



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

No. 36, June 2012

### a) Global price review

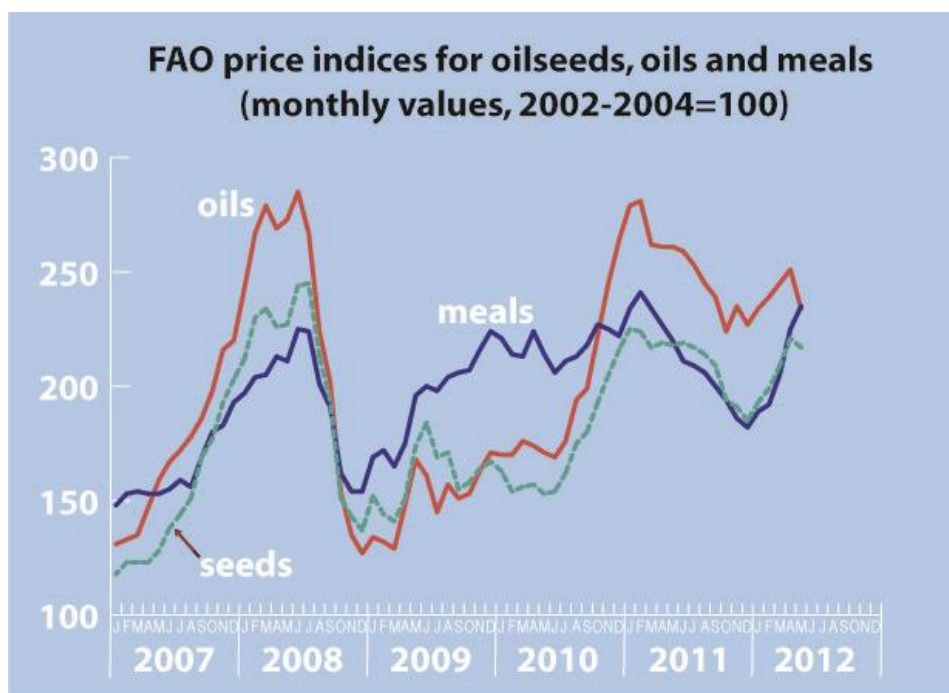
After successive price increases across the oilseed complex since the beginning of this year, the month of May has seen a downward adjustment in the price indices for oils/fats and oilseeds, while international meal prices maintained their upward trend. The strongest decrease occurred in the oils/fats index, which fell by 17 points (or 7%), while the price index for oilseeds dropped 2% from the previous month – in contrast with the 4% increase in the meals index. Notwithstanding these corrections, all three indices remain high in historical terms.

As to oilseeds, despite the persistently very tight world supply and demand outlook, prices relaxed somewhat due to the influence of a number of external factors, notably declining world prices for wheat and maize, growing economic uncertainties caused by the Euro-zone debt crisis,

a strengthening US dollar and declines in the energy sector. As usual during crop planting times, also weather development had a bearing on prices: in particular, climatic conditions prevailing in the United States are expected to result in larger soybean plantings than originally anticipated, possibly somewhat improving the overall supply prospect. Furthermore, promising tentative forecasts for Latin America's 2012/13 soy crops have reached the market. Finally, lower purchases by China - as the government started to release public stocks - also weighed on prices.

The marked drop in the global oils/fats index comes from falling international soy and palm oil quotations. Clearly, the possibility of better than expected US soybean plantings and falling grain prices have weighed on the soy complex.

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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 **May 2012**. 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/>

## Global price review - *cont'd*

By contrast, palm oil values primarily followed the downtrend in international mineral oil prices, though markets also seem to have responded to a temporary recovery in Southeast Asia's palm oil production and weaker global import demand.

With respect to meals, the world market continues to be driven by the prospect of an exceptionally tight supply situation – especially regarding soymeal – at least until the end of this year, while global meal demand is set to expand further, with China's growing imports dominating the market. The poor supply outlook is primarily caused by this year's unprecedented cuts in South American soy, which is leading to high crush demand elsewhere (notably in the US). The likely decrease in global fishmeal production this year, combined with strong import demand by China thus far, also weighed on the meal price index.

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### b) Selected policy developments and industry news

**ARGENTINA – land taxation:** The country's leading grain and oilseed producing state, Buenos Aires province, set out to raise its real estate tax revenue – via a revaluation of agricultural land. Apparently, rural land values have not been adjusted since 1955, although farmland has appreciated strongly in the wake of booming agricultural growth. Officials informed that the tax rise will be applied progressively, meaning that 62 percent of the province's farmers will not be affected. Furthermore, for the remaining 38 percent, exemptions are going to be granted where growers have suffered from the current season's exceptional drought and floods. Over the recent weeks, farmers have suspended grain sales to protest against the measure, which they claim will burden their businesses excessively. So far the strikes don't seem to have disrupted oilseed shipment operations, thanks to the availability of ample reserves at ports. Market observers believe

that the turmoil has contributed to the renewed strength in international soybean prices in June.

**AUSTRALIA – biofuel policy:** Although no comprehensive biofuel regulations, consumption targets or mandatory blending rates are in place at federal level, biofuel companies are eligible for tax exemptions and benefited from state financial support, notably in New-South-Wales and Queensland. Unofficial sources report that, recently, also the government of Victoria started supporting the biofuel industry by co-financing the construction of a biodiesel blending facility.

**BRAZIL – forest management:** Since 1965 Brazil's vast forested areas have been afforded protection by a forest code that regulates how much and what kind of land should be maintained as native forest and how much can be cleared for crop cultivation, cattle farming and logging. The code is believed to have played a key role over the past decades in protecting the Amazon rainforest. Last April, the country's lower house passed legislation – subject to the president's approval – that updates the code, easing the rules mandating forest preservation. According to social society groups and environmentalists, the changes have weakened the code, significantly reducing the level of environmental protection it affords. On the other hand, land owners and agribusiness groups have welcomed the revisions: apparently, farmers had long asked for changes, arguing that uncertainty over the existing legislation was undermining investment in the agricultural sector. At the end of May, the president of Brazil has opted to veto the revised forest code, modifying those line items that would have reduced the required percentage of forestland spared from clearing as well as provisions granting partial amnesty to landowners who illegally cut down trees. ABIOVE, the Brazilian association of vegetable oil industries, which also coordinates the long-standing soy moratorium (*see MPPU no.30, Dec 2011*), welcomed the legislation as promulgated by the president, stating that it allows reconciliation of food production with environmental conservation. On a related matter, in early June, the government informed that the deforestation rate in the Amazon biome fell again

in 2010/11. On a decrease since 2005, the rate is said to have reached the lowest level since measurements began in 1988. Reportedly, 81% of the Amazon forest are now preserved. ABIOVE believes that this achievement proves the effectiveness of the tools in place to ensure compliance with environmental legislation.

**CHINA – rapeseed state procurement:** The increase in the procurement price for this year's rapeseed crop to Yuan 5000 per ton (from Yuan 4600 and Yuan 3900 in, respectively, 2011 and 2010) has been confirmed. Reportedly, this year's purchase target has been set at 5 mill tons – which compares to a total domestic crop estimate of around 13 mill tons. Offering attractive prices, the government continues to purchase an important part of the national crop so as to stimulate domestic production. Notwithstanding, this year, a poor crop and rising domestic prices are expected to drive up private sector imports of rapeseed, mostly from Canada.

**CHINA – public soybean stock release:** Local traders have estimated forthcoming sales from government stocks at around 3 mill tons. The offer price is expected not to exceed Yuan 3850 per tons – which compares to current import prices around Yuan 4300. Reportedly, massive government sales will be needed to vacate public warehouse space so as to make room for stockpiling of new-crop arrivals. Since 2008/09, China holds considerable amounts of public stocks, which are used to stabilize domestic prices.

**EUROPEAN UNION – GM approval:** Once again EU member states could not agree to authorize importation - for food and feed use, but not for cultivation - of a new genetically modified soybean variety. The variety had previously been declared as safe for humans, animals and the environment by the EU's Food Safety Agency. Now the decision rests with a newly formed appeals committee. Should no majority be found once more, the European Commission will decide, likely granting approval. Related to this, also the latest attempt to end the deadlock over cultivation of GM crops within the EU failed, as 9 out of 27 member countries have rejected a proposal that

would have curtailed individual member countries' autonomy to ban GM cultivation on their own territories.

#### **EUROPEAN UNION – public storage aid**

- **Olive oil:** Due to persistently weak prices and ensuing marketing problems, assistance will be granted for private storage of another 100 000 tons of produce. Earlier in the season, two identical packages have been granted, covering 144 000 tons in total. The scheme is set to terminate end of June.
- **Butter:** At nearly 45 000 tons, uptake under this season's publicly supported butter storage programme has been reported higher than during the past season's corresponding period. Open since last February, the scheme will run until mid August.

#### **EUROPEAN UNION – biofuel policy and**

**ILUC:** New attempts to enhance the EU's regulatory framework on biofuels by factoring in indirect land use changes (ILUC) when accounting for GHG emissions associated with biofuel failed to produce concrete results. In the month of May, although recognizing that ILUC factors need to be addressed seriously, EU officials could not agree on how to measure the full climate impact of biofuels, thus prolonging uncertainty in a debate that could have far-reaching implications for the EU biofuel market, especially the biodiesel sector. Recent research casts doubts on the environmental benefits generated by vegetable oil-based biodiesel (produced either from EU-grown rapeseed or with imported soybeans and palm oil). Some sources claim that, when ILUC factors are considered, much of the biodiesel currently consumed in the EU causes higher GHG emissions than conventional diesel. Biodiesel producers, on the other hand, continue to question the assumptions used to model ILUC emissions and say that scientific evidence is insufficient to justify immediate policy action.

**INDIA – calculation of import duty:** The base import price for refined vegetable oil on which the country's 7.5% import duty is calculated has been kept frozen since 2006 – although, in recent years,

landed prices for refined oil have been consistently higher than the official base price of USD 484,00 per ton. So far, the government has opted to leave the tariff value unchanged in an effort to check rise in domestic food prices, thus controlling overall inflation. Such policy has, however, favoured the importation of refined oils, hurting the domestic refining industry. Now that Indonesia's new export tax structure has further exposed domestic refiners to foreign competition, the country's industry is urging the government to allow upward adjustments in the base value applied to imported vegetable oils, thus protecting the sector's interests.

**THAILAND – palm oil market regulation:** In line with past interventions to shield consumers from surges in retail prices (*see MPPU no. 35, May 2012*), the government decided to introduced a temporary tax on palm olein exports. From mid May to end June, a surcharge of Bath 10 per kg will be applied. The measures is meant to help keeping the price of bottled cooking palm oil at Bath 42 per litre and to prevent shortages in domestic supplies. Reportedly, during the first quarter of 2012, overseas sales of palm olein have risen to 90 000 tons, which compares to a national output of 140-150 000 tons per month and total domestic demand around 120 000 tons a month. Reportedly, to secure domestic supplies, the government also resorted to palm oil imports – a measures that, according to local producers, pushed down the farmgate price for fresh palm fruit. In order not to hurt the domestic oil palm sector, the government has promised to review its policies as soon as prices for fresh palm fruit drop to Bath 3 per kg.

**UNITED STATES – GMO labelling:** Reportedly, a formal petition filed with the US Food and Drug Administration calling for nationwide, mandatory labelling of foods containing genetically modified ingredients (*see MPPU no. 30, Dec. 2011*) has generated 1.1 mill favourable comments by US citizens. FDA informed that it was reviewing the petition and would respond in the near future. Meanwhile, a referendum on mandatory labelling seems to be imminent in the state of California. Biotechnology and food industries are reported to have started a

campaign to halt the initiative, warning that labelling would be misleading, drive up food prices and open the door for lawsuits against farmers.

**UNITED STATES – trans fat in food products:** Since 2005, government agencies have recommended that consumers minimize their intake of trans fatty acid to lower the risk of chronic diseases. In 2006, the identification of trans fat content on food labels became mandatory and the voluntary use of trans-fat free claims was allowed. The effects of these measures are analyzed in a report published by USDA. The study found a marked decline in the trans fat content of new food products, along with an increase in the use of “no trans fat” claims on product packages. In addition, new products without trans fats generally tend to contain less saturated fat, sodium and calories – suggesting that food companies, when reformulating products to avoid trans fats, are not resorting to those other nutrients, rather substituting healthier ingredients for trans fats.

**UKRAINE – export policy:** Following this season's continued expansion in sunflowerseed and soybean plantings (part of which is due to high winter-kill in wheat), the government is said to be concerned that domestic crushing capacity could be insufficient to process the expected ample oilseed crop and, therefore, to be considering a temporary reduction or suspension of existing duties on oilseed exports.

**Development of new soybean varieties:** *Monsanto* plans to deliver a dozen new soybean traits over the next decade – mostly aimed at improving yields, so as to make production more profitable for farmers. The development of the new varieties is based on both, biotechnology and advanced breeding techniques. To raise yield potential, research efforts are focusing on improved resistance to key insects and diseases, more consistent and flexible control of weeds, and on the insertion of key yield genes. Reportedly, attention will also be paid to agronomic practices. Work is also reported on varieties with zero trans fat and reduced saturated fat content, which would offer health benefits to consumers while also

providing increased stability for food manufacturers.

### **Certified sustainable soybean**

- Overall trends: Evidence of growing global supply and demand of sustainably produced soybean has been reported at a recently concluded meeting of the *Round Table for Responsible Soy (RTRS)*, the seven-year old multi-stakeholder initiative that has developed standards for responsible soy production and put in place a certification schemes. World-wide, the number of producers whose output is certified sustainable is said to be growing. Global sales of certified produce have reached 300 000 tons since accreditation was launched in July 2011. RTRS has set a target of 5 mill tons of certified soya produced and marketed annually by 2015.
- Demand side: Reportedly, several important EU retailers (operating in the UK, the Netherlands and Switzerland) have made commitments to source soybeans used for own brand products exclusively from certified producers by the year 2015.
- Supply developments: The *Chinese Soybean Industry Association (CSIA)* announced that it will be working with its 750 member organizations to meet RTRS sustainability standards, following the footsteps of Latin American producers. The association plans to launch several pilot projects in the country's main soybean growing regions. The objective is to introduce RTRS recognized production, processing and marketing, also focusing on foreign markets such as Europe, Japan and South Korea. The promoting and co-ordination of such schemes in China is expected to pose challenges, given that domestic production is dominated by smallholders cultivating 0.2 ha of soy on average.
- Outstanding issues: RTRS conceded that, for certification to take off at a large scale, the market must guarantee a premium for certified produce. In the absence of such premium, farmers are not likely to embark in the four-year process that is needed to reach the required standards. Based on figures from Brazil, producers require a premium of about USD 2,00 per ton in order to take up certification. Other ways to make certification viable include a gradual reduction in certification

fees and administration costs as well as free training for producers. An additional challenge faced by the industry is that multiple certification standards will likely become available, which, unless mutual recognition is achieved, will lead to inefficiencies and risks creating confusion in the marketplace.

### **Promotion of specialty vegetable oils**

- Support for diversified soybean marketing in Canada: Reportedly, the federal government has offered supported for private investment into soybean handling equipment thereby promoting the production, processing and marketing of new soybean varieties. By enhancing traceability and improving product safety and quality, the project fosters the marketing of specialty non-GMO soybean. The goal is to satisfy growing demand for such products in Asian and European markets as well as to develop domestic niche markets.
- Marketing of specialty sunflower oil in India: *Cargill India* is ready to launch an oil brand that contains conventional as well as high oleic sunflower oil. The high oleic portion increases the content of mono-unsaturated fatty acid, thereby offering substantial health benefits. The initiative aims to bring innovations to the marketplace that directly benefit consumers.

**Oil palm productivity**: Research conducted in Ghana suggests that low oil palm yields in the country are directly linked to pesticide use. Reportedly, pesticides commonly used on farms tend to kill the population of pollinating insects along with the pests. Intercropping with crops that act as hosts for pollinators is mentioned as a possible solution.

**Free trade agreements**: The trade pacts between EU-Colombia and EU-Peru have been formally approved by the European Council and are likely to come into effect after the EU Parliament vote scheduled for coming September. With regard to the oils and meals sectors, the prospective liberalization of trade should benefit Colombian shipments of palm oil to the EU as well as Peru's exports of fishmeal and fishoil.

### **Futures markets**

- Extended CBOT trading hours: The *CME Group* decided to expand, starting May 14<sup>th</sup>, electronic trading hours for its Chicago soybean, soymeal, soyoil and grain futures/options to 22 hours per day. Reportedly, the measure has been taken to better meet the risk management needs of a global customer base, in particular during market moving events like the release of USDA crop reports.
- Paraguay futures market: Reportedly, the country is about to open its first futures market. Trading in a foreign exchange contract is

scheduled to start early next year, probably followed by commodity contracts, in particular for soybeans, of which the country is the world's fourth largest exporter. The Paraguayan initiative draws on expertise provided by partners from Argentina.

*For comments or queries  
please use the following Email contact:  
[Peter.Thoenes@fao.org](mailto:Peter.Thoenes@fao.org)*

	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)</u>		
	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>								
2004/05	275	545	419	212	130	105	104	105
2005/06	259	572	451	202	130	100	108	125
2006/07	335	772	684	264	184	129	148	153
2007/08	549	1325	1050	445	296	217	245	202
2008/09	437	849	682	409	206	156	145	180
2009/10	429	924	806	388	220	162	174	215
2010/11	550	1308	1147	418	279	215	256	221
<b>Monthly</b>								
2010 - October	496	1165	998	415	285	193	222	227
2010 - November	526	1248	1117	430	292	205	245	225
2010 - December	550	1321	1229	437	289	216	264	222
2011 - January	572	1384	1279	454	313	225	279	234
2011 - February	569	1366	1286	447	290	224	281	241
2011 - March	552	1305	1172	423	264	217	262	234
2011 - April	553	1310	1148	406	277	219	261	227
2011 - May	556	1291	1155	403	280	218	261	220
2011 - June	559	1321	1137	396	289	219	259	211
2011 - July	558	1345	1100	405	262	217	253	209
2011 - August	557	1327	1080	402	248	214	245	206
2011 - September	546	1310	1065	396	255	209	239	200
2011 - October	502	1216	995	378	243	194	224	194
2011 - November	491	1228	1054	353	224	191	235	186
2011 - December	476	1163	1026	346	227	185	227	182
2012 - January	500	1223	1062	371	234	193	234	189
2012 - February	512	1245	1100	385	255	199	239	192
2012 - March	542	1283	1152	426	287	209	245	205
2012 - April	575	1308	1182	474	335	221	251	225
2012 - May	570	1210	1081	492	330	217	234	235
<p><sup>1</sup> Soybeans (US, No.2 yellow, c.i.f. Rotterdam)</p> <p><sup>2</sup> Soybean oil (Dutch, f.o.b. ex-mill)</p> <p><sup>3</sup> Palm oil (Crude, c.i.f. North West Europe)</p> <p><sup>4</sup> Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)</p> <p><sup>5</sup> 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, twelve selected oils and fats and seven selected cakes and meals.</p> <p><i>Sources</i>: FAO and Oil World</p>								