OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 62, September 2014

a) Global price review

The FAO price indices for oilseeds and vegetable oils dipped further during July and August (both falling steadily, losing some 12 percent over the last eight weeks), while the meals index, after declining in July (down 10 percent), rebounded slightly in August (up 1 percent). In historical terms, all three indices reached multi-year lows: the seed, oils and meals indices dropped to, respectively, four-, five- and two-year lows.

The slide in the oilseeds and oilmeals indices mainly reflects the tendencies prevailing in the soybean, sunflower and rapeseed markets. Regarding soybeans (which dominate the seed index), the pronounced drop in international prices – 11 percent over two months – was triggered by the prospective surge in soybean availabilities in the next few months, which is likely to persist during much of the forthcoming 2014/15 (October/September) season. In particular, a record-breaking crop is expected to be harvested next month in the United States following the highest-ever plantings together with exceptionally favourable growing conditions. In addition, current forecasts suggest a further expansion of production in South America, where plantings of the 2014/15 crop are set to get underway in the coming weeks. With record soy crops anticipated in both North and South America, global supplies should climb to an all-time record in 2014/15.

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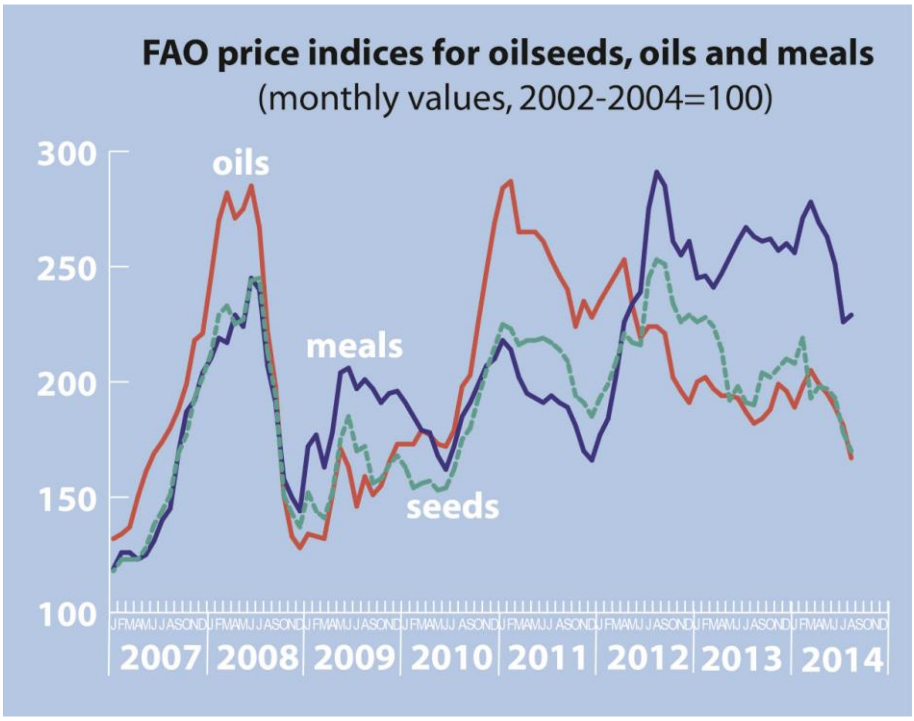
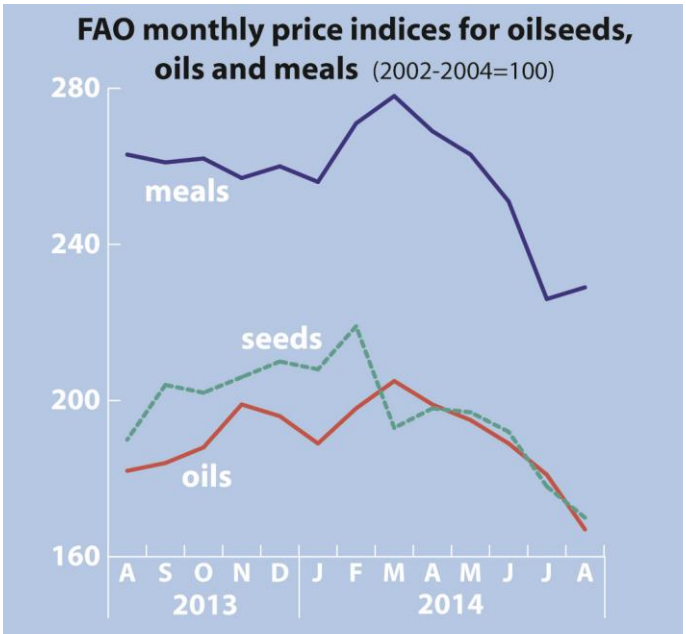


* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market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

Interestingly, international soymeal quotations followed a somewhat different path: after dropping sharply in July, prices appreciated slightly during the second half of August. Apparently, during the last few weeks, meal prices appreciated on the back of a strong export pace in the United States, where old-crop availabilities have dwindled to historical lows. Furthermore, soymeal markets have been subject to spill-over effects from the feed grain sector, where prices for coarse grains firmed as a result of the on-going political tensions between Ukraine and Russia. Regarding the other oilseeds, international quotations for rapeseed weakened on reports of better-than-expected yields in the EU – although harvest delays in Canada (due to excessive rainfalls) averted a more pronounced fall. Finally, forthcoming sunflowerseed harvests are likely to exceed initial forecasts – possibly matching last year's records in the EU, Ukraine and Russia –, which explains why sunflowerseed prices dropped markedly in recent weeks.

As to vegetable oils, palm oil has been responsible for much of the decline of the price index, even though prices of the other major seed-oils all trended downward (mirroring developments in the corresponding seed markets). In August, international palm oil quotations fared 10 percent less than in July, reaching their lowest level in five years, due to the combined effect of good production prospects in South East Asia (thanks to the reduced likelihood of a strong El Niño weather event) and lower than anticipated import demand, primarily from China and India. Strong competition from attractively priced soy and other seed-oils, a firm currency in Malaysia and weakening international crude oil prices also weighed on palm oil quotations.



Note: With regard to the sudden drop in the price index for oilseeds in March 2014 please see the clarification provided in the appendix table.

b) Selected policy developments and industry news

ARGENTINA – biodiesel policy: Starting on 13 August 2014, the tax collected on exports of soyoil-based biodiesel will be 12.5 percent, up from 11.2 percent in place since May 2014. Despite the small tax increase, Argentina should be able to sell biodiesel at attractive prices thanks to the current low price of soyoil, the principal feedstock. The tax was last revised in May 2014, when the government lowered export fees by almost half so as to support domestic biodiesel production and exportation *(see also MPPU June '14)*.

BRAZIL – biodiesel policy: The plan to shift to B7 – i.e. mandatory blending of transport diesel with 7 percent of biodiesel – in November 2014, (as proposed by the Government last May - *see MPPU June '14*) has been approved by the country's Congress. However, the blending rate may be scaled back to 6 percent if deemed necessary by the National Energy Policy

Council. Lawmakers also established that the feedstock needed to produce biodiesel ought to originate primarily from small to medium-sized family farms.

CANADA – transportation policy and farmer support: Regulations obliging the country's two major rail companies to guarantee minimum crop shipments have been extended by the government in an effort to avoid a repeat of last season's transportation bottlenecks *(see MPPU May '14)*. The original requirement to collectively ship 1 million tonnes of grains and oilseeds per week until 3 August (i.e. the end of the 2013/14 season) has been replaced by an order to move 1.07 million tonnes per week between 3 August and 29 November (i.e. the key period for marketing the country's new crop). Reportedly, at the end of July, grain/oilseed leftovers from 2013 still amounted to 20.9 million tonnes or more than double the previous year's holdings. As an added measure to assist farmers, grain and oilseed growers in Canada's four western provinces that were unable to market their 2013 crops due to the transportation bottleneck have been granted an additional six months to repay the cash advances received last year under Canada's agricultural production loan guarantee programme.

CANADA – seed crop certification: The government provided financial support to the country's Seed Growers' Association to improve the existing seed certification process. Reportedly, a new system will be put in place that allows licensed seed inspectors to submit their reports more efficiently. The measure is expected to enhance the production and use of high-quality, variety-specific seeds.

CHINA – soybean state reserves: From the start of this year's campaign in May until mid-August 2014, soybean sales from state reserves totaled 1.9 million tonnes. Reportedly, most of the soybeans sold were from the 2011 crop. The average sale price achieved during the public auction run on 12 August was Yuan 4 101 per tonne (USD 666), which compares to a peak of Yuan 4 283 (USD 697) last May.

CHINA – pesticide residue standards: Reportedly, a new set of stringent pesticide residue standards has been adopted in China. The new regulations, which cover 387 pesticides, concern various types of food, including edible oils.

EGYPT – state import policy: In Egypt, poor households are provided access to basic foods at subsidized prices. With regard to edible oils, the public distribution programme relies on state imports. In July, responsibility for the latter has been shifted from the country's General Authority for Supply Commodities to the Food Industries Holding Company, another state-owned agency. Private sources described the move as part of wider reforms aimed at avoiding inefficiencies and reducing government outlays on food subsidies.

EUROPEAN UNION – biodiesel import restriction: The EU Commission started reviewing the anti-dumping/countervailing duties imposed in 2009 – for five years – on biodiesel imports from the United States. The investigations will determine whether US still warrant such action. Meant to expire last July, the duties will now remain in place until the official review is completed, i.e. for a maximum of 15 months.

INDIA – import policies

- GM soybean oil and mustardseed: Applications for imports of GM soybean oil have been cleared for the first time by India's biotech regulatory body. Approval was given on the grounds that highly processed foods like edible oil do not contain detectable DNA or protein. The agency also permitted confined field trials of 13 GM crops, including GM mustard seed. In India, cultivation of GM crops remains highly controversial and so far only BT cotton has been cleared for commercial cultivation.
- Canola oil: India's food safety and standards authority has ordered importers of 'canola oil' (a widely used commercial term coined in Canada during the 1970s for oils obtained from rape/mustard seed varieties with low levels of erucic acid and glucosinolate) not to import the

edible oil under its brand name. Instead, the oil must be labeled 'imported rapeseed-low erucic acid oil'. The measure resulted in shipments of the oil being detained at various ports. According to importers, replacing the term 'canola oil' with the technical name will disrupt sales as customers are used to the brand name.
Oilmeal duties: Oilmeals/cakes have been exempted from import duties until 31 December 2014 in a bid to ease domestic supply shortages and bring down local oilmeal prices. The waiver does not apply to copra, cottonseed and palmkernel meal. Thanks to the waiver, buyers are expected to concentrate on sunflower meal imports. Imports of soymeal – which generally are of GM origin – continue to be hampered by restrictions applying to the importation of GM products.

- Vegetable oil duties: Despite continued calls by the edible oil industry for higher import duties *(see MPPU Feb. & June '14)*, the government decided to leave vegetable oil import tariffs unchanged in its 2014/15 budget proposal. Reportedly, policy makers are concerned about higher food prices fueling domestic inflation. Actually, import duties on crude and refined palm stearin are expected to be reduced to zero (from, respectively, 20 percent and 15 percent) – a move that would help local soap producers but hurt domestic refiners (N.B. palm stearin is a triglyceride derived from palm oil, which is primarily used as a hardening agent in the manufacture of candles and soap).

INDONESIA – variable palm oil export tax: Following the recent decrease in international palm oil prices, the country's variable tax on crude palm oil exports will be reduced to 9 percent in September. The tax has been lowered gradually since April, when it stood at 13.5 percent.

INDONESIA – foreign plantation ownership: Reportedly, Indonesia's lawmakers are considering to limit foreign ownership of plantations (of oil palm and other perennial crops) to 30 percent. Under current law, foreign investors can own up to 95 percent. The draft bill is said to be in line with general policy efforts to safeguard environmental and social interests while maximizing the use of land and other resources. Late last year, legislation limiting the size of plantations throughout the country came into force *(see MPPU Nov. '13)*. Industry officials warned that limiting foreign ownership would hamper the inflow of capital at a time when external funds were urgently required to modernize the country plantation sector.

MALAYSIA – biodiesel policy: Reportedly, the implementation of nationwide mandatory blending of transport diesel with 5 percent palm oil-based biodiesel (referred to as B5) has been delayed to December 2014 because construction of blending facilities in Eastern Malaysia are taking longer than expected. Originally, full implementation was scheduled for July this year. The mandatory shift to B7 (blends with 7 percent biodiesel) is planned for the first quarter of 2015.

MALAYSIA – variable palm oil export tax: In response to the recent softening in international palm oil values, the country's variable export tax on crude palm oil has been set at 4.5 percent for September. The tax had been lowered to 5 percent last July. Prior to that, it stood unchanged at 5.5 percent since April 2014.

PAKISTAN – canola development: Pakistan's Agricultural Research Council has launched a new initiative to promote domestic oilseeds cultivation in a bid to help reducing the country's dependence on imported edible oils. The Council will promote the cultivation of canola-type rapeseed in the Northeast and Northwest of the country. Farmers will be provided with access to (i) hybrid seed at subsidized prices, (ii) mechanized drilling, harvesting and threshing, and (iii) technical guidance on crop management and marketing.

PAKISTAN – import policy: The country's import duty on soymeal/cake has been raised to 5 percent effective 1 July 2014. Reportedly, the measure is meant to discourage soymeal imports (which expanded strongly in recent years), while encouraging the importation of soybeans for domestic crushing.

RUSSIAN FEDERATION – import policy: Effective 1 August 2014, the Russian Federation suspended all imports of Ukrainian soybean, soymeal and sunflowerseed. Allegedly, the ban was imposed due to a breach of phyto-sanitary requirements. The measure follows the introduction of import bans for pork, potatoes, vegetables and fruits from Ukraine.

RWANDA – soybean cultivation: The Rwandan government started promoting commercial soybean cultivation in a bid to raise domestic supplies of edible oil and reduce dependence on imports. According to government officials, 30 000 hectares have been earmarked to grow soybeans. Reportedly, resources have been mobilized under the government's land consolidation programme, and private stakeholders are said to be determined to sensitize farmers to embrace soya.

Biofuel feedstock news

- Jatropha: A 5-year jatropha development programme has been launched in Ethiopia with assistance from Norway. The project aims at an annual production of 0.4 million tons of jatropha-based biodiesel. Government sources claim that some 2.5 million hectares of land are suitable nationwide for jatropha cultivation. Currently, the country's area planted with jatropha is estimated at 90 000 hectares.
- Aviation fuel: To help reduce its carbon emissions, Indonesian carrier *Garuda* is planning to use an aviation fuel blend containing 2 percent of biofuel starting 2016. The company's commitment will depend on the technical suitability and availability of palm oil-based biofuel produced within in the country.

Certified sustainable palm oil: US food companies *ConAgra* and *J.M Smucker* have joined the list of firms committed to sourcing palm oil only from certified sustainable origins. Both companies pledged to develop a fully sustainable and traceable supply chain, buying only from responsible and sustainable sources by December 2015. Meanwhile, global consumer goods company *Procter & Gamble*, which committed to sustainable sourcing earlier this year, confirmed its involvement in field activities to help small oil palm producers to adopt sustainable production practices *(see also MPPU May '14)*. The company has partnered with Malaysia's Institute for Supply Chain Innovation to conduct this work.

Herbicide tolerant soybean: Reportedly, US seed company *Monsanto* has developed a new GM soybean (brand name 'Roundup Ready Xtend') that is resistant to both, glyphosate- and dicamba-based herbicides, which makes the seed suitable for planting where weeds have developed resistance to glyphosate. An environmental impact assessment conducted by USDA's Animal and Plant Health Inspection Service (APHIS) concluded that the new variety is not likely to pose a plant pest risk to agricultural crops or other plants. Although its wide use would likely increase the chance of weeds developing resistance to the herbicide dicamba, farmers can implement diversified weed management practices to mitigate that impact, says the report, which now is open for public comment.

Blackleg disease – Canada: An increase in the incidence of blackleg, a fungal disease affecting rapeseed, has been observed in Canada in recent years. According to the Canola Council of Canada, until recently the disease could be controlled through varietal resistance alone, but now farmers need to implement other practices to protect their crops and preserve the efficacy of genetic resistance. Growers are encouraged to assess the incidence of the disease in their fields and urged to adopt best agronomic practices, including a 2- to 3-year cultivation break in high-risk fields. On a brighter note, Canada's rapeseed industry could be close to restoring full access to the Chinese market (N.B. the entry of rapeseed into China was restricted in 2009 to prevent blackleg from spreading within China; subsequently, in 2012, China and Canada agreed to conduct specific research to address China's concern). Now first research results are said to be available on how the disease is transmitted and on appropriate risk mitigation strategies. Furthermore, Canada's grain handling and transportation network has been equipped to prevent the disease from spreading. Canadian trade officials hope to be close to a resolution of the trade impasse.

Seed royalty payments – Brazil: In Brazil, US seed company *Monsanto* would like commodity trading firms to ensure that farmers pay the royalty fees for its new GM soybean variety 'Intacta-RR2-Pro'. However, local traders insist that, while they may monitor the process, they cannot assume legal responsibility for the collection of royalties. The new variety, which has been developed specifically for South America and is said to be resistant to the *helicoverpa armigera* caterpillar *(see also MPPU Dec '13)*, is expected to make up one quarter of Brazil's forthcoming soy crop. Reportedly, unless the stalemate is solved, local traders may not be able to purchase soy from farmers who planted 'Intacta-RR2-Pro'.

Futures markets – China: China's *Dalian Commodity Exchange (DCE)* has launched night trading for palm oil with a view to better address investors' demand. Exchange officials explained that DCE palm oil futures are strongly linked to other international trading platforms.

Japan – state-backed investments in Brazil: Reportedly, a Japanese bank is willing to extend a large loan to one of Brazil's largest private soybean operations. The deal is backed by Japan's government-owned export credit agency NEXI. Furthermore, Japanese companies – with support from Japan's Bank for International Cooperation – are ready to collaborate with Brazilian firms in the development of Brazil's infrastructure for agricultural exports, including the soybean export hub of Itaqui on the country's northeastern coast. Through these investments, Japan intends to strengthen its ties with major food suppliers in Brazil, thereby ensuring food security at home as well as serving the interests of Japanese firms involved in global trade.

Chinese investment plans in Brazil: Reportedly, also Chinese investors have shown interest in Brazilian infrastructure projects to help secure the flow of raw material exports to China, iron ore, mineral oil and soybeans, in particular. According to government officials, projects under consideration include railways to the ports of Ilheus and Itaqui in Brazil's Northeast, as well as a railway across the Andes to the pacific coast of Peru. In addition to significantly lowering freight costs to China, the new export corridors would reduce congestion in Brazil's southbound highways and southern ports.

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	International Prices (US$ per tonne) [1]					FAO Indices (2002-2004=100) [7]		
	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
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 [8]	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
2014 - June	514	933	859	531	304	192	189	251
2014 - July	480	886	839	477	272	178	181	226
2014 - August	457	855	755	485	265	170	167	229

[1] Spot prices for nearest forward shipment

[2] Soybeans (US, No.2 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 cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)

[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.

[8] The drops in the price index for oilseeds seen in May 2013 and in March 2014 are due to structural breaks in the underlying price series for soybeans (US no.2 yellow, c.i.f.Rotterdam), the component with the highest weight. For a detailed explanation of the anomalous trend in the soybean reference price, please refer to issues no. 48 and no. 58 of the Oilcrops Monthly Price and Policy Update (MPPU), which can be downloaded at the following link: http://www.fao.org/economic/est/publications/oilcrops-publications/oilcrops-monthly-price-and-policy-update/en/

Sources: FAO and Oil World