

OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 88, November 2016

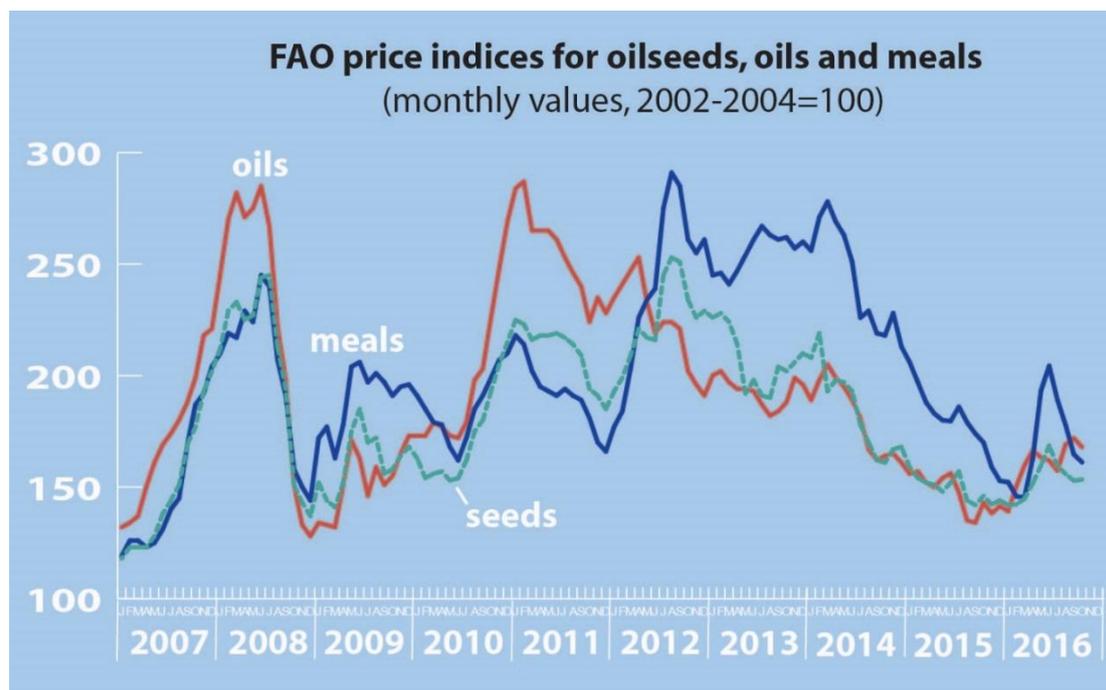
a) Global price review

In October, FAO's price index for oilseeds remained virtually unchanged, inching up 0.5 points (or 0.3 percent) compared to September 2016. By contrast, the indices for vegetable oils and oilmeals both dropped by about 4 points (or 2 percent).

The oilseed index' steady level primarily reflects stable soybean values, with October prices for soybean averaging at around the same level as in September 2016. During October, on one hand, the prospect of a record large global soybean harvest in 2016/17 – possibly exceeding 333 million tonnes – continued to weigh on soybean prices. In the United States, yield estimates have again been revised upward, driving production forecasts nearly 10 million above last season's

level. Forecasts for South America also improved, especially in Brazil, where the pace of plantings is well above last year's, but also in Argentina, notwithstanding a relatively slow start in sowings. On the other hand, however, soybean prices received support from persistently firm buying interest, in particular from China – at a time of the season when the United States serve as the world's sole supplier. Meanwhile, prices for rapeseed, the second most important component in FAO's oilseed index, appreciated by about 3 percent, underpinned by poor harvest progress in Canada and tight availabilities in the EU. Moreover, global 2016/17 rapeseed output is heading for a third consecutive reduction, marking a 4-year low. Sunflower seed quotations also increased somewhat, mainly reflecting lower than earlier anticipated global supplies in 2016/17.

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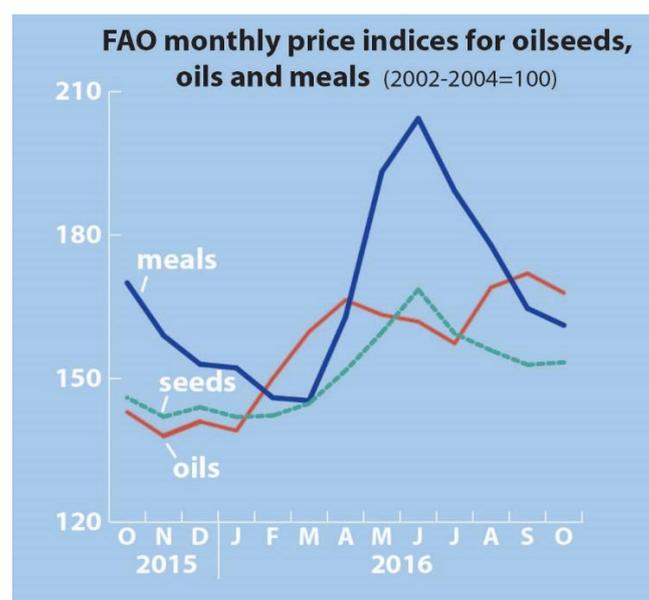
* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of official and unofficial sources. Section b) of the present issue covers developments observed during **September and October '16**. 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 oilmeal index lost strength for the fourth consecutive month. Soymeal has been the dominant player behind the drop in the index in October. International soymeal values continued to weaken, reaching a 6-month low, driven by current and prospective ample availabilities. Market participants expect global supplies to increase further in the coming months as beans continue to be crushed for oil in order to compensate for depressed global output of other vegetable oils – thereby leading to an accumulation in global soymeal stocks.

Regarding vegetable oils, FAO's price index dropped month-on-month but still fares well above its year-earlier level. The October decline occurred mainly on account of lower tropical oil values, under the lead of palm oil, whose prices dropped by 3.3 percent compared to their September level. On the other hand, quotations for soy, rape and sunflower oil firmed on unusually strong demand for these products, thus preventing a more pronounced fall in FAO's index. The drop in international palm oil quotations resulted

mainly from seasonal production gains in Southeast Asia, which coincided with sluggish global import demand and, consequently, rising inventory levels in major producing countries, especially Malaysia. Interestingly, towards the end of October, palm oil prices firmed again on concerns that the production recovery in Southeast Asia might take longer than earlier anticipated.



b) Selected policy developments and industry news

ARGENTINA – export policy: The Government of Argentine decided to postpone a planned reduction of soybean export taxes to 2018. The cut had been scheduled for end 2016 or early 2017 (see *MPPU Dec '15 & Feb '16*). Now, the export tax will be reduced – starting in January 2018 – by 0.5 percentage points each month until December 2019. Accordingly, by end 2019, soybean exports will be taxed at 18 percent – compared to the current rate of 30 percent. In the meantime, however, soybean producers in the country's isolated, northern region will enjoy a tax benefit – as a compensation for higher transportation costs. From March 2017 onward, soy growers in the country's 10 northern provinces (which lie outside the country's main

soybean belt) will be provided with an export tax refund equivalent to 5 percent of the free-on-board soybean price.

CANADA / CHINA – rapeseed trade:

Government officials from Canada and China signed a MOU to facilitate smooth importation of Canadian rapeseed into China, thus ending years-long negotiations over phytosanitary measures to prevent the spreading of blackleg disease from Canada into China (see *MPPU Dec '09 & Sep '16*). By allowing rapeseed exports to continue under the existing conditions, the agreement provides for stable and predictable trade flows. At the same time, both countries committed to continue their collaborative scientific work on appropriate risk mitigation measures.

CHINA – agricultural policy: As a means to curb domestic maize supplies, farmers in China’s main grain exporting province Heilongjiang will receive subsidies of CNY 150/mu (USD 330/ha) for rotating maize crops with soybean. Together with the nation-wide soybean support payment of CNY 4 800 per tonne (USD 705) that is provided since 2014, the measure is likely to significantly stimulate soybean plantings in Heilongjiang next year, thus supporting government efforts to manage the country’s oversupply of maize. Under the provincial programme, which will be implemented on a trial basis over the next 3–5 years, an estimated 0.43 million ha of former maize area are expected to benefit from subsidies, which should translate into a 16 percent expansion in Heilongjiang’s soy area. The government also confirmed its national production targets for the main oilseed crops in the year 2020: 18.9 million tonnes for soybeans, 16.2 million tonnes for rapeseed, and 18.7 million tonnes for groundnut – which compares to output levels of, respectively, 11.6 million, 14.9 million, and 16.4 million tonnes in 2015 (*see also MPPU June ’16*). The figures confirm that the strongest growth is envisaged for soybeans, based on an expansion in plantings at the expense of maize.

CHINA – sales from state reserves: According to unofficial sources, soybeans sales from state reserves through weekly auctions have been suspended in October to facilitate marketing of the new 2016/17 crop. Reportedly, as of 23 September, a total of 1.57 million tonnes of soybeans was sold. Regarding rapeseed oil, state auctions were suspended back in June 2016 (with sales totaling 2.28 million tonnes between December 2015 and June 2016), but resumed last October. Reportedly, as of 19 October, 200 000 tonnes of rapeseed oil have been sold via auctions.

EUROPEAN UNION – anti-dumping duties on veg. oil-based biodiesel

- **WTO ruling:** The WTO Appellate Body upheld an earlier panel’s mixed ruling regarding the anti-dumping duties imposed by the EU on biodiesel imports from Argentina, recommending to bring the disputed trade measure into conformity with WTO rules. The previous panel had found that certain aspects of the EU’s investigation into Argentine biodiesel production were in breach of WTO rules (*see MPPU Apr ’16*). Following the formal adoption

of the Appellate Body’s report on 26 October, the EU has 30 days to inform the WTO how it intends to achieve compliance. A separate case filed by Indonesia concerning analogous duties charged on biodiesel imports from that country is still under examination at the WTO (*see MPPU Dec ’15*).

- **EU Court of Justice ruling:** On 15 September, in a parallel domestic proceeding based on cases filed by individual Argentine and Indonesian biodiesel producers, the EU’s General Court ruled that the anti-dumping duties imposed on biodiesel imports from Argentina and Indonesia infringe basic regulations and should be annulled. Similar to the WTO case, the EU judges found that the European Commission’s calculations of the costs of biodiesel production in Argentina and Indonesia were based on incorrect considerations. The European Commission and the EU’s biodiesel industry have two months to file an appeal to the European Court of Justice.

INDIA – coconut procurement: The state government of Karnataka has set up procurement centers for coconut to assist farmers faced with severe price downfalls. Reportedly, coconuts will be procured at INR 1 600 per quintal (USD 240 per tonne) in six districts across the state.

INDIA – market policies

- **Import duties:** As part of efforts to check food price inflation, the Government of India decided to lower the import duties on crude palm oil and refined edible oils by 5 percentage points to, respectively, 7.5 percent and 15 percent. Reportedly, the lower duties will remain in place until end February 2017. Market observers pointed out that the temporary reduction in duties could harm the commercialization of the country’s bumper 2016/17 oilcrop harvest.
- **Stock-holding regulations:** Federal provisions limiting the amount of edible oil and oilseed stocks that private traders are allowed to hold have been extended for another year until September 2017 (*see also MPPU Oct ’15*). The provision is aimed at preventing hoarding and unscrupulous trading which has led to upward spirals in food prices in the past.

INDONESIA – market regulation:

The Government of Indonesia has revised the reference prices for basic food items, including soybeans. The soybean farm gate floor price

intended to protect farmers against sharp price drops has been raised to IDR 8 500 per kg (or USD 648 per tonne), while the price ceiling meant to protect consumer from price surges has been set at IDR 9 200 per kg (USD 701 per tonne). The price limits will be reviewed every four months.

MALAYSIA – biodiesel policy: After several postponements, the planned shift to higher biodiesel mandates could take place on 1 December 2016, according to unofficial sources (*see also MPPU Aug '16*). The transportation sector would shift from mandatory consumption of B7 blends (i.e. diesel containing 7 percent of palm oil-based biodiesel) to B10 blends, starting with the state of Johor. At the same time, the industrial sector would be expected to move to B7 blends nation-wide.

PERU – biodiesel anti-dumping duties:

The Peruvian Government has announced the replacement of provisional anti-dumping duties imposed last February on biodiesel imports from Argentina (*see MPPU Mar '16*) with definite ones. The duties, which are set to remain in place for five years, will be charged at variable rates (ranging from USD 122 to USD 192 per tonne), depending on the biodiesel manufacturer in Argentina. The measure is meant to shield biodiesel production in Peru from allegedly unfair competition by Argentine producers. Argentina is the main supplier of biodiesel to Peru, where consumption of B5 blends (i.e. transportation diesel containing 5 percent of biodiesel) became mandatory in 2011.

SRI LANKA – import policy: The special commodity levy charged on imported vegetable oils to protect domestic oilseed producers and oil processors has been raised by LKR 20/kg in June 2016 (*see also MPPU Aug. '16*). The new levies for crude and refined oil are, respectively, LKR 150/kg (USD 1.02) and LKR 170/kg (USD 1.15).

TURKEY – import policy: In September 2016, Turkey raised its import duties on safflower seed and sunflower oil to prevent lower import prices from hurting domestic producers and crushers. The tariff rates for safflowerseed, crude sunflower oil and refined sunflower oil have been set at, respectively, 23.4 percent, 36 percent and 67.5 percent – compared to, previously, 4 percent, 12 percent and 50 percent.

UNITED STATES – agricultural policy:

The USDA informed that many of the 1.7 million farms that enrolled in either the Agriculture Risk Coverage (ARC) or Price Loss Coverage (PLC) programmes introduced in 2014 (*see MPPU Feb '14*) will receive safety-net payments due to market downturns during the 2015 crop year. USDA expects to make more than USD 7 billion in payments to compensate farmers for decreases in revenues or crop prices, which amounts to over 10 percent of the projected 2016 net farm income. For comparison, in 2015, payments under the two programmes totaled USD 5.2 billion. In both years, a high percentage of growers of soybeans, groundnut and other oilseeds have participated in the concerned risk management programmes.

UNITED STATES – biofuel policy: A United States district court has ruled that biodiesel blending mandates applied in the state of Minnesota since 2005 do not conflict with the federal Renewable Fuel Standard (RFS), and that the RFS therefore does not preempt Minnesota's mandates. Under Minnesota state law, diesel fuel sold within the state is required to contain a specific percentage of biodiesel (currently 10 percent, with a transition to 20 percent scheduled for 2018 – *see MPPU June '14*). The plaintiffs – oil, gas, trucking, auto manufacturer and auto dealership trade associations – had argued that Minnesota's per-gallon blending requirements, geographical blending obligations and timing restrictions are not compatible with the national RFS. Minnesota was the first state to pass a biodiesel blending law, but other US states have subsequently followed suit.

Variable palm oil export tax – Indonesia, Malaysia: Indonesia raised its tax on crude palm oil exports for October to USD 3 per tonne (compared to the zero USD rate in place since July 2016), but lowered it again to zero USD for November, in line with movements in the calculated reference price. In Malaysia, the export tax was raised from 5 percent to 6.5 percent for October, but was left unchanged for November – despite a small drop in the relevant benchmark price. Related to this matter, last September, Malaysian government officials proposed to harmonize the two countries' export taxes, in a bid to reduce competition between the world's two leading suppliers for global market share.

Sector development measures

- **Fiji – coconut:** The Government of Fiji has set aside funds for the rehabilitation of the country's coconut industry, following the damage inflicted by cyclone Winston earlier this year. The funds will be used to source coconut seeds and raise seedlings from areas not affected by the hurricane. As a complementary measure, the government has raised the price of copra from USD 780 to USD 1 000 per tonne. Furthermore, small-scale producers will receive financial assistance for purchasing equipment to produce virgin coconut oil.
- **Pacific region – coconut:** A regional initiative aimed at (i) improving the competitiveness of small producers in the Pacific coconut industry, (ii) enhancing regional policy integration, (iii) strengthening links in local value chains, and (iv) supporting capacity building has been launched by the Pacific Community (SPC) together with the European Union. Reportedly, the three-year, 3.5 million Euro (USD 3.8 million) project, will start with the implementation of pilot projects in Samoa and Vanuatu. Under the initiative, training and awareness programmes will be developed, along with a manual on risk management and mitigation tools for farmers, processors and other stakeholders.

Non-GM and organic vegetable oil:

Contending with shifting consumer preferences, multinational grain trading firms are stepping up efforts to offer food ingredients perceived as more natural. Recently, one company started offering on a commercial scale high-oleic sunflower oil certified as not genetically modified, while another company decided to add verified organic soybean oil to its existing range of certified non-GM soy and rapeseed oil. While helping their customers meet increasing demand for non-GM and organic products, the companies are seizing value-added opportunities presented by specialty supply chains.

Olive tree – disease control: The United Nations Food and Agriculture Organization has launched a technical cooperation programme aimed at preventing the spread of *xylella fastidiosa* – a bacterial disease blamed for devastating olive trees in Southern Italy (*see MPPU Aug/Dec '15*) – to North Africa and the Middle East. Tasked to improve the technical capacity of local institutions and farmers, the project includes early detection, monitoring, diagnostic and phytosanitary activities.

Glyphosate: The United States Environmental Protection Agency (EPA) proposed to classify glyphosate, a widely used and increasingly controversial herbicide, as 'not likely to be carcinogenic to humans at doses relevant for human health risk assessment'. The EPA's position is scheduled for review, along with other material, by a federal scientific advisory panel in December 2016, after which a final assessment may be published. Recently, doubts about the herbicide's effectiveness and about potential environmental / health hazards associated with its use have emerged in several countries (*see MPPU Feb '14, Apr/May/Dec '15 and Mar/Jul '16*).

Futures Markets: The CME Group informed that, from 1 November 2016, the maximum daily price change permitted on soybean contracts at CBOT is 70 US cents per bushel – up 5 US cents from the limit in place since April 2016. The new limit will remain in effect until May 2017.

Palm oil – sustainable production and certification

- **Ecuador:** In Ecuador, where close to 90 percent of palm oil is sourced from smallholders, the Government is working on a jurisdictional approach for sustainable palm oil production, according to RSPO (Roundtable on Sustainable Palm Oil), the world's principal body for sustainability certification. Set to promote inclusive certification methods for smallholders, the initiative will build on close collaboration between local stakeholders and provincial governments to curb the use of environmentally harmful practices while also improving the welfare of small-scale producers. In close collaboration with key stakeholders such as palm oil companies, NGOs and UN-REDD (the United Nations Collaborative Scheme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries), pilot programmes relying on RSPO principles and criteria have been launched. Workshops will be held to introduce the concept of sustainability to smallholders and to improve capacity building. Comparable initiatives are already underway in selected regions of Malaysia and Indonesia.
- **Gabon:** A southeast Asian agri-business firm reported advancements in its African palm oil operations. According to the company, its new palm plantation in Gabon has gained RSPO *New Planting*

Procedure verification, while a working plantation and mill have achieved full RSPO certification. Reportedly, the company acquired the land for its plantations on leaseholds from the Government of Gabon, complying with the *Free Prior and Informed Consent* process and including the development of social management plans. Furthermore, in line with RSPO guidelines, two thirds of the acquired land has been set aside for conservation of biodiversity and forest carbon and for the protection of water catchments, said the company.

- **India:** The Indian Solvent Extractors Association, the country's principal vegetable oil trade group, has joined forces with an international NGO and national research institutions to develop a country-specific sustainability framework for palm oil production. While drawing on the experiences of Malaysia and Indonesia, the new standard would be tailored to the country's ecologic, economic and social conditions. The initiative will focus on the formulation of best-practices norms on production for Indian growers. Currently, the country imports around 9 million tonnes of palm oil each year, while annual domestic palm oil output stands at 200 thousand tonnes. Considerable expansion possibilities are said to exist in India's southern and north-eastern states (*see also MPPU June '16*).

- **Organic & fair trade palm oil supply chain:** A group of private companies has launched *Palm Done Right*, an international awareness campaign aimed at promoting sustainable forms of palm oil production via education programmes that engage industry players, consumers, the media and other stakeholders. Members have subscribed to, inter alia, (i) organic palm oil production, including natural pest management, multi-cropping and composting methods; (ii) establishing plantations only on existing crop land or degraded

land; (iii) guaranteeing fair trade premiums to growers; (iv) employing low-impact techniques for refining palm oil; and (v) traceability of palm oil throughout the entire supply chain. At the moment, the mostly US- and EU-oriented supply chain relies on small quantities sourced in Ecuador, Sierra Leone and Ghana.

Trans fat-free edible oil processing: Trans fatty acids develop when vegetable oils are hydrogenized to increase their stability. As trans fats are known to be hazardous to human health, numerous countries have regulated their presence in food chains (*see MPPU Dec '09, June '13, July/Sep '15, and Feb '16*). According to industry sources, a trans fat-free oil processing technique has now been developed and is ready to be used by a global agribusiness and food company. The new technology, which is based on enzymatic interesterification, is described as a healthy and more efficient alternative to partial hydrogenation. Allegedly, the new method produces zero trans fatty acids, requires fewer processing steps and occurs naturally at a lower, energy saving temperature – while also enhancing the stability of edible oils.

Fortified edible oil – India: After Gujarat, also Rajasthan has accomplished full voluntary fortification of edible oils, state government officials informed. Reportedly, throughout the state territory, only oil fortified with Vitamin A and D is being sold. Fortification is seen as significant step in the fight against malnutrition, especially among the rural population.

*For comments or queries
please use the following Email contact:
Peter.Thoenes@fao.org*

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	<u>International Prices (US\$ per tonne) ¹</u>					<u>FAO Indices (2002-2004=100) ⁷</u>		
	Soybeans ²	Soybean oil ³	Palm Oil ⁴	Soybean Cake ⁵	Rapeseed Meal ⁶	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
2013/14	521	949	867	534	324	194	189	253
2014/15	407	777	658	406	270	155	153	194
2015/16	396	773	655	351	232	151	155	168
Monthly								
2015 - January	421	789	681	431	279	159	156	206
2015 - February	407	775	693	412	273	154	157	197
2015 - March	402	748	673	392	262	152	152	188
2015 - April	396	753	657	380	263	151	150	183
2015 - May	385	781	663	371	290	148	154	180
2015 - June	397	800	670	372	282	152	156	180
2015 - July	413	746	635	389	264	157	148	186
2015 - August	375	729	544	371	270	144	135	179
2015 - September	367	725	533	362	256	142	134	174
2015 - October	377	743	581	351	255	146	143	170
2015 - November	367	726	561	328	232	142	138	159
2015 - December	372	757	568	317	215	144	142	153
2016 - January	368	722	564	316	217	142	139	152
2016 - February	370	762	639	303	203	142	150	146
2016 - March	379	761	694	301	219	145	160	145
2016 - April	398	797	723	339	242	152	166	163
2016 - May	425	790	708	406	261	160	163	193
2016 - June	455	797	679	430	259	169	162	204
2016 - July	429	790	652	400	234	159	157	189
2016 - August	414	812	736	375	228	156	169	178
2016 - September	403	825	755	344	219	153	172	165
2016 - October	404	853	712	340	219	153	168	161

¹ Spot prices for nearest forward shipment

² Soybeans (US, No2 yellow, c.i.f. Rotterdam)

³ Soybean oil (Dutch, f.o.b. ex-mill)

⁴ Palm oil (Crude, c.i.f. North West Europe)

⁵ Soybean meal (44/45% Hamburg fob ex-mill)

⁶ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

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.

Sources: FAO and Oil World