



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

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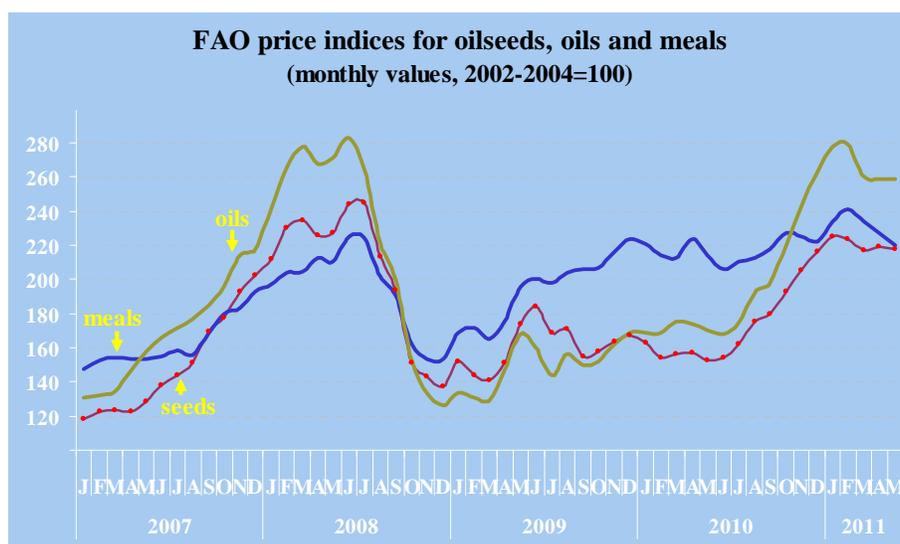
a) Global price review

In May 2011, the FAO price indices for oilseeds, oils and meals remained close to the levels recorded in the two preceding months. Although somewhat below the peaks reached in January/February 2011, prices stayed high compared to May 2010 and May 2009, in particular in the case of oilseeds and oils/fats. The price firmness reflects persistent tightness of supply and demand since the beginning of the current season, together with concerns that tightness may continue for the remainder of this year, i.e. into the 2011/12 season.

As to oilseeds, prices have become very volatile. On one side, prices lost some support following smaller than expected soybean crushing and higher inventories in major northern hemisphere suppliers (especially in the United States) amid a sudden slowdown in import demand, notably in China. South America's considerably better than expected soybean

harvest provided additional relief. However, on the other side, rising uncertainties regarding 2011/12 supplies prevented prices from falling. In the United States, increased competition for land combined with mounting weather concerns cast shadow on next season's soybean supplies, while also rapeseed output in Europe, Canada and China could suffer a cutback. With limited or no production gains in 2011/12 crops, apprehension about persistently low stock levels and, in particular, stock-to-use ratios is increasing.

With regard to oil/fat prices, the good production outlook for palm oil has not been sufficient to ease prices. Expectations of firm import demand and uncertainties regarding the overall supply situation in the next season dominated the market. The small drop in the meals/cakes price index in May reflects somewhat weaker soybean values and a more conspicuous drop in prices for fishmeal (following the recent recovery in South America's fish catch).



* 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 during **May 2011**. 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

ARGENTINA - trans fat regulation:

According to industry sources, the country is set to become the first nation in Latin America to limit the presence of trans fat in food products. Reportedly, under new legislation that is expected to come into force by mid-year, trans fat content in vegetable oils and margarines will not be allowed to exceed 2% (not including trans fat naturally occurring in animal and dairy fat).

ARGENTINA – soya oil exports to China:

Reportedly, following Argentina's decision to definitively lift import restrictions on various consumer goods from China, Argentine exports of soya oil to China have finally resumed. Such exports came to a virtual standstill in April 2009, when China introduced very stringent quality requirements for imported soya oil following Argentina's new import measures.

ARGENTINA - biodiesel price: Private sources reported that, in order to stimulate domestic biodiesel producers to increase their sales to the national market, the government has raised the retail price of biodiesel to the equivalent of US\$ 1 210 per tonne (from previously US\$ 902).

CHINA - public rapeseed stocks: The government is expected to soon start buying rapeseed (from the crop that is currently being harvested) to replenish state vegetable oil reserves. Reportedly, since last October, total release of rapeseed oil from government stocks amounted to about 1.8 million tons, bringing state reserves to below 1 million. The government is expected to pay Yuan 4 600 per tonne of rapeseed - about 18 percent

more than last year - to help improve farmers' income and to reflect increases in production costs.

INDIA - oilseed production support:

According to the Agriculture Ministry's Commission for Agricultural Costs and Prices, the government might offer higher procurement prices for monsoon-grown oilseeds. The move should compensate farmers for recent rises in production costs and should help encouraging domestic oilseed production. In recent years, grains and rice have been accorded higher rises in procurement prices than oilseeds.

INDONESIA - palm oil certification:

Originally, scheduled to be launched in January this year, mandatory ISPO certification (Indonesian Sustainable Palm oil) is reported to be almost ready to start. The government is set to appoint an ISPO Commission that will manage the certification system and issue the required approvals to sustainably managed plantation companies. Initially, some 20 plantations will be selected for trials of the new certification. Reportedly, companies found to be breaking ISPO rules are going to be subject to sanctions. In the meantime, according to RSPO, the amount of Indonesian produce enjoying (internationally recognized, voluntary) RSPO certification has reached 1.2 million tons.

LIBERIA - foreign oil palm investment:

Two palm oil firms from, respectively, Malaysia and Singapore have been granted concessions to develop oil palm on a total of 420 000 ha. Although addressing primarily domestic food needs, in the longer term, the government is said to also eye export opportunities. Reportedly, social and environmental impact assessments will be undertaken before any development begins. Furthermore, the companies are committed to invest

extensively in physical and social infrastructure and are expected to assist in the development of out-grower schemes involving smallholders.

MALAYSIA-INDONESIA cooperation on palm oil: Reportedly, the two countries jointly engaged in new efforts to defend the interests of their oil palm industries. Among other initiatives, the creation of a European Palm Oil Council has been announced. On the EU Directive on the Promotion of the Use of Renewable Sources (RED), the two countries reportedly agreed to seek legal advice as to the directive's consistency with WTO provisions. Concerns have also been voiced regarding the implications of a draft palm oil labelling bill that is under consideration in Australia (see MPPU May 2011 issue).

UNITED KINGDOM - sustainable palm oil consumption: According to *Proforest*, an independent non-profit organization, the government of the United Kingdom is considering the introduction of specific policy interventions aimed at increasing the volume of sustainable palm oil consumed within the country's supply chain. In a report commissioned by the government, *Proforest* maps the structure of UK supply chains and uses of palm oil at each stage and reviews potential policy options along with the likely costs and benefits of each.

Certified sustainable palm oil:

- **Sourcing policies:** Global producer of household products *SC Johnson* has joined the list of companies committed to using exclusively palm oil originating from responsible and sustainable sources. The company expects to complete the transition to certified sustainable produce by 2015.
- **Volume of trade:** Sources close to RSPO pointed out that currently only about half of the available certified palm oil actually enters trade as segregated produce.

Although more and more end-users are keen to buy segregated produce, the fragmented nature of the industry and a very complex palm oil supply chain are said to prevent buyers from finding the quantities required. Reportedly, at this point, most end-users are forced to resort to buying certificates to back up their claims of sustainable sourcing. The certificate trading scheme offsets end-users' consumption against production of an equivalent amount of sustainable oil somewhere at source. Initially conceived as a stepping stone towards physically fully segregated supply chains, certificates could dominate trade in sustainable palm oil longer than originally envisaged.

Hybrid jatropha seed: A US bioenergy firm informed that it has developed high performing hybrid seed of jatropha. The material is said to offer consistently high yields, uniformity and vigour and to reduce seed handling and deployment costs. Reportedly, the company has signed contracts for the deployment of 100 000 ha using hybrid seed and plans to develop a global pipeline totalling close to 0.5 million ha of jatropha projects worldwide. Plans include the adaptation of seed material to the specific growing conditions of individual customers.

Biofuels and indirect land use changes: According to research conducted in the United States, the historic expansion of US biofuel production has in all probability not induced any indirect land use change. Allegedly, there have been no arable land increases, no damage to natural ecosystem lands and no significant crop expansion in foreign countries correlated to the past growth in US biofuels demand. These findings are in stark contrast to work carried out by other, public institutions on the likely impact of continued, future biofuel expansion.

Exemption from EU countervailing duties on biodiesel: A Canadian renewable energy company reported that it has been exempted from EU duties applying to biodiesel imports from North America. Reportedly, the exemption is a result of the company's full compliance with the EU's processes, including the submission of formal replies to questions and extensive collaboration with EU officials during a site visit.

Soybean expansion in vulnerable ecosystems: A new report published by *WWF* highlights the impact that the global expansion of soybean cultivation has on sensitive environments such as the Brazilian Savannah, or Cerrado. Soybean

related land conversions are said to have contributed to habitat destruction and increased CO₂ emission. Therefore, the report calls on farmers, traders, food companies and retailers to join multi-stakeholder schemes such as the *Roundtable for Responsible Soy (RTRS)*, which sets strict environmental and social standards for soya production. RTRS sustainable certified soya is said to be available for the first time this year.

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	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)</u>		
	Soybeans ¹	Soybean oil ²	Palm Oil ³	Soybean Cake ⁴	Rapeseed Meal ⁵	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
Annual (Oct/Sep)								
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
2009/10	429	924	806	388	220	162	173	215
Monthly								
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
2010 - July	426	911	811	361	225	162	174	211
2010 - August	457	1002	901	389	245	175	192	213
2010 - September	468	1036	910	398	277	180	198	218
2010 - October	496	1165	998	415	285	193	220	227
2010 - November	526	1248	1117	430	292	205	243	225
2010 - December	550	1321	1229	437	289	216	263	222
2011 - January	572	1384	1279	454	313	225	278	234
2011 - February	569	1366	1286	447	290	224	279	241
2011 - March	552	1305	1172	423	264	217	260	234
2011 - April	553	1310	1148	406	277	219	259	227
2011 - May	556	1291	1155	403	280	218	259	220
<p>¹ Soybeans (US, No.2 yellow, c.i.f. Rotterdam)</p> <p>² Soybean oil (Dutch, fob ex-mill)</p> <p>³ Palm oil (Crude, c.i.f. North West Europe)</p> <p>⁴ Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)</p> <p>⁵ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)</p> <p><i>Note</i> : 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.</p> <p><i>Sources</i>: FAO and Oil World</p>								