



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

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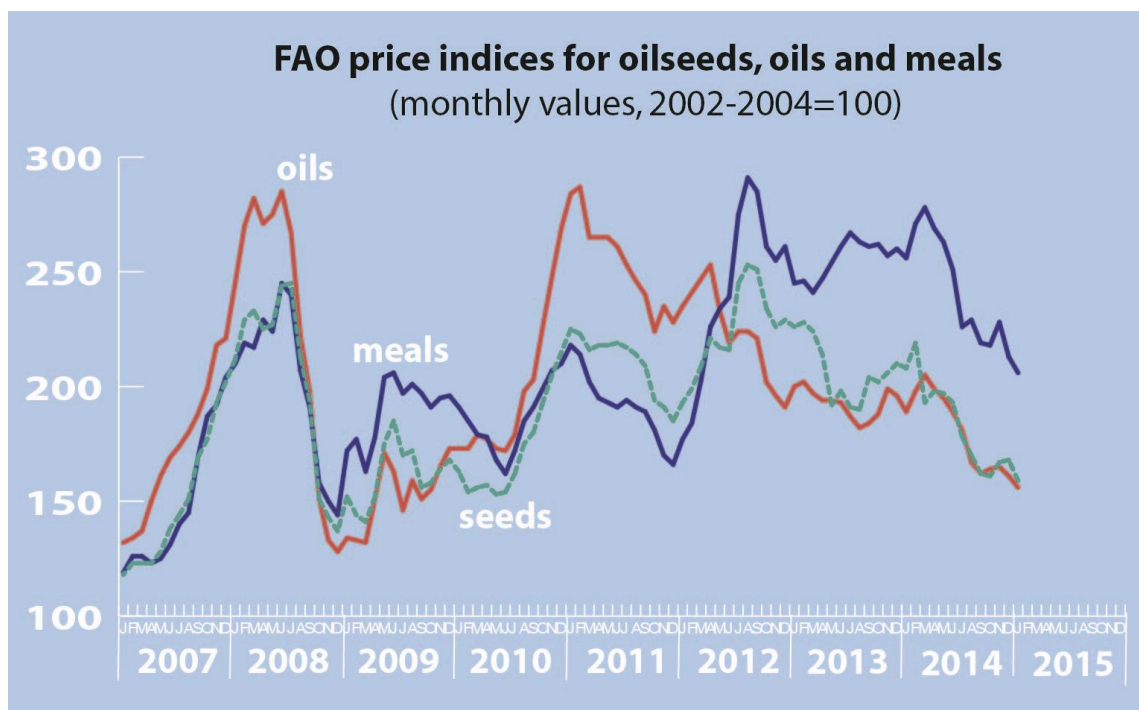
a) Global price review

In January, FAO's three price indices for the oilcrop complex have fallen by 3–5 percent compared to the previous month. The indices for oilseeds, meals and vegetable oils decreased by, respectively, 9, 8, and 5 points (or 5, 4 and 3 percent). All three indices continue to fare at multi-year lows, although the meals index remains at a historically high level.

International prices for oilseeds and oilmeals continued easing mainly on the prospect of large soybean availabilities in the 2014/15 season, owing to a record harvest in the United States and forecasts of new bumper crops in South America.

In both Brazil and Argentina, prospects of record harvests have been confirmed, even if unfavourable weather conditions resulted in late plantings in parts of Argentina and sub-optimal crop development in some regions in Brazil. Recent upward revisions for the United States' 2014 crop, together with a higher-than-expected forecast for U.S. end-of-season stocks also exerted downward pressure on prices. On the demand side, cancellations of large soybean orders by China contributed to the price weakness. International quotations for rape and sunflowerseed followed the slide in soybean prices, although global supply prospects for these crops turned slightly less favourable than earlier anticipated.

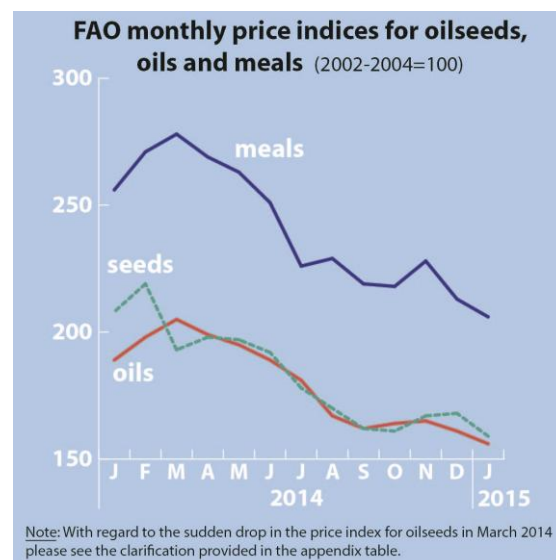
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* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **January 2015**. 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

With respect to vegetable oils, FAO's price index has fallen to the lowest level since October 2009, reflecting contracting prices for all major vegetable oils. Main drivers behind the general drop in prices include falling values for the respective oilseeds, subdued export demand, and reduced purchases by the biodiesel industry (as low crude oil prices continue to erode the competitiveness of vegetable oils as biodiesel feedstock). In the case of palm oil, the drop in prices was somewhat attenuated by Malaysia's currency depreciation and by the adverse impact of heavy rainfall on Malaysia's production.



b) Selected policy developments and industry news

BRAZIL – infrastructure policies

- Highway BR-163: Government officials informed that paving of the highway that connects Mato Grosso (one of Brazil's main soybean growing states) to ports in the Amazon basin will only be completed in 2016 – contrary to last year's announcement that works would be accomplished by mid 2015. Reportedly, the delay is due to difficulties encountered in obtaining the required environmental permits in the state of Pará, much of which is covered by tropical rainforest. The envisaged infrastructural improvement is urgently needed to relieve the country's busy ports in the Southeast. Last year, counting on the new overland connection, grain trading firms started to invest in new shipping terminals along the Amazon river (see *MPPU Feb. & May '14*). According to official sources, to facilitate the transit of trucks, gravel will be placed on the highway pending the road's paving.
- Tietê-Paraná waterway: Used to ship grains from southern and central-western states to ports in the Southeast (as well as to generate electricity), the waterway will not be reopened – as originally planned – in time for the start of the soy exporting season, reported official sources.

The 2 400 km waterway had to be closed in May last year following prolonged drought. Recent rainfalls have not been sufficient to raise the waterway's draft sufficiently for barges to pass. Back in 2011, public funding had been granted to more than double the waterway's capacity within the year 2017.

- Santos port: Reportedly, the government plans to automate a truck scheduling system that last year has helped ease road congestions around Santos, one of Brazil's main grain shipping hubs in the Southeast.

CANADA – product news

- Rapeseed disease: Canada's Food Inspection Agency (CFIA) confirmed the presence of *verticillium longisporum* at a farm research station in Manitoba. Apparently, this is the first time the disease has been detected in North America. Reportedly, the soil-borne fungus, which invades rapeseed and other plants, has caused considerable damage to rapeseed crops in Europe, notably in Sweden. Existing fungicides are said to be ineffective against the disease and none of the current rapeseed varieties is resistant. Reportedly, CFIA has taken action to prevent the disease from spreading beyond its current location. The agency is also trying to determine when the pest has arrived and if it spread prior to

detection. Canadian farmers will receive advice on how to identify the disease in the fields.

- **Camelina meal:** In recent years, *camelina sativa*, an oilseed belonging to the *brassica* family, started attracting interest in Canada and the United States due to the suitability of its oil for a variety of industrial uses, including as feedstock in the production of road and aviation biofuel. Now, Canada's Food Inspection Agency (CFIA) has also approved feeding of cold-pressed non-solvent extracted camelina meal to broiler chicken at up to 12 percent inclusion. Owing to its high concentration of Omega-3 oils, the meal is viewed as a valuable source for high quality feed. The approval process for feeding to laying hens has also been initiated.

CHINA – public stock policies

- **Rapeseed oil state reserves:** State agencies have been instructed to offer 6 500 tonnes of rapeseed oil from state reserves. The volume is remarkably small compared to the estimated 6 million tonnes currently held in public warehouses and taking into account policy efforts to cut down centralized public stocks in general. The last state auction of rapeseed oil, in early 2013, proved to be unpopular due to both high bidding prices and the poor quality of some of the reserves.
- **State versus provincial reserves:** Reportedly, in future, the task of stimulating local production and maintaining appropriate reserves of grains and edible oils will fall primarily on provincial governments. When assuming these tasks, local governments will likely be faced with growing water and land constraints and mounting food security challenges.

CHINA – economic policy: Reportedly, China's Central Bank is ready to raise its re-lending operations by Yuan 50 billion (USD 8 billion) to provide targeted support to small businesses and to the farming community, i.e. sectors banks are often reluctant to supply with credit. Apparently, the initiative is meant to help stem the current slowdown in China's economic growth. Private sources expressed doubts about the effectiveness

of increased lending targets, pointing out that, without access to land titles, farmers continue to be unable to secure bank loans.

EUROPEAN UNION – GMO policy:

As anticipated, the EU Parliament has backed the GMO opt-out for EU member states (*see MPPU Dec. '14*). For the new policy to come into effect, formal ratification by national governments remains pending. Under the new rules, member states would be allowed to restrict or ban the cultivation of GM crops on their own territory on various grounds, including environmental policy grounds other than risks to health and the environment, which would remain the domain of the European Food Safety Authority. Individual member states thus would be allowed to ban GM crops even if these have been declared safe at EU level. Bans could be extended to groups of GMOs designated by crop or trait. The new rule would only apply to crops, i.e. it would not cover GM used in animal feed, which would continue to enter the food chain. Member states would have to ensure that GM crops do not contaminate other products, including the prevention of cross-border contamination.

EUROPEAN UNION – biofuel policy:

In France, the maximum level of biodiesel permitted in transportation fuel has been raised from 7 to 8 percent. The measure puts France's admixture rate above the EU-agreed limit of 7 percent – a development that has raised fears of fragmentation of the EU's single fuel market. French government officials presented the initiative as a technical adjustment to permit petrol companies meet existing national targets. In France, the primary feedstock for biodiesel production is rapeseed oil of domestic origin.

INDIA – biodiesel policy: Government officials confirmed that private manufacturers of biodiesel will be allowed to sell their fuel directly to end-users, especially bulk consumers such as rail companies (*see MPPU Dec. '14*). Until now, biodiesel retailing had been subject to the same rules that apply to sales of mineral oil fuels,

i.e. only state-owned companies and private firms with large infrastructure assets were allowed to retail. Reportedly, the above amendment has been introduced because users were facing problems in sourcing biodiesel. By de-regulating the market the government hopes to encourage the production and use of biodiesel in the country.

INDIA – import policy: In August 2014, the country's Food Safety and Standards Authority (FSSAI) had prohibited importers of rapeseed oil from marketing their product as 'canola oil' (*see MPPU Sep. '14*). Traders opposed this measure and went to court. Finally, last month, India's Supreme Court ruled that FSSAI had no case for mandatory re-labeling of imported rapeseed oil. The industry will be free to market rapeseed oil as 'canola oil' and imports will no longer be restricted.

INDONESIA – trade policy: From April 2015 onward, all commodity exporters – including exporters of palm and palmkernel oil – will be required to use letters of credit for overseas shipments. Reportedly, the use of this instrument has been made mandatory to allow Indonesia's central bank to gather accurate records of foreign exchange flows.

INDONESIA – environmental policy: Reportedly, the government is considering to revise its recently released rules on the conservation and management of peatland (*see MPPU Nov. '14*). Scheduled to come into effect in May 2015, the proposed measures attracted strong criticism from the plantation sector, notably the wood-based and oil palm industries, which claimed that the new rules would severely hurt their businesses. Reportedly, to comply with the new requirements on minimum water levels in peatland, a large part of the country's peatland would require rehabilitation. Industry sources estimated that some 1.7 million ha of oil palm plantations on peatland would be affected by the new provisions. To address the industry's concerns, government officials informed that the continuity of existing commercial permits would

be guaranteed, with priority given to plantation companies that fulfill the necessary environmental requirements. However, the issuance of new permits involving peatland conversion would be stopped.

PAKISTAN – import policy: Official sources informed that 78 items – mostly food products – have been added to the list of items that must meet Pakistan's quality standards at the import stage. All major edible oils, whether in crude or refined form, fall under the new rule. Import clearances will be subject to the presentation of specific certificates issued by Pakistan's Standards and Quality Control Authority.

THAILAND – market control: In Thailand, recent weather-related drops in palm oil output have resulted in supply shortages of the country's most widely consumed edible oil. According to official sources, in December, domestic palm oil inventories dropped to 60 000 – 70 000 tonnes, i.e. well below the 'safety level' of 200 000 tonnes. To stimulate sales by oil manufacturers, the government has approved a four-Baht increase in retail prices, assuring consumers that prices would not be allowed to exceed Baht 42 per liter (USD 1.29). As a temporary emergency measure, the government also authorized state imports of 50 000 tonnes of palm oil for immediate release on domestic food markets. It also ordered to reduce the proportion of palm-based biodiesel in transportation fuel from 7 percent to 3.5 percent. In past years, the government resorted to similar interventions to address temporary cooking oil shortages.

UNITED STATES – biodiesel policy: The Environmental Protection Agency (EPA), i.e. the body that administers the country's Renewable Fuels Standard scheme (RFS), has approved a policy change that could stimulate exports of biodiesel from Argentina to the United States. The EPA accepted a request by the Argentine biodiesel industry to apply an alternative tracking method to prove that soy used to produce biodiesel was not grown on deforested

land. By meeting this requirement, Argentine biodiesel qualifies to take part in the United States' RFS programme. EPA's decision attracted criticism from the U.S. biodiesel industry, which claims that Argentina's new tracking system would be far less stringent than the current requirement and more difficult to verify. Market observers said that fresh biodiesel imports would intensify competition with local producers and pressure U.S. biofuel prices.

UNITED STATES – export policy:

Following recent direct presidential action, a number of U.S. economic sanctions against Cuba are set to be loosened. Agricultural exports to Cuba will, however, remain subject to the congressionally controlled trade embargo. Even though the shipment of agricultural goods has de facto been liberalized since 2000, exports remained subject to cumbersome rules and restrictions, including the requirement that Cuban importers pay cash on purchase or delivery – a rule that has affected the competitiveness of U.S. agricultural exports, including shipments of soybean and soybean meal. Therefore, U.S. agricultural interest groups renewed their calls on Congress to lift the trade embargo and all related restrictions, so as to allow exporters to gain back market share from overseas competitors.

Sector development news

- Argentina – high-oleic oilseed varieties: According to private sources, the cultivation of high-oleic groundnut and sunflowerseed varieties is advancing in Argentina. High-oleic varieties are increasingly valued by farmers, food manufacturers/retailers and consumers alike – thanks to their disease tolerance and to the extended shelf life and wholesome health profile of the respective oils (*see also MPPU June '13*). Also, high-oleic oils can command significant price premiums over conventional oils. Recently, private sources reported that the average FOB export prices for high-oleic sunflower oil stood at USD 1 400 per tonne, which compared to USD 850 per tonne of conventional sunflower oil. The main customers for Argentina's high-oleic oils are located in Europe, North America and Asia.

- Cameroon – oil palm: New government plans aim at increasing the country's palm oil output by 26 percent over the coming three years. To achieve this target, 10 000 ha would be planted each year using high-yielding seedlings provided by Cameroon's Institute of Agricultural Research for Development (IRAD). IRAD will receive public funding to increase its seed production capacity, and seedlings will be distributed for free to farmers. Currently, the country's area under oil palm is estimated at 160 000 ha. Annual palm oil output is reported at 230 000 tonnes, whereas domestic consumption is estimated at 325 000 tonnes per year.
- Canada – rapeseed: Can\$ 9.5 million (USD 7.6 million) of federal funding has been allocated to the Canola Council of Canada under the government's AgriMarket Program. The new funds will support market entry and development activities aimed at increasing the consumption and value of rapeseed in domestic and overseas markets. Reportedly, this will be achieved through market research, promotion of partnerships, attending trade shows and developing recipes for rapeseed-based meals.
- Canada – soybean: In Manitoba, state and federal funding has been allocated for research to support the growth and sustainability of the province's soybean sector. The research projects selected for public funding focus on (i) how fertilization, soil temperature and crop residues affect soybean emergence; (ii) effective pest control methods; and (iii) organic production. Public funding is expected to be complemented by industry funds.
- Tanzania – soybean: Reportedly, the country's soybean crushers are increasingly affected by lack of raw materials. Official sources informed that, to support crushers, the government is in the process of securing 3 000 ha of land in the country's Eastern Province for soybean farming. The government's objective is to improve production and the supply chain as a whole by enhancing linkages between farmers and processors. Reportedly, key challenges that need to be addressed include land fragmentation, limited use of fertilizers, and low adoption of consolidated farming practices.

Research and development news

- **GM soy variety:** *Monsanto's* GMO soybean variety 'Roundup-Ready Xtend' has been granted 'non-regulated' status by the United States' Animal and Plant Health Inspection Service (see also *MPPU Sep. '14*). The herbicide designed to be used together with the crop is still waiting for clearance by the U.S. Environmental Protection Agency. Approval from China's authorities to import the new variety also remains outstanding. *Monsanto* expects to obtain the latter in time for a commercial launch in 2016. Meanwhile, civil society groups warned that, over the long term, reliance on *Monsanto's* 'Xtend' system could lead to new weed resistance problems. Furthermore, increased herbicide use could pose risks for human health and cause environmental pollution.
- **Soybean salt tolerance:** Reportedly, researchers from Australia and China jointly identified a gene responsible for salt tolerance in soybean. With the size of salt-affected agricultural land expanding rapidly world-wide, breeding for improved salt tolerance (via genetic markers) is gaining importance, said the researchers. Most commercial soybean varieties used today are sensitive to soil salinity.
- **Microbial soil improvement:** Field trials with naturally occurring micro-organisms have the potential to improve soil health and raise average yield levels in maize and soybeans, according to research conducted jointly by *Monsanto* and *Novozyme*. Preliminary findings emerging after a first full year of trials with the 10 most promising microbes suggest that microbial technologies can be used to replace or complement traditional fertilizers.

Soybean certification: Like other sectors, the soy industry world-wide is facing sustainability challenges which are likely to intensify as production continues to expand. As public concerns about the environmental and social impact of soy production are on the rise, the need to secure responsible supplies can be expected to grow (see *MPPU Mar./May/Dec. '14*). Product certification has the potential to address some

of these concerns. Currently, the main organizations involved in soybean certification are: *RTRS (Roundtable on Responsible Soy)*, *ProTerra Foundation*, *ISCC (International Sustainability & Carbon Certification)*, and *2BSvs (Biomass, Biofuels, Sustainability voluntary scheme)*. The first two schemes occupy a dominant position. *RTRS* has reported sales of 1.3 million tonnes of certified sustainable soy in 2014 – almost 50 percent above 2013 but falling short of original targets. Reportedly, the number of countries offering *RTRS* certified soybean has grown to eight, with Canada and China as latest additions, while Brazil and Argentina continue to account for the bulk of certification. With regard to buyers, in 2014, The Netherlands and Scandinavia have been the largest customers, although sales into upcoming markets such as India and China have also been recorded. *ProTerra* reported certification of 2.8 million tonnes of sustainably produced soy in 2014, of which about 95 percent originated in Brazil. Sales were concentrated in Europe. A study on soy certification conducted by private firm *KPMG* estimated that, in 2013, around 2–3 percent of global soybean production was certified – compared to about 14 percent in the case of palm oil. The study further calculated that, in the case of Brazil and Argentina, the average pay-back period for soy producers' investment in certification is only 3 years (1 year for large producers and up to 5 years for less-advanced, medium-size producers). These calculations were based on a price premium for certified soy of USD 1,50 per tonne. The paper identified the following barriers hampering growth in soy certification: (i) weak market demand for certified soy; (ii) variable supplies of certified soy; (iii) the co-existence of several certification schemes; and (iv) the cost of certification for farmers, notably smaller ones. To foster certification, the following key actions – across the soy value chain – have been recommended: (a) increased commitment to certification by end-users, notably food manufacturers and retailers; (b) greater collaboration between existing certification bodies; and (c) financial support from soy

processors to help farmers meet the up-front costs of certification. Furthermore, governments could consider providing financial incentives for certification, while banks could ask for compliance with sustainability requirements when lending to farmers.

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	International Prices (US\$ per tonne) ¹					FAO Indices (2002-2004=100) ⁷		
	Soybeans²	Soybean oil³	Palm Oil⁴	Soybean Cake⁵	Rapeseed Meal⁶	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
2013/14	521	949	867	534	324	194	189	253
Monthly								
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
2014 - February	594	991	911	571	361	219	198	271
2014 - March	501	1001	959	582	396	193 ⁸	205	278
2014 - April	516	1005	911	563	375	198	199	269
2014 - May	522	973	896	552	340	197	195	263
2014 - June	514	933	859	531	304	192	189	251
2014 - July	480	886	839	477	272	178	181	226
2014 - August	457	855	755	485	265	170	167	229
2014- September	433	850	714	463	265	162	162	219
2014 - October	430	835	724	463	258	161	164	218
2014 - November	447	827	728	485	265	167	165	228
2014 - December	446	816	694	449	278	168	161	213
2015 - January	421	789	681	431	279	159	156	206
<p>¹ Spot prices for nearest forward shipment</p> <p>² Soybeans (US, No2 yellow, c.i.f. Rotterdam)</p> <p>³ Soybean oil (Dutch, f.o.b. ex-mill)</p> <p>⁴ Palm oil (Crude, c.i.f. North West Europe)</p> <p>⁵ Soybean meal (44/45% Hamburg fob ex-mill)</p> <p>⁶ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)</p> <p>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.</p> <p>⁸ The drop in the price index for oilseeds seen in March 2014 is due to structural breaks in the underlying price series for soybeans (US no2 yellow, c.i.f. Rotterdam), the component with the highest weight. For a detailed explanation of the anomalous trend in the soybean reference price, please refer to issues no. 48 and no. 58 of the Oilcrops Monthly Price and Policy Update (MPPU), which can be downloaded at the following link: http://www.fao.org/economic/est/publications/oilcrops-publications/oilcrops-monthly-price-and-policy-update/en/</p>								
<i>Sources:</i> FAO and Oil World								