OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

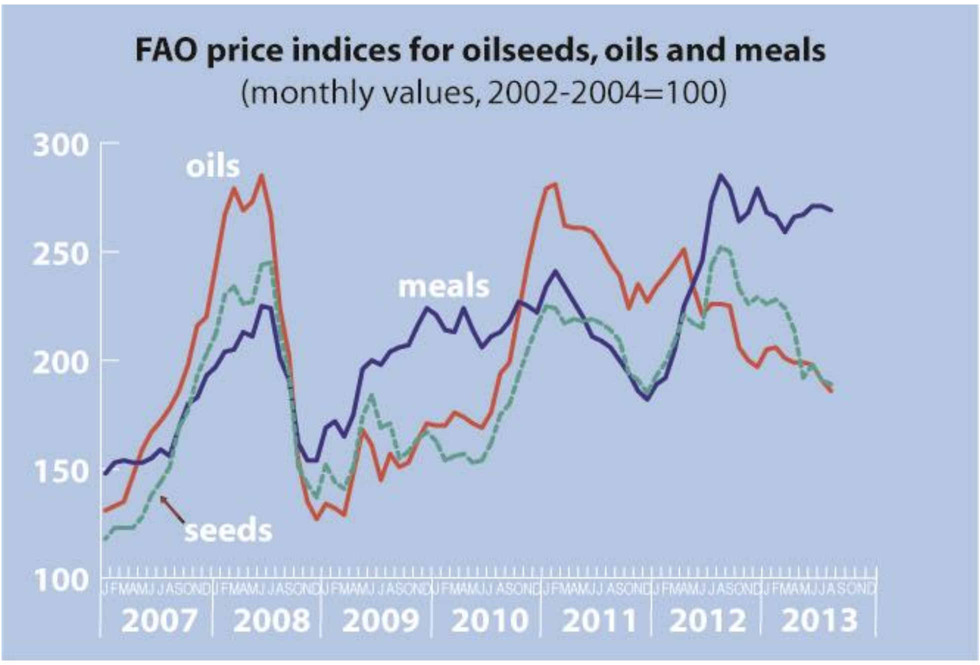
No. 51, September 2013

a) Global price review

In August, prices have fallen across the oilseed complex (except for lauric oils). The price index for oils/fats has fallen by another 3 percent from the July level, now reaching a three-year low. By contrast, the indices for oilseeds and oilmeals fell by barely 1 percent, thus remaining within the previously observed trends, namely a continued softening in oilseed values and persistent price firmness in meal markets.

The relative stability in the global oilseed index mainly reflects virtually unchanged soybeans values on a month-on-month basis. However, during the first half of August, soybean prices eased reflecting generally good crop prospects for 2013/14, only to strengthen again towards the end of the month, based on a revision in the US production forecast. The US output figure was reduced significantly because increasingly dry weather was expected to negatively affect yields and possibly also area harvested. New purchases from China also contributed to the strengthening in price observed in the second half of August. Uncertainty about the final impact of unfavourable weather conditions on the US crop is likely to remain of concern to the market during the coming weeks. As to the global market for sunflowerseed and rapeseed, prices have eased reflecting forecasts of rising availabilities later this year. More specifically, a significant increase in production is expected for sunflowerseed in the EU, Russia and Ukraine (despite increasingly dry weather across the region), while record-high rapeseed production is anticipated in the EU thanks to both higher area and improved yields.

- cont'd on next page -

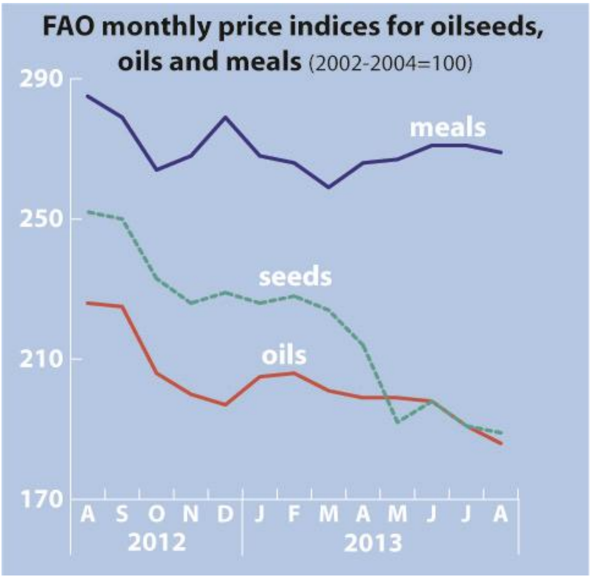


* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **August 2013**. 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/

Global price review – *cont'd*

As far as meals/cakes are concerned, soy, sun and rapeseed meal followed the development of the respective seed markets. With regard to fishmeal, prices have softened for the fourth consecutive month, reflecting expectations of a partial recovery in global output in 2014.

With respect to global oil/fat markets, palm oil output has risen substantially in Southeast Asia while export demand remained flat, which led to a new increase in inventories, keeping prices under pressure. International prices for soyoil, the second most traded vegetable oil, have remained about unchanged, in line with developments in the global soybean market. Meanwhile, prices for rapeseed oil – and even more so sunflower oil – have weakened, given the prospect of ample supplies in 2013/14. By contrast, international prices for the two lauric oils, copra and palmkernel oil, firmed on increased export demand.



b) Selected policy developments and industry news

BRAZIL – agricultural support programmes

- 2013/14 package: For the forthcoming 2013/14 campaign, total government outlays for agricultural support programmes will increase by 18 percent compared to the funding made available in 2012/13. Last year, the year-on-year rise in public funding was limited to 8 percent. As to the individual programmes, investment aid has been raised most (in relative terms), followed by support to family-based farming, and marketing loans. Special attention will be given to activities falling in the following areas: technology innovation, low-carbon agriculture, irrigated farming, rural insurance schemes, and investment for storage facilities. As to the latter area – considered of key importance given the country's persisting infrastructure and shipping problems – the government plans to support both the construction of new private warehouses and the expansion of public facilities. Under the various programmes, financing limits per beneficiary have been raised by 15-25 percent (compared to last year), while interest rates charged on public loans have been either lowered moderately or left unchanged. As in previous years, minimum farm gate prices for the key crops have – for the time being – been left unchanged (except for an increase in the support price for rice grown outside Rio Grande do Sul).
- Review of support provided up to 2009/10: According to a notification provided by the government to WTO, trade distorting effects of the country's public support programmes for agriculture have been limited – despite the steady expansion in government outlays. Reportedly, only about one third of total support payments are considered as trade distorting following WTO-regulations, and of these the bulk falls within Brazil's 'de minimis' allowance. The country's only trade distorting payments are said to occur under cotton-specific support schemes. All the remaining public support programmes are

claimed to cause only minimal trade distortion. Reportedly, the country has strongly expanded support payments for low-income family-owned farms, a payment category for which special allowances have been granted to developing countries. The latter group of farms has benefitted from input subsidies and, in particular, low-interest loans for agricultural investment projects.

CHINA – management of state reserves

- Soybean reserves: Reportedly, from early August (when soybean sales from state reserves started) until September 2nd, close to 1.3 million tons of soybeans have been sold through public auctions *(see also MPPU Aug.'13)*. Average sales prices are reported to have ranged Yuan 3890–4080 per ton, or about 3–4 percent below current import prices. Private sources estimate overall government stocks of soybeans at around 8 million tons, of which a total of 3 million tons could be offered for sale this year. With sales from state reserves likely to continue until November/December, some expect the pace of China's overseas soybean purchases to slow down in the coming weeks.
- Rapeseed oil reserves: Reportedly, a government agency started investigating whether domestic crushers have sold into state reserves oil processed from imported rapeseed – rather than oil obtained from domestically grown seed as stipulated by the government *(see also MPPU Aug. '13)*. To encourage domestic rapeseed production, the government is prepared to absorb some 5 million tons of locally grown rapeseed; under the programme, farmers are guaranteed a minimum price of Yuan 5 100 per ton, and crushers are provided with subsidies to produce the oil that is destined for public storage. Apparently, this policy has caused local prices for rapeseed and rapeseed oil to rise about 15 percent above import prices, a situation that domestic crushers benefitting from the above mentioned subsidies might have exploited unlawfully.

EUROPEAN UNION – biofuel policy: With a view to spur the development of 'clean fuels' derived from non-food sources (thus preventing unintentional harm to the environment or displacement of food production), in a plenary vote of the EU parliament the use of crop-based fuels for transportation has been capped at 6 percent by 2020. At the same time, second-generation biofuels from non-food sources (like farm and industry waste or lignocellulosic biomass) should account for at least 2.5 percent. The vote also called for systematic accounting of ILUC effects and for mandatory reporting on GHG emission levels for each biofuel from 2020 onward. The recommended 6 percent cap (which would replace the 10 percent target set in the bloc's Renewable Energy Directive of 2009) compares to a 5 percent limit proposed by the European Commission and to 5.5 percent suggested earlier by the Parliament's environment committee *(see also MPPU Aug. '13)*. In order to become law, the proposals will require the agreement of bloc's member states through the European Council.

EUROPEAN UNION – biodiesel anti-subsidy duties: Unlike the provisional anti-dumping duties on biodiesel imports from Argentina and Indonesia that are in place since last May *(see also MPPU June '13)*, the European Commission decided to postpone anti-subsidy measures against imports from the two countries to the definitive stage, thus refraining from imposing provisional duties. Reportedly, the Commission could not find sufficient evidence supporting the EU biodiesel industry's view that the differential export tax systems applied by Argentina and Indonesia need to be considered as subsidies. The decision on definitive countervailing duties is expected by end November for the anti-dumping measures and by early December regarding possible anti-subsidy measures.

INDIA – food subsidy scheme: After two years of debate, the country's Lower and Upper Houses approved a new food bill that, from April 2014, will provide about two-thirds of the country's population with access to subsidized grains. The nationwide distribution scheme – allegedly one of the world's largest welfare programmes – aims at tackling widespread food insecurity and malnutrition. The bill envisages (initially for three years) subsidized sales of wheat, rice and coarse grains but not of pulses and edible oils – which however could be added in the future. Critics of the initiative warned that, in the past, similar programmes have been characterized by major inefficiencies. According to the country's own food ministry, under the current public distribution system, 20–30 percent of the food provided is lost to leakages.

INDONESIA – palm oil export tax: Following a drop in international palm oil quotations, in September, the country's crude palm oil (refined palm olein) exports will be taxed 9 percent (3 percent) compared to the 10.5 percent (4 percent) charged in July and in August. Reportedly, the reduction in export taxes aims at boosting sales after international prices plunged to a multi-year low as global supplies have outpaced demand.

INDONESIA / PAKISTAN – preferential trade agreement: Indonesian exports of palm oil to Pakistan are expected to expand in the coming months as the preferential trade agreement signed between the two countries will finally take effect *(see MPPU Oct. '11)*. Originally expected to come into force in early 2012, the agreement's implementation was delayed due to technical problems concerning the importation of horticultural products from Pakistan into Indonesia. Reportedly, the latter issue has now been solved, thanks to the signature of a mutual recognition agreement on plant quarantine and SPS measures.

INDONESIA – soybean import tariff: Reportedly, in recent weeks, domestic prices for soybean products have soared in the wake of rising international quotations, strong depreciation of the country's currency, and a marked drop in national soybean stocks. Hit by the surge in prices, local tempeh and tofu industry have urged the government to again suspend the country's 5 percent import tariff on soybeans. The government however decided to leave the tariff in place, pointing out that previous duty suspensions had failed to produce the desired results. Instead the government will continue to rely on the state logistic agency BULOG to bring down soy prices by increasing its soy importations and raising public stocks *(see also MPPU Aug. and June '13)*.

INDONESIA – biodiesel policy: The government plans to raise the mandatory biodiesel blending rate for transportation fuel from currently 7.5 percent to 10 percent. Reportedly, power plants will be requested to use gasoil blended with 20 percent biodiesel. In addition to reducing the current surplus of palm oil supplies over demand (which is blamed for the recent fall in prices) the measure is also meant to spur overall economic growth, stabilize the national currency, and help trimming the country's mineral oil imports. Reportedly, the nation's current biodiesel production capacity is sufficient to meet the new blending targets. According to markets observers, however, the higher blending targets may be difficult to achieve due to logistical, economic and other factors which prevented the country from achieving previous targets. Currently, the transportation sector is estimated to absorb around 600 000 tons of biodiesel, which corresponds to a blending level of less than 4 percent instead of the mandatory 7.5 percent.

INDONESIA – agricultural policy: In August, a comprehensive bill aimed at empowering and protecting the agrarian population has become law. The bill includes provisions on (i) titles on state land, (ii) marketing assistance and price guarantees for certain crops, (iii) access to subsidized, tailor-made loans, (iv) state supported insurance schemes to cover losses caused by harvest failures or livestock deaths, (v) input subsidies, (vi) import measures to enforce quarantine rules and regulate imports of products whose local supplies are deemed adequate, (vii) recovery of degraded land and sustainable cultivation practices, (viii) improved irrigation systems, and (ix) support to farmers' associations and cooperatives.

MALAYSIA – palm oil export tax: In September, the country's export tax on crude palm oil will remain unchanged at 4.5 percent for the seventh consecutive month. By keeping export duties at the bottom of the pre-defined tax range, exporters are encouraged not to reduce their shipments despite the on-going slide in international prices. While Malaysia's palm oil output is reported to be expanding, export demand has remained flat, causing inventory levels to rise again.

MALAYSIA – biofuel policies: Still occupied with implementing mandatory B5 blending at the national scale, the government has announced plans to further accelerate the national biodiesel programme so as to spur domestic demand for palm oil and prevent stockpiles from rising again. Reportedly, the government is determined to raise the mandatory blending rate first to 7.5 percent and then to 10 percent *(see also MPPU Aug. '13)*.

MALAYSIA – official palm oil certification: The government is preparing to launch the *Malaysian Sustainable Palm Oil (MSPO)* certification scheme both, to boost production and to counter criticisms that the country's supply chain is harming the environment *(see also MPPU Apr. '13)*. MSPO, which outlines criteria that producers need to meet for their products to be certified as 'sustainable', is set to be used as the national palm oil standard from 2014 onward. While initially certification will be on a voluntary basis, the government intends to make it mandatory in stages. MSPO is designed to replace the currently used, internationally recognized RSPO certification, which is said to create disadvantages for local stakeholders. In particular, RSPO is reported to be expensive to comply with, to contain overly stringent conditions, and to lack consistency in its goals.

RUSSIAN FEDERATION – oilseed export taxation: In line with the country's WTO accession agreement, the government has announced as first round of reductions in export taxes on oilseeds *(see MPPU Jan.'13)*. The duty for sunflowerseed will be lowered from formerly 20 percent to 16.6 percent (but not less than Euro 24.94 per ton), that for soybeans to 13.3 percent (but not less than Euro 23.33 per ton) and that for rapeseed to 15 percent (but not less than Euro 27.13 per ton).

VIETNAM – countervailing duties: The government has confirmed that a countervailing duty of 5 percent will be applied on soyoil and palm oil imports starting September 7th *(see also MPPU Feb. and June '13)*. According to official investigations, past import levels led to considerable damage in the local vegetable oil industry. The special duty will remain in effect until May 2017. It will stay at 5 percent until May 2014, to be gradually lowered by one percent every 12 months thereafter. Market observers expect the measure to result in higher domestic retail prices and added that domestic manufacturers will have to reduce their production costs to raise their competitiveness.

Certified sustainable palm oil

- France: Reportedly, six food manufacturing companies and three industry associations joined their forces to set up the *French Alliance for Sustainable Palm Oil*. The alliance aims at sourcing exclusively sustainable and traceable palm oil (certified by RSPO) for domestic consumption from 2016 onward.
- United States: An important US chocolate manufacturer announced that it will switch to using exclusively RSPO certified palm oil (purchased via the mass balance system) in its products before the end of this year. The company said it was working directly with suppliers and other stakeholders in the supply chain to achieve full traceability of supplies.

Certified sustainable soybean: The US soybean industry has launched the *Soybean Sustainability Assurance Protocol*, an on-line programme for US soybean exporters requiring certification that their products was produced following sustainable practices. Reportedly, the protocol is a certified aggregate approach audited by third parties that aims to demonstrate sustainability at a national scale. Developed to document sustainable performance for international customers, the system allows exporters to obtain shipment-specific certificates, using a mass balance approach. The measurement of sustainability is based on the analysis of existing data that state agencies regularly collect from farmers through various programs and for a variety of purposes. The initiative relies on US soybean production following a set of national conservation and sustainability regulations, with most soybean growers participating in a range of voluntary programmes. The protocol is said to reliably document sustainability in four key areas: sound environmental objectives; social responsibility; promotion of economic growth; and continuous improvement in technology and cultural practices.

Soybean seed royalties in Brazil: Reportedly, the country's largest cooperative of soybean growers has encouraged its members to drop their pending lawsuits against seed-company *Monsanto*. Farmers sued *Monsanto* for collecting royalties on improved soyseed between 2010 and 2012, claiming that the company's right to do so had expired in 2010. Farmers have been advised to withdraw their suits after *Monsanto* has offered to sell its newly developed soyseed (*Intacta RR2*) at a 16 percent discount to Brazilian farmers.

GM soybean: In the United States, a double herbicide-tolerant GM soybean variety developed by *Bayer CropScience* has received official clearance for commercial use. Reportedly, the new seed is unlikely to pose plant risks. In its environmental assessment, the concerned agency stated that weed control has become one of the main challenges in national soybean production, echoing concerns about the emergence of weeds resistant to glyphosate. The new soybean variety offers growers the possibility to use isoxaflutole herbicides in addition to glyphosate.

Environmental performance of biofuels including ILUC: Estimates produced by different sources regarding the GHG emission reduction potential of various biofuels – including the effect of indirect land use chances (ILUC) – continue to differ widely depending on assumptions made and econometric models used. A study recently published in the United States seems to confirm that an improved understanding of land use, crop yields and forest use – at a regionalized level – can significantly alter the GHG emission reduction values attributed to individual biofuel pathways. Representatives of the biofuel industry have reiterated that such divergence of results casts serious doubt on the use of ILUC parameters for policy making, notably in the European Union.

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

	International Prices (US$ per tonne) [1]					FAO Indices (2002-2004=100)		
	Soybeans[2]	Soybean oil[3]	Palm Oil[4]	Soybean Cake[5]	Rapeseed Meal[6]	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2004/05	275	545	419	212	130	105	104	105
2005/06	259	572	451	202	130	100	108	125
2006/07	335	772	684	264	184	129	148	153
2007/08	549	1325	1050	445	296	217	245	202
2008/09	437	849	682	409	206	156	145	180
2009/10	429	924	806	388	220	162	174	215
2010/11	549	1308	1147	418	279	215	256	221
2011/12	562	1235	1051	461	295	214	232	224
Monthly								
2011 - October	502	1216	995	378	243	194	224	194
2011 - November	491	1228	1054	353	224	191	235	186
2011 - December	476	1163	1026	346	227	185	227	182
2012 - January	500	1223	1062	371	234	193	234	189
2012 - February	512	1245	1100	385	255	199	239	192
2012 - March	542	1283	1152	426	287	209	245	205
2012 - April	575	1308	1182	474	335	221	251	225
2012 - May	570	1210	1081	492	330	217	234	235
2012 - June	570	1187	996	503	315	215	221	246
2012 - July	660	1234	1010	584	353	244	226	273
2012 - August	682	1254	994	619	365	252	226	285
2012 - September	669	1276	960	604	374	250	225	279
2012 - October	617	1183	844	555	359	233	206	264
2012 - November	595	1148	816	539	378	226	200	268
2012 - December	603	1153	772	553	396	229	197	279
2013 - January	591	1192	838	512	367	226	205	268
2013 - February	597	1164	862	513	381	228	206	266
2013 - March	588	1117	853	503	367	224	201	259
2013 - April	559	1099	841	521	300	214	199	266
2013 - May	498	1077	849	527	404	192	199	267
2013 - June	523	1036	858	551	321	198	198	271
2013 - July	514	997	838	568	304	191	191	271
2013 - August	514	995	824	564	277	189	186	269

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)

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, twelve selected oils and fats and seven selected cakes and meals.

Sources: FAO and Oil World