



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

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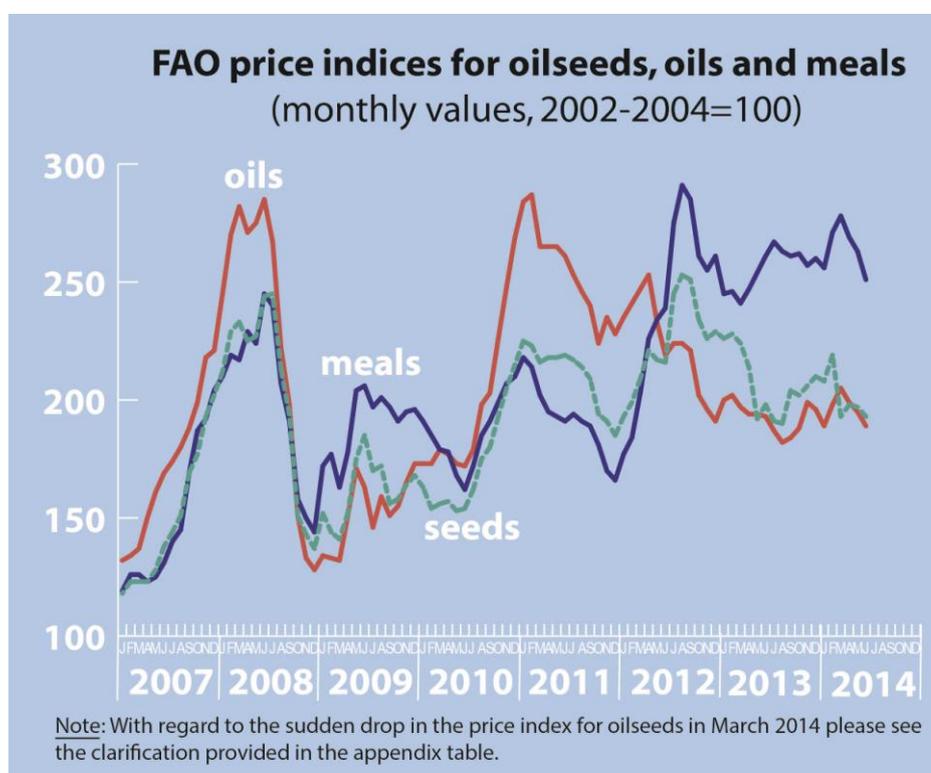
a) Global price review

June has been characterized – for the second consecutive month – by downward adjustments in all three oilcrop complex price indices. The strongest decrease occurred in the FAO price index for oilmeals/cakes, which dropped by 11 points (or 4.3 percent) to a 14-months low. The vegetable oils index lost 6 points (or 3.2 percent), and the oilseed index fell 4 points (or 2.1 percent). In historical terms, the indices for oilseeds and oils continued to fare below the corresponding values of the last two years, whereas the oilmeal index remained historically high.

The latest fall in oilseed and oilmeal values was driven by developments in the global markets for soybean, sunflower and rapeseed. With the arrival

of South America's large soy crop, the prolonged tightness in global soybean supplies has finally come to an end, which, together with unexpected upward revisions in US stock positions, has led to a softening in world soybean prices. First forecasts of a bumper global soybean crop in 2014/15, and especially the prospect of another record-breaking harvest in the United States (which would facilitate a replenishment in US stocks), also contributed to the downward trend in prices. Regarding rapeseed, world prices continued to weaken as the EU's new (2014/15) crop – tentatively forecast at a record level – is expected to enter the market soon. Also weighing on prices were favourable prospects for Canada's forthcoming rapeseed harvest. As to sunflower

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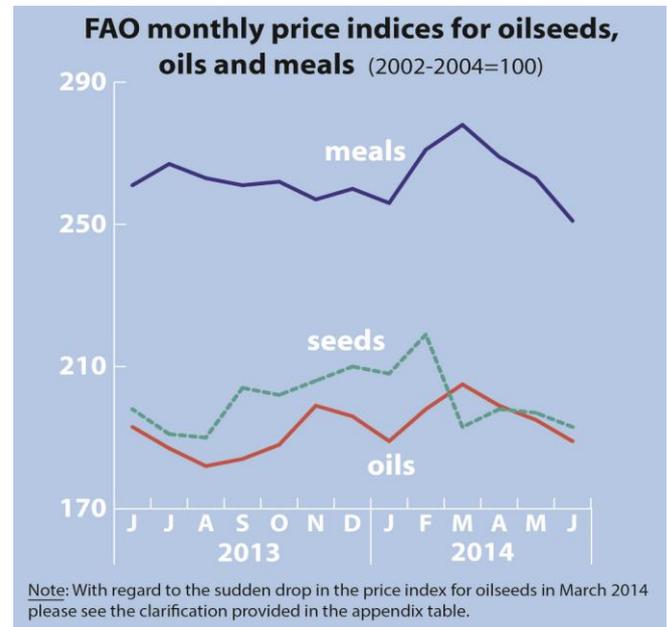
* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market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

seed, ample global availabilities from the 2013/14 crop and expectations of a good harvest in 2014/15 are keeping prices at historically low levels.

The additional setback in FAO's vegetable oil price index was mostly driven by developments in the palm oil market, although lower seed oil values (mirroring trends in the corresponding seed markets) also pulled in the same direction. The lasting slide in palm oil values mainly reflects continued strong production in Southeast Asia, which, combined with sluggish global import demand, has led to a build-up in stocks. Interestingly, although declining on a month-to-month basis, both soy and palm oil appreciated quite substantially towards the end of June. The unexpected rebound in edible oil values can be attributed to a spike in petroleum prices, which stimulated demand for vegetable oils as biodiesel feedstock. It appears that the palm oil market also

reacted to reports predicting lower than usual rainfall in the coming months in Southeast Asia, which could threaten palm oil yields.



b) Selected policy developments and industry news

CANADA – sector development: The federal government, the province of Manitoba and a farmer-funded research foundation jointly provided a CAD 1.8 million (USD 1.68 million) grant to the National Sunflower Association of Canada (NSAC) for the development of disease-resistant and herbicide-tolerant confectionary sunflower hybrids that meet the needs of growers and of the international market.

CHINA – state procurement/reserves

- **Soybean sales:** Between mid May (when this year's government auctions started) and mid June, a total of 1.2 million tonnes of soybeans have been sold from public stockpiles (*see also MPPU June '14*). Reportedly, in June, demand from domestic crushers slowed down, partly reflecting concerns over quality as the soybeans offered

stemmed from the 2011 harvest. The average auction price paid during the first half of June was below that achieved in May.

- **Rapeseed procurement:** According to official sources, around 5 million tonnes of rapeseed will be purchased by government agencies this year to protect farmers' incomes and stabilize domestic prices. The minimum purchase price has been set at Yuan 5 100 per tonne (USD 823) – unchanged from last year and substantially above current international quotations.

EUROPEAN UNION – biofuel policy:

EU governments agreed to limit to 7% the share of first generation biofuels (i.e. fuels made from food crops) in transportation fuel (*see also MPPU June '14*). The draft proposal now requires approval by the recently-elected EU Parliament. Last year, MPs agreed on a 6% cap, while the EU Commission had proposed 5%. Currently, about 5% of EU transport fuel are estimated

to come from first generation biofuels. The official proposal also contains a non-binding 0.5% target for next-generation biofuels (i.e. fuels produced using non-food feedstock). With respect to GHG emission savings resulting from the use of biofuel – including the effects of indirect land use changes – the proposal suggests that these be recorded by the EU Commission based on data reported by member states.

EUROPEAN UNION – GMO policy:

EU environment ministers have agreed on a proposal that would allow member states to restrict or ban the cultivation of GMOs within their borders – even when crops have been authorized at EU level (*see also MPPU June '14*). Under the proposal, countries would be allowed to prohibit GMOs on various grounds, including public policy issues, socio-economic concerns, agricultural policy objectives, and town planning or other land use considerations. Current rules merely allow countries to invoke precautionary safeguard bans based on assessed risks to human health or the environment. The draft law primarily aims to accelerate GMO endorsements at EU level. Criticized for causing considerable delays, the current practice has led to formal complaints by a number of EU trade partners. The next steps are the proposal's endorsement by the full EU Council and final approval by the EU Parliament.

EUROPEAN UNION – import restriction:

The EU decided to end all import restrictions on sunflower oil from Ukraine. The measure – in the form of a strict testing and certification scheme – was imposed back in 2008, following the discovery of consignments contaminated with paraffin. As tests carried out at EU borders revealed no further contamination, the testing regime started to be gradually relaxed from 2009 onward.

INDIA – minimum support prices:

The government decided to raise the minimum support prices for selected kharif oilseed crops: for sunflower seed, the new price is Rs 37 500 per tonne (USD 624), which compares to Rs 37 000 last season; for sesame seed Rs 46 000 per tonne

(USD 766), up from Rs 45 000; and for niger seed Rs 36 000 (USD 599), up from Rs 35 000. By contrast, for soybean and groundnut, the two main kharif oilcrops, support prices will remain unchanged from last year. The prices for rice, selected coarse grains and pulses have also seen small upward adjustments.

INDONESIA – variable palm oil export duty:

Following the recent decrease in international palm oil prices, the country's variable export tax on crude palm oil has been set at 10.5% in July, down from the 12% rate in place since May 2014.

INDONESIA – export promotion:

Reportedly, Indonesia's trade ministry plans to initiate talks on preferential trade arrangements with counterparts in Turkey. The objective would be to facilitate exports of Indonesian palm oil to Turkey. The initiative comes after Malaysian palm oil exporters gained preferential access to the Turkish market thanks to a recently signed bilateral agreement (*see MPPU May '14*). Reportedly, in addition to supplying the Turkish market, Indonesia is keen to set up trade hubs to expand its palm oil sales in Southeast Europe, Central Asia and the Middle East.

INDONESIA – WTO notification:

Indonesia has notified the WTO Secretariat of a request for formal consultations with the European Union concerning the anti-dumping measures imposed on imports of biodiesel into the EU (*see MPPU June & Dec. '13*). Should consultations to resolve the dispute prove unsuccessful, Indonesia may request adjudication by an independent panel. The anti-dumping measures in question have already been challenged by Argentina in a separate case (*see MPPU Jan. & May '14*). Before the EU introduced special tariffs, Argentina and Indonesia together accounted for about 90% of the bloc's biodiesel imports and held a 20% share of the EU's biodiesel market.

INDONESIA – biodiesel target: According to both private observers and government sources, Indonesia will not be able to meet the ambitious biodiesel consumption target set for the current

year (*see MPPU Sep. & Nov. '13*). Blending operations and the fuel's nation-wide distribution are reported to suffer from considerable logistical and infrastructure problems.

MALAYSIA – variable palm oil export duty: Following the recent decrease in international palm oil prices, from July, the country's variable export tax on crude palm oil will be 5%, down from the 5.5% rate in place since last April.

RUSSIAN FEDERATION – sector development: The Ministry of Agriculture approved a 2-year programme promoting the development of the nation's oilseed production and vegetable oil industry. Total funding for 2014-16 will amount to RUB 34.5 billion (USD 1 billion), of which producers and crushers will contribute one third, while the remainder will be covered from public sources in the form of loan guarantees. Under the programme, the ministry will support the purchase of seeds through interest rate subsidies.

THAILAND – consumption policy: Reportedly, the country's retail sector agreed to maintain prices for essential consumer goods – including cooking oils – frozen until November 2014. The government asked the private sector to collaborate so as to help people cope with rising costs of living. Reportedly, inflation in Thailand has accelerated in recent months due to higher food and energy prices, increasingly burdening consumers.

Plant protection and related issues

- **Fungus resistance in soybean:** A new technique developed by US scientists should facilitate the identification of resistance to *phomopsis longicolla*, a fungus causing phomopsis seed decay in soybean.
- **Herbicide residues in GM soy:** Researchers in Norway claim to have found residues of glyphosate and its metabolites (i.e. the herbicide used on 'RoundUp-Ready' soybeans, a GM variety cultivated worldwide, in particular in the United States) in the US food/feed supply chain. Based on their findings, the researchers reject the

hypothesis of substantial equivalence between GM and non-GM soybeans and point to related nutritional and health implications.

- **Insect attack in coconut:** Threatening to compound the typhoon damage inflicted on the Philippine coconut sector last year, a pest, *aspidiotus rigidus*, is menacing the livelihood of 3.5 million coconut farmers. Towards end June, the disease was reported to have affected a total of 2.1 million trees. The mortality rate among infected trees is 65%, while fruit yields are reported to drop by about 60% on average. Coconut palm products represent the country's main agricultural export. Efforts to combat the invasive insect are underway: a nationwide campaign implemented by the Philippine Coconut Authority includes chemical and mechanical measures, the utilization of biological control agents, quarantining of infested areas, and fertilization to hasten revival. Treated trees are expected to recover within six months, following which maintenance programmes will be implemented.
- **Insecticide ban:** In the EU, a group of insecticides (viz. neonicotinoids) thought to be harmful to honeybees has been outlawed (*see also MPPU June '13*). Reportedly, the ban has led to an abrupt end in Finland's rapeseed cultivation. In Finland, cultivation of turnip-rapeseed – a species adapted to the country's short growing season – relied strongly on the banned insecticides.

International Olive Council (IOC):

The following topics have been addressed at a recent meeting of IOC, the intergovernmental organization that brings together olive oil and table olive producing and consuming stakeholders: good practice concerning CO₂ balance in the olive oil life cycle and software tools allowing to calculate CO₂ emitted and captured in olive oil production; conservation of genetic olive resources, plant propagation techniques and olive nursery activities; self-monitoring agreements aiming to combat oil adulteration; promotion of a seal certifying conformity with IOC standards in import markets; proposals of a generic promotion campaign in

Japan; and regulation and proper labeling – at the national level – of flavoured and infused olive oils so as not to mislead consumers.

Palm oil processing: Conventional palm sterilization, extraction and clarification processes utilize significant quantities of water and energy. They also result in a substantial amount of Palm Oil Mill Effluent (POME) and waste water, creating pollution issues. A new patent aiming to address these problems has been issued in the US. Reportedly, the new technology is based on ultrasonic extraction methods, while the oil clarification process is enhanced through megasonic vibrations.

Novel varieties

- **Functional safflower oil:** A US biotech company announced the commercial launch of a safflower oil containing 55% of gamma linolenic acid (GLA), a omega-6 fatty acid believed to offer health benefits similar and complementary to those of omega-3 fatty acids. The oil will be grown and produced in the United States under strict identity preservation protocols.
- **Non-GM soy oil:** Catering for customers interested in displaying a non-GM claim on their products, global agribusiness and trading firm *Cargill* started marketing an identity preserved soybean oil made from conventionally-bred soybeans. Marketing non-GM oil implies procurement from dedicated sources and special procedures to avoid co-mingling with GM-material during harvesting, transportation, storage, handling, processing and refining.

Sustainable palm oil – certification and sourcing issues

- **Indonesia – RSPO collaboration:** Reportedly, the Indonesian government plans to work together with RSPO (Roundtable on Sustainable Palm Oil) towards a joint sustainable palm oil standard. Collaboration is meant to help scale up production of certified sustainable palm oil in Indonesia. Emphasizing the need to make sustainable production a viable business for all growers (including smallholders), Indonesia proposed

to convert RSPO into an “open source” standard available also to non-RSPO members.

- **RSPO certification maps:** The RSPO has released maps showing the exact location of all RSPO certified oil palm plantations. Hosted on an external platform (managed by the World Resources Institute) and publicly available in an accessible format, the maps are meant to support responsible sourcing by palm oil buyers while protecting forests. Enhanced transparency on where palm oil is produced should help policymakers, buyers and the public find out whether palm oil from a specific plantation is produced in a sustainable manner.
- **FELDA:** Malaysia’s state-owned plantation company *FELDA Global Ventures* – one of the world’s largest palm plantation operators – has committed to achieve full RSPO certification of its palm oil production by 2017. With regard to MSPO, the recently launched separate certification standard for Malaysia, FELDA officials said that any national system had to be at par with RSPO’s international standard as otherwise producers would not be able to export.
- **Mondelez:** Global packaged foods company *Mondelez International* has adopted a sustainable palm oil action, which requires suppliers to guarantee full traceability by the end of 2015. Suppliers are also expected to publish sustainable sourcing policies and implementation timelines. The company committed to report progress annually.

Land disputes in plantation crops:

The plantation sector of Indonesia is reported to be vulnerable to land disputes. According to official sources, only 30% of the country’s total plantation estate area is registered with the responsible government agency, implying that 70% of plantation estates are unregistered and thus susceptible to land conflicts. Reportedly, estates managed by state-owned enterprises and private Indonesian individuals tend to be more vulnerable than land under control of foreign firms as the latter are subject to stricter permits and regulations. At the global level, several cases of land right disputes and related

social conflicts with native communities have been reported in the oil palm industry in recent years. Internationally recognized principles and criteria for sustainable palm oil production include the requirement of free, prior and informed consent of indigenous/local communities when new plantations are developed.

*For comments or queries
please use the following Email contact:
Peter.Thoenes@fao.org*

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	<u>International Prices (US\$ per tonne)</u> ¹					<u>FAO Indices (2002-2004=100)</u> ⁷		
	Soybeans ²	Soybean oil ³	Palm Oil ⁴	Soybean Cake ⁵	Rapeseed Meal ⁶	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
Monthly								
2012 - October	617	1183	844	555	359	234	202	261
2012 - November	595	1148	816	539	378	226	196	255
2012 - December	603	1153	772	553	396	229	191	261
2013 - January	591	1192	838	512	367	226	200	245
2013 - February	597	1164	862	513	381	228	202	246
2013 - March	588	1117	853	503	367	224	197	241
2013 - April	559	1099	841	521	300	214	194	247
2013 - May	498	1077	849	527	404	192 ⁸	194	254
2013 - June	523	1036	858	551	321	198	193	261
2013 - July	514	997	838	568	304	191	187	267
2013 - August	514	995	824	564	277	190	182	263
2013 - September	554	1028	823	557	291	204	184	261
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	193	189	251
<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 cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)</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 drops in the price index for oilseeds seen in May 2013 and in March 2014 are 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>								