



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

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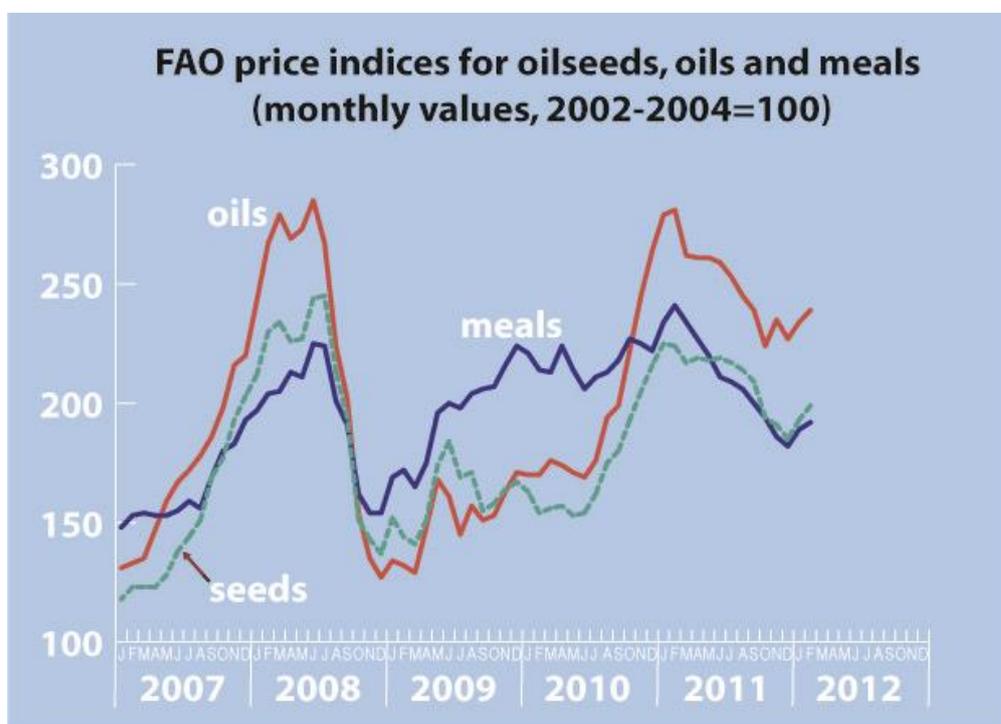
a) Global price review

In February, the FAO price indices for oilseeds, oils/fats as well as meals rose by another 2-3% percent compared to the previous month, thus confirming the change in trend recorded in January. Although below the values observed one year ago, all three indices remain high in historical terms.

After the steady downward trend witnessed until January, finally markets started responding to the progressive tightening of fundamentals in the oilseed complex in 2011/12. In fact, with unfavorable weather conditions persisting in South America, global supply and demand prospects have deteriorated further in recent weeks.

Regarding oilseeds, soybeans and rapeseed have been the main drivers in the market: soybean prices have found support from reduced crop estimates for South America as a result of La Nina as well as from renewed import demand growth in China. The prospect of further competition for land between maize and soy in the United States (in the coming 2012/13 planting season) also contributed to the upward pressure on prices. As to rapeseed, a number of factors have resulted in tight supplies for the current season, a situation that could stretch out into 2012/13. The key concurrent factors are firm rapeseed demand from the processing sector leading to solid buying interest, adverse weather affecting European crops, well below average stock level in Canada, and further downsizing of production in China.

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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 **February 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*

The meals index rise largely reflects the appreciation of soybean and rapeseed prices as well as spill-over effects from the world grains market, where fundamentals remain tight. In general, current soymeal availabilities are reported to be low relative to requirements.

The upward adjustment for the oils/fats index reflects growing concerns about the 2011/12 supply and demand balance for vegetable oils. In particular, lower production forecasts for soy oil risk pushing down global soy oil export availabilities to a multi-year low. This development has raised the market's dependence on palm oil that, however, is reported to be facing weak production growth. Also global sunflower oil supplies disposing at a rapid pace have contributed to the general strengthening in prices for edible oils. Lastly, also the recent appreciation in crude oil prices has been supportive to prices.

b) Selected policy developments and industry news

BRAZIL – Amazon port project: Reportedly, the country's authorities are planning a new grains port in the Amazon region, close to the city of Belem. The facility, which could become operational in 2014, is proposed to handle 18 million tons per year, which would exceed the capacity of the country's leading ports of Santos (17 million) and Paranagua (15 million). If realized, the new port would substantially lower transportation costs for soybean farmers in the Cerrado, Northeast and Amazon regions, where the country's soybean growth potential concentrated in recent years. Current transportation costs (estimated at USD 85 per ton) could fall near the level reported for soy farmers in Argentina and the US (USD 20 per ton). A port in the north of the country would also reduce the distance to major destinations, i.e. in Europe, the Middle East and China (via Panama). Meanwhile, social interest groups warned that the planned

facility could raise environmental concerns by making soybean farming in the Amazon forest more profitable.

CANADA – rapeseed production: Encouraged by steadily rising export demand and domestic consumption, farmers expanded the area sown to rapeseed almost without interruption for several years, and a further increase is expected this year. Experts have warned that, where expansion occurs at the expense of crop rotation rules, disease problems could emerge. In particular, the incidence of club root disease (*plasmodiophora brassicae*) could rise. Specific to rape species, this disease can significantly reduce seed quality and oil content. Furthermore, the pathogen is known to be able to survive in the soil for many years in the absence of a rapeseed crop. Reportedly, efforts to develop disease resistant varieties are underway.

CANADA - new health claim: The edible oil industry reported that the country's health authorities have authorized the use of a new health claim advising consumers to replace dietary sources of saturated fat with polyunsaturated and monounsaturated fats from vegetable oil so as to lower cholesterol level in their diet. The claim will be used by food manufacturers on food product labels.

CHINA – rapeseed importation from Canada: Chinese quarantine authorities announced a further relaxation of the ban on rapeseed imports from Canada (*see also MPPU no. 10*). After restrictions were put in place in late 2009 due to fungal disease concerns, only shipments to areas away from China's main rapeseed production areas were permitted. Now shipments to selected crushers in major growing areas will be allowed. With domestic production of rapeseed stagnating, imports from Canada are expected to climb back to 2.5-3 million tons per year, after having dropped to 1.3 million in 2010/11.

EUROPEAN UNION – biodiesel industry consolidation: Reportedly, less than 50% capacity utilization on average in 2011 has led to factory closures and industry consolidation across

the EU. Last year, biodiesel production is reported to have fallen after a decade of rapid expansion. Main reasons behind the drop are competitively priced biodiesel imports, firm feedstock (vegetable oil) prices and weaker political support due to concerns about the environmental benefits of biofuels. Industry experts expect the challenges encountered last year to persist in 2012.

INDIA – vegetable oil market:

- **Import forecast:** Industry sources expect vegetable oil import requirements to increase in 2012. The anticipated contraction in domestic oilseed production in the current crop year, together with a steady rise in national consumption should cause imports to rise further. Total 2011/12 imports are estimated at over 9 million tons, compared to below 4.5 million less than a decade ago. In recent years, the contribution of national production to domestic consumption dropped to 55%. With stagnating oilseed production and imports consisting almost entirely of oils, the country's crushing industry is reported to be working at no more than 40-50% of installed capacity.
- **Import policy:** Reportedly, Indonesia's modification to its palm oil export tax regime has driven up Indian imports of refined palm oil, creating an additional threat for the domestic refining industry. To protect their sector, India's refiners have urged the government to raise the import tariff on refined palm oil from currently 7.5% to 16.5%, as well as to ban the importation of edible oils in packaged form.

INDIA - copra procurement: The minimum support price for milling and ball copra for calendar year 2012 has been raised to, respectively, Rs 51 000 and Rs 53 500 per ton, about 12% above the levels applied last year. NAFED continues to be charged with undertaking the price support operations. Reportedly, since the new price was announced last January, market prices for copra and coconut oil first rose and then fell markedly, ending well below the support price level, which has triggered calls for prompt market intervention to stabilise prices.

INDIA-BHUTAN cooperation: Reportedly, India agreed to exempt Bhutan from its export ban on edible oils and other essential commodities. The move is part of expanding cooperation between the two countries, which, in addition to agricultural trade, concerns the energy, health and education sectors.

MALAYSIA – palm oil refining industry: Last year's change in Indonesia's export duty structure for palm oil and derived products has reduced the competitiveness of refined palm oil production and exportation in Malaysia (*see also MPPU no. 28, 29 & 30*). Official sources reported that the government is considering measures to assist affected domestic refiners. The idea is to provide refiners with incentives to specialize in downstream operations and to produce higher value products compared to Indonesia. Malaysia's annual refining capacity is presently estimated at around 23 million tons (with several new facilities planned for 2012-13), which compares to a current palm oil production of about 19 million tons. According to unofficial sources the government might establish a fund (based on a palm oil production levy) that would be used to subsidize the purchase of crude palm oil by domestic refiners. This would help processors compete with counterparts in Indonesia, also reducing their dependence on CPO imports from Indonesia. Apparently, the government decided not to pursue the other option of suspending the country's duty-free export quota for crude palm oil, which would have raised domestic supplies for refining purposes. Reportedly, the quota was renewed early last month. After issuing duty free export permits for about 3.6 million tons last year, the total quota for 2012 is said to have been set at 3 million tons, or about 15% of projected national output. Market experts remarked that, in case the problems affecting domestic refining persisted, the industry might consider a partial shift in processing capacities from Malaysia to Indonesia.

MALAYSIA – biodiesel use: The government considers biodiesel to be suitable for fishing boats and announced the launch of a programme to promote the use of palm oil-based diesel in the fishing sector. The proposal is to run fishing boat engines with B5 diesel. Apparently, petroleum

companies and engine manufacturers agreed to provide engine warranties for B5 use. The new programme is part of the government's strategy to strengthen or stabilise palm oil prices and to reduce greenhouse gas emissions in energy consumption. The government also informed that, besides developing biofuel from palm oil, it was encouraging the exploitation of non-edible sources like palm biomass to produce certified sustainable biofuel that would meet the requirements of overseas markets, especially in the European Union and the United States.

PARAGUAY – soy crushing capacity: Last year, Paraguay's export oriented soybean production surpassed 8 million tons, up from only 4 million tons five years earlier. Due to the nation's limited crushing capacity, the bulk of the country's exports currently consist of beans. Actual crush in 2011.12 is estimated at 1.4 million tons. Reportedly, this pattern could change from next year, when new soybean processing facilities are expected to start operating. Thanks to two plants currently under construction in the river port of Villetta, within four to five years, up to half of the country's soy crop may be crushed domestically, with soy oil and meal shipments rising accordingly (at the expense of bean exports).

PHILIPPINES – coconut development: Reportedly, one of the country's leading private coconut processing groups is going to fund a large-scale planting and replanting programme to be implemented in cooperation with coconut farmers and cooperatives nationwide. Based on concerns about stagnating output and poor exports at a time of increasing demand, the initiative aims at maintaining and eventually expanding the industry's production potential.

RUSSIAN FEDERATION – implications of WTO accession: Reportedly, the agricultural industry is urging the government to introduce measures able to mitigate some adverse effects caused by the country's recent accession to WTO. Allegedly, some sectors have been negatively affected by the reduction in custom tariff protection required under the accession treaty.

Sectors concerned include the livestock, dairy, sugar, oilseeds and fat/margarine industries. Regarding the latter, the planned cuts in import duties for fat and margarine and in the export tax on sunflowerseed (from 20% to 5%) are said to strongly reduce the competitiveness of domestic vegetable oil production.

UNITED STATES – trans fat intake:

According to recently published research, the consumption of trans fat among white American adults has decreased by more than half over the 2000-2009 period. According to some observers, the preliminary findings prove the effectiveness of recent policy and industry efforts to reduce human trans fat intake. In this regard, attention was drawn to regional trans fat bans from parts of the food chain, mandatory labelling of trans fat content at federal level, as well as voluntary action by the food industry and efforts by seed companies and oil processors to develop healthier oils.

Renewable aviation fuel: A private source has estimated that by 2020 the cost of some biofuels could be similar to that of conventional jet fuel. Biofuels made from non-edible vegetable oils (such as jatropha and camelina oil) and cellulosic feedstock are expected to be particularly competitive. Despite this development, the average share of biofuels in the airlines' fuel mix is, however, anticipated not to exceed 2% at a global level (corresponding to roughly 2.3 million tons). The reason provided is that the availability of attractively priced, certified biofuels is likely to remain very limited in the foreseeable future.

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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)								
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
Monthly								
2009 - October	427	891	676	413	187	158	153	207
2009 - November	442	939	728	422	196	164	163	216
2009 - December	448	931	791	425	219	167	171	224
2010 - January	435	919	793	407	243	163	170	221
2010 - February	406	915	804	393	230	154	170	214
2010 - March	410	920	832	381	200	156	176	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	171	214
2010 - June	408	860	794	342	194	154	169	206
2010 - July	426	911	811	361	225	162	176	211
2010 - August	457	1002	901	389	245	175	194	213
2010 - September	468	1036	910	398	277	180	199	218
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
<p>¹ Soybeans (US, No.2 yellow , c.i.f. Rotterdam)</p> <p>² Soybean oil (Dutch, f.o.b. 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>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, twelve selected oils and fats and seven selected cakes and meals.</p> <p>Sources: FAO and Oil World</p>								