Food and Agriculture Organization of the United Nations

OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 74, September 2015

a) Global price review

In August 2015, all the FAO price indices trailing the oilseed complex moved down. Compared to July 2015, the oilseeds and vegetable oils indices shed 13 points each, retreating, respectively by 8 and 9 percent, while the price index for oilmeals fell by 8 points, or 4 percent. All three indices continue to fare at multi-year lows, reaching their lowest values since April 2009 in the case of oilseeds and oils, and since February 2012 in the case of meals.

The leading force behind the slide in the oilseed and oilmeal indices has been the drop in international soybean prices, which reflects the prospect of ample global soy supplies in 2015/16. Reports of timely rains in the United States' main soy growing areas led analysts to confirm their forecasts of near-record global soybean production in 2015/16. The apparent economic slowdown in China, the world's top soybean buyer, also weighed on soy prices. Despite deteriorating production prospects, both sunflower and rapeseed prices also eased, succumbing to the downward trend in soy. In fact, rapeseed production is expected to decrease year-on-year in both Canada and the European Union, while sunflower production in the Black Sea region is forecast lower than previously.

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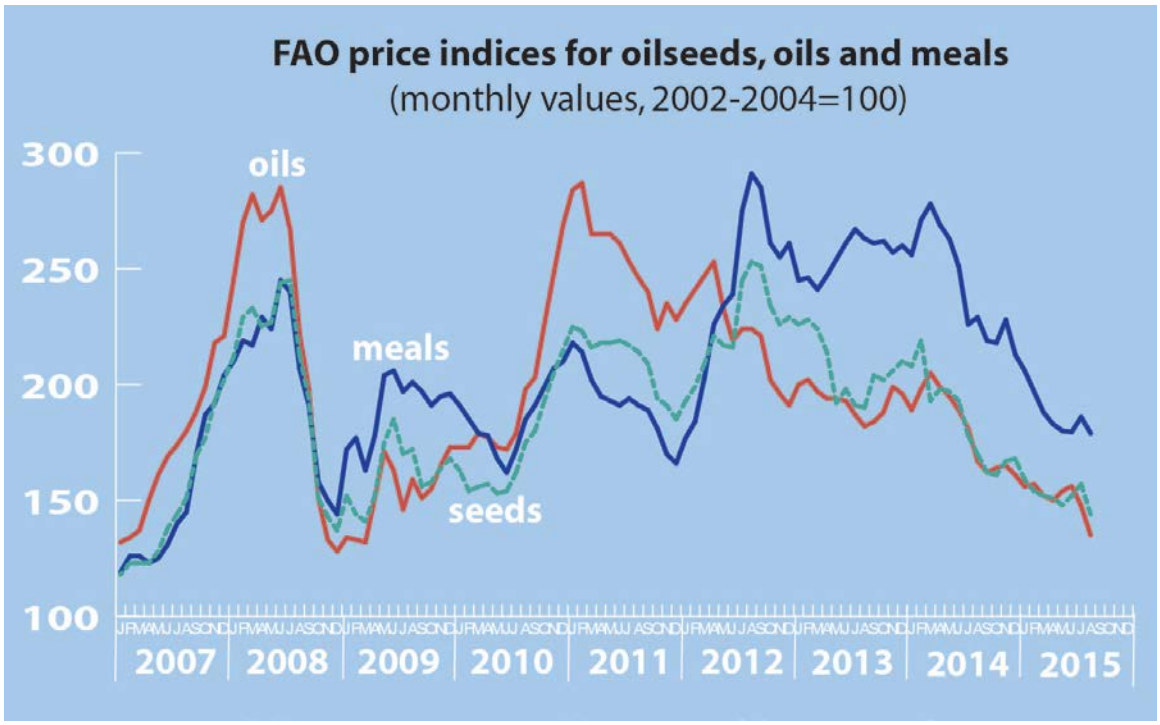
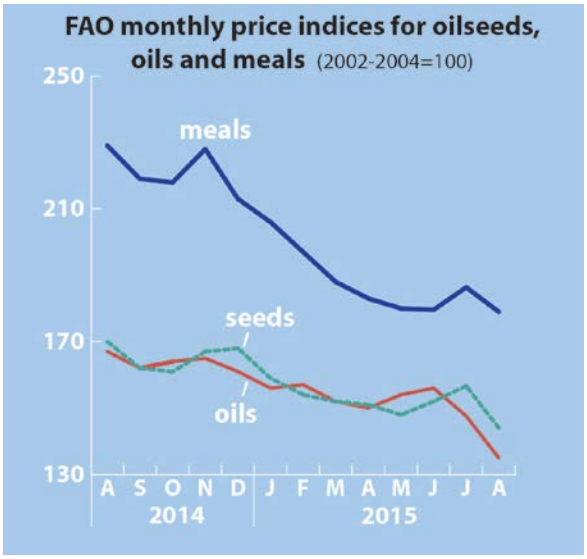


* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. Section b) of the present issue covers developments observed during **August 2015**. 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*

With respect to vegetable oils, the fall in FAO's price index primarily reflects the strong contraction in palm oil prices. In August, international palm oil quotations hit a six-and-a-half year low, pressured by slowing import demand (notably in India and China) and expectations of rising production in Southeast Asia during the coming months. Slowing demand from the biodiesel industry (linked to the recent plunge in mineral oil prices) and concerns that the weakening of economic growth could affect purchases by China also weighed on world prices for palm and other edible oils.



b) Selected policy developments and industry news

INDIA – sector development: Concerned about the country's heavy dependence on imported edible oils, the government set out to make India self-sufficient in oilseeds within the next five years. Measures taken in pursuance of this objective include the following:

- Crop procurement: The government decided to widen its procurement programme. Traditionally responsible for public purchases of wheat and rice only, from October 2015, the state-run Food Corporation of India (FCI) will also buy annual oilcrops from farmers – a move designed to make oilseed production more remunerative for farmers, eventually raising domestic output. Details about the new procurement policies and other changes in support programmes for oilseed farmers have not been provided yet.
- Oil palm cultivation: The government plans to spend USD 1.53 billion over the next three years to encourage farmers to cultivate oil palms. The programme will target nine, primarily coastal, states, where about 2 million hectares of fallow farmland have been identified as offering suitable climatic conditions. Past efforts to stimulate oil palm cultivation failed to produce the hoped-for results: since the first major attempt to promote oil palm more than two decades ago, total area under cultivation has reached only 200 000 hectares. Reportedly, key factors behind the poor results include: (i) the long gestation period of oil palm trees; (ii) the lack of appropriate irrigation systems and private processing facilities; and (iii) land ceiling laws that discourage commercial oil palm cultivation by private companies *(see also MPPU June'13 & July'15)*.
- Olive cultivation: In Rajasthan, the government reiterated its commitment to support olive cultivation. Given the successful completion of experiments on state-farms, the crop can now be taken to farmers' fields, officials said. Land will be allocated to farmers, who will also be provided with free planting material and technical support. Moreover, plans are underway to promote the consumption of both olive oil and table olives. Reportedly, promising varieties have been identified under a collaborative effort between India and Israel.

INDIA – oils/fats standards: India's food product standards have been amended to limit the content of trans fatty acids in vegetable fats and hydrogenated vegetable oils to maximum 5 percent (by weight), effective August 2016. Furthermore, the country's Food Safety and Standards Authority published a draft regulation which updates the labelling norms for edible vegetable oils and fats. The regulation calls for the inclusion of information on the type of edible oils and vegetable fats used and on the content of

trans fats and saturated fats on food product labels. The proposal will be finalized once public comments have been considered.

INDONESIA / MALAYSIA – palm oil cooperation: Bilateral talks between government officials from Indonesia and Malaysia resulted in an agreement to: (i) adopt a common supply management strategy when prices for palm oil drop; (ii) jointly work towards the improvement of the public perception of the nutritional value of palm oil and its environmental footprint; (iii) coordinate efforts to sustain the income of oil palm farmers; and (iv) promote transboundary investment in developing the palm oil industry.

RUSSIAN FEDERATION – export policy:
In accordance with its WTO commitments, the government is to reduce, as of 1st September 2015, the export duties on a number of products, including oilseeds. The current 6.7 percent duty on soybeans will be scrapped, while that on rapeseed will be reduced from the current 11 percent to 6.5 percent, but not less than Euro 11,40 per tonne, and that on sunflowerseed from 13.2 percent to 9.9 percent, but not less than Euro 14,81 per tonne.

SOUTH AFRICA – biofuel policy:
The government is reviewing its biofuel subsidy plans in light of the sharp fall of mineral oil prices. Declining crude oil prices are said to make planned subsidy payments to biofuel producers unaffordable. Under a revised scheme manufacturers would be required to compete against each other to be awarded aid. Support payments are supposed to become effective on 1st October, when blending requirements are set to become mandatory.

TURKEY – GMO imports: Turkey's Biosafety Board has approved two GM soybean (and three GM maize) events and their products for feed use. The decision marks the first biotech trait approval since 2011. The authorization will enable the release of shipments that had been detained at ports and facilitate future imports. A number of other GM events, including seven soybean and four rapeseed traits, are still undergoing risk assessments.

Insecticide ban – European Union:
The EU's Food Safety Authority confirmed that neonicotinoid-based pesticides used in rapeseed cultivation could harm bees, jeopardizing their pollinating role. Earlier research had already prompted the European Commission to limit the use of these pesticides from December 2013 *(see MPPU June'13/July'14/Aug.'15)*.

Industry news – palm oil

- Joint venture Indonesia–Malaysia:

A special economic zone for palm oil downstream processing is to be developed under a joint venture between Indonesian industrial conglomerate *Rajawali* and Malaysia's palm oil company *Felda Global Ventures*. Scheduled for completion in early 2017, the pioneer project is meant to help Indonesia reduce its focus on crude palm oil exports while recognizing Malaysia's extensive expertise in palm oil processing.

- Industrial applications: In Malaysia, researchers are working on the development of palm oil-based valve fluids for use in hydraulic systems. Palm oil is said to be an attractive substitute to hydrocarbon oils as it remains stable over a wide temperature range, has low viscosity and is biodegradable. Reportedly, the research will also investigate the potential for using recycled palm oil.

Industry news – biofuel

- Biodiesel feedstock – Islamic Republic of Iran: In Iran, researches are looking into the production of biodiesel from *descurainia pinnata* (commonly known as flixweed or tansy mustard), an annual oilseed belonging to the mustard family. The plant is said to strive in wide range of climates, requiring only limited amounts of water and other inputs. Seeds contain 22 percent of a non-edible oil, whose fatty acid composition is said to make the crop well-suited as feedstock for biodiesel production.
- Aviation biofuel – Indonesia: State-owned oil and gas company *Pertamina* will invest USD 480 million in a refinery for the production of

palm oil-based aviation fuel. From next year, Indonesia's aviation sector will be required to reduce its use of fossil fuels through the inclusion of 2 percent biofuel in jet fuel. The blending rate will be raised to 3 percent in 2020 and 5 percent in 2025. The new biofuel refinery is expected to go on-stream in 2018, producing about 200 000 tonnes of jet-biofuel per year for both the domestic and export markets.

Domestic market issues

- Illegal GMO trade – China: After quarantine authorities discovered illegal sales of genetically modified (GM) soy to food manufacturers at ports in the Shandong province, soy importers in the province decided to suspend their trading activities. Shandong serves as the country's main distribution hub for imported GM soy. In China, GM soy can be crushed and processed into feedstuff and cooking oil, but the use of whole GM beans in food manufacturing – notably for tofu and soy sauce – is not permitted. Typically, China's farmers, who cultivate exclusively GM-free varieties, cater for the needs of domestic soy-food producers. However, it appears that food companies have turned to cheaper imported GM material, due to the large price gap between imported and domestically grown soybeans. Last year, the illegal use of imported soy was estimated at 2–3 million tonnes.
- Transport infrastructure – Brazil: According to private sources, almost one-fifth of the 1 300 kilometer-long BR163 highway that connects the State of Mato Grosso with the Amazon basin (and thus the country's northern ports) remains unpaved and parts of the paved tracts are in poor condition. Reportedly, works will only be completed in 2017 – as opposed to the 2016 deadline announced by the government earlier this year *(see MPPU Feb'15)*. With Mato Grosso accounting for a quarter of Brazil's total grain output and one-third of overall soybean production, increased use of Northern export corridors would relieve the burden on the highly congested southbound highways. Traders estimate that, once BR163 becomes fully operational, freight rates will amount to one-third of the costs incurred when grains/soybeans are shipped to the Southeastern ports. In fact, counting on the new overland connection, trading firms already invested in new shipping terminals along the Amazon River and ports in the Northeast *(see MPPU March'15)*.

Varietal developments

- GM 'Bt soybean' – United States: According to U.S. scientists, GM soybean variety 'Intacta RR2 Pro Bt' could help controlling caterpillar attacks in the United States. Developed specifically for South America, the variety is widely planted in Brazil, Paraguay and Argentina and has been approved for importation in China *(see MPPU Apr./Aug.'13)* – but not for cultivation in the United States. There seems to be no indication as to if/when the technology could be approved. According to the researchers, late planted U.S. soybeans would benefit the most.
- Non-GM rapeseed – China: Breeding company *Cibus* and crop protection firm *Rotam* joined forces in the development of a non-GM herbicide-tolerant rapeseed to be produced in China. The initiative aims at meeting the country's growing demand for GM-free rapeseed oil. Chinese consumers are said to view non-GM rapeseed oil as a healthy alternative to GM soybean and palm oil. Allegedly, the new product would strengthen the Chinese rapeseed industry by lowering production costs and increasing yields, while also providing environmental benefits.
- Expiry of GM patents: Recently – twenty years after *Monsanto* launched its first GM seeds, notably 'Roundup Ready Soybean' – some of the company's early patents have expired, leading to the emergence of first 'generic GM seeds'. Reportedly, a number of U.S. universities are developing new GM soy varieties that contain *Monsanto*'s Roundup resistance genes. Although patents may be filed on such new varieties, seeds are expected to cost half as much and farmers will likely be free to save and replant them. With *Monsanto*'s Roundup-resistant varieties accounting for ninety percent of U.S. soybean plantings, farmers are expected to welcome increased competition. On the other hand, generic GM seeds will have to compete with

new, allegedly more performant GM varieties. Furthermore, the fact that GM seed traits are losing patent protection also raises regulatory issues: importing countries require GM traits to be registered regularly – for example every three years in China and every ten years in the EU. Considering that soybeans get mingled in elevators and crushing plants, when approvals of older products lapse all exports face potential disruptions. In this regard, *Monsanto* informed that it will maintain its regulatory files up-to-date only until 2021.

For comments or queries
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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
2013/14	521	949	867	534	324	194	189	253
Monthly								
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	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
2014- September	433	850	714	463	265	162	162	219
2014 - October	430	835	724	463	258	161	164	218
2014 - November	447	827	728	485	265	167	165	228
2014 - December	446	816	694	449	278	168	161	213
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

[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