OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 43, January 2013

a) Global price review

In December, FAO's price index for oils/fats has fallen for the fourth consecutive month, whereas the index for oilseeds and, more pronouncedly so, for meals recorded an upward move. The indices for oilseeds and meals rose by respectively 3 and 11 points (or 1 and 4 percent) from November, thus continuing to range well above the average of past seasons and, in the case of meals, almost climbing back to the record level observed last August. The oils/fats index, by contrast, has fallen by 3 points (2 percent), confirming a 2-year low value also for this month.

Led by soybeans, international oilseed prices strengthened again – after falling for the past three months – mainly reflecting a tight global soybean supply and demand situation that is anticipated to last for another two to three months. Persistent strong rainfalls in parts of Argentina have delayed soy plantings and could reduce the crop's yield potential, thus raising doubts regarding the realization of the record output predicted for South America – a situation that resulted in upward pressure on prices. Persistently high soybean crushings and exports in the United States also started to create concern among market participants. Furthermore, rapid disposals of sunflower seed, which reduced supplies in major producing countries, also played a role.

The rise in the oilmeals/cakes index largely reflects the global tightness in soybeans, as soymeal is the leading component of the index.

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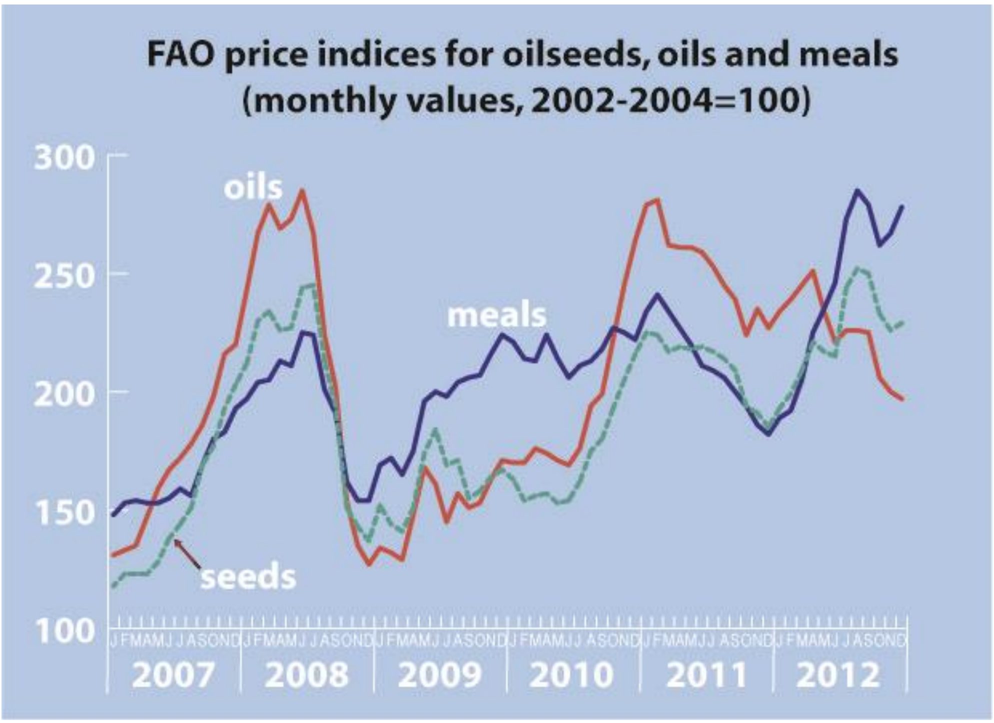


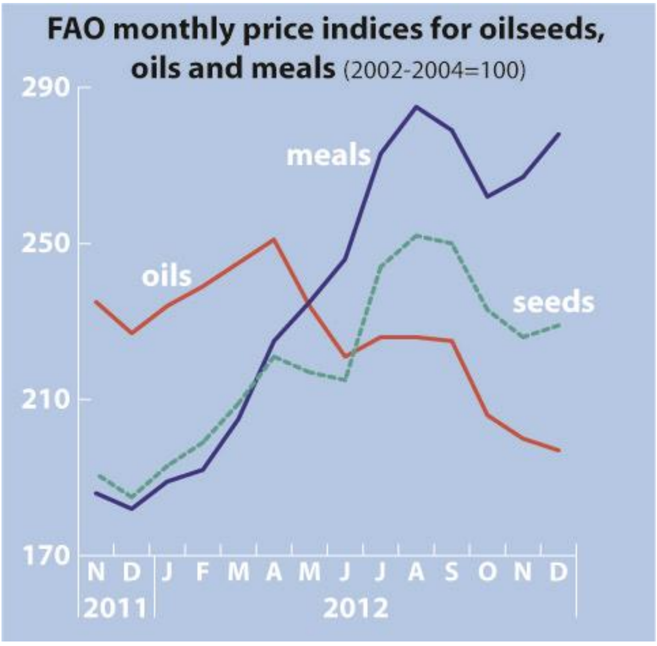
* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **December 2012**. 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*

However, tightening world supplies of fishmeal – resulting from the drastic cut in Peru's official catch quota for the period December'12 to January'13 – also lent strength to the index.

The further fall in the oils/fats index continues to be determined by the palm oil market. Successive months of above-average palm oil production in Southeast Asia, combined with protracted weakness of global import demand, resulted in inventories climbing to unprecedented levels, which forced prices down to multi-year lows. The decline in the index in December would have been even stronger without the prospect of both, a tight global supply and demand situation for soybean oil during the next few months and lower than anticipated availabilities of sunflower-seed oil.

Interestingly, the last week of December has seen a slight recovery in palm oil prices, which can be attributed to speculation about possible harvest delays in Malaysia following heavy rainfall and local flooding in parts of the country as well as to policy changes affecting trade, notably the introduction of stringent import inspections by China and the application of lower export duties for palm oil in Malaysia (which should stimulate exports, helping to reduce unusually high stockpiles that caused prices to tumble).



b) Selected policy developments and industry news

ARGENTINA/SPAIN – trade in biodiesel: According to official sources from Argentina, Spain has lifted its requirement that petroleum companies may only use EU-produced biodiesel to comply with the country's mandatory blending requirements *(see MPPU no. 35, May '12)*. Allegedly, though not an outright import ban, Spain's requirement severely curtailed access of foreign suppliers (notably from Argentina) to the Spanish market. Spain is said to have revoked its policy after Argentina filed a formal complaint at the WTO.

CHINA – custom policies: The government decided to lower several administrative custom fees for exports and imports of goods during 2013. Reportedly, the measure is meant to reduce the burden of such charges on trading companies so as to stimulate trade growth. For some food products, including vegetable oils, the weight of the fees is set to be lowered from 0.4% of the good's value to 0.08%.

CHINA – futures trading: In an effort to help market participants manage price risks, the Chinese government authorized the launch of futures trading in rapeseed and rapeseed meal at Zhengzhou Commodity Exchange. Located in the north-central province of Henan, Zhengzhou is one of the country's two trading platforms for futures in agricultural commodities. The exchange already trades in rapeseed oil futures. China is the world's third largest producer of rapeseed and tops the list of rapeseed meal consumers.

CHINA/MALAYSIA – palm oil trade flows: Malaysian exporters expressed concern about the enforcement of China's new quality standards on vegetable oil imports *(see MPPU no. 42, Dec. '12)*. To calm the industry, Malaysian officials informed that no more than five percent of shipments failed to meet the new specifications. The analysis of those shipments revealed that non-compliance was mostly related to the presence of free fatty acids. Reportedly, Malaysian requests for an extended enforcement grace period have been turned down by the Chinese authorities. China is the world's second largest buyer of palm oil, with Malaysia as leading supplier. Traders are concerned that the enforcement of strict regulations by China could open the door for other palm oil importing nations to introduce similar requirements.

INDIA – vegetable oil import policy: Prompted by the movement of global palm oil prices, the government decided to further reduce the base import price for refined palm olein to USD 872 per ton *(see also MPPU no. 42, Dec. '12)*. Base import values for other crude and refined oils were kept unchanged. The base price is used as reference price for assessing import taxes. Duties are assessed based on official reference values rather than prices reported by traders so as to check the loss of revenue in case of under-invoicing by importers.

INDIA – edible oil consumption policies: The central government confirmed that two long-standing consumer protection measures – i.e. nationwide distribution of imported edible oils at a subsidized price of Rs 15 per kg and the permission to impose stock limits on edible oils and oilseeds at state level – will remain in place until end September 2013.

INDONESIA – palm oil export tax: Based on further decreasing international benchmark prices, during January, the export tax collected on crude palm oil will be 7.5% - as opposed to 9% applied in the two preceding months. The rates for the various other types of oil have also been lowered. The new tariff rates are the lowest recorded since November 2010.

INDONESIA – palm oil consumption: Official forecasts put domestic palm oil consumption at 8.5 million tons in calendar year 2013, up 13 percent from the estimate for 2012. Sustained economic growth is seen boosting demand for the oil. If realized, the anticipated expansion in demand would make Indonesia the world's largest consumer of palm oil, surpassing India. The increase concerns the whole spectrum of food and non-food applications, with the food and detergent industries as main drivers. The possible raise in the blending rate of palm oil-based biodiesel from the current 5 percent to 7.5 percent would also contribute to the increase in consumption.

MALAYSIA – palm oil export tax: In line with the country's new export tax regime for crude palm oil *(see MPPU no. 41, Nov. '12)*, the recent fall in benchmark prices implies that the export tax will be set at zero during the month of January. When the reference export price rises above RM 2 250 per ton, a sliding export tax (ranging between 4.5 and 8.5 percent) is applied, whereas no duties are charged when prices fall below that level. The benchmark value used for determining taxation in January is RM 2 148. The temporary tax exemption is expected to stimulate exports and should help reduce the country's palm oil inventories, which have risen to record levels over the last few months, causing a slump in prices.

MALAYSIA – oil palm replanting scheme: The government confirmed the launch of a new replanting scheme worth RM 100 million *(see MPPU no. 41, Nov. '12*). Meant to raise productivity levels through the improvement of the tree's national age profile, the initiative is also driven by concerns about the recent swelling in domestic palm oil stocks and the ensuing plunge in prices. The envisaged replanting of 100 000 ha is expected to slow down growth in domestic palm oil output during an initial period of 4-5 years. Under the scheme, which is primarily targeted at independent smallholders, an incentive of RM 1 000 per ha will be provided for replanting operations including the purchase of quality seedlings.

THAILAND – oil palm farmer support: In the last few years, the government introduced several measures to secure domestic supplies of edible oils so as to prevent retail prices from surging and thus protect consumers. However, with local farm gate prices for fresh fruit branches dropping below Baht 3 per kg in recent weeks (reportedly the lowest level in seven years), oil palm growers started to stage protests and urged the government to help boost prices. In response to these calls, the national palm oil policy committee convened and decided that a mandatory price range of Baht 4.00-4.35 shall apply to fruit purchases by palm oil factories throughout the country.

UNITED STATES – biodiesel tax credit: US lawmakers decided to revive the USD 1,0 per gallon tax credit for biodiesel which expired back in December 2011. The incentive, which is now scheduled to expire at the end of 2013, will be applied retroactively to all of 2012, thus granting a windfall profit to the nation's biofuel producers. Along with the revival of the biodiesel subsidy, the tax credit for biomass-based diesel as well as a special tax break granted to small agri-processors producing biodiesel has been extended. Furthermore, from this year also algae-based biodiesel is eligible for support. Biodiesel producers and soy farmers welcomed the extension of the subsidy. In recent years, roughly one fourth of total US soyoil output has been devoted to biodiesel production. Critics of public biofuel subsidies, on the other hand, pointed at the high economic and environmental costs associated with such programmes, questioning the effectiveness of such measures as a means to address climate change concerns. The problem is not unique to the United States. In the EU, the existing biofuel support schemes are currently being revisited due to concerns about their effectiveness and overall impact at local and global level.

Soybean seed royalties in Brazil: Global seed company *Monsanto* informed that it will resume nationwide collection of royalties for its 'Roundup Ready' soybean seed. The company had suspended collections throughout the country after a court in Mato Grosso state temporarily prohibited that practice *(see MPPU no. 37, July '12)*. Reportedly, the same court now ruled that collection of royalties could resume.

Recycling of used vegetable oils

- Brazil: The association of Brazilian vegetable oil industries (ABIOVE) signed an agreement with the São Paolo State Department of Environment to promote and regulate the collection and recycling of used edible oils. The initiative aims at improving access to existing (and opening of new) voluntary delivery points and includes the implementation of environmental education programmes. Waste oils will be channeled to oleochemical and biodiesel producers. The 4-year project is expected to help reduce water pollution. Currently, the country counts some 900 delivery point, concentrated in São Paolo State.
- McDonald's Corporation: The global foodservice retail company reported new efforts in Australia and the United Arab Emirates to recycle vegetable oil. Waste oils are collected from the company's outlets, filtered and converted into biodiesel that is used to run the corporate truck fleet, thereby contributing to cut GHG emissions.

South-South cooperation: Reportedly, the Chinese government agreed to help develop the coconut industry of Sri Lanka. Cooperation between the two countries would focus on the development of Sri Lanka's coconut-based products with a view to enhance exportation of such goods to China. Technology transfer programmes and a variety of measures to improve trading activities will be considered. Coconut products said to be in high demand in China include coconut coir, fiber based products and activated carbon.

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

[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