



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

No. 29, October 2011

### a) Global price review

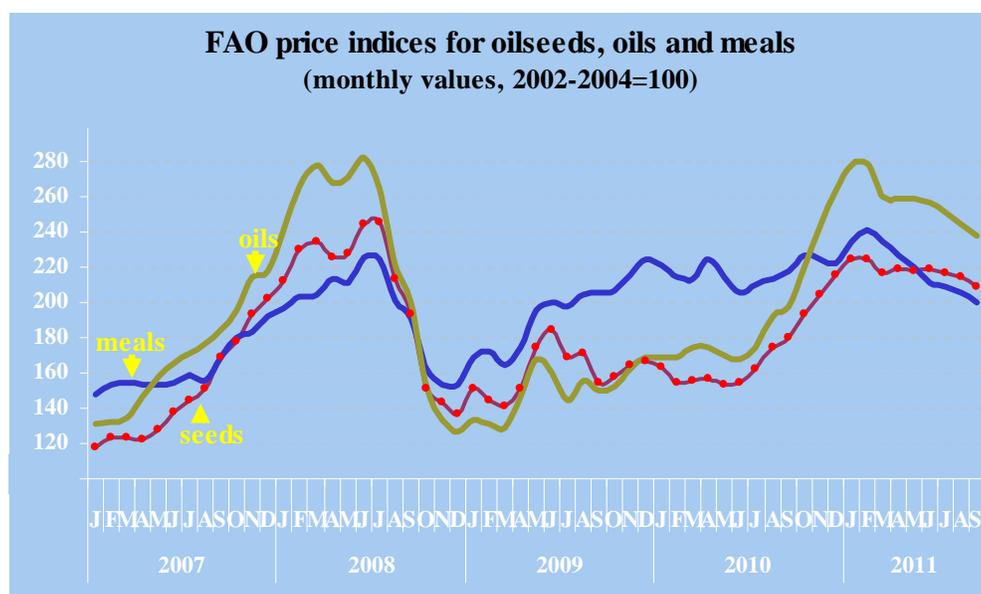
In September, the FAO price indices for oilseeds, oils/fats and meals all fell by another 2-3 percent compared to the previous month, thus continuing to follow the downward trend that started last March - although still remaining high in historical terms.

In general, the contraction in prices reflects seasonal supply pressure as harvests are now in full swing in northern hemisphere countries. Exceptionally good sunflower seed harvests in the Black Sea region are particularly noteworthy. In the case of soybean, output in the United States is anticipated to fall from last year. However, larger than anticipated stocks in Brazil and Argentina, the absence of fresh export demand and improved weather during the on-going US harvest have prevented prices from rising. A number of external developments also weighed on prices:

weakness in feed grain prices eventually spilled over to the soy market; depreciation of South American currencies has driven up soy and soy product sales from that region; and growing fears of another global economic recession had a depressing effect on markets.

The further fall in the oils/fats index primarily reflects good output and comfortable stock levels of palm oil in South East Asia amid weak export demand. Rising export supplies of sunflower oil following the record harvests around the Black Sea and falling mineral oil prices also weighed on the index.

With respect to meals, soybean quotations closely followed the path of soybeans and feed grain prices, in particular maize. Moreover, ample production and export supplies of fishmeal continued to weigh on the global meal price index.



\* The **Monthly Price and Policy Update**, or MPPU, is a new 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 **September 2011**. 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/>

## b) Selected policy developments and industry news

### **AUSTRALIA - draft palm oil labelling bill**

(see also MPPU no. 25&27, May& Aug. 2011): Reportedly, although the concerned Parliament committee recommended not to pass the draft bill on labelling standards for food products that contain palm oil, the Senate opted to go ahead, submitting the bill to the House of Representatives. Meanwhile the bill has also been expanded to apply to any food as well as non-food product containing palm oil or its sub-products. Malaysia's industry (which provides virtually all of Australia's palm oil) responded with a second appeal to the Parliament explaining that the draft law was based on misleading claims and the bill presented an indirect trade barrier violating international trade rules.

### **BRAZIL - domestic soybean transportation:**

Future expansion of soybean cultivation in the state of Mato Grosso, the country's leading growth area, will strongly depend on the ability to reduce transportation costs (and on continued conversion of pasture land combined with greater use of feedlots). Estimated at around USD 110-120 per tonne, the current cost of shipping soybeans - mostly by road - from Mato Grosso to the major ports located in the South of the country accounts for up to 25% of the product's value, compared to less than 10 % on average in the United States. That burden can only be reduced by improving the country's waterways and railroad network. In this regard, the Ferronorte railroad project is expected to bring about major gains as it will link Cuiabà, Mato Grosso's capital, to the southern state of São Paulo. Under construction since 1992, the railway is expected to reach Rondonópolis (200 km

before Cuiabà) in 2012. For the medium and longer term, further extensions towards the North and Northwest are also planned so as to link Mato Grosso to ports located in the Amazon River bay.

**CHINA - state soybean reserves:** Private sources expect major sales of soybeans from state reserves over the next few months as the government is keen to free storage space for bean purchases from the new crop and for expanding edible oil reserves. Public soybean reserves are unofficially estimated to have swollen to close to 5 million tonnes. Reportedly, to stimulate purchases, processors will be offered subsidies to crush soybeans, with the oil going back into state reserves, while the meal will be sold on the market.

### **EUROPEAN UNION - sustainable biofuel production:**

Earlier expected for end 2011, the release by the European Commission of guidelines on the influence of indirect land use changes (ILUC) on carbon savings in biofuel production and utilization seems to have been postponed by 6 or 7 more years because scientific uncertainties persist. The ILUC concept attempts to measure the effects of local production of a particular biofuel feedstock on global food crop production and GHG emission levels. Reportedly, the idea is to delay feedstock specific rules on ILUC in favour of an indirect approach that will affect all biofuel crops equally, namely an increase in the emission savings threshold that all biofuels must meet in order to count towards the bloc's bioenergy targets (thereby gaining access to various preferential treatments). Originally set at 35% (emission savings compared to fossil fuel) from 2013 and 50% after 2017, the 2013 threshold could be revised upward to 45-50%. While providing some relief to the EU biofuel industry, the new policy would be meant to help phase out the worst

performing biofuels and prevent further investments in biofuel production systems with low levels of sustainability.

**EUROPEAN UNION - olive oil storage**

**aid:** Olive oil prices in the EU have dropped below the threshold that triggers support payments for private storage. Hence, the Commission decided to grant assistance for a total of 100 000 tonnes, with storage time limited to six months. The measure is meant to help the sector address short term marketing problems, without affecting the market at the start of the new (2012/13) season.

**INDIA - import duty on refined palm**

**oil:** In response to Indonesia's restructured export tax (which is expected to boost the nation's shipment of refined oil possibly making it unprofitable for importing countries to buy crude palm oil for local processing), India's processing industry is urging policy makers to raise the country's import duty on refined palm oil from currently 7.5% to at least 15%. At present, close to 80% of the country's edible oil requirements are covered by imports of crude palm oil, which subsequently gets refined locally. However, at the current tariff levels and with reduced prices for processed products coming from Indonesia, India's imports of refined palm oil are likely to rise sharply, thus hurting the country's refining industry. Already, the country's annual refining capacity is currently estimated to be utilized to only 60%. Reportedly, the country's Food Ministry is backing the industry's request and has taken up the matter with the Finance Ministry.

**INDIA - oilmeal export policy:** In the past, the domestic market for animal feed offered limited opportunities for local producers of oilmeal. As a result, export opportunities were explored and recently the country succeeded in becoming a reliable and competitive supplier of

oilmeals to the Asian market. Temporary policy measures introduced to facilitate meal exportation contributed to this development. Now foreign sales have risen to a point where, concerned about shortages on the domestic feed market, the country's dairy and poultry industry is calling for policy measures to check exports of locally produced oilmeals. Although the country's Food Ministry seems to rule out industry calls for a ban on oilmeal exports, it is said to support a proposal to double the export tax on oilmeals, which currently stands at 10%.

**INDIA - overseas farm land acquisition:**

According to unofficial sources the government is working on policies that will allow Indian agribusiness companies to buy land abroad for growing various crops, including oil palm. Reportedly, large tracts of uncultivated land, especially in Latin America and Africa, could be earmarked. Given India's rising population and related food security concerns, policy makers are looking into means to encourage outsourcing of domestic food production, recognizing that, in the longer term, securing food supplies alone via the introduction - at national level - of yield improving technologies and better irrigation facilities could prove challenging. Also the vulnerability of domestic agriculture to adverse weather conditions seems to be of concern.

**INDONESIA - palm oil export tax:** After its recent decision to modify the upper and lower limits for the export duty on crude and refined palm oil (driven by the objective to stimulate shipments of processed products), the government has decided to adjust the actual level of the tax for processed palm oil from 15% to 8%, while increasing the rate for crude oil from 15% to 16.5% - a tax structure that clearly favours shipments of refined products. The new rates will come into effect on 1<sup>st</sup> October.

**INDONESIA / PAKISTAN - palm oil trade:** The recently signed preferential trade agreement between the two countries is expected to restore Pakistan's imports of Indonesian palm oil to their traditional level. Over the last few years, purchases from Indonesia had shrunk in favour of imports from Malaysia, which in November 2007 sealed a free trade agreement with Pakistan. Under the new trade pact, Pakistan will cut its import duty on Indonesian crude and refined palm oil by 15%, thus granting the same treatment it applies to imports from Malaysia. The new agreement will come into force next January, after more than six years of negotiation. Reportedly, until 2007, Pakistan sourced 55% of its palm oil imports from Indonesia.

**MALAYSIA - oil palm seed cost:** Reportedly, the private industry is set to increase the price for germinated seed by 30% from January next year. Behind the rise are (i) heavy investments in past years into breeding for higher yields and (ii) rising production costs, due in particular to increases in minimum labour wages and foreign worker levies as well as higher fertilizer costs and electricity tariffs affecting production costs in plantations and processing plants.

**MALAYSIA - possible assistance to palm oil refiners:** Indonesia's recent restructuring of palm oil export taxes was bound to affect its main competitor in the export market, Malaysia. The country, which over the years succeeded in exporting most of its palm oil in refined form, is destined to see profits in the production and exportation of refined produce falling as a result of Indonesia's tax adjustment. Experts estimated the new price advantage enjoyed by Indonesian competitors at USD 70 to 130 per tonne of refined palm oil. As under current conditions reducing costs by such amounts may well be unattainable for Malaysian

refiners, the government seems to be under pressure to consider measures to support the industry. Industry experts listed the following options for possible government intervention, all aimed either at increasing domestic palm oil supplies or at lowering the domestic price for crude palm oil: (i) the gradual reduction (or abolition) of the existing tax-free export quota for crude palm oil; (ii) the reduction (or removal) of windfall taxes that were imposed on oil palm plantations in a period of rising profits; (iii) the introduction of tax rebates for the downstream industry; and (iv) setting domestic price ceilings for crude palm oil.

**MALAYSIA - conversion of palm oil mills** (see also *MPPU no. 27, Aug. 2011*): In Malaysia, the notion of converting conventional mills into "green" ones via the full exploitation of waste products will be the objective of a newly formed public-private partnership (between Sime Darby Foundation and Universiti Kebangsaan). The aim is to turn the waste products of the milling process (estimated at more than 80 million tonnes of biomass per year at country level) into bio-fertilizer, animal feed and bio-fuel for commercial use.

**UNITED STATES - rapeseed oil-based biofuel:** After determining last year that rapeseed oil-biodiesel meets the country's requirements for biomass-based diesel, the EPA has officially approved the use of Canadian rapeseed oil in US biodiesel production and consumption. The decision opens the US market to imports of biofuel feedstock or biofuel from Canada.

**UNITED STATES / EUROPEAN UNION - GHG footprint of soyoil-based biodiesel:** Reportedly, the US soy industry requested the European Commission to set the emission reduction value for soybean-based biodiesel produced in the United States at 58% (relative to fossil fuel) as opposed to the default value of 31%

currently applied to all soy-biodiesel consumed in the EU. The industry claims that the EU's lower value is based solely on Brazilian production and utilization data and therefore should not be used for biofuel produced in the US. The value is important because from 2013 the minimum emission saving required for all biodiesel consumed in the EU will be 35% (in order to count towards the EU's renewable energy targets). Although EU biodiesel

consumption relies strongly on EU-grown rapeseed, the bloc also consumes biodiesel derived from oilseeds grown overseas, such as soybean produced in the US, Brazil and Argentina.

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	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)</u>		
	Soybeans <sup>1</sup>	Soybean oil <sup>2</sup>	Palm Oil <sup>3</sup>	Soybean Cake <sup>4</sup>	Rapeseed Meal <sup>5</sup>	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
<b>Annual (Oct/Sep)</b>								
2003/04	322	632	488	257	178	121	116	114
2004/05	275	545	419	212	130	105	105	104
2005/06	259	572	451	202	130	100	125	107
2006/07	335	772	684	264	184	129	153	148
2007/08	549	1325	1050	445	296	217	202	243
2008/09	437	849	682	409	206	161	150	194
2009/10	429	924	806	388	220	162	173	215
<b>Monthly</b>								
2009 - October	427	891	676	413	187	158	152	207
2009 - November	442	939	728	422	196	164	162	216
2009 - December	448	931	791	425	219	167	169	224
2010 - January	435	919	793	407	243	163	169	221
2010 - February	406	915	804	393	230	154	169	214
2010 - March	410	920	832	381	200	156	175	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	170	214
2010 - June	408	860	794	342	194	154	168	206
2010 - July	426	911	811	361	225	162	174	211
2010 - August	457	1002	901	389	245	175	192	213
2010 - September	468	1036	910	398	277	180	198	218
2010 - October	496	1165	998	415	285	193	220	227
2010 - November	526	1248	1117	430	292	205	243	225
2010 - December	550	1321	1229	437	289	216	263	222
2011 - January	572	1384	1279	454	313	225	278	234
2011 - February	569	1366	1286	447	290	224	279	241
2011 - March	552	1305	1172	423	264	217	260	234
2011 - April	553	1310	1148	406	277	219	259	227
2011 - May	556	1291	1155	403	280	218	259	220
2011 - June	559	1321	1137	396	289	219	257	211
2011 - July	558	1345	1100	405	262	217	251	209
2011 - August	557	1327	1080	402	248	214	244	206
2011 - September	546	1310	1065	396	255	209	238	200
<p><sup>1</sup> Soybeans (US, No.2 yellow, c.i.f. Rotterdam)</p> <p><sup>2</sup> Soybean oil (Dutch, fob ex-mill)</p> <p><sup>3</sup> Palm oil (Crude, c.i.f. North West Europe)</p> <p><sup>4</sup> Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)</p> <p><sup>5</sup> Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)</p> <p><b>Note:</b> 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 oils and fats and seven selected cakes and meals.</p> <p><b>Sources:</b> FAO and Oil World</p>								