nature, because crushers in the coastal region, where most of the country's soybean processing takes place, are expected to continue to depend heavily on imports.

EUROPEAN UNION – GM soybean screening: Reportedly, new GM soybean variety 'Optimum GAT'(modified to tolerate a particular group of herbicides) has been declared safe for import, processing and use as food and feed by the European Food Safety Authority (EFSA). The file is now with the EU Commission and Council for final clearance or otherwise.

EUROPEAN UNION – biofuel policy: In the course of 2013, the EU Commission and Parliament submitted proposals to cap the use of food crop-based (or "first generation") biofuels. The initiative aimed at reducing the risk that support granted to such biofuels would unintentionally harm the environment, displace food production and/or contribute to food price inflation *(see MPPU Aug.'13 & Sep.'13)*. Eventually, in December, the EU Council refrained from imposing ceilings on the use of 'first generation' transport fuels. Members countries could not agree on a proposal to introduce a 7 percent cap, with some governments calling for a lower threshold, while others favoured higher or no limits. The EU Council also rejected mandatory measurement, from 2020 onward, of GHG emission levels for each biofuel, including ILUC (indirect land use changes) effects – a requirement that had been endorsed by both the Commission and the Parliament.

Although the discussion about alternative proposals is expected to go on, a final decision may have to wait until 2015, given the changes in EU institutions scheduled for the current year. As to the EU's longer term climate and energy policy framework, in January, the EU Commission proposed the following targets for 2030: a mandatory GHG emission reduction of 40 percent (relative to 1990 levels); an EU-wide binding renewable energy share of at least 27 percent (which compares to the 2020 target of 20 percent); and indicative 25 percent energy efficiency gains.

EUROPEAN UNION – GSP implications: Under the EU's revised General System of Preferences or GSP (meant to help emerging countries by granting them easier access to the EU market), imports of palm oil, palm oil-based oleochemicals and biofuels from Indonesia will no longer enjoy preferential duties as of this year (2014). Indonesia's shipments are considered to have become competitive on a global scale and, consequently, have been classified as "graduated sectors". Exports by Malaysia, the other main supplier of the products in questions, began to graduate from GSP status back in 1999.

INDIA – vegetable oil import policy: India has modified the import duty structure for vegetable oils: the tax levied on imports of refined oils has been raised from 7.5 percent to 10 percent, while the import tariff for crude vegetable oils remains unchanged at 2.5 percent *(see also MPPU Feb. '13)*. As a result, the differential between refined and crude oil duties widened from 5 percent to 7.5 percent – a move meant to increase protection for the country's refining industry, which was suffering from rising shipments of processed vegetable oils, notably refined palm oil. Last year, imports of refined palm oil surged (following the introduction of export incentives in Malaysia and Indonesia), pushing capacity utilization in Indian refineries below 40 percent. While welcoming the new tax structure, India's processing industry reiterated that a duty differential of at least 10 percent would be necessary to persuade the trade to import crude oil rather than refined produce. However, considering government concerns about food price inflation, further increases in the import tariff for processed vegetable oils do not seem likely.

INDONESIA – soybean production support: Since its introduction in July 2013, the government-set farm gate price for soybeans has been gradually raised *(see also MPPU Apr. & June'13)*. Initially fixed at Rp 7 000 per kg, soybean farmers will be entitled to receive Rp 7 500 per kg (USD 630 per ton) during January-March 2014. Meant to stimulate domestic soybean production, the support price is reviewed quarterly, taking into account changes in production costs and profits, as well as food price inflation. Reportedly, since the scheme's introduction, average soybean yields in the country have improved, leading to an increase in national output.

INDONESIA – variable palm oil export duty: Following the recent drop in international palm oil prices, the variable export tax on crude palm oil has been lowered to 10.5 percent in February, slightly below the 12 percent rate in place since December 2013. Reportedly, the government is also considering to reduce the export tax on refined palm oil in an attempt to counter the latest rise in import tariffs in India – a major buyer of refined palm oil from Indonesia (see above).

INDONESIA – biodiesel policy: During 2014, Indonesia's biodiesel industry may absorb more palm oil than previously estimated *(see MPPU Sep. & Nov. '13)*. The government is determined to raise the share of locally produced biodiesel in domestic energy consumption, so as to scale down the nation's dependence on mineral oil and gas imports. In line with the recently introduced requirement that all diesel fuel used in the transportation and energy sector be blended with 10 percent biodiesel, in 2014, two state-owned firms (the nation's oil and gas company *Pertamina* and the country's electricity distributor *PLN*) expect to purchase a combined 5 million tons of crude palm oil – way above last year's level and a good 15 percent of total domestic palm

oil output. If realized, these targets could temporarily curtail Indonesia's exports availabilities, potentially affecting world supplies. Reportedly, industry officials warned that higher domestic biodiesel consumption will require further improvements in the country's regulatory framework and pricing policy.

ISLAMIC REPUBLIC OF IRAN – food subsidy: Reportedly, the government started handing out food packages, which contained two liters of vegetable oil per month – to low income families, with a view to protecting them against rising food prices. According to local sources, the government's initiative has raised concerns that the food handouts could gradually replace the monthly cash payments that the majority of Iranians receive since 2007.

PHILIPPINES – oil palm development: Reportedly, the country's official Coconut Authority (which is tasked to oversee the development of the domestic coconut and oil palm sector) is working on a 10-year roadmap for the country's oil palm industry. The plan is expected to focus on the promotion of effective production, processing and marketing of palm oil and its by-products and will build on strong partnerships with private industry players. The initial target is to raise the area under oil palm cultivation to 300 000 hectares, against the current 57 000 hectares. Overall, the area suitable for oil palm cultivation has been estimated at 1 million hectares, all consisting of idle and unproductive land. Total investment required to develop the industry has been estimated at Pesos 212 billion (USD 4.7 billion), encompassing investments in plantations, processing plants and infrastructure. Reportedly, several foreign companies have expressed interest to invest in oil palm ventures, together with local partners, notably in Mindanao island.

RUSSIAN FEDERATION – GM soybean: Based on a government decree that will enter into force in July 2014, cultivation of GM soybean will be permitted throughout the Russian Federation. Until now, the importation of selected GM varieties was allowed, but cultivation of GM crops in the country was limited to experimental trials. Considering that, prior to their cultivation, GM crops will have to undergo registration and certification, the first GM soybeans are not expected to be harvested before 2016/17.

THAILAND – biodiesel policy: In December, the Thai government unveiled plans to raise the country's mandatory biodiesel blending rate to 7 percent, effective January 2014, up from the 5 percent rate in place since end-2012. The higher blending rate would boost the processing industry's annual demand for palm oil by an estimated 240 000 tons. Eventually, however, the planned B7 implementation has been postponed due to the recent slowdown in domestic palm oil production. In response to these changes, the industry has called for a flexible biodiesel policy that would rest on variable blending rates. Furthermore, the three year-old cap on the retail price for palm cooking oil has been criticized for causing distortions in the domestic palm oil market. With regard to the longer term, the government has decided to raise the official biodiesel production target for 2021 from 5.9 million liters/day to 7.3 million liters/day, which compares to a present output level of about 2.8 million liters/day. Currently installed production capacity is said to amount to 5.4 million liters/day.

UNITED STATES – farm legislation: A new 5-year farm bill covering the period 2014-2018 has been passed by the US congress and signed by the US president. The new bill was long overdue: its 2008 version had expired in 2012 and was eventually extended until September 2013 *(see MPPU Aug. & Nov. '13)*. Compared to the previous bill, key elements of the Agricultural Act of 2014 include: (i) a trimmed nutrition assistance (or 'food stamps') programme; (ii) an expanded federal crop insurance scheme; (iii) a reformed dairy policy and a permanent livestock disaster assistance programme; (iv) consolidated and strengthened agricultural conservation measures; and (v) the elimination of direct payments to farmers. In place of the old automatic payments

to farmers (notably counter-cyclical and crop revenue payments) farmers will have the possibility to choose between two risk management tools: the Agricultural Risk Coverage (ARC) programme that will protect farmers from revenue losses based on five-year average revenues, and the Price Loss Coverage (PLC) programme that will provide support based on pre-defined price floors. Under these schemes, producers will only receive assistance when they are threatened by risks outside their control, such as extreme weather or market volatility. Reportedly, both schemes maintain the decoupling of payments from a farmer's current planted acreage, hence minimizing the influence on farmers' decisions about what and where to plant. Compared to the previous bill, payment limits have been lowered and eligibility rules tightened. As to the enhanced crop insurance programme, its purpose is to further encourage farmers to invest in their own risk management, thereby reducing the need for public emergency relief interventions. Finally, with respect to marketing loans, the traditional Marketing Loan Program remains intact. Whether or not the changes introduced by the new bill will alter the way US support payments are notified at WTO level remains to be seen.

Futures trading: Paris-based futures exchange *Euronext* announced that, by end 2014, it will offer contracts for rapeseed meal and rapeseed oil, in addition to its existing rapeseed futures and options. The objective is to offer a full range of rapeseed derivatives to the growing food and feedstock markets, where price volatility is said to have risen in recent years. The planned expansion is also meant to address the needs of the biodiesel sector, allowing EU fuel producers to hedge their bio-diesel price exposure.

GMO labeling: In the United States, a newly formed coalition of farmer, industry and non-governmental organizations (including biotech crop developers and stakeholders from various commodity sectors) is calling for the introduction of standards – at the federal level – for the safety and labeling of food products containing GM ingredients. In recent years, the GMO labeling issue has become increasingly controversial in the country. In the absence of harmonized and binding standards, food manufacturers adopted a mix of labeling practices, but low levels of transparency prompted consumers to file numerous class actions. Concerned about the existing legislative vacuum and about uncoordinated regulatory efforts by individual states, the newly launched private sector initiative set out to call for consistent federal answers to the pending GM food safety and labeling issue. Furthermore, the coalition would like the US Food and Drug Administration (FDA) to play a more prominent and active role. In an effort to regain the consumers' confidence, industry players have proposed the following measures: (i) consistent labeling of GM and non-GM foods; (ii) mandatory notifications to FDA when new GM crops are introduced into the marketplace; (iii) FDA authority to issue special labeling norms to protect health and safety, while preventing labels from being false or misleading; (iv) allowing food manufacturers to label their products as "GMO-free" under certain conditions, while preventing claims that a food is less safe/more safe because of the presence or absence of GM ingredients; and (v) rules governing the use of the term "natural" on food packaging. Importantly, mandatory labeling of GM ingredients does not appear in the proposal. Critics of GM crops warned that, under the proposed rules, consumers would still be misled. They reiterated their principal request that labeling of GM ingredients be made compulsory for all food products. Interestingly, in the meantime, some US food companies informed about their intention to eliminate GMOs from their products, while others said they were considering voluntary labeling of GM products.

Sourcing of certified sustainable palm oil

- Finnish biofuel producer *Neste Oil* informed to have achieved its palm oil certification target two years earlier than planned *(see MPPU July '09)*. Reportedly, since December 2013, 100% of the palm oil used by the company is certified sustainable by international certification systems

approved in the EU, notably ISCC and RSPO-RED. Furthermore, all feedstock used can be traced back to the plantations and production sites where they come from.

- Reportedly, US chocolate manufacturer *Hershey* has achieved its commitment to source 100% certified palm oil – via the RSPO mass balance calculation system – one year ahead of its original 2015 commitment. Furthermore, the company announced that it is going to work with its suppliers towards achieving fully traceable and sustainably-sourced palm oil by the end of 2014.

Soybean business – Brazil
Processing: A large, export-oriented agribusiness firm in Brazil has closed one of its crushing plants, citing changes in the country's taxation policy that are favouring soybean exports over soymeal/oil exports. Reportedly, the government's decision to free the cooking oil industry from two specific taxes has left soybean processors with significant amounts of worthless tax credits. The new taxation policy is said to have lowered the crushing industry's profit margins, leading to idle processing capacity.
Shipping: A large trading firm reported that it is ready to start shipping maize and soybeans through a new terminal in the northern port of Belem, next to the estuary of the Amazon. The company expects to move 1 million tons of grains in 2014, but plans to eventually expand shipments to 6 million tons annually, as well as to establish a barge system along one of the tributaries of the Amazon. Increased use of new export corridors in the North is expected to offer relief to Brazil's traditional, increasingly congested export routes in the South and Southeast.

Oils/fats-based aviation fuel: Aircraft maker *Boeing* sees "green diesel" as a significant new source of sustainable aviation fuel. Green (or renewable) diesel is made from plant oils and animal fats in a process that uses hydrogen, thus differing from biodiesel, which is produced by a chemical reaction based on alcohol. Reportedly, the fuel can be blended directly with traditional jet fuel (in a ratio of up to 50 percent) and does not require modifications to aircraft engines. *Boeing* is seeking approval from regulators in the United States and elsewhere for aircrafts to fly on green diesel blends. Using such blends would allow the aviation industry to lower its carbon footprint and reduce the sector's reliance on fossil fuels. Green diesel is said to be cost-competitive with traditional jet fuel – with current government subsidies – and is already being produced on a relatively large scale.

Jatropha yields: A bio-energy crop development company expects to harvest more than 4.5 tons of jatropha per hectare in its field trials in Tamil Nadu, India. The result is based on two open-pollinated jatropha varieties selected over three generations for their high level of uniformity and productivity. The company expects its high-yielding varieties to become available for commercial cultivation in 2014/15.

Omega-3 fatty acids: UK scientists reported that they managed to genetically modify *camelina*, an oilcrop belonging to the brassica family, to produce two omega-3 fatty acids commonly found in marine oils (EPA and DHA). The fatty acids are vital for human metabolism and are believed to offer important nutritional and health benefits. Approval to test the modified oilcrop in field trials is currently being sought in the United Kingdom. Reportedly, cultivation on a commercial scale could commence within ten years, potentially contributing to the protection of wild fish stock at the global level. The modified crop is meant to be used as feed in fish farms, but could also be used as health supplement in human foods. Critics voiced concerns about potential hidden health risks and said that genetic engineering risked introducing unintended DNA mutations. Reportedly, to date no more than five GM field trials have been permitted in the U.K. and only two crops has ever been approved for commercial cultivation in the EU.

Weed resistance: US scientists reported that resistance of weeds against glyphosate, a herbicide extensively used in commercial crop cultivation in the United States and elsewhere, is on the rise. This trend could seriously affect

soybean farming, where the use of glyphosate-based herbicides and glyphosate-compatible seed materials is particularly widespread. In general terms, heavy reliance on a single herbicide and on corresponding, tailor-made, varieties is said to entail considerable risks, at least in the longer term. Therefore, new, more sustainable weed control strategies and integrated management approaches are said to be necessary for the future.

For comments or queries
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ERRATA CORRIGE: In the last issue (no.55, January '14) page 1, bottom of the left column should read *'The rise in the oilseed price …'* (and not *'the drop in the oilseed price …'*).

	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
2013 - December	568	979	907	548	336	210	196	260
2014 - January	566	935	871	539	337	208	189	256

[1] Spot prices for nearest forward 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 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 vegetable oils and five selected cakes and meals.

Sources: FAO and Oil World