OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

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- short version -

Selected policy developments and industry news

ALGERIA – soymeal import duty: The country decided to temporarily suspend import duties on all feedstuff so as to help its domestic livestock industry to cope with rising world market prices and eventually contain rises in local retail prices for meat. The country's livestock producers, in particular of poultry, depend heavily on imported maize and soymeal. Duties have been lifted from September for a period of 11 months.

ARGENTINA – tax investigation: The long-standing battle between the country's excise authorities and some of the country's top grain firms over alleged export tax evasion is reported to continue. Recent investigations have led to the suspension of a global agriculture biotechnology company from the country's grain traders registry, while a major international trader has been definitively removed from the same list. Exclusion from the said registry tends to strongly hamper a company's trade operations and exposes it to significantly higher income and sales taxation.

ARGENTINA – biodiesel policies: After introducing major changes to its policy on biodiesel exports and domestic sales last August *(see MPPU no. 39, Sep.'12)*, the government decided to make further adjustments in September: initially ramped up from 20% to 35%, the country's export tax has been reduced again (first to 24.2% and then to 19.1%), whereas the government-set internal price for biodiesel has been lifted beyond the level prevailing prior to August. Reportedly, the adjustments were made because the combination of higher taxes and lower domestic prices, coupled with a drop in international biodiesel quotations, had led to heavy losses among domestic biodiesel producers. From now on, the tax rate and the local sales price are supposed to be reviewed every 15 days – taking into account the development of international prices for soyoil and biodiesel. The ultimate objective remains to stimulate domestic biodiesel consumption while at the same time guaranteeing adequate margins for processors.

CANADA – R&D support: The government has announced new financial support for research and development in rapeseed with a view to promote continued strategic growth in the sector. As part of the country's *Agricultural Innovation Program*, the Canola Council of Canada is going to benefit from financial assistance for the development of varieties that specifically target the needs of producers, processors as well as consumers.

CHINA – soybean sales from state reserves: In a bid to ease domestic supply tightness and contain renewed food price inflation (caused primarily by the recent soy crop shortfall in the United States and another drop in China's domestic output) the government has started offering soybeans from its reserves to the tune of 800 thousand tons per month. State auctions

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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, abridged issue only comments on global policy and industry developments observed during September and October 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/.

are anticipated to continue until early 2013, when commercial imports from South America are expected to arrive. State procurement from the domestic soy crop (2012 harvest) is said to start in November at a price around Yuan 4 400 per ton, which compares to Yuan 4 000 paid last year. Traders expect the government to also intensify, over the coming months, the release of edible oils. Private sources estimate state soybean reserves (from the 2011 crop) in the 5-10 million tons range, while edible oil stocks are pegged around 5.5 million tons. As to the latest soybean auctions, reportedly only few buyers showed interest due to a high asking price of Yuan 4 500 per ton.

CHINA / INDIA – trade restriction: Indian authorities invited China to send a delegation to inspect India's rapeseed crushing operations. The initiative is connected to China's ban of rapeseed meal imports from India due to contamination problems *(see MPPU no. 32, Feb.'12)*. Once Chinese officials have verified and certified the safety of rapeseed meal production in India, China is expected to lift its import ban.

EUROPEAN UNION – biofuel issues

- Investigation on biodiesel imports: In response to a complaint lodged by the European Biodiesel Board regarding the sale of biodiesel from Argentina and Indonesia at prices below those prevailing in the EU market, the European Commission has started investigating the matter. The process could lead to the introduction of anti-dumping duties – as those imposed on biodiesel imports from the United States and Canada since, respectively, 2009 and 2011. Allegedly, biodiesel producers in Argentina and Indonesia are benefitting from differential export tariffs and, unlike EU producers, are not subject to strict sustainability requirements. In recent years, combined imports from Argentina and Indonesia have expanded continuously, reaching about 2.4 million tons in 2011 (about 90% of total EU imports). During the same period, production expansion in the EU has slowed down, eventually coming to a halt in 2011, which has pushed the industry's average capacity utilization to less than 40%, leading to producer complaints. Indonesia and Argentina, on the other hand, are determined to defend their position: Indonesian officials have questioned the EU's allegations, while Argentina has filed a WTO complaint regarding allegedly discriminatory import policies applied by Spain *(see MPPU no. 35, May'12)*.
- EU biofuel policy: The European Commission has proposed capping at 5% the contribution that first-generation biofuels (i.e. those produced from oilseeds, starch crops or sugar) are allowed to make towards the EU transport fuel consumption target for 2020. The existing EU target envisages that as much as 10% of road and rail energy come from renewable sources – a requirement that, based on new findings, could prove insufficient in the fight against global warming: recently, doubts have been expressed regarding the GHG reduction potential of several crop-based biofuels, notably when the impact of indirect land use changes (ILUC) is factored in *(see MPPU nos. 10, 15, 22, 29, 30 and 36)*. Reportedly, under the newly proposed target, EU production of crop-based biofuels would not be allowed to grow beyond the current level. The Commission's proposal would also require reporting of estimated emission levels for each biofuel – including indirect land use change factors. However, the latter requirement would remain void of legal implications, in that all biofuels would continue to be treated equal, at least until 2020. From that year onward, though, only fuels meeting strict GHG saving thresholds – including ILUC factors – will qualify, which could lead to the exclusion of biofuels produced in less sustainable ways. In this respect, depending on the criteria used, several oilcrop-based fuels could be disqualified. Finally, the Commission's proposal also includes plans to remove all subsidies for growing biofuel crops. To enter into force the draft proposal will require approval by all EU member governments as well as by the European Parliament.

INDIA – export policy: The government has decided to allow, until September 2013, exports of edible oil in branded consumer packs up to 5 kg within an overall limit of 20 000 tons. Such exports were banned last August in an attempt to rein in domestic prices. The ban's temporary removal will allow traders to ship small quantities of groundnut, sunflower and rapeseed oil, mainly catering to expatriate demand in neighboring countries.

INDIA – sector development:

- Overall sector growth: The country's recently approved 12th Five-Year-Plan (2012-2017) includes plans to increase domestic oilseed production and enhance oil palm cultivation. Based on productivity improvements, total oilseed production is expected to grow by 25% over five years. Furthermore, a special programme dedicated to oil palm growers envisages financial support over four years to support planting operations and to promote drip irrigation. Special emphasis will be placed on the development of wasteland in the Northeast of the country.
- Olive oil: Although India's current per capita consumption of olive oil is minimal, the country's olive oil market could grow based on both imported and locally produced product. Reportedly, *Mother Dairy*, an Indian government wholly-owned company that created a mass-market brand for locally produced edible oils, is planning to sell imported olive oil throughout the country. At the same time, a first pilot project on local olive cultivation has been implemented during the last four years on a number of state-owned farms in Rajasthan, encouraging the state government to extend the scope of cultivation to private farms starting this year. The target is to bring under cultivation 5 000 ha over the next three years, with a view to make olive oil a commercially viable venture.

INDONESIA – market regulation

- Strategic food reserves: Reportedly, the government, which currently only maintains strategic stocks of rice, is considering to expand the reserves held by the state-run Board of Logistics (BULOG) to include soybeans and sugar. The reserves would be used to stabilize domestic retail prices. In the case of soybeans, rising demand and limited local production have driven up the country's dependence on imports, making it vulnerable to global shortages and to the ensuing hikes in prices. In the past few years, to cool domestic prices (which rose on the back of international prices surges) the government repeatedly resorted to suspending import duties for soybeans. Reportedly, future buffer-stock operations by BULOG would rest on fixed base prices for soybeans – one for purchases from farmers and one for sales to soybean processors. The new programme could be ready for implementation towards the middle of next year. Actually, the envisaged buffer-stock scheme would not be new to the country: until the mid 1990s, BULOG operated similar edible oil reserves for price stabilization purposes.
- Self-sufficiency policies: The government confirmed its commitment to strive for self-sufficiency in all key food commodities – a principle that could be enshrined in the country's Food Law, a revision of which is currently under debate in parliament. Related to this, a recent OECD-report reviewing Indonesia's food policy warned that border protection measures (used to stimulate domestic production) are prone to hinder competitiveness in the farm sector and to lead to increased food costs for poor consumers.

INDONESIA – palm oil export tax: Based on further decreasing international benchmark prices, starting this November, the export tax collected on crude palm oil will be 9% - as opposed to 13.5% applied in the two preceding months. The rates for the various other types of oil have been lowered accordingly, with highly refined oils and palm oil-based biodiesel attracting zero tariff. The new tariff rates are the lowest recorded since November 2010.

MALAYSIA – export policy: The government has announced two changes in the country's export regime for crude palm oil: from January 2013, duty-free export quotas shall be discontinued and the current export tax of 23% will range between 4.5 and 8.5%, depending on the prevailing market price. The measures are meant to protect the interests of both plantation owners and palm oil refiners – after both groups have been negatively affected by last year's changes in the Indonesian export policy regime *(see MPPU nos. 33&39, Mar.&Sep.'12)*. Lower taxation of crude palm oil exports should help preventing a build-up in domestic stocks, thus avoiding price drops that hurt growers. The envisaged discontinuation of tax-free exports, on the other hand, strives to ensure adequate raw material supplies for domestic palm oil refiners. The effectiveness of these measures in restoring the competitiveness of palm oil processing and trade in Malaysia has been questioned by market experts who emphasized that the problem lies in Malaysia's oversupply in refining capacity relative to production – while the opposite situation is said to hold for Indonesia, i.e. local refining demand exceeding current processing capacity.

MALAYSIA – domestic S/D steering: Concerned about the recent swelling in domestic palm oil stocks and the ensuing plunge in prices, the government is considering measures to help stimulating domestic consumption on one hand and contain national supply growth on the other:

- Biofuel policy: Implemented in part of Peninsular Malaysia since late 2011, mandatory biodiesel blending (at B5 level) is expected to be applied nationwide from January 2013. Nation-wide B5-adoption is estimated to require around 500 000 tons of palm oil annually. Reportedly, the government is also engaged in consultations with relevant parties regarding the future shift to B10.
- Replanting policy: Reportedly, the government is considering to renew its support programme for oil palm growers that replant old/unproductive trees. While the ultimate objective would be to raise productivity levels, the envisaged measures would slow down growth in domestic palm oil output during an initial period of 4-5 years. The plan would concern about 100 000 ha, with a corresponding annual oil output of approximately 300 000 tons. According to industry experts, due to the fact that financial incentives would continue to be reserved for independent smallholders the national age profile of trees would still remain well below optimum levels *(see MPPU no. 35, May'12)*.

MEXICO – edible oil import duties: The country's tariffs on numerous crude and refined vegetable/animal oils and fats have been lowered (and in some cases reduced to zero), reflecting government efforts to reign in domestic food price inflation. Mexico depends heavily on imports of vegetable oil and consumers are said to have been strongly affected by the recent hikes in world market prices. The envisaged duty cut could have the side-effect of curtailing margins in domestic crushing and refining operations, while traders are likely to raise their oil/meal imports at the expense of oilseed purchases.

NEW ZEALAND – biodiesel production support: A government programme launched in 2009 to encourage investment into national biodiesel production – comprising a subsidy on the sale of domestically produced biodiesel – has expired without being renewed. Due to limited industry investments, take-up of the subsidy is reported to have been slow. According to market observers, investors expected more support as well as long-term assurances from the government. As to mandatory blending, the government stopped such requirement back in 2008. To date, much of the country's demand for biodiesel has been covered by imports.

PHILIPPINES – biofuel policy: While the country's Department of Energy is committed to raise the mandatory blending rate for (primarily coconut oil-based) biodiesel from the current B2 level to B5 in 2015, the biodiesel industry would like to see the shift implemented already next year. According to industry representatives, the sector is ready to produce the corresponding annual requirement of about 310 000 tons of biodiesel. Moreover, the country's current supply of coconut oil – around 2.1 million tons per year – would still be sufficient to cater for all types of export demand. Finally, ramping up domestic biodiesel consumption is said to be unproblematic because the gradual appreciation in petroleum prices combined with gradually falling coconut oil values have led to a situation where biodiesel can be sold cheaper than mineral oil diesel. From the government's perspective, however, any biodiesel expansion plan needs to remain compatible with its policy to boost the exportation of high value-added coconut products, including fresh coconut water, virgin coconut oil, coconut sap sugar and several others.

SERBIA – export limitation: In order to prevent domestic supply shortages in the wake of the country's recent poor harvest, the government of the Republic of Serbia decided to introduce temporary export limitations for soybean and sunflower (as well as sugar-beet). To mitigate the impact of this year's drought, the government will also provide financial assistance to affected farmers. Apparently, concerned about possible negative repercussions on on-going market transactions, trade partners in the EU have asked that all outstanding contracts (i.e. those signed before any ban comes into effect) be fully honoured.

UKRAINE / CHINA – government-initiated loan-for-crop deals: The government of Ukraine may soon enter the Chinese import market for soybeans and rapeseed via unusual loan-for-crops contracts. Reportedly, the two countries recently signed a such contract for maize, whereby China agreed to provide loans to the Ukraine in exchange for supplies of maize at a set price. Apparently, the Ukraine intends to use the Chinese credit lines for purchasing agriculture technologies, herbicides and pesticides from China. Reportedly, China has made used of similar schemes in recent years to secure energy supplies.

UNITED STATES – agricultural policy: The *US Farm Bill* – in place since 2008 – expired in September without agreement on a new 5-year law being reached between the two chambers of Congress. The immediate consequences of the bill's expiration are said to be limited because the bill's two largest and most crucial components – the provision for subsidized crop insurance and the food stamp programme – will remain in effect thanks to their status as permanent legislations. In addition, most commodity-specific measures are set to remain in place until the end of the 2012/13 crop year. However, direct subsidy payments to farmers should come to an end as a result of the bill's expiration, along with public funding for research and environmental programmes and various export promotion schemes. Disagreement between the two arms of Congress focused on commodity-specific spending: while the Lower House favoured setting minimum prices for key commodities over five years, the Senate wanted prices used for crop insurance schemes to adjust annually. Furthermore, the House proposed deeper spending cuts in nutritional programmes.

UNITED STATES – biofuel developments

- Policy: The Environmental Protection Agency (EPA) decided to raise the amount of bio-based diesel required to be included in fuel markets in 2013 to 4.28 million tons, which compares to a mandatory consumption target of 3.34 million tons in 2012. The term 'bio-based diesel products' refers to biofuels derived primarily from vegetable oils, animal fats and waste oils (also considered as 'advanced biofuels'). Considering the prospective slowdown in soybean oil production and supplies during the 2012/13 marketing season, market observers believe that the higher biodiesel target could raise the country's import requirements, notably of palm and rapeseed oil.
- Research: Research on alternative biofuels that would not impact food supply is set to benefit from new public grant money in the United States. Reportedly, research will focus on non-food feedstock grown on unused or underutilized agricultural land – for example marginal floodplains along the Missouri and Mississippi rivers.

- Aviation fuel: Reportedly, USDA has joined forced with stakeholders in the aviation sector to promote the production of renewable jet fuels for both commercial and military applications. Apparently, efforts will be directed towards refining soybean oil-based jet fuel.
- Palm oil-based biodiesel: Since EPA determined, in January this year, that palm oil-based fuel does not meet the 20% lifecycle GHG reduction threshold needed to qualify as renewable fuel under the US bio-energy policy *(see MPPU no. 31 Jan.'12)*, Indonesia's palm oil industry has submitted new analyses claiming emission reduction rates between 40 and 60%. To review the matter and undertake field visits together with Indonesian counterparts, EPA accepted to send a delegation to the world's leading palm oil producing country.

Biofuel sustainability certification: Over the last few years, the ability of biodiesel suppliers to provide a certificate of sustainability has become critical for customers given that, in an increasing number of countries, only certified products qualify for the various national blending mandates or tax exemptions. Sustainability certification is thus bound to become an industry standard for the world biofuel market. In the EU, one of the world's largest biofuel markets, member states are required to have relevant legislation in place since December 2010. EU biofuel producers have the choice to follow either national standards (in which case their product can only be sold in the domestic market) or one of the voluntary, internationally recognized schemes. In July 2011, the EU approved a first batch of seven such voluntary certification schemes *(see MPPU no. 27, Aug.'11)*. Meanwhile, the number of approved schemes has risen to eleven. According to industry sources, the multitude of schemes available is causing confusion and additional costs for all parties concerned. Hence the call to promote the development of a single, truly international ISO scheme. In this regard, the need to take into account the complexities of direct and indirect land use changes as well as locally diverse social dimensions poses major challenges. In general, biofuel sustainability policies, certification schemes and traceability methods used by individual companies still seem to be in their infancy. Over the coming years, continuous improvement in sustainability assessment methods, regulatory schemes and certification practices will be needed.

GMO issues

- Trade in new GM soybean: Chinese authorities have not yet approved the importation for direct human consumption (as opposed to feed and oil applications) of *Monsanto's* second generation GM soy variety named *Intacta RR2 (see MPPU no. 39, Sep.'12)*. As a result, a large grain producers' association in Brazil – one of China's main supplying countries – has invited farmers to refrain from using the new seed material so as to avoid accidental contamination of shipments of approved soy products, which would put Brazil's exports to China at risk of being refused – as has happened back in 2004.
- EU-wide versus national GM rules: In recent years, a number of EU member states claimed the right to ban GM cultivation on their own territories, irrespective of whether or not cultivation of a given GM crop had gained approval at EU-level. Last September, the European Court of Justice has confirmed its position on this matter: additional national authorization procedures – introduced on top of the existing approval process managed by the European Food Safety Authority – are considered illegitimate. The right of farmers to cultivate EU-vetted GM crops has to be respected and growing of GM plants cannot be subject to mandatory coexistence measures.

Enforcement of environmental regulations

- Malaysia: Reportedly, over the last two years, a number of oil palm mills in Sabah State have been brought to court by the Department of Environment for violations under the Environmental Quality Act, notably the discharge of effluents above permissible levels, leaking retention ponds and ground seepage.

Furthermore, several mills have been ordered to upgrade their pollution control mechanisms. Officials have underlined that, to discharge its control functions, the ministry needs the concerted effort of the Federal and State governments, local authorities, industry players and the public.

- Indonesia: Reportedly, an oil palm company in Sumatra was discovered clearing protected carbon-rich peatland based on an illegal logging permit. Following intense campaigning by environmental groups, the permit has been revoked by court order. Apparently, the license had been issued after the country implemented a two-year moratorium on logging peatland and other high conservation-value forests *(see MPPU no. 27, Aug.'11).*

Regulation of commodity derivative markets: In the United States and the EU, policy makers continued discussing about possible means to control excessive speculation in commodity trading, notably by imposing restrictions on traders of futures, options and their derivatives, with particular attention being given to food-related commodities. The US futures trading regulator and the EU parliament have both backed the introduction of position limits that determine maximum net positions traders can hold or enter into over specified periods of time. The initiatives attracted criticism from the traders community, which argued that arbitrary position limits would reduce liquidity and prevent companies from hedging accurately. In general, the debate about the best means – and the actual benefits – of controlling speculation remains controversial and, as a result, reaching consensus among policy makers is likely to prove difficult.

Certified sustainable palm oil: A global commodity processing and trading company informed that it is aiming at 100 percent certified palm oil production in new plantations it is setting up in Gabon. Reportedly, high conservation-value studies, forest inventory and engagement with local communities have been included in the company's planting operations.

South-South cooperation – groundnut: Reportedly, India and Argentina decided to join forces to develop groundnut farming, trade and related aspects. The *Indian Oilseeds and Produce Export Promotion Council* and the *Argentina Peanuts Chamber* have signed a MoU to this effect. India is keen to improve its average yield levels and its export strategy, two areas where Argentina has made important strides.

Biofuel made from algae: According to the *US National Research Council* (which belongs to a group of private, non-profit institutions advising the US government), currently algae-based fuel cannot be produced on a large scale without employing unsustainable amounts of energy, water and fertilizer. While outlining the need for continued R&D work to make algal biofuel sustainable and cost-competitive, the Council's study also highlights the fuel's long-term potential, noting that future innovations and increased production efficiencies could enhance the fuel's viability. In recent years, the US Department of Energy has supported a number of projects to develop algal fuels, and growing amounts of such fuel have been used for test purposes by both the US military and producers of commercial jet fuel worldwide.

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	International Prices *(US$ per tonne)*					FAO Indices *(2002-2004=100)*		
	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	549	1308	1147	418	279	215	256	221
2011/12	562	1235	1051	461	295	214	232	224
Monthly								
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
2012 - June	570	1187	996	503	315	215	221	246
2012 - July	660	1234	1010	584	353	244	226	273
2012 - August	682	1254	994	619	365	252	226	285
2012 -September	669	1276	960	604	374	250	225	279
2012 -October	617	1183	844	555	359	233	206	262

[1] Soybeans (US, No.2 yellow , c.i.f. Rotterdam)
[2] Soybean oil (Dutch, f.o.b. ex-mill)
[3] Palm oil (Crude, c.i.f. North West Europe)
[4] Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)
[5] Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

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.
Sources: FAO and Oil World