OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 37, July 2012

a) Global price review

The month of June has seen a downward adjustment - for the second consecutive month - in the FAO price indices for oilseeds and oils/fats, while the index for meals/cakes recorded yet another strong increase, indeed climbing to a historic record. While the increase in the oilseed price index has been negligible (less than one percent compared to the previous month), the oils/fats index has fallen by over 5%. International prices for meals, on the other hand, have strengthened by almost 5%.

Considering that supply and demand tightness for oilcrops continues to distinguish the current season, and is also anticipated to extend into 2012/13, the slight fall in the oilseeds index is mostly attributable to macro-economic factors, notably the prolonged Euro-zone debt crises and the ensuing, global economic uncertainty. Reports of larger than anticipated plantings in the USA (soybean) and Canada (rapeseed) also brought some relief to the market, as did the relatively subdued situation prevailing in the global cereals market.

International oils/fats prices continued to ease in response to weak external markets, including the sizeable fall in mineral oil prices, which in turn has lead to weaker demand for vegetable oils from the energy sector. In fact, this year, the expansion in global biodiesel production is forecast to slow down compared to last year. Finally, improved production prospects for palm oil in the second half of 2012, most notably in Malaysia, also contributed to the relaxation in oils/fats prices.

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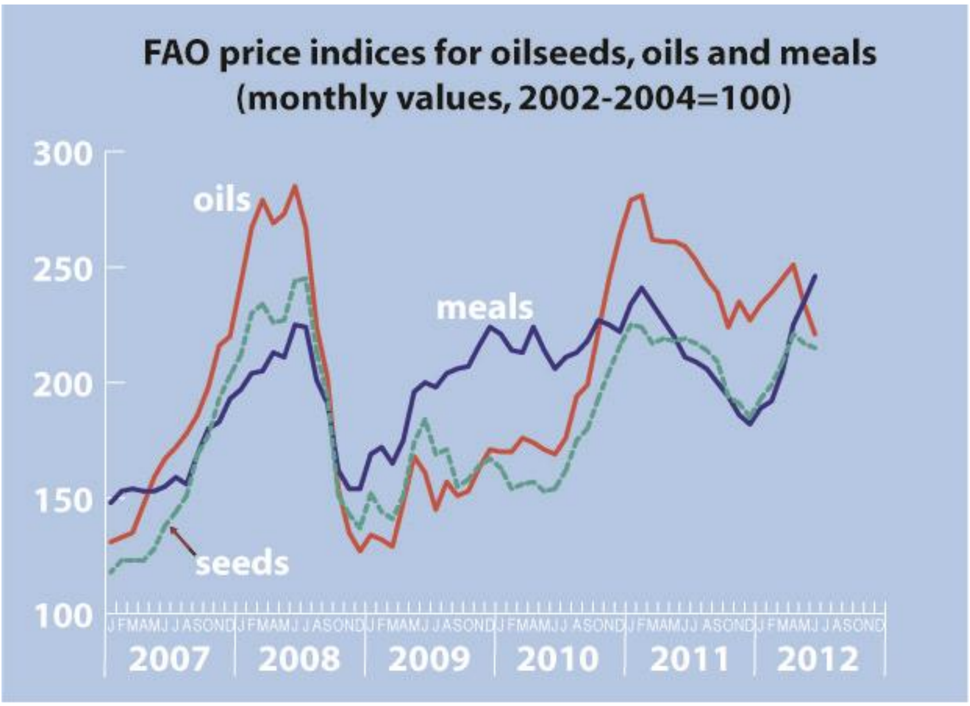

* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **June 2012**. 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*

The continued rise in the meal price index mainly reflects the current season's unprecedented decline in global soybean production. Further downward adjustments in South American soy production together with sustained demand from major importing countries are raising the market's dependence on the new US soybean crop, allowing current weather related concerns to translate directly into upward pressure on prices. Furthermore, reduced fish catches in Peru and Chile are expected to result in lower world fishmeal supplies, thus also contributing to the overall strength in prices.

b) Selected policy developments and industry news

BRAZIL – agricultural support 2012/13: Comparable to past years, in the 2012/13 federal budget, total outlays for agriculture will rise by around 8 % percent over 2011/12 levels. In addition to emphasizing production and marketing credits at subsidized rates - with special attention given to family farms as opposed to commercial enterprises as well as a drop in the government controlled interest rate from 6.75% to 5.5% - this year's budget includes improved borrowing limits for individual growers (up 30% compared to last season), increased support for medium size farms and cooperatives, and larger programmes for agricultural investments and rural risk management. The policy package also provides stimuli for the adoption of good agricultural practices, low-carbon agriculture as well as biofuel production, and promotes region-specific policy measures. Minimum farm gate prices for soybeans will remain unchanged from last season in all growing regions. SAFRAS 9.7

CANADA – biodiesel production: Unofficial sources have reported a marked expansion in the country's biodiesel production. Estimated at around 140 thousand tons in 2011, production is seen rising to 220 and 475 thousand tons in 2012 and 2013 respectively, based on on-going industry investments. Reportedly, tallow is set to lose its role as dominant feedstock: its share is estimated to drop from 60 percent last year to 38 percent this year and 32 percent in 2013, due to rising utilization of rape and soy oil. Nationwide implementation of mandatory B2-admixture (tentatively envisaged by end 2012) is supposed to result in an annual consumption requirement of approximately 515 thousand tons.

EUROPEAN UNION – GM soybean approval: EFSA, the EU agency responsible for technical approval of GM crops, has cleared, for the first time, the cultivation (as opposed to the marketing and consumption only) of a GM soybean variety. Following the agency's clearance, approval is now required by bloc's member states. Reportedly, EFSA's decision has been challenged by a German research firm that claims that residues remaining in the plants from spraying were not considered during the risk assessment (N.B. the variety's main trait lies in herbicide resistance).

INDIA - oilseed production support: For the second year in a row, the government has decided to grant a significant rise in minimum support prices for kharif (summer) oilcrops: the support price (per ton) of soybeans has been raised by 33% (to Rs 22 000 and 22 400 for black and yellow varieties respectively); for unshelled groundnut by 37% (to Rs 37 000); for sunflowerseed by 32% (to Rs 37 000); and for sesameseed by 24% (Rs 42 000). Support prices, are adjusted regularly to reflect rises in production costs with a view to protect farm incomes. Clearly, the recent hikes in support prices also aim to encourage domestic oilseed production so as to reduce the country's expanding edible oil deficit. By comparison, the support prices for paddy rice and for maize have only been increased by, respectively, 16 and 18 percent.

INDONESIA – palm oil export tax: Based on recent decreases in the international benchmark prices, the export tax Indonesia collects on crude palm oil has been lowered from previously 19.5% to 15% in July, the lowest rate since February this year. The new rate for palm olein is 7% (compared to 10% before).

PAKISTAN – sunflower seed support price: To further stimulate domestic production of sunseed and thus contain the rise in vegetable oil imports, the government has been urged to raise the support price for sunseed. Reportedly, crushers already agreed to purchase sunseed at Rs 2100 (per 40kg bag), while farm gate prices are currently reported to range between Rs 1600 and 2000.

PHILIPPINES – protein enriched copra meal: Research on enriching the nutritive value of copra meal is going to benefit from public funding in the Philippines. Reportedly, laboratory work and farm trials are underway about reducing the fibre level in copra meal while raising the protein content to 42 percent, which would allow partial replacement of soymeal in feed rations for swine and poultry.

PHILIPPINES – biofuel policy: Reportedly, the government agency responsible for the development of the coconut industry, PCA, has invited the country's inter-departmental Biofuel Board to consider raising the nationwide, mandatory admixture rate for (coconut oil-based) biodiesel from currently 2% to 5% before the end of this year. The proposal has been made in response to recurring hikes in mineral oil prices as well to stabilize the price of and incomes from copra, while making better use the country's coconut production potential. The proposed rise in the admixture rate would increase annual use of coconut oil for biodiesel production by 210 thousand tons, bringing the total amount consumed to around 350 thousand tons - or about one fourth of annual domestic coconut oil output. According to public officials, the sector could support higher demand provided the government's coconut palm planting/replanting programme, which relies on locally developed high yielding varieties and hybrids, was pursued.

TANZANIA – vegetable oil imports: To secure domestic supplies by facilitating imports and at the same time encourage domestic oilcrop production, the government first suspended the tariffs collected on vegetable oil imports (2009) and then exempted edible oil manufacturers using home-grown oilseeds from paying VAT taxes (2011). Reportedly, major edible oil manufacturers are now asking the government to also exempt imported oils from VAT taxation - a move which, according to local experts, would strongly discourage local production of sunflowerseed and other oilcrops.

UNITED STATES – agricultural and trade policy discussion

- Farm Bill renewal: As a first step in the pending renewal of the nation's farm spending package, the US Senate has passed its version of a new bill. The proposal envisages a USD 23.6 billion reduction in overall outlays in a 10-year period. The proposed cuts concern primarily the traditional commodity support programmes and, to a lesser extent, the conservation and food stamp programmes. Major changes from the current bill include the termination of direct and counter-cyclical commodity payments, consolidation in the existing conservation programmes, and restrictions in the distribution of food stamps (NB: the latter absorb 80 percent of spending under the current bill, due to a marked rise in the number of beneficiaries). To compensate for the proposed termination of customary support payments to farmers, greater reliance on crop and revenue insurance mechanisms is envisaged. In order to qualify for insurance, farmers would be required to practice risk management and soil/water conservation. Furthermore, the cap on payments to individual farmers would be reduced and farmers with earnings beyond given limits would not be eligible for support. While the proposed switch from direct payments to revenue insurance programmes has been welcomed by the national soybean farmers association, it has drawn criticism from groundnut growers. The next steps will be reconciliation with a version to be passed by the US House, followed by a vote in both chambers and, finally, presidential approval.
- Trade with the Russian Federation: Reportedly, in the wake of Russia's accession to WTO, the US Senate is reviewing a bill that would allow the establishment of 'permanent normal trade relations' with Russia, where

demand for soybean (and livestock) products is expected to be growing strongly. The US soy industry believes that such legislation would open up important new market opportunities. Thanks to its accession to WTO, Russia is expected to bind its agricultural tariffs, thus adding predictability to the country's trade behaviour.

VIETNAM – soymeal importation: Reportedly, a number of soymeal (and maize) consignments originating from India have been rejected recently at border due to insect infestation. Apparently, similar events were reported in 2011. Officials warned that unless resolved the issue could lead to an import ban. Several importers are said to have switched to other origins. India, together with Argentina, is one of Vietnam's key sources for soymeal, with annual shipments close to 1 million tons.

Biodiesel industry reorientation: The shift, over the last few years, in vegetable oil values to a higher plateau and the tendency, in a number of countries, to curtail direct government support for biofuel producers is said to pose new challenges for vegetable oil-based biodiesel producers worldwide. In the mid 2000s, during the rapid build-up in biodiesel capacity, production facilities were typically set up at low capital cost, featuring only basic refining options. Reportedly, today, in order to remain competitive, such units are under pressure to undertake additional investments that would allow them to, inter alia, process cheaper and lower-quality feedstock, keep in storage bigger amounts of feedstock, produce higher-quality biodiesel, or recycle and sell by-products. Adjustments that allow processing of lower-quality feedstock – such as animal fats or recycled oils, which are characterized by higher levels of free fatty acids – seem to be of particular interest to the industry.

Certified sustainable palm oil: Reportedly, supporters of RSPO-backed certification, including *World Wildlife Fund-Indonesia*, have identified a number of economic and other benefits arising from the adoption of sustainable production practices and formal certification: price premiums relative to conventional, non-certified produce ranging from USD 0,50 to 50,00 per tonne; improved access to overseas markets, with an estimated 25 percent increase in market penetration in Europe; reduced labour disputes and social conflicts along with more conducive work environments at plantation level; and increased productivity levels among small out-growers associated with large plantations.

Sustainable verified rapeseed oil: Reportedly, partnership between global food manufacturer *Unilever* and commodity supplier *Cargill* has resulted in a first consignment of 'verified sustainable' rapeseed oil. The two companies have joined forces to verify rapeseed production in Germany using Unilever's internally crafted 'sustainable agricultural code', which is said to optimize input use, maximize biodiversity protection, and to provide various other environmental benefits. *Unilever* aims at covering the entirety of its rapeseed oil needs through this channel during the next three years.

Soybean seed royalties in Brazil: A class-action case against *Monsanto Co.'s* practice to extract royalties from producers who use part of their harvested crop as seed, which originally came from sowing soybean seed that enjoys patent protection, is being heard in front of Brazil's second highest court. Reportedly, the court has ruled that - brought by producer groups in a southern state - the case would have national application once a decision was reached. The values involved in the case are estimated to total up to USD 7.5 billion.

Private palm oil investments:

- Brazil: Reportedly, the giant Brazilian mining group *Vale SA* announced the launch a major palm oil project in the Amazon region (Pará State) with the dual purpose of cutting the company's surging fuel costs (as well as reducing its environmental footprint) and helping regional development. Through the establishment of a 175 000 ha plantation on previously cleared land, by 2019 the company plans to produce 600 000 tons of palm oil annually – all of which, eventually, will be converted into biodiesel for the company's internal use, thus achieving a significant reduction in overall fuel costs. The recycling of various by-products is expected to improve the energy balance further. Reportedly, the project is fully in line with the government's development and environmental goals for the region, and the targeted area is not covered by environmental constraints. The company intends to extensively involve local people in all cultivation and processing activities. If fully realized, the project would lift Brazil's annual palm oil output to over 900 000 tons, close to the level presently produced by Colombia, the continent's leading producer. Apparently, the Amazon region has the potential to attract local as well as foreign investment into oil palm, also thanks to the fact that, recently, a major producer in the region managed to obtain RSPO sustainability certification *(see also MPPU no. 23 & 28).*

Ivory Coast: Official sources reported that *Cargill Inc.* is set to increase its presence in the Ivorian market via a major investments in oil palm. Reportedly, the company is planning to set up new plantations and industrial processing facilities worth USD 380 million.

For comments or queries
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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)								
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	550	1308	1147	418	279	215	256	221
Monthly								
2010 - October	496	1165	998	415	285	193	222	227
2010 - November	526	1248	1117	430	292	205	245	225
2010 - December	550	1321	1229	437	289	216	264	222
2011 - January	572	1384	1279	454	313	225	279	234
2011 - February	569	1366	1286	447	290	224	281	241
2011 - March	552	1305	1172	423	264	217	262	234
2011 - April	553	1310	1148	406	277	219	261	227
2011 - May	556	1291	1155	403	280	218	261	220
2011 - June	559	1321	1137	396	289	219	259	211
2011 - July	558	1345	1100	405	262	217	253	209
2011 - August	557	1327	1080	402	248	214	245	206
2011 - September	546	1310	1065	396	255	209	239	200
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

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