

OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

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a) Global price review

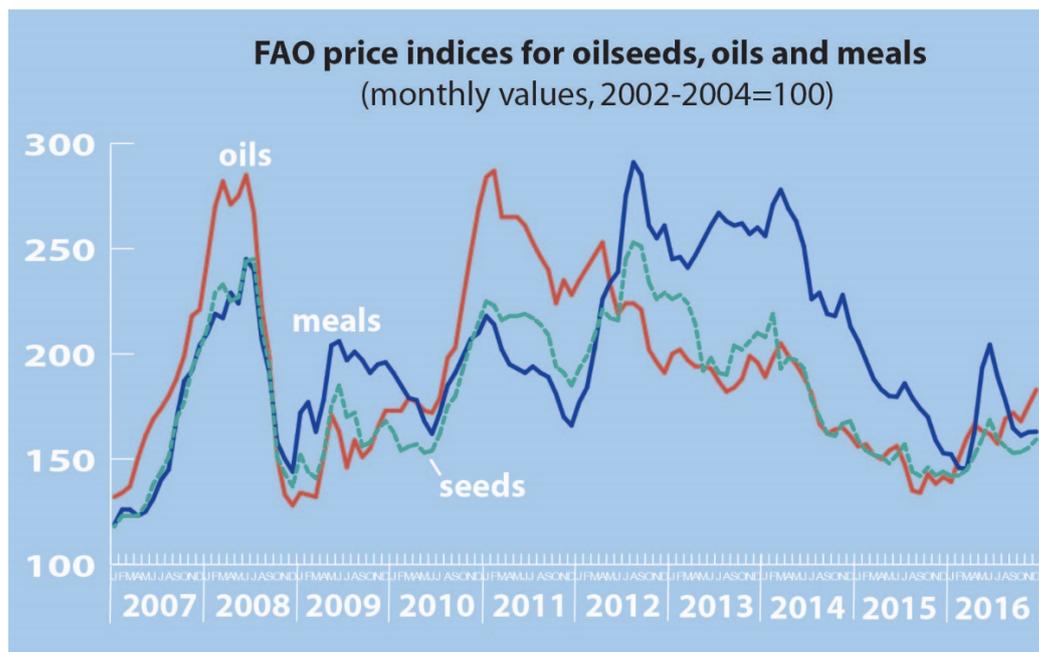
In December, the FAO price indices for oilseeds and for vegetable oils moved upward, respectively, for the third and second consecutive month, while the price index for oilmeals remained about unchanged. The strongest increase occurred in the vegetable oil index, which rose by 7.4 points (or 4.2 percent), while the oilseed index strengthened by about 4 points (or 2.5 percent). All three indices fared well above the levels recorded in the corresponding month of 2015.

The rise in the oilseeds index mainly reflects renewed strength in international soybean values, reflecting concerns that, in Argentina, late soybean plantings and poor crop emergence (due to dry weather) might curb the country's yield potential. Robust import demand for US-origin soybeans, in particular from China, also continued

to lend support to prices. On the other hand, weather conditions in Brazil have been very beneficial, which, together with confirmations of the United States' bumper harvest, consolidates the forecast of a record 2016/17 global soybean output. Towards the end of December, key soy-growing regions in Argentina received some rain, allowing soy prices to relax somewhat. Clearly, weather developments in South America will remain under close watch in the coming weeks.

With regard to other oilseeds, international rapeseed quotations continued to appreciate (now marking an 18-month high) on tight global availabilities. As poor crops in the EU, Ukraine, Russia and China have been only partly offset by Canada's record harvest, global rapeseed production is anticipated to fall for the fourth consecutive time in 2016/17.

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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 official and unofficial sources. Section b) of the present issue covers developments observed during **December 2016**. 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/>.

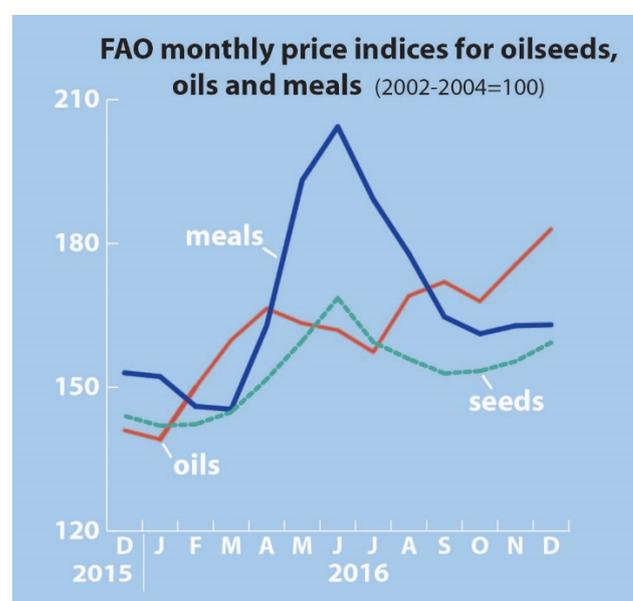
Global price review – cont'd

As to oilmeals and cakes, international soymeal prices – the leading component in FAO's oilmeal index – remained about unchanged in terms of monthly average values. During the first half of December, developments in the global soybean market caused soymeal prices to remain firm. However, during the remainder of the month, lower than anticipated meal import demand, together with prospects of large global meal availabilities and stiff competition from alternative feed ingredients exerted some downward pressure on international soymeal prices.

FAO's price index for vegetable oils reached a 30-month high in December, reflecting exceptionally tight supplies relative to global demand, notably for palm oil, the world's most consumed oil. International palm oil prices continued to appreciate, underpinned by slower than anticipated production recoveries in Malaysia and Indonesia, depleted inventories in both producing and importing countries, and concerns that global supplies could remain tight during the first quarter of 2017. Also international soyoil prices continued to strengthen, on one hand mirroring developments in the global soybean market and, on the other, reflecting concerns about higher than expected soyoil uptake by

biodiesel producers in the United States, Brazil and Argentina – which would curb global export supplies and inventories of vegetable oils.

Looking at the annual averages of the three indices, in 2016, the indices for vegetable oils and oilseeds posted a year-on-year gain of, respectively, 11.5 and 3 percent, while the oilmeal index dropped by about 6 percent. In historical terms, all three indices continued to fare below the levels observed in recent years: in 2016, the oilseed and oilmeal indices stood at 9-year lows, and the vegetable oil index at a 7-year low.



b) Selected policy developments and industry news

ARGENTINA – export policy: The Government of Argentina confirmed that, during 2017, the country's export tax on soybeans will remain unchanged at 30 percent, whereas between January 2018 and December 2019 it will be reduced by 0.5 percentage points each month until it reaches 18 percent (*see also MPPU Nov'16*). The same half-point-per-month reduction will apply to the country's export duties on soymeal and soyoil, which currently stand at 27 percent.

CHINA – rapeseed oil state reserves: Since their resumption in October last year, auctions of rapeseed oil from state reserves took place on a weekly basis in China. As of 11 January 2017, a total of 1.39 million tonnes of rapeseed oil have been offered, virtually all of which has been bought by traders. After peaking at CNY 7 172 per tonne (USD 1 034) in mid-December, average auction prices decreased gradually to CNY 6 549 per tonne (USD 944).

CHINA – GMO policy: From May 1, the cultivation, processing and selling of GM soybeans, rice and maize will be prohibited in Heilongjiang,

the country's main grain producing province. Reportedly, the supply of GM seeds and the sale and import of all edible farm produce containing GM ingredients will also be banned. GM-food may only be sold in a special zone, with clear labeling. Consumer concerns over perceived health risks of GM products together with reports of illegal use of GM crops among farmers and food manufacturers (*see MPPU Sep. & Oct. '15*) are said to have prompted the ban. The provincial initiative appears to be in contrast to recent moves by China's central government. As part of new efforts to make the country's agricultural production more efficient and boost crop output, China pledged to support the gradual introduction of GM crops and announced improvements in its GMO regulatory mechanisms to address risks and safety concerns (*see MPPU May '15 & Sep. '16*). Although provincial officials reiterated their support for the research and development of transgenic technology, they recommended prudence in applying such techniques in crop production. Currently, in China, the cultivation of any GM crops except for cotton and papaya remains prohibited, while the importation of GM soybeans for use in animal feed is allowed. According to market experts, Heilongjiang's initiative is primarily aimed at protecting the province's position as a supplier of non-GM soybeans to the domestic and international market.

EUROPEAN UNION – biodiesel anti-dumping duties: In response to the ruling issued last year by the Dispute Settlement Body of the World Trade Organization (*see MPPU Nov. '16*), the European Commission has initiated an investigation of its anti-dumping duties on biodiesel imported from Argentina and Indonesia. Interested parties – including exporting producers in the two countries – have been invited to submit new evidence on biodiesel production costs, production capacities and capacity utilization. Aimed at bringing the EU's anti-dumping duties into conformity with WTO rules, the review may lead to a repeal or amendment of the measures in place. Any changes will not have retroactive effect, implying that they shall not serve as a basis for the reimbursement of duties collected in the past. The Commission notified the WTO that it plans to implement its revisions by August 10 of this year.

EUROPEAN UNION – GMO policy

- **New GM soy variety:** The European Food Safety Agency (EFSA) has issued a scientific opinion on the placing on the market of insect-resistant soybean variety DAS-81419-2 (known under the brand name 'Conkesta') for food/feed uses, import and processing, concluding that it is as safe and as nutritious as its conventional non-GM counterpart. The EFSA opinion has been forwarded for consideration by the European Commission and member states.
- **Traces of obsolete GM rapeseed:** EU member states and the European Commission agreed to extend by three years the phasing-out period for traces of three obsolete GM rapeseed varieties. The previously authorized varieties were primarily cultivated in Canada, but are currently no longer commercialized as such.

INDIA – agricultural policy

- **National support prices:** Minimum support prices for Rabi crops (which were sown in November/December 2016 for harvest during the first half of 2017) have been raised from last season's level. For oilcrops, they were set about 10 percent higher, at INR 3 700 per quintal (USD 544 per tonne) for both rape/mustardseed and safflowerseed – including a bonus that is granted to oilseed crops to incentivize their cultivation and thus curb the country's reliance on imports. For comparison, the support prices for pulses, wheat and barley have been increased by, respectively, 14–16 percent, 7 percent and 8 percent.
- **Local producer support:** The state government of Andhra Pradesh informed that it would cover insurance claims by farmers whose groundnut crop has been damaged by adverse weather during the 2016 Kharif season. Nearly 700 thousand farmers are expected to benefit from the measure. Reportedly, in Andhra Pradesh, less than one third of the area planted with groundnut could be harvested due to lack of rainfall.

MALAYSIA / ISLAMIC REP. OF IRAN – trade agreement: Malaysia plans to pursue a free trade agreement with the Islamic Republic of Iran as part of efforts to diversify bilateral trade. Following the lifting of international sanctions against Iran and

given the country's thriving economy, Malaysia sees significant potential for trade between the two countries, especially regarding mineral oil, gas and palm oil. Considering that imports of palm oil into Iran currently attract a high tariff of 40 percent, Malaysia is aiming for a preferential, lower duty under a bilateral trade agreement.

UKRAINE – export control measures: Ukraine's Food Safety and Consumer Protection Service (FSCPS) decided to check the country's agricultural exports for GMO-content, mentioning soybeans as a particular concern. In principle, given that no GM soybean variety has been cleared for cultivation in the country, Ukraine has the potential to become a key supplier of GM-free soybeans to the EU and the Russian Federation. However, according to private sources, a substantial part of the country's soy crop is now grown from illegally imported GM varieties, and local supply chains are not equipped for segregating non-GM from GM produce. FSCPS informed that it would seize and dispose of any export consignment found to contain GMO products, in a bid to protect the interests of domestic non-GM soybean producers.

Variable palm oil export tax – Indonesia,

Malaysia: In January, Indonesia will re-introduce a USD 3 per tonne export tax on crude palm oil shipments, given that the government's benchmark price for palm oil has exceeded the USD 750 per tonne threshold that triggers the sliding export tax. The country's tax had been set at zero in the two preceding months. Malaysia raised its export duty for January to 7 percent (compared to 6 percent in December), in line with the increase recorded in the relevant reference price. The 7 percent duty represents the highest rate since the tax systems' revision in January 2013. Under Malaysia's multi-tier tax regime the duty may range from zero to 8.5 percent.

Sector development measures – India

- Oil palm: District officials in Arunachal Pradesh encouraged farmers to take up palm oil cultivation and announced the following public-private support measures: subsidies to cover plantation and maintenance costs; incentives for purchasing pumping equipment; assistance for intercropping; and the establishment of local

centres for the collection of oil palm fruit bunches.

- Coconut palm: Under plans to revive Kerala's coconut industry, the local government intends to launch a campaign to highlight the health benefits of coconut oil. Reportedly, due to misconceptions, consumers are increasingly switching to other oils such as sunflower and palm oil. To diversify the local market for coconut products, the government will also support the production of value-added products such as neera, a sweet sap extracted from the inflorescence of the coconut palm that is used to prepare health drinks and other food products. Furthermore, the state announced a large replanting programme to replace aged and ailing palms with disease-resistant, high-yielding dwarf varieties. Moreover, fragmented landholdings with coconut palms will be grouped into clusters to allow more efficient crop management.

Bilateral initiatives concerning palm oil

- Ghana / Liberia: The governments of Liberia and Ghana, with support from their private sectors, agreed to explore potential trade opportunities in palm oil. National trade and standard setting bodies and private investors in the two countries committed to join forces to promote Liberian exports of crude palm oil for subsequent refinement in Ghana.

- Malaysia / Indonesia: The world's two leading palm oil exporting nations agreed to organize joint ministerial missions to western, importing countries to address perceived barriers to palm oil trade. According to Malaysian and Indonesian government officials, anti-palm oil campaigns are hurting global exports and have negatively affected growth of their domestic palm oil industries. The bilateral effort will be carried out under the Council of Palm Oil Producing Countries (CPOPC) that was established in 2015 (*see MPPU Nov. '15*).

Research and development

- Trans fat-free hydrogenation: A group of scientists in the United States claims to have developed a novel technique to hydrogenate vegetable oils which does not produce unhealthy

trans fatty acids. Conventional hydrogenation processes (which are essential for the stabilization of vegetable oils) go hand in hand with the generation of trans fats. Reportedly, the new technique, named High-voltage Atmospheric Cold Plasma (HVACP) hydrogenation, relies on a high-voltage electrical current to split hydrogen molecules. Currently, the team of researchers is investigating methods to reduce hydrogenation time from several hours to a couple of minutes.

- **Enhanced soybean meal:** In the United States, the soybean industry is supporting the development of an improved soybean meal for use in the aquaculture sector. Researchers are focusing on an enzyme treatment, which – without damaging the amino acids – reduces the amount of anti-nutritional factors that impair fish digestion. Initial feeding studies suggest that high inclusion levels of the modified meal in fish diets is possible without decreasing performance. The new meal is said to be similar to conventional produce with regard to its physical properties.

- **Olive oil quality:** In Spain, scientists are working on a method to gauge olive oil authenticity and quality based on advanced forensic techniques. By clearly identifying and quantifying the DNA present in virgin olive oil, the new technique (known as ‘droplet digital-PCR’) permits researchers and food analysts to reliably certify the origin and composition of any olive oil, thereby helping to detect adulterations. Considering that, in global olive oil trade, fraudulent practices greatly impact growers, producers and traders, the development of reliable fraud-prevention techniques has become of particular relevance (*see also MPPU May’14 & Dec.’16*).

- **Olive seed oil:** A Spanish olive company is working on techniques to optimize oil extraction from the seed that is found inside olive stones (as opposed to the oil contained in the pulp or in the stone-husk). The chemical composition of olive seeds, pulp, and stone-husk differs significantly, with oil extracted from stones and, in particular, from seeds featuring high amounts of polyphenols and antioxidants. The latter compounds make olive seed oil suitable for high-value products and applications in the cosmetics, pharmacological and functional foods sector.

Overseas investments

- **China / Kazakhstan:** In Kazakhstan, a Chinese company opened an oilseed processing facility in partnership with a local firm. The joint venture was set up to supply vegetable oil to China and therefore complements earlier efforts by China – given domestic production constraints – to raise the country’s presence in international markets and foster direct product sourcing (*see also MPPU Nov.’14 & Feb.’16*). Kazakhstan, on the other hand, welcomed Chinese investments into the country’s food industry as a means to diversify its mineral oil-dependent economy.

- **Malaysia / Philippines:** Under PIOPIC – a bilateral public-private partnership for the development of the Philippine oil palm industry – a group of Malaysian companies is set to develop 120 000 hectares of oil plantation in the Philippines’ Mindanao region. Reportedly, the investment will include the training of farmers, the construction of mills including biogas plants, and basic infrastructure works.

Futures markets – China: China’s securities regulator has approved the launch by the Dalian Commodity Exchange of soybean meal options. Currently, the exchange is seeking public comments on contract specifications and related issues. Reportedly, following the successful launch of futures contracts for oilseeds, oils and meals in 2015, industry players called for the introduction of options contracts as an additional risk management tool. Agricultural options are extensively used by farmers and investors in the United States and Europe.

Certified sustainable palm oil:

The Roundtable on Sustainable Palm Oil (RSPO), the world’s principal body for sustainable palm oil certification, published the following performance indicators referring to December 2016 (*see MPPU Feb.’16 for information concerning 2015*):

a) 3.25 million hectares of oil palm are certified sustainable (including group certification for smallholders), which represents about 18 percent of the world’s total mature oil palm area and compares to a certified area of 2.77 million ha in December 2015;

b) the annual production capacity of RSPO-certified palm oil amounts to 12.15 million tonnes, or about 20.8 percent of global production; these figures are somewhat below the 2015 levels, in part because of one RSPO membership suspension and one member's self-withdrawal from RSPO certification (*see MPPU June'16*);

c) actual sales of RSPO-certified palm oil continue to fall short of total supplies; the figures reported for 2016 confirm that over half of the available certified product does not find a buyer and is sold as conventional palm oil, i.e. without price premium;

d) in 2016, the three sales channels that are based on physical supply chains – i.e. segregated, identity-preserved and supply-mass-balanced

transactions – accounted for 65 percent of total sales; the remaining 35 percent were marketed via book&claim mechanisms (which contribute only indirectly to sustainable production systems) – an improvement compared to 2015, when book&claim sales accounted for about 55 percent of total transactions.

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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
2014/15	407	777	658	406	270	155	153	194
2015/16	396	773	655	351	232	151	155	168
Monthly								
2015 - January	421	789	681	431	279	159	156	206
2015 - February	407	775	693	412	273	154	157	197
2015 - March	402	748	673	392	262	152	152	188
2015 - April	396	753	657	380	263	151	150	183
2015 - May	385	781	663	371	290	148	154	180
2015 - June	397	800	670	372	282	152	156	180
2015 - July	413	746	635	389	264	157	148	186
2015 - August	375	729	544	371	270	144	135	179
2015 - September	367	725	533	362	256	142	134	174
2015 - October	377	743	581	351	255	146	143	170
2015 - November	367	726	561	328	232	142	138	159
2015 - December	372	757	568	317	215	144	142	153
2016 - January	368	722	564	316	217	142	139	152
2016 - February	370	762	639	303	203	142	150	146
2016 - March	379	761	694	301	219	145	160	145
2016 - April	398	797	723	339	242	152	166	163
2016 - May	425	790	708	406	261	160	163	193
2016 - June	455	797	679	430	259	169	162	204
2016 - July	429	790	652	400	234	159	157	189
2016 - August	414	812	736	375	228	156	169	178
2016 - September	403	825	755	344	219	153	172	165
2016 - October	404	853	712	340	214	153	168	161
2016 - November	409	875	755	343	218	155	176	163
2016 - December	420	902	783	344	211	159	183	163
<p>¹ Spot prices for nearest forward shipment</p> <p>² Soybeans (US, No 2 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>Sources: FAO and Oil World</p>								