OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

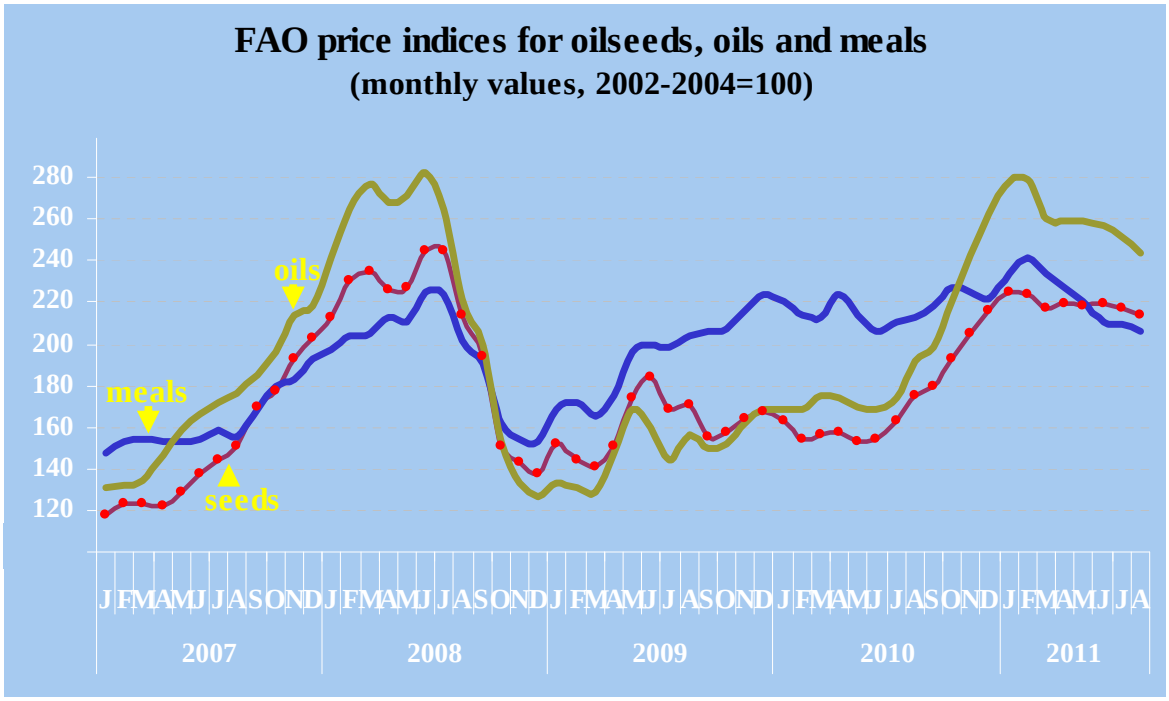
No. 28, September 2011

a) Global price review

In August, the FAO price indices for oilseeds, oils/fats and meals all fell by 2-3 percent compared to the previous month, thus following a declining trend since March but still remaining high in historical terms.

Regarding the global oilseeds and meal market, although unfavourable weather affected the prospects for the US soy crop, larger than expected soybean inventories held by major exporters have prevented prices from rising. Lower than anticipated crushing in the US and Latin America and a slowdown in US export sales have lead to relatively comfortable soybean stock levels. The projected steep increase in this year's global sunfloweerseed output and improved crop prospects for rapeseed in parts of the EU also contributed to the cooling of prices.

The further contraction in the oils/fats price index was driven primarily by recent the increases in global production and export supplies of both palm and sunflower oil. Eventually, price pressure also spilled over to rapeseed oil, while unexpectedly large soybean inventories started weighing on prices for soyoil.



* 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 **August 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

BRAZIL - GM soybean: Private sources estimate the share of GMO soy in total soybean sowings to reach 83% in the forthcoming 2011/12 season. Compared to last season, the area planted with approved transgenic varieties is expected to rise by over 13%. Reportedly, the Centre-West growing states could, for the first time, surpass the Southern Region in terms of area allocated to GM soybean. The main traits present in the GM varieties used are herbicide tolerance and insect resistance.

CANADA - trans fat regulations: In 2006, the country's health authorities introduced measures aimed at reducing the level of trans fats in food products (without increasing the levels of saturated fats). A target level of maximum 2% of trans fat in the fat content of vegetable oils and spreadable margarines and of 5% in all other foods was set. The indication of the trans fat content in pre-packaged food was made mandatory, and the industry agreed to work toward voluntary limits in the trans fat content of food products. Should insufficient progress be noted in reaching the set targets, legislation for compulsory trans fat reduction was to be considered. Eventually, a report issued in late 2009 revealed limited progress in achieving the reduction targets. Reportedly, analyses are still underway to understand why the industry cannot meet the set objectives. Food companies are said to face a number of technical challenges preventing them from meeting the targets.

CHINA - state soybean reserves: Government efforts to release soybean onto the market are set to continue. Reportedly, auctions from state reserves amounting to 4 million tons are planned, with a view to prevent price rises before the expected seasonal peaks in demand. The auction starting price could be set at RMB 3,500 per ton. Past auctions at the same price level have produced only limited sales.

EUROPEAN UNION - energy tax: According to industry sources, the proposed changes to the EU energy taxation directive *(see MPPU no. 25, May 2011)* would be beneficial for the renewable energy sector. Reportedly, the proposed revision would end the current, contradictory discrimination of renewable fuels because (i) biofuels have a lower energy density than fossil fuels, and (ii) bioenergy is generally acknowledged to be carbon dioxide free at the end use. Furthermore, under the proposal, the taxation of diesel and petrol would be fully aligned, which should put an end to past distortions that tended to favour diesel as a transport fuel.

INDIA - government imports of edible oil: Reportedly, the government intends to extend its edible oils import programme for public distribution at subsidized prices, which is due to expire in September 2011, until September 2012. Up to 1 million tons would be imported and distributed by state-run trading agencies. Private sources estimate that the subsidized sales to poor households since 2008 have contributed to the rise in overall domestic consumption in recent years.

INDIA - hybrid jatropha for biodiesel production: Reportedly, the private sector has launched a crop development programme involving molecular breeding and biotechnology to produce high-yielding varieties adapted to the country's specific agronomic conditions. Eventually, the initiative envisages the deployment of 35,000 ha with high-performing jatropha hybrids. Since 2009, India has a national policy on biofuels that aims at an ambitious 20% diesel blending rate. The government called for the use of wasteland to cultivate non-edible oilcrops such as

jatropha. It has set biodiesel procurement prices, which however are reported not to be remunerative enough for the industry to grow. No form of financial assistance is provided to the growers or processors.

INDONESIA - palm oil export tax:

- September tax rate: With international palm oil prices about unchanged in August, the export tax on crude palm oil will remain at 15% during September.
- Modified taxation scheme: A modified palm oil taxation system is going to come into effect in October. While progressive taxation based on world market prices is going to remain in place, the min./max. tax range will be narrowed to 7.5-22.5 percent for crude palm oil and 7.5-13 for refined oil – compared to the current, common band of 1.5-25 percent. Furthermore, in addition to quotations in Rotterdam, prices form commodity exchanges in Malaysia and Indonesia will be used to calculate the international reference price. But the key change is the preferential treatment - i.e. lower tax cap - accorded to refined oil relative to crude oil exports, which, according to market observes, denotes renewed efforts by the government to promote domestic processing and value addition in palm oil. In fact, trade data reveal a drop, over recent years, in the share of refined oil palm products in total shipments (to less than 50%). Assuming Indonesia's future shipments of processed palm oil rise as a result of the new tax rates, competing exporters (in particular Malaysia) as well as buyers of Indonesian oil palm products could be adversely affected. Malaysia, where refined product shipments account for over 80% of total exports, could be exposed to increased competition considering that Indonesian refiners enjoy significantly lower production costs. Therefore, Malaysia may consider introducing new measures to support its own processing sector. On the other hand, importing countries, in particular those that have expanded their own refining capacities and thus prefer to buy crude palm oil, could experience a partial shift from crude to (more attractively priced) processed palm oil imports from Indonesia. In particular India, which is Indonesia's main customer for palm oil, could be affected - also because, protecting its own refining industry via higher import duties might not be an option when the country is faced with inflationary pressure.

MALAYSIA - smallholder support: Reportedly, the government decided to allocate, through the country's Palm Oil Board, RM 7,000 per ha to small farmers for them to participate in the replanting and new planting of oil palms and thus contribute to the expansion of domestic production. The programme is targeted at some 300,000 smallholders that cultivate about 650,000 ha of land.

PARAGUAY - export taxation proposal: Reportedly, the country's Senate is considering a bill to tax the exportation of soybeans (as well as of maize and sunflower seed). An ad valorem duty of 6% is being proposed to raise the agricultural sector's contribution to the state budget and thus public expenditure. Soy production has expanded sharply in recent years, turning the country into the world's fourth-biggest supplier (as about 70% of domestic production going into export). Allegedly, the sector's growth has played a prominent role in the country's recent overall economic expansion – without a commensurate fiscal contribution.

PHILIPPINES - coconut export growth: The country's exports of coconut products have been consistently rising over the last few years. According to industry sources, growth was concentrated in markets where the country enjoys free trade agreements (FTAs). Apparently, exporters have taken advantage of preferential agreements

negotiated with selected countries. Reportedly, the reduction or gradual elimination of tariffs has improved marked access in Indonesia, Malaysia and Thailand. In 2010, three-fourths of Philippine coconut export revenues are said to have come from markets covered by FTAs, namely the ASEAN bloc, China, the Rep. of Korea, Japan, Australia and New Zealand.

UNITED STATES - biodiesel production:

- Domestic output: According to industry estimates, 2011 domestic biodiesel production should reach at least 750 million gallons, which compares to a mandatory consumption level of 800 million gallons. The anticipated recovery in production from last year (315 million gallons) comes following the reinstatement of the biodiesel tax credit earlier this year. According to private sources, EPA recently tabled a proposal that increases mandatory use for next year from the currently agreed level of 1.0 billion to 1.25 billion gallons. The country's total installed production capacity is estimated at close to 3 billion gallons. The federal tax credit is scheduled to expire in December this year. Reportedly, a draft bill for extending the incentive for three more years has already been tabled.
- Energy balance: According to new research conducted with USDA participation, the energy balance (or fossil energy ratio) of biodiesel is 5.5, i.e. for every unit of fossil energy required to produce biodiesel (from soybean oil), the return is 5.5 units of renewable energy. Reportedly, the ratio has improved compared to a few years back, allegedly because (i) soybean farmers have increasingly adopted energy-saving practices such as zero tillage, (ii) yield levels have increased, and (iii) soy crushing plants and biodiesel production units have become more energy efficient.

Specialty oilseed crop - high erucic acid rapeseed (HEAR): Following several years of trial work, full-scale commercial production of HEAR is expected to start in the 2011/12 season in North Carolina, United States. As a high-value specialty crop, HEAR has a particular fatty acid composition which makes it suitable for multiple end-use applications, especially non-food industrial uses. HEAR will be grown under contract only, with two private enterprises providing the seed and agronomic advisory services, purchasing the entire crop, and taking care of storage and processing. HEAR is a winter crop and is said to offer advantages with regard to crop rotation.

Certified sustainable palm oil:

- RSPO certification: Three years after its launch, RSPO certification is now reported to involve a production area of 1 million ha word-wide, concerning close to 5 million tons of palm oil or about 10% of global output. The 1 million ha mark has been reached through the certification of the supply base and mills of a major Brazilian producer, supposedly demonstrating the feasibility of oil palm cultivation in the Brazilian Amazon region - in a manner compatible with sound environmental and social standards.
- Malaysia - national certification scheme: Following the footsteps of Indonesia, the Malaysian government reportedly started planning a national certification scheme - independent from voluntary RSPO certification (which is currently used by producers to certify about 17% of domestic output). Reportedly, the government does not fully support the RSPO scheme which is said to be subject to revisions and not to provide the type of service the market requires. Under the planned national system, buyers will be offered direct, physical access to certified palm oil, with due attention to all

the concerns raised by the trade. Furthermore, small producers would not face any disadvantages in obtaining certification.

Soybean seed development: Five of the world's leading international seed breeding companies are said to be working on a range of far-reaching varietal improvements for soybeans that are expected to reach the commercialization stage during the present decade. Reportedly, various new varieties with multiple traits are being developed via genetic modification, to combine herbicide resistance, disease tolerance and special fatty-acid composition.

Certified sustainable soy: Global crop processing and trading company *ADM* reported to have obtained ISCC certification for soy grown in South America and destined for the EU biodiesel market. ISCC (International Sustainability and Carbon Certification) fully meets EU-RED requirements. *ADM* informed that although its initiative is driven by the biofuels market, the company also anticipates a growing need for sustainable soy in the food and feed markets.

Reducing trans fats in bakery goods: According to research conducted in India, it is possible to replace hydrogenated fat (rich in trans fatty acid) in bakery products with sunflower and coconut oil: when other ingredients such as emulsifiers and hydrocolloids are added, the quality characteristics typically imparted by shortenings will not be lost, while the content of polyunsaturated fat will also rise significantly.

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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)								
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
Monthly								
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

[1] Soybeans (US, No.2 yellow, c.i.f. Rotterdam)
[2] Soybean oil (Dutch, fob 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, ten selected oils and fats and seven selected cakes and meals.
Sources: FAO and Oil World