

OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 66, January 2015

a) Global price review

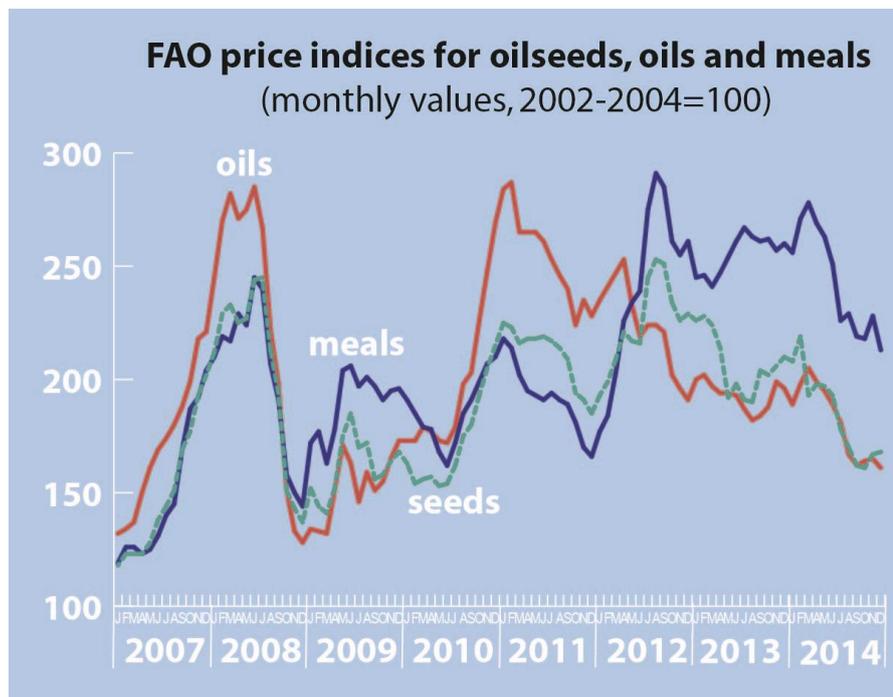
In December, the FAO price index for oilseeds remained virtually unchanged, while the indices for oils and oilmeals dropped by 2.6 percent and 6.5 percent respectively from their November level. Compared to December 2013, all three indices saw a marked decline of 18 – 20 percent.

Regarding the markets for oilseeds, in December 2014, international soybean prices averaged below the level recorded in the last few years, reflecting expectations for a record-breaking global soybean harvest in 2014/15. During the second half of the month, soybean values firmed somewhat on concerns over increasingly dry conditions in certain growing areas of South

America and on higher than expected import demand by China, the EU and several other buyers. Quotations for sunflowerseed and rapeseed remained relatively firm, reflecting recent downward revisions for crops harvested in Eastern Europe and Canada.

The month-on-month drop in the price index for vegetable oils (4.2 points or 2.6 percent) mainly mirrors developments in the market for palm oil, the most widely traded vegetable oil. The recent slump in crude oil prices depressed demand for palm oil as a biodiesel feedstock, causing a sizeable drop in palm oil values. Only towards the end of December, palm oil prices appreciated again, as excessive rains slowed down harvesting and crushing operations in Malaysia, amid higher

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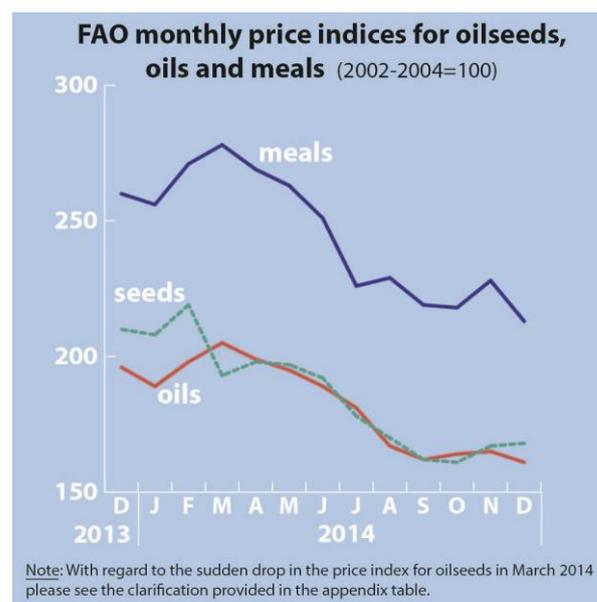


* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market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

than expected global export demand. International quotations for soy, rape and sunflowerseed oil weakened during December, mostly influenced by the decline in crude oil values.

Last month's fall in the oilmeal price index (by 15 points or 6.5 percent) was mainly the result of lower international soymeal values. Reports of all-time high crushings in the United States in December and the prospect of another record-breaking global crush this season, combined with the confirmation of ample global feedgrain supplies, have driven international soymeal prices to 3-year lows.



b) Selected policy developments and industry news

CANADA – transportation policies:

Contrary to earlier reports (*see MPPU Nov. '14*), the government has extended until March 2015 the requirement that railways move minimum volumes of grain crops – set between 200 000 and 465 000 tons per week, depending on the period. The measure, first introduced in March 2014, is meant to ensure that grains, rapeseed and other crops reach markets in a timely manner. The country's two rail networks must present to the government formal contingency plans for the remaining crop year and are expected to regularly submit detailed information on shipments. In general, railways, shippers and producers are expected to work together to ensure effective operations along the supply chain.

CHINA – GM crop approvals: After several years of review, Chinese authorities have granted official approval for the importation of two GM soybean varieties developed in the United States – one of China's key suppliers of soybeans. The approval paves the way for the full commercial launch, in the United States, of *DuPont's* high

oleic soybean *Plenish* and *Bayer's* soybean variety *LL55* said to possess enhanced weed control properties.

INDIA – copra support price: The 2015 procurement prices for milling and ball copra have been set at, respectively, Rs 55 500 (USD 885) and Rs 58 300 (USD 938) per tonne – up 6 percent from last year's level.

INDIA – vegetable oil import policy:

Acknowledging that rising vegetable oil imports have led to a significant drop in local prices and hurt the refining industry as well as farmers, the government decided to raise by 5 percent India's import tariff for both crude and refined edible oils. The decision by Indonesia and Malaysia (towards the end of last year) to suspend their palm oil export duties, together with falling international prices, led to a surge in India's imports, in particular of palm oil products. India's new import tariffs – fixed at 7.5% and 15% respectively for crude and refined oils – have come into effect on December 25th 2014. The industry had asked for stronger duty increases, especially for refined oils, with a view to enhance the competitiveness of the domestic refining sector.

INDONESIA – variable palm oil export tax:

To curtail domestic inventories in a year of record supplies, the government decided to extend the zero duty on crude palm oil exports for a fourth month until end January 2015 (*see also MPPU Nov. & Dec. '14*).

ISLAMIC REP. OF IRAN – edible oil import policy:

Reportedly, state officials recommended that imports of palm oil be limited to 30 percent of the country's total annual vegetable oil imports. The proposal was raised after dairy companies were found to be adding palm oil in high-fat milk and yogurt, a practice said to be unbeneficial for public health. Reports about the introduction of a permanent ban on palm oil imports have been dismissed.

MALAYSIA – palm oil export tax: According to official sources, the suspension of the country's tax on crude palm oil exports is to be prolonged through February 2015. The tax was temporarily lifted in September 2014, so as to boost demand and reduce domestic stockpiles. By extending the suspension, the government hopes to lift local palm oil prices which, by December, had dropped to five-year lows.

PHILIPPINES – coconut sector support

- **Coconut levy release:** Reportedly, a decision by the Philippines' Supreme Court has paved the way for the release of funds amounting to Pesos 60 billion (USD 1.34 billion) for the benefit of the country's 3.5 million coconut farmers. The funds came from a levy collected from coconut farmers during the 1970s. Meant to be spent for sector development measures benefiting producers, the funds were never used for their original purpose. The funds' sequestration by the government in 1986 opened the way for a lengthy court case. Based on the latest court order, Congress is now expected to pass a bill that mandates the creation of a trust fund for the development and rehabilitation of the coconut industry. Targeting coconut farmers and farm workers, funds are expected to be earmarked for national programmes supporting coconut productivity, rehabilitation and replanting, intercropping,

crop protection, agronomic and medical research, integrated downstream processing, and market promotion. Social measures such as health, medical and life insurance schemes as well as educational scholarships will also be proposed.

- **Coconut production support:** Reportedly, the government has allocated Pesos 1.38 billion (USD 30.9 million) to the country's Coconut Authority, to enhance the latter's activities in support of coconut production. The additional funding will be used for, among others, planting and replanting incentives to coconut farmers, distribution of organic fertilizers, capacity-building activities related to intercropping, and pest control programmes.

PHILIPPINES – biodiesel policy: According to official sources, the government will decide in early 2015 on whether to raise the Philippines' mandatory biodiesel blend in fuel products. Reportedly, it is waiting for the results of a study conducted by the National Economic and Development Authority. Since 2013, the country's National Biodiesel Board has recommended to raise mandatory blending from the current rate of 2 percent to 5 percent (*see MPPU Aug. '13*). Industry groups favour the shift to a higher blending rate as it would create additional demand for the coconut sector.

REPUBLIC OF KOREA – biodiesel policy:

According to industry sources, the government is aiming to raise domestic biodiesel consumption. Reportedly, mandatory blending of transport diesel with biodiesel could be raised from the current 2 percent to 2.5 percent in August 2016, and further to 3 percent in January 2018. In this regard, private sources pointed out that the country's biofuel industry is now only able to meet 40 percent of domestic requirements. The remaining demand has to be satisfied via imports.

UNITED STATES – biodiesel policy: In December 2014, the government retroactively reinstated the biodiesel tax incentive that had expired back in January 2014. The extension is limited to the 2014 calendar year. Under the

policy, fuel producers enjoy a tax credit of 1 USD for every gallon of biodiesel sold. For 2014, thanks to the reinstatement of the incentive, biodiesel producers are estimated to get back approximately USD 1 million. The industry had asked for the measure to be extended through 2015, arguing that retroactive reinstatements do not give the biodiesel sector the certainty needed to invest and grow. Over the last six years, the tax measures was allowed to expire four times.

Palm oil labeling issues: Reportedly, in the European Union, where specifying vegetable oils on the ingredient list of pre-packaged food products has become mandatory since December 2014 (*see also MPPU April '13*), certain food manufacturers and distributors are using the term 'palm oil-free' on product labels and advertisements. According to legal experts, such practice could be legally challenged to the extent that implicit reference might be made to the environmental or health credentials of individual vegetable oils. Under applicable and relevant EU law, food information shall not be misleading, e.g. by suggesting that a given food possesses special characteristics thanks to the presence or absence of certain ingredients and/or nutrients. Lawyers warned that 'palm oil-free' labeling could be understood as a beneficial nutrition claim, which – when unsupported by objective evidence – would constitute an act of unfair competition

vis-à-vis producers that use palm oil or that do not communicate its absence.

Heating oil specifications: Reportedly, the US-based standard-setting organization *ASTM International* has revised its standard for fuel oils used for home heating to allow for up to 20% of biodiesel content (up from the 5% specification used since 2008). The decision has been welcomed by the US biodiesel industry.

Forward trading – India: Following approval by India's Forward Markets Commission, the country's *National Commodity & Derivatives Exchange (NCDEX)* is preparing the launch of forward trading in 17 additional commodities, including crude palm oil, mustard seed, soybeans, refined soybean oil, and cotton seed oil. The initiative aims to allow market participants to better manage exposure to commodity price volatility. Unlike futures contracts, which are guaranteed by clearing houses and use standardized specifications, forward contracts are private agreements that allow buyers and sellers the flexibility to trade under diversified terms and conditions.

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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
<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> <p>Sources: FAO and Oil World</p>								