



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

No. 31, January 2012

a) Global price review

In December, the FAO price indices for oilseeds, oils and meals all fell by 2-3 percent compared to the previous month, mostly continuing the downward trend that started in March last year – but still remaining high in historical terms.

In the global oilseed market, downward pressure on prices prevailed despite growing concerns about persistently dry weather in South America (La Niña), which started threatening the region's soybean crop. The main price drivers were poor soybean crush in the United States combined with slow US exports sales (in particular to the EU and China), which led to an upward revision in domestic stocks. Higher crop production estimates for India and Canada also contributed to the decrease in the price index. Moreover, sizeable declines in the price for major grains (following record crops and a

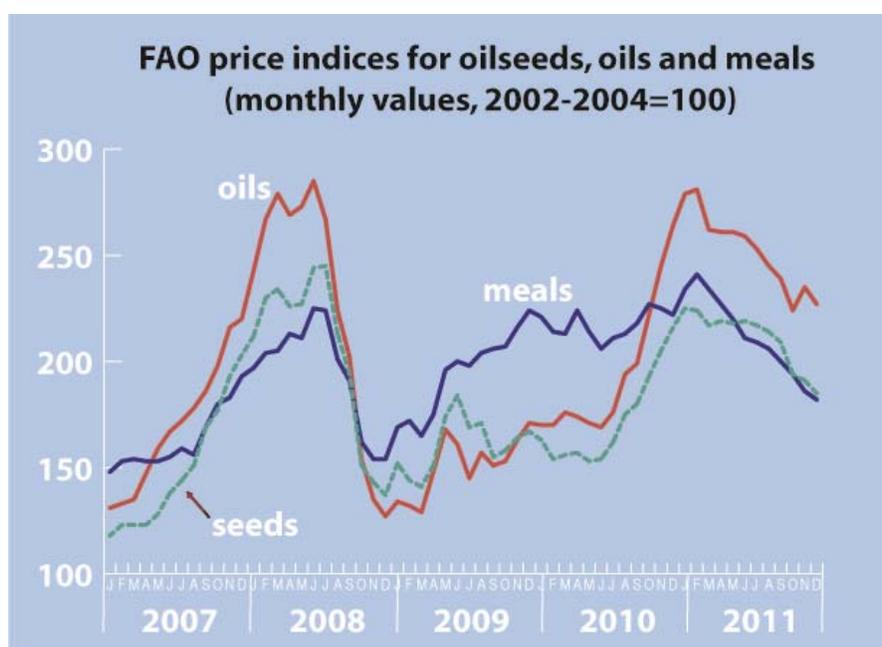
markedly improved global supply outlook) have led to spill-over effects.

Interestingly, soybean prices have seen a trend reversal in the second half of December: international prices started rising significantly, following first reports of weather related crop losses in Brazil and Argentina.

As to oils/fats, larger than expected production and export supplies (notably of palm and sunflower oil) met with a slowdown in import demand (especially in India and China). The resulting accumulation of stocks has led to downward pressure on prices. An improved soyoil production forecast in the United States – based on a higher extraction rate – has also played a role.

The additional fall in the meal price index primarily reflects subdued soymeal

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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 **December 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/>

Global price review - cont'd

demand, both inside the United States and in some major export markets. US exports have been affected by lower purchases from China and Mexico as well as increased competition from South American suppliers. Furthermore, global oilmeal demand continued to be constrained by ample availabilities of feed grains and DDG, while abundant production and export supplies of fishmeal also weighed on the meal price index. Finally, the possibility of sluggish global economic growth during 2012 has created considerable uncertainty regarding future growth in meal demand.

b) Selected policy developments and industry news

ARGENTINA – land ownership policies:

As part of a package that gives the government increased control over the agricultural industry, new limits on foreign ownership of farmland have been introduced (*see also MPPU no. 25*). Non-Argentines will be barred from holding titles to more than 1000 ha in the country's most productive farming belt. Nationwide (as well as in each municipality) no more than 15% of total farmland can be sold to foreigners, and no more than 30% of foreign-held land can be owned by citizens of the same nationality. In the process a national land registry is going to be set up. It is not clear how much of the country's productive land is currently owned by foreigners. Current land titles are not affected as the new law will not be retroactive.

BRAZIL – GM soybean: Private sources report a further increase in the role of GM seed in the country's soybean plantings:

the share of GM material is said to have risen from 76% in 2010/11 to 88% in 2011/12. Use of GM soybeans remains concentrated in the Central-Western and Southern regions of the country, which are reported to account for 43% and 40% respectively.

BRAZIL – soyoil tax rebate: Since 1991 crushers are subject to COFINS, a social security tax of 9.25% due on each ton of soybean processed. Crushers who exported soyoil and meal were entitled to a tax rebate of 50%. Reportedly, the government has decided to cancel the rebate effective December 1st. The change is expected to discourage oil and meal shipments, probably to the benefit of bean exports.

CHINA – state sales and purchases:

- **Soyoil:** In December, the State Administration of Grain requested concerned government agencies to closely monitor supply of oils towards the festive season, possibly releasing reserves to stabilize prices.
- **Rapeseed:** The central government announced it will buy 2.2 mill tons of summer-harvested rapeseed and 0.55 mill tons of autumn-harvested produce with a view to support market prices. However, to date, purchases are said to have been slow – supposedly because the government's offer price is lower than last season's price.
- **Soybeans:** Reportedly, soybeans from state reserves did not find buyers at an auction in December. As to government purchases, the 2011/12 procurement price for soybeans has been set at Yuan 4000 per ton. Whenever market prices fall below that threshold, state stockholding companies should start to purchase so as to support domestic prices and protect farmer incomes. Although the new procurement price exceeds last season's price by about 5%, the increase could prove insufficient to lift the domestic soybean markets and

stimulate cultivation of the crop, market experts said. Also, the government may not be able to source enough domestic produce at that price, and may again have to resort to imports to refill reserves. In early December, the market price for soybeans in Heilongjiang province was reported at Yuan 4000-4100 per ton.

EUROPEAN UNION – waste-based biodiesel: In Germany, biodiesel produced from used cooking oil – even when the latter includes animal fats – now qualifies for double counting against the EU’s consumption targets for renewable energy. Such regulation already applies in the Netherlands, UK and France, while Italy and Spain are expected to soon follow suit. The policy allows countries to use a wider range of feedstock for biodiesel production and is said to help stabilizing the price of biofuel feedstock.

INDONESIA – import/export duties:

- **Soybeans:** Set at zero since January 2011, the import duty for soybeans, soybean flour and certain oilmeals (as well as selected other grains and feedstuff) has been raised to 5% effective January 2012.
- **Palm oil:** Due to only small changes in the export benchmark prices for crude and refined palm oil, in December and January, the respective export taxes have not been changed from the level set last November. With regard to the new export tax structure favouring shipments of refined oil (effective since last October), it appears that crude oil shipments have fallen less than anticipated – reportedly because of major bottlenecks in the country’s oil refining industry.

MALAYSIA – new uses of oil palm

biomass: Under its newly launched National Biomass Strategy, the government is setting up an international Oil Palm Biomass Center. With the aim of reducing GHG emissions and contributing to more sustainable plantation practices,

the centre will support local and international investors engaged in the development of bio-renewable plastics and of new ways of nutrient recycling to improve soil quality. As to the latter, rather than developing new land to raise production, the focus will be on increasing output from existing plantations by reducing plant infections and pollution from mill effluents.

RUSSIAN FEDERATION – export tax:

Under the country’s WTO accession agreement, the duty levied on sunflowerseed exports is set to be reduced – over 4 years – from its current ad valorem rate of 20% to 6%. Market participants expect domestic prices for the seed as well as its sub-products to rise as a result. In any case, efforts to export sunflower oil (as opposed to seed) are expected to continue and sunseed export volumes may not increase markedly, given strong demand from the domestic processing industry.

THAILAND – certified sustainable palm

oil: Reportedly, the Thai palm oil industry is ready to start producing and marketing sustainable palm oil following the publication of the so-called National Interpretation of the RSPO standards. The industry may now certify palm oil as sustainable under the internationally recognized RSPO scheme. Certification specifically geared to the needs of smallholders – who constitute the majority of growers in the country – will be made available. The opportunity to certify production is expected to open up new markets, both domestically and internationally – in line with rising customer demand for certified sustainable produce. The first oil palm mills are expected to be certified during 2012. Reportedly, Germany provided technical and financial support towards the development of the Thai certification process.

UNITED STATES – biofuel production

support: The country's key support instruments for *ethanol* production – protective import tariffs and a tax credit for producers – have been discontinued with the beginning of 2012. In place for the last 30 years, the fiscal and import policy measures have been instrumental in encouraging the development of the nation's ethanol industry – which dominates domestic biofuel production, well ahead of biodiesel. As to *biodiesel*, it remains to be seen whether or not the respective tax credit is going to be renewed. The fiscal incentive formally expired on 31st December. Thanks to its reinstatement last year – following a one-year lapse in 2010 – the biodiesel industry has set a production record in 2011. Meanwhile, the Illinois state government is said to have extended a local tax credit (in force since 2004 and due to expire end of 2013) by 5 years. Illinois is said to have become the nation's leading biodiesel producing state. Overall, changes in federal biofuel support policies have major repercussions for the energy and food industries and markets within the US as well as internationally. As to the world market, a slow-down in global biofuel production growth has been reported for 2011, which experts attribute to poor profit margins (reflecting costlier feedstock) and lower investment in the sector.

UNITED STATES – renewable fuel

targets for 2012: The US Environmental Protection Agency has announced the target volumes and percentage standards for renewable fuel in 2012. In line with the Energy Independence and Security Act of 2007, the overall target and the mandatory admixture rate are directed to rise to, respectively, 15.2 billion gallons and 9.2%. As to the main fuel categories, the production target for 'biomass-based diesel' grows – as originally planned – from 0.8 billion gallons last year to 1.0

billion this year. The minimum admixture that each refiner/importer of biomass-based diesel must ensure has been set at 0.91%. The target set for 'cellulosic biofuels' (i.e. second generation fuels) is much lower than originally planned, confirming the country's continued high dependence on conventional biofuels, i.e. ethanol and (to a smaller extent) biodiesel. In 2011, the target for biodiesel production is reported to have been met fully.

UNITED STATES – palm oil-based

diesel: According to analysis released by the US Environmental Protection Agency, palm oil-based biodiesel does not meet the 20% lifecycle GHG reduction threshold needed to qualify as renewable fuel under the nation's bioenergy policy. EPA's assessment covers the stages of fuel and feedstock production, distribution and final use and also includes models that predict changes in land use and agricultural markets. Data used refer primarily to Indonesia and Malaysia. The approach employed is identical to the one used to analyze other biofuel pathways. Key factors contributing to the lifecycle emission estimate for palm oil-based fuel are (i) milling wastewater effluent that eventually decomposes, creating methane, and (ii) the expected expansion of palm plantations onto land with carbon-rich peat soils, which would lead to significant GHG release.

UNITED STATES – futures market

regulations: In November 2011, the US Commodity Futures Trading Commission (the agency tasked to regulate the country's commodity futures and option markets) issued new rules on non-spot speculative position limits for 28 core commodities, including soya beans, oil and meal. Following the Dodd-Frank Reform Act, CFTC's initiative is meant to lower risks and promote transparency in the swaps, futures and open market place. Consistent with CFTC's new rules,

CME/CBOT is now proposing to change its grain and oilseed contracts. The new limits raise the quantities a single speculator can own or control for a single month and for all months, leaving the quantity for the spot month unchanged. Experts believe that the raising of limits will probably not have a discernible effect on futures markets due to the recent downward trend in prices and volatility;

however, it could lead to increased inflows of funds into agricultural commodities if uncertainty returned to the global supply and demand balance.

*For comments or queries
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	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)⁶</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)								
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	550	1308	1147	418	279	215	256	221
Monthly								
2009 - October	427	891	676	413	187	158	153	207
2009 - November	442	939	728	422	196	164	163	216
2009 - December	448	931	791	425	219	167	171	224
2010 - January	435	919	793	407	243	163	170	221
2010 - February	406	915	804	393	230	154	170	214
2010 - March	410	920	832	381	200	156	176	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	171	214
2010 - June	408	860	794	342	194	154	169	206
2010 - July	426	911	811	361	225	162	176	211
2010 - August	457	1002	901	389	245	175	194	213
2010 - September	468	1036	910	398	277	180	199	218
2010 - October	496	1165	998	415	285	193	222	227
2010 - November	526	1248	1117	430	292	205	245	225
2010 - December	550	1321	1229	437	289	216	264	222
2011 - January	572	1384	1279	454	313	225	279	234
2011 - February	569	1366	1286	447	290	224	281	241
2011 - March	552	1305	1172	423	264	217	262	234
2011 - April	553	1310	1148	406	277	219	261	227
2011 - May	556	1291	1155	403	280	218	261	220
2011 - June	559	1321	1137	396	289	219	259	211
2011 - July	558	1345	1100	405	262	217	253	209
2011 - August	557	1327	1080	402	248	214	245	206
2011 - September	546	1310	1065	396	255	209	239	200
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
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) ⁶ Please note that the indices for historic years have undergone a revision in December 2011								
<i>Note:</i> The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each <i>Sources:</i> FAO and Oil World								