



## OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE \*

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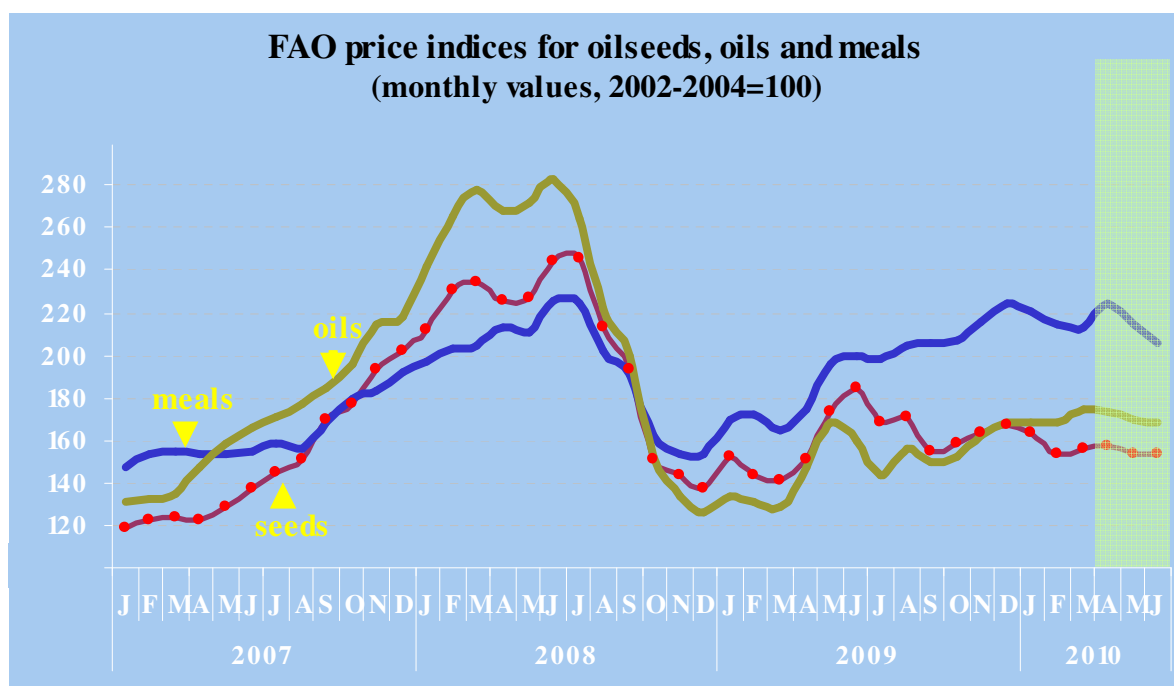
### a) Global price review

The last two months saw a general weakening in prices in the oilcrops complex. In June, the FAO price indices for oilseeds, oil and meals stood, respectively 3, 6 and 18 points below their April level. Also compared to June of last year, oilseed prices have softened, although in historical terms they remain relatively strong. Oil and meal prices have stayed fairly firm both, year-on-year and compared to their historical trend.

This season's record soybean output and the anticipated ampleness in global soy stocks explain the recent softening in the oilseed price index and the marked drop in the meal index. With regard to oilseeds, the following factors - partly related to the forthcoming 2010/11 crops - prevented

prices from falling more sharply: weather uncertainties regarding the new USA soybean crop; a prospective tightness in global rapeseed supplies; sustained import demand for soybeans and soyameal; and a relatively slow release of soybeans in South America.

The fall in the oils/fats price index for the third consecutive month was mainly driven by the realization of the bumper South American soy crop and by the recent seasonal recovery in palm oil production (and the resulting build-up in stocks) in Southeast Asia, notably Malaysia. Relatively weak import demand for palm oil in both China and the EU and successive drops in fossil oil quotations also contributed to the gradual relaxation in oils/fats prices.



\* The **Monthly Price and Policy Update**, or MPPU, is a new 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 in **May and June 2010**. 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/>

## b) Selected policy developments and industry news

### AFRICA - biofuel production and legislation

- **BOTSWANA:** Reportedly, the country is set to join the list of African producers of jatropha-based biodiesel. Preparations are underway to build a plant with an annual capacity of 50 million litres. Before sufficient quantities of jatropha oil become available, tallow and used cooking oil will be the main feedstock. Under the government backed project, initially 170,000 ha of land will be planted with jatropha. Once developed, plantations are supposed to be leased to private companies as well as to local farmers. Biodiesel production aims at both the domestic and export market.
- **ANGOLA:** Recently passed legislation regulating production of biofuels requires foreign-owned biofuel companies to sell part of their output to state-controlled oil companies with a view to meet local needs.
- **EAST AFRICA:** *Croton megalocarpus*, a tree crop that produces oil-rich nuts, could soon be added to the list of African biodiesel feedstock. The tree, which takes 11 years to reach full maturity, is reported to grow well in semi-arid climates. Its oil is non-edible. Reportedly, a private company in Tanzania is ready to invest in commercial production, partly in collaboration with local small farmer cooperatives. Work on feedstock specific crushing technologies has started. In Tanzania as well as Kenya, biofuel policies are reported to specifically stimulate private sector initiatives.
- **MOZAMBIQUE:** Reportedly, the country envisages drafting its own set of sustainability criteria for biofuel production - as opposed to criteria formulated by policy makers or the industry in more developed nations. The objective is to address the country's specific needs before meeting the requirements of others. Food security

considerations as well as the reduction of expensive and volatile petroleum imports will likely feature high on the list of criteria, compared to, for example, biodiversity preservation. According to independent experts, the main challenge will be to ensure that sustainability schemes and national policies result in the adoption of best production and management practices by the private sector and NGOs.

### AUSTRALIA - biodiesel importation:

Reportedly, a local biodiesel producer has filed a complaint against dumping of US-origin biodiesel on the Australian market. Allegedly, the imported biodiesel enjoys unfair advantages in that, in addition to US subsidies, it receives financial support through Australia's Cleaner Fuels Grant, which is offered to both domestically produced and imported product. The claim is being investigated and could lead to the introduction of anti-dumping duties.

**AUSTRALIA - GM rapeseed:** The cultivation of GM rapeseed seems to be expanding steadily. Following the approval of GM varieties in Western Australia, about 20% of the nation's overall rapeseed area is now estimated to have been planted with GM varieties. This development may pose challenges regarding the crop's commercialization on overseas markets that are characterized by strict biotech policies and specific consumer concerns vis-à-vis GM products.

### BELARUS – rapeseed export duty:

Reportedly, a variable export duty will apply to rapeseed exports from June 2010. Initially set at 100 € per ton, the new tax aims at maximizing domestic processing of rapeseed, given the recent increase in the country's rapeseed processing capacity.

**BRAZIL - support to agriculture:** In the 2010/11 federal budget, total outlays for agriculture will rise about 10 percent over

2009/10. Emphasis will be on production and marketing credits at subsidized rates (with most support going to family farms as opposed to commercial enterprises), as well as investment loans, rural insurance and risk management schemes, improved assistance to medium size farms, and a new programme in support of low GHG emission agriculture. Loan limits per beneficiary shall be raised for all products; the limit for soybeans will rise from Reais 450,000 to Reais 500,000 per farm. Minimum prices will remain unchanged for all products.

**BRAZIL - oil palm expansion:** Backed by the state as well as federal government, oil palm cultivation seems poised to expand in the Amazon region. The large-scale private investments planned in one of the country's poorest regions are supposed to produce wealth via employment creation and income generation. Under the project, palm oil will be processed into biofuel for both domestic consumption and export. Allegedly, the project will contribute to reducing deforestation; plantations shall be established on previously deforested land and environmentally friendly practices are to be employed throughout the production chain.

**CHINA - import requirements**

- Canadian rapeseed: importation of Canadian rapeseed into China is expected to continue in 2010/11 notwithstanding the phytosanitary limitations in place since November 2009. Reportedly, the two countries have agreed to extend the transitional measures negotiated last year to avoid a strict ban on imports based on possible blackleg disease contamination.
- US soya oil: Following the recent curb on imports from Argentina (based on the detection of high solvent residue levels), the United States may supply soya oil to China on the condition that official quarantine certificates are provided. In the past, the US was not in a position to

provide such certificates due to different food quarantine systems. Apparently, now an agreement has been reached on certification procedures.

- Argentina soya oil: In the last week of June, Argentina reported that it had reached an agreement with China to discontinue the import restriction applying to Argentinean soya oil. Official confirmation of this news is still awaited from China.

**CHINA - state purchases of soybean:**

Introduced in 2008, government supported purchases of soybeans in the country's North-eastern production basin is likely to continue this year. By end March 2010, state-run and privately owned firms had accumulated 6.7 million tons of soybeans. As in the case of maize, state reserves of soybean were introduced to stabilize domestic prices.

**EU - environmental standards for biofuel:**

- The Commission remains committed to enforce, from December 2010 onward, strict standards that will apply equally to EU-produced and imported biofuels. To participate in public biofuel support programmes, evidence of sustainable sourcing, production and use is expected from the industry. The sustainability criteria centre on (i) the lifecycle GHG emissions of biofuels and (ii) the type of land use underlying biofuel production. Voluntary certification schemes developed by the industry are welcome and will be independently assessed. The official stance have been well received by the industry, whereas environmental and social interest groups have called for further clarification regarding the measurement of indirect land use change effects, the definition of highly biodiverse grassland and the methodology for identifying degraded land.
- With regard to palm oil, EU officials pointed out that the new directives will in no way affect crude palm oil exports to the

EU market for traditional consumer products like food, cosmetics and detergents. With regard to palm oil-based biofuels, however, all supplies - whether imported or domestically produced - will fall subject to the new requirements (if they are to qualify for public support). Consequently, suppliers will, inter alia, face the onus of proving GHG emission savings of at least 35% - as opposed to the officially applied default value of 19%. RSPO or similar certification schemes may be used to prove compliance with the criteria.

**INDONESIA - biofuel subsidy:** The country's 2011 budget includes provisions for continued support to biofuel production. Sales of biodiesel and bioethanol will be subsidized at a rate of Rp. 2000-2500 per litre whenever their price exceeds the market price for mineral oil-based fuel. In the years 2009 and 2010, biofuel producers were compensated at a rate of, respectively, Rp. 1000 and Rp. 2000 per litre. Currently marketed diesel contains 5% of palm oil-based biodiesel.

**PAKISTAN - palm oil import duty:** A reduction in the import tariff for crude palm oil from Rp. 9,000 per ton to Rp. 8,000 has been announced in the 2010/11 federal budget. Particularly Indonesia, Pakistan's main supplier of CPO, will benefit from the duty reduction.

**RUSSIAN FEDERATION - sunflower cooperation agreement:** Benefiting from government mediation, the country's Grain Union and Vegetable Oil Producers Union have signed an agreement that aims to develop the national sunflowerseed market by improving the financial sustainability of seed production and marketing. The agreement sets general principles of cooperation between producers and processors. Inter alia, it creates opportunities for using seeds as collateral when taking out production loans and

envisages a minimum farm gate price of 9000 Rubles per ton of sunflowerseed.

**RUSSIAN FEDERATION, BELARUS, KAZAKHSTAN - palm oil import duty:** Reportedly, the three-country customs union decided to temporarily raise its tariff on packaged palm oil. A Euro 0.40 per kilo duty will apply to packages up to 1 kg and containers up to 20 tonnes. Bulk shipments will continue to be imported duty free.

**TANZANIA - edible oil production:** Reportedly, in recent months, several of the country's edible oil factories were forced to suspend their operations because locally produced oil is not able to compete with imported products. Allegedly, domestic production is burdened with heavy taxation whereas imported oils enter the country free of duties. Currently, well over half of the country's edible oil consumption is met by importation.

**UNITED STATES - biodiesel tax break:** After gaining the approval of the Lower House earlier this year, renewal of the tax break still has to pass the Senate. The taxation level directly and significantly affects the competitiveness of domestic biodiesel production. Hence, biodiesel sales and production have fallen markedly since the tax break's expiry in December last year. With renewal still pending, the recovery of domestic consumption to mandated levels may be compromised.

**UNITED STATES - rapeseed-based biodiesel:** The government confirmed that the rapeseed diesel will be allowed to benefit from public biodiesel support programmes even though the fuel's evaluation by the Environmental Protection Agency has yet to be completed.

**Roundtable on Responsible Soy (RTRS):** The RTRS, a world-wide initiative that groups stakeholders from across the soy commodity chain and includes

environmental groups, is ready to introduce voluntary certification for sustainably sourced soy products. To qualify for the label, producers will need to fulfil specific principles and criteria related to environmental and social responsibility, good agricultural and business practices and legal compliance. The initiative aims at promoting responsible production irrespective of the underlying production model. Standards include prohibitions regarding the conversion of forests and of areas with high conservation value (such as rich savannahs) as well as regarding the use of the hazardous pesticides. Certification processes, compliance verification and traceability will be regulated next. Meanwhile, social interest groups have voiced concerns with regard to the dominance of GM varieties, climate implications of the crop's rapid expansion and its use as biofuel feedstock.

**Jatropha-based biodiesel:** An Australian biodiesel refiner is reported to have started producing and marketing jatropha diesel on a commercial scale. The feedstock is collected across India and processed in Malaysia. Reportedly, the company is targeting a base cost of around USD 64 per barrel (or 40 cents per litre) of fuel landed in the United States.

**Consumer-oriented palm oil shortening:** A newly commercialized palm oil shortening/hardening is meant to help food manufacturers and industrial bakeries to meet end-consumer demands for sustainably sourced and healthy products. Allegedly, the shortening, which consists of a blend of palm and rapeseed oil, contains only palm oil certified as sustainable (by either RSPO or GreenPalm) and is characterized by a limited content of saturated fats.

**Glycerine-based biofuel:** A renewable fuels provider is reported to have filed a patent on a technology that allows using

glycerine as main feedstock in the formulation of a stable biofuel. Inter alia, glycerine is generated as a by-product when vegetable oils or animal fats are transformed into biodiesel via transesterification.

**Monitoring the fat balance in diets:**

According to private research supported by a consumer advocacy group, in the United States, since the introduction of compulsory trans fat labelling in 2006, the level of trans fats in selected food products and restaurant meals has diminished without being accompanied by a rise in the level of saturated fats. The study suggests progress in efforts by the food chain to reformulate food products offering a healthier balance of fats.

**Accounting for biofuel GHG emissions:**

Reportedly, in the United States, a group of prominent scientists drew attention to the importance of proper accounting for GHG emissions that occur in the production and use of different forms of bioenergy, including biodiesel and bioethanol. Failure to do so could undermine other efforts to address climate change. The scientists cautioned that ignoring the carbon impact of bioenergy could actually lead to increases in GHG emissions because some types of bioenergy may be more polluting than fossil fuels. The US administration was invited to consider the matter in all future formulation of bioenergy legislation.

**Low-carbon oil palm expansion:**

Reportedly, the governments of Indonesia and the United States are considering to enter into a comprehensive partnership to control the conversion of forest and peat land by diverting oil palm expansion in Indonesia toward degraded land, i.e. areas that were cleared of forest long ago and now contain low carbon stocks and low levels of biodiversity, but are still suitable for oil palm cultivation. The effective and equitable implementation of such a

strategy entails major challenges of a technical, legal, social and financial nature - which the proposed bilateral partnership would endeavour to address.

**Sustainable sourcing of palm oil:** In pursuance of its goal to obtain 100 percent of the palm oil it uses from sustainable sources, global consumer goods company *Nestlé* decided to partner with non-profit organization *The Forest Trust (TFT)*. The performance of *Nestlé*'s palm oil suppliers will be audited by TFT against a set of criteria. Supplier that do not meet the requirements but are committed to achieving sustainability will be provided

with technical support. The project's objective is to establish fully responsible supply chains by identifying and addressing all major environmental and social issues.

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	<b>International Prices (US\$ per tonne)</b>					<b>FAO Indices (2002-2004=100)</b>		
	Soybeans <sup>1</sup>	Soybean oil <sup>2</sup>	Palm Oil <sup>3</sup>	Soybean Cake <sup>4</sup>	Rapeseed Meal <sup>5</sup>	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
<b>Annual (Oct/Sep)</b>								
2003/04	322	632	488	257	178	121	116	114
2004/05	275	545	419	212	130	105	105	104
2005/06	259	572	451	202	130	100	125	107
2006/07	335	772	684	264	184	129	153	148
2007/08	549	1325	1050	445	296	217	202	243
2008/09	437	849	682	409	206	161	150	194
<b>Monthly</b>								
2008 - January	536	1270	1061	434	308	212	242	197
2008 - February	579	1426	1178	452	346	230	265	204
2008 - March	576	1467	1248	445	359	234	277	205
2008 - April	556	1430	1175	476	328	226	268	213
2008 - May	570	1430	1200	464	348	227	272	211
2008 - June	625	1531	1206	515	329	244	283	225
2008 - July	634	1506	1121	506	292	245	265	224
2008 - August	557	1323	884	435	247	213	222	201
2008 - September	508	1227	760	406	199	194	200	191
2008 - October	394	928	545	338	156	151	153	162
2008 - November	378	824	488	323	155	143	133	154
2008 - December	366	737	508	307	172	137	126	154
2009 - January	411	788	553	369	202	152	134	169
2009 - February	386	744	571	378	215	144	131	172
2009 - March	380	728	590	346	208	141	129	165
2009 - April	410	802	699	383	220	151	147	175
2009 - May	472	893	799	441	230	174	168	196
2009 - June	504	894	734	445	227	184	160	200
2009 - July	467	834	641	428	186	169	144	198
2009 - August	474	891	722	437	186	171	156	204
2009 - September	424	850	676	428	192	155	150	206
2009 - October	427	891	676	413	187	158	152	207
2009 - November	442	939	728	422	196	164	162	216
2009 - December	448	931	791	425	219	167	169	224
2010 - January	435	919	793	407	243	163	169	221
2010 - February	406	915	804	393	230	154	169	214
2010 - March	410	920	832	381	200	156	175	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	170	214
2010 - June	408	860	794	342	194	154	168	206

<sup>1</sup> Soybeans (US, No.2 yellow, c.i.f. Rotterdam)

<sup>2</sup> Soybean oil (Dutch, fob ex-mill)

<sup>3</sup> Palm oil (Crude, c.i.f. North West Europe)

<sup>4</sup> Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)

<sup>5</sup> Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

*Note*: 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 oils and fats and seven selected cakes and meals.

*Sources*: FAO and Oil World