



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE ¹

No. 60, June 2014

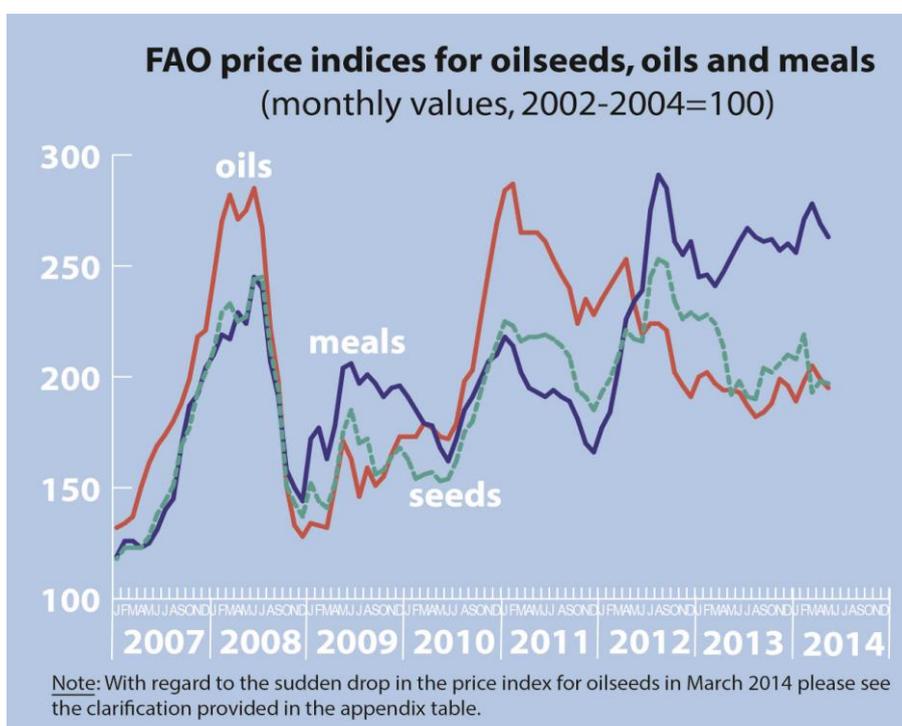
a) Global price review

In May, all three of FAO's price indices for the oilcrop complex fell, though the oilseed index changed only slightly. The indices for oilmeals/cakes and for vegetable oils decreased for the second consecutive month, losing 6 and 4 points respectively (or around 2 percent) compared to April, whereas the price index for oilseeds remained almost unchanged (- 0.2 percent). In historical terms, the oilseeds and oils index continued to fare below the average of the past two seasons. The meals index remains historically high, even though it has reached a 4-month low in May.

The oilseed index remained virtually unchanged as stronger soybean prices were more than offset

by declining rape and sunflower seed quotations. International prices for soybeans appreciated in response to the continued tightness of supplies in the United States as well as supply deficits in India. Improving soybean crush margins (following stronger meal demand from the feed sector) in China also lent support to prices, as did concerns regarding further harvest delays in Argentina (due to excessive wetness). By contrast, rapeseed values dropped as a result of slowing import demand from China, combined with higher global export availabilities (reflecting, inter alia, a gradual recovery in Canada's export pace). The EU's prospective record rapeseed harvest also weighed on global rapeseed values. Sunflower seed quotations eased on continued ample global availabilities – most notably in the Black Sea region.

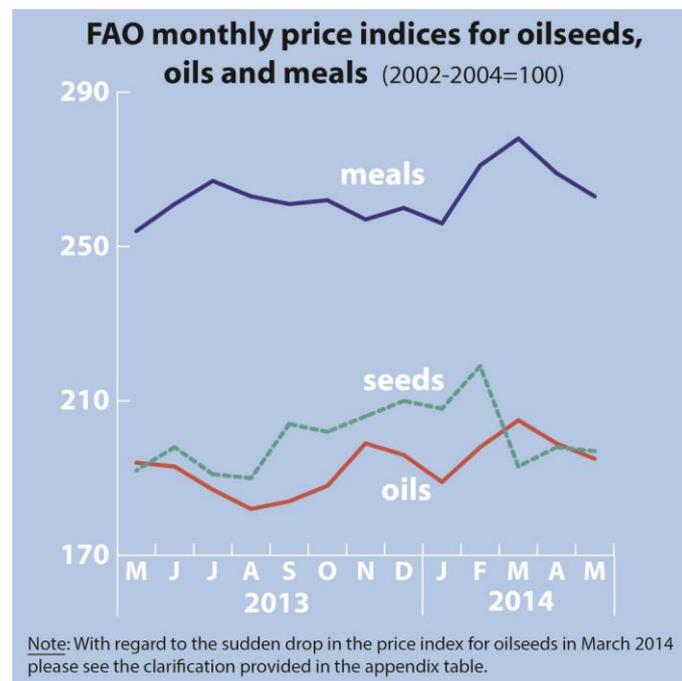
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¹ The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **May 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

The slide in the oilmeal and vegetable oil indices was mainly driven by developments in the markets for soy meal and soy oil: different from soybean, the sub-products appear to be responding to the boost in crushings caused by South America's latest bumper harvest. The prospect of ample export availabilities from that region, together with initial forecasts of a record-breaking 2014/15 crop in the United States has put downward pressure on international soy meal/oil prices. With respect to the vegetable oils index, sliding palm oil values also played a role: prices fell for the second consecutive month due to rising production in Southeast Asia, continued strength in Malaysia's currency and subdued global import demand. Moreover, in Indonesia, lower than originally anticipated palm oil uptake by biodiesel producers resulted in higher stock levels.



b) Selected policy developments and industry news

ARGENTINA – biodiesel policy: In an effort to support biodiesel producers, the government decided to temporarily suspended – until 31st December 2015 – a tax applying to domestic biodiesel consumption (amounting to 19% and 22% for fuel used for, respectively, transportation purposes and power generation), as well as to lower Argentina's export tax for biodiesel from 21% to 11% (*see also MPPU Dec. '13 & May '14*). Last year, domestic biodiesel production dropped sharply as a result of the anti-dumping tariffs introduced by the EU – the key export destination for biodiesel produced in the country. Thanks to the new tax concessions, industry officials expect this year's production and shipments to almost recover to the level of 2012.

AUSTRALIA – biofuel policy: The government announced plans to cut federal subsidies and end tax concessions granted to the country's ethanol

and biodiesel industries. For biodiesel, grants made since 2003 under the 'Cleaner Fuels Grant Scheme' would be reduced to zero over the next four years. Furthermore, biodiesel would lose the excise free status that it has enjoyed since 2011, and which was meant to remain in place for ten years. Beginning in July 2016, the excise rate for biodiesel would be raised annually for five years until it reaches 50% of the 'energy content equivalent tax rate' (the sliding scale against which fuels are excised based on their energy content). Industry representatives strongly criticized the government's unexpected policy shift.

BRAZIL – biodiesel policy: The government has proposed to raise the amount of biodiesel that must be blended into diesel to 6% in July, and further to 7% in November – compared to the 5% rate that is in place since 2010 (*see also MPPU Dec. '13*). The measure, which still requires approval by Congress, aims at replacing more diesel fuel imports with domestically produced

biodiesel and at additional reductions in GHG emissions. The move should allow full use of the country's biodiesel capacity. Reportedly it will also benefit family farmers, considering that small-scale producers of oilcrops and of other biodiesel feedstock will benefit from production incentives. Based on the new blending targets, industry representatives have raised their 2014/15 forecasts for domestic crush and soyoil consumption, while soyoil shipments could fare below (and soymeal exports above) earlier expectations. The impact on consumer price inflation – via temporary rises in soybean prices – was estimated to be negligible.

BRAZIL – agricultural policy: The government announced its package of support measures for agriculture and livestock in 2014/15. Total programme outlays for commercial and family farming are set to increase to Reais 180.2 billion (USD 80.7 billion), up 15% from last season's level. The distribution of funds across the various programmes will remain largely unchanged. Interest rates charged under the main loan schemes will rise compared to last season (for production and marketing loans, the rate will rise from 5.5% to 6.5%). On the other hand, individual farmers will enjoy higher borrowing limits (generally 10% above last season's level). As to the government's farm insurance programme, funding will stay at last year's level, and mandatory subscription will only be introduced in 2015/16. The minimum price guarantees for individual crops have not been announced yet. The prices for soybeans were last revised in 2009/10.

CANADA – internal trade: Quebec Province was invited by a dispute resolution panel (set up under the pan-Canadian 'Agreement on Internal Trade') to lift restrictions on the production, sale and marketing of vegetable oil-based dairy substitutes such as certain margarines, dessert toppings and non-dairy coffee creamers. The panel had been convened upon request of Saskatchewan and three other oilseed-growing western provinces, which claimed that the restrictions impeded domestic trade in edible oils

and were discriminatory in favour of Quebec's dairy sector. The government of Quebec has appealed the ruling.

CHINA – soybean policies

- **State reserves:** This year's auctions of state reserves have started in May, one month after the end of the 2013/14 soybean procurement campaign, which reportedly added 3 million tons to public stockpiles. Total government inventories, comprising crops from the last three seasons, are estimated at 6.8 million tons. Reportedly, a total of 3 million tons will be put on sale this year, mostly from the country's 2011 crop. By comparison, last year's auctions amounted to around 2 million tons. Since the binning of May 2014, 1.08 million tons of soybeans have been sold, with prices averaging Yuan 4 212 (USD 678) per tonne. The strong pace of sales is said to reflect tight domestic inventories of non-GMO/food-grade soybeans. Reportedly, the auction's impact on soybean imports should be small, as sales are primarily directed to inland crushers (that do not use imported material) and food manufacturers (that only purchase domestically grown non-GMO material).
- **Production support:** The government confirmed that, starting with the 2014/15 crop, its 6 year-old soybean procurement/stockpiling scheme will be replaced by direct subsidy payments (*see MPPU Feb. '14*). From this year, to protect farm incomes and stimulate production, soybean farmers in Northeastern China will receive subsidies whenever the market price falls below the target of Yuan 4 800 per tonne (USD 773). For comparison, in the last two years, the government bought the farmers' crop at a fixed price of Yuan 4 600 per tonne. Under the new system, instead of selling to the government, farmers will sell their beans in the open market. Details of the new scheme have been announced at a time when plantings are close to completion, but, reportedly, farmers have indicated that they may expand plantings next year thanks to the new subsidy.

CHINA – rapeseed procurement: As opposed to soybeans, the state procurement/stockholding programme for rapeseed is set to remain in place. Reportedly, country-wide government purchases of winter and spring rapeseed will commence in June, with a target procurement volume of 5 million tonnes and a fixed price of Yuan 5 100 per tonne (USD 821) – unchanged from last year. The procured rapeseed will be processed into oil for storage.

EUROPEAN UNION – biofuel policy:

With regard to limiting the use of food crop-based biofuels under the bloc's renewable energy policy, discussions between the European Council and the newly elected EU Parliament are likely to resume in the coming months (*see MPPU Feb. '14*). Reportedly, in May, member states provisionally agreed to cap the use of 'first generation' fuels at 7%, whereas 'advanced biofuels' would be subject to a non-binding target of 0.5%. Last year, the EU Commission had suggested to cap food crop-based biofuels at 5%, whereas the EU Parliament proposed 6%. Regarding mandatory measurement of GHG emission levels (including the effects of indirect land use changes), the member countries' position was not reported.

EUROPEAN UNION – GMO policy

- **Screening of GM soybean variety:** As member states could not agree on approving soybean variety MON87708 (for food and feed uses, import and processing, but not for cultivation), approval by the EU Commission appears likely. The new GM event, which is tolerant to dicamba-based herbicides, has been cleared by the European Food Safety Authority.
- **General approval process:** EU member states might overcome the current deadlock on the bloc's approval mechanism for GM crops. Reportedly, they could reach agreement on a compromise deal that would make it easier to win approval for GMOs, while giving individual countries the right to ban GM cultivation. Once formally approved by the EU Council, the pact would still require the backing of the recently renewed EU Parliament.

INDIA – vegetable oil import duties:

Reportedly, India's new government will leave import tariffs for vegetable oils unchanged in the short term due to concerns over inflation. Instead, policies to promote domestic oilseed production could be adopted. Unable to compete with low-priced imports (especially of refined palm oil from Indonesia), domestic oilseed processors called on the government to further raise import duties (tariffs were last raised in January 2014 – *see MPPU Feb. '14*).

INDONESIA – palm oil policy

- **Variable export tax:** Given relatively stable global benchmark prices, in June, the country's export tax for crude palm oil will remain unchanged at 12%.
- **Downstream industry promotion:** In a bid to further support Indonesia's downstream processing, the Ministry of Industry is considering changes in the country's palm export taxation system. Apparently, thanks to a number of policy incentives, the country's palm oil refining capacity is set to expand by almost 50% to 45 million tonnes in 2014 – which compares to a crude palm oil production forecast of 30 million tonnes. Reportedly, the main policy change under consideration concerns the suspension of export duties for high value-added oil palm products (such as palm oil-based biodiesel, hydrogenated palm oil and palm meal). Market observers pointed out that removing export taxes for downstream products that are in high demand also domestically, in particular biodiesel, could prove problematic.

MALAYSIA – variable palm oil export tax:

In June, the country's export tax on crude palm oil will stay at 5.5%, the rate in place since last April.

MALAYSIA – oil palm sector development:

The government has renewed its efforts to raise productivity levels among smallholders: Ringgit 28 million (USD 8.7 million) have been allocated to independent smallholders to undertake replanting and new planting of oil palm, targeting 35 000 hectares in total. Challenges faced by the programme are said to include: uncertainty over

palm oil prices; limited interest by independent smallholders to replant; and land ownership and sustainability issues in Sarawak state. Reportedly, the government is also encouraging entrepreneurs to participate in the oleo-derivatives segment: an additional Ringgit 56 million (USD 17.5 million) in development grants will be made available this year, particularly for the production and commercialization of second generation biofuels, i.e. fuels derived from non-food biomass such as empty oil palm fruit bunches, trunks and tree fronds.

NIGERIA – sector support: Reportedly, some 1 500 oil palm farmers in the Delta state will be supported under the federal government’s ‘Growth Enhancement Scheme’. In a bid to strengthen oil palm cultivation, farmers will be provided with improved oil palm seedlings, fertilizers and agro-chemicals.

UKRAINE – export policy

- **Export taxation for sunflower oil:** The Ukrainian Parliament has registered a draft law proposing the introduction of a 3% tax on sunflower oil exports, starting in January 2015. To date, shipments of sunflower oil and sunflowerseed have been subject to temporary quotas, and exports of sunflowerseed are taxed since 2000 (currently at 10%) to promote domestic processing and exportation of higher value-added products.
- **Export de-regulation for oilmeals/cakes:** With a view to facilitate exports of oilmeals and cakes, traders are no longer required to obtain export permissions from the Ministry of Ecology and Natural Resources. Until now, phytosanitary certificates had to be issued for every export contract.

UNITED STATES – GMO labelling: In the state of Vermont, a law on mandatory labeling of GM foods has been passed. The first such law at state level is set to take effect in mid-2016. The bill introduces labelling for processed GM foods as well as for displays of unpackaged GM products by retailers (for example at farmers markets). Only restaurants will be exempt. The

states of Maine and Connecticut have previously passed similar bills, but their laws will only take effect once neighbouring states issue similar regulations. In California, legislators have rejected – for the second time – a bill requiring labelling of GM foods. In the meantime, members of the US Congress are reported to be working on a bill that would forbid states from enforcing laws on mandatory labelling, while a different bill proposes voluntary labelling of GM foods based on norms to be issued by the US Food and Drug Administration (*see also MPPU Feb. '14*).

UNITED STATES – biofuel policy: Minnesota, the first US state to have introduced mandatory blending (in 2002), decided to raise – during the summer months – its current B5 blending requirement (i.e. a 5 percent biodiesel/petroleum blend) to the B10 level (10 percent blend). This year, the higher blend will be available at pumps from July through September, whereas next year, sales will start in April. While soybean will remain the principal feedstock, at least 5% of Minnesota’s biodiesel needs to be produced from non-agricultural resources. Reportedly, the temporary switch to B10 will translate into an additional demand of about 67 000 tonnes per year. In 2018, Minnesota could move to B20.

UNITED STATES – agricultural policy: USDA’s ‘Farm Storage and Facility Loan Program’ has been expanded. The measure aims at enhancing the access of small and mid-sized producers to low-interest financing for building or upgrading facilities to store and handle commodities. Eligible commodities include oilseeds.

VIETNAM – countervailing duty: Vietnam’s 1 year-old countervailing duty on vegetable oils has been lowered from 5% to 4%. The duty is meant to be reduced gradually until it reaches 2% in 2017 (*see MPPU Sep. '13*).

Co-existence between GM and non-GM crops:

In Western Australia, a producer of organic rapeseed has lost a landmark court case against a neighbour that cultivated genetically modified rapeseed. Allegedly, GM rapeseed had drifted onto the organic farm contaminating the crop, eventually causing the concerned farmer to lose his organic certification. As Australia maintains a zero-tolerance approach regarding GM presence in organic foods, the court ruling could result in calls for less strict regulations on contamination. On the other hand, organic producers want Australia to maintain its position on the global market as a prime supplier of non-GM rapeseed. Cultivation of GM rapeseed started expanding in recent years and is now reported to account for 15–20% of the national crop. Since GM crops can be grown by any farmer without restrictions, organic proponents are calling for changes in the country's liability laws that would guarantee adequate protection for their crops.

Sustainable palm oil production – responsible sourcing:

In recent months, multinational companies involved in palm oil trade and consumption started paying increased attention to environmental and social sustainability issues. The latest initiatives in this field include:

- ***Danone***: Global food company *Danone* committed to source exclusively certified palm oil from 2015 onward – well before the 2020 target set only two years ago. The company intends to go beyond RSPO standards by protecting not only primary forests but also tropical peatland and second-growth forests. *Danone* asked no-profit organization *The Forest Trust* for assistance in mapping out the company's supply chain so as to obtain an accurate picture of the changes its suppliers need to implement.
- ***Johnson & Johnson***: Personal care products company *Johnson & Johnson* published a new palm oil sourcing policy encompassing a range of social and environmental criteria. Sourcing fully traceable, certified products is expected to pose challenges because the company buys a wide range of oleochemical products that contain palm

oil coming from different plantations, processing plants and countries. The company will collaborate closely with *The Forest Trust*.

- ***ADM Co.***: Global agri-trade firm *ADM Co.* plans to provide, from 2015 onward, its North American customers exclusively with palm oil certified by RSPO (Roundtable on Sustainable Palm Oil). The company informed that it will team up with global palm oil buyer *Wilmar International* to source fully traceable, sustainably produced palm oil, based on RSPO's mass balance calculation system.

Sustainable palm oil production – other news

- ***Papua New Guinea***: Reportedly, the National Court of Papua New Guinea declared leases offered to an overseas investor invalid, and ordered the government to revoke the corresponding licenses that granted permission to convert some 38 000 hectares of rainforest and community forest into oil palm plantations. Apparently, the concerned indigenous communities had opposed the planned expansion onto their customary land, saying that they relied on the natural landscape of the region as the basis for their economy and subsistence livelihoods.

- ***Sustainability indicators***: *Palm Oil Innovation Group (POIG)*, a group established by a number of NGOs and palm oil producers, has issued a set of indicators meant to allow independent verification that palm oil is produced according to POIG's charter. Apparently, while built on RSPO's certification standards, the charter includes additional requirements to ensure that palm oil operations are free from deforestation, conversion of peatland, and human/social right violations.

Sourcing sustainably produced soybean:

In a recently published report, *WWF (World Wildlife Fund)* assesses the use of responsibly produced soy for animal feed in Europe. The report finds that a number of companies along the supply chain for animal feed made strong commitments to stop sourcing soybeans produced with unsustainable methods. However, many

companies are reported to lag behind in commitments and, in particular, in actual purchases of certified soy – a situation that is said to leave soybean farmers in producing countries with little incentives to adopt sustainable practices and invest in certification (*see also MPPU May & June '12*). The report

also points out that responsible sourcing is being increasingly used by the retail sector. Reportedly, due to the complexity of the soy value chain, unbranded companies do not feel the same consumer pressure as retailers.

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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
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	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
<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 sudden drop in the price index for oilseeds in March 2014 is due to a structural break in the underlying price series for soybeans (US no2 yellow, c.i.f. Rotterdam), the component with the highest weight. A look at alternative reference prices for soybeans reveals that, during March and April 2014, international soybean values have actually appreciated further rather than falling. For a detailed explanation of the anomalous trend in the soybean reference price, please refer to issue no. 58 of the Oilcrops Monthly Price and Policy Update (MPPU), which can be downloaded through the following link: http://www.fao.org/fileadmin/templates/est/COMM_MARKETS_MONITORING/Oilcrops/Documents/MPPU_April_14.pdf</p> <p>Sources: FAO and Oil World</p>								