



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

No. 23, March 2011

a) Global price review

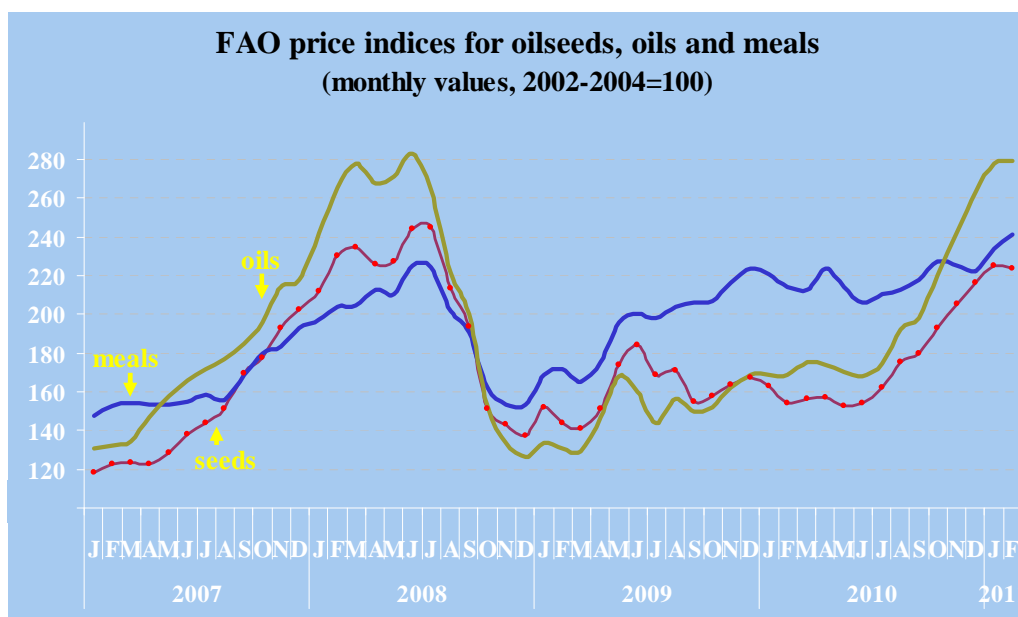
Following a series of sharp increases in prices in the oilcrop complex since the beginning of the current season, the month of February saw upward pressure on international prices coming down. In February, the FAO price indices for oilseeds and oils/fats remained about unchanged, while only the cakes/meals index rose further.

In the oilseeds market, upward pressure on prices has come to a halt upon positive news from South America, where, thanks to improved weather, soybean output is now expected to be considerably higher than anticipated earlier. Speculation about a possible contraction in Chinese soybean imports (as tighter monetary policies start weighing on demand) also influenced prices. On the other hand, continued tightness in the USA soybean balance amid further strong global export demand prevented prices from falling. Sustained rapeseed export demand, less than ideal

oilcrop growing conditions in Central and Eastern Europe, and backing from grain markets has also lent support to oilseed prices.

Oils/fats prices continued to be firm in historical terms as palm oil fundamentals remain unusually tight owing to depressed production and stocks in Asia, amid solid global export demand. Robust soyoil export demand, falling US soyoil stocks and rising mineral oil prices also sustained prices. Only towards the end of February prices weakened somewhat as the fading La Niña weather episode improved palm oil production prospects and because the market was expecting a slow down in export demand. The improved soybean production outlook has also helped calming the markets.

Meal prices, by contrast, strengthened further due to spillover effects from feed grain markets, sustained soymeal imports by Asia and the EU, and further tightening of fish and rapemeal supplies.



* 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 **February 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

BANGLADESH - edible oil import

incentive: After introducing retail price controls to protect consumers from the effects of soaring international vegetable oil prices, the government now decided to reduce the import duty on edible oils from 15% to 10%. There is concern that, with spiralling domestic prices, per caput consumption of edible oil could fall to critically low levels. Retail prices for palm oil (an essential food item) rose to levels not seen since March 2008, while overall monthly food price inflation has exceeded 10 percent. In a separate move, the country's banks have been asked to limit the interest rate charged on loans taken to import essential food commodities.

CANADA - mandatory biodiesel use:

Compulsory blending of conventional diesel with 2% biodiesel has come into effect across the nation in February.

CHINA - inflation control measures

- **Central Bank support:** Reflecting government concerns that rising food costs are contributing to the country's high inflation rate, China's central bank has announced that it will use monetary policy tools - such as refinancing and rediscount loans - to promote grain production and thus stabilize prices. Similar to rice and wheat flour, edible oil prices rose 8% since October of last year. Prices for food items make up 30% of the country's overall consumer price index basket.

- **Vegetable oil import duties:** Reportedly, relevant ministries have held consultations on whether to temporarily lower import taxes on soybeans and soya oil (to, respectively, 1% and 3%), while keeping palm oil duties unchanged (at 9%). The move would assist the country's crushing and refining industry in coping with rising world prices and hopefully

contribute to controlling domestic inflation. By leaving the duty on palm oil unchanged, shipments of that oil could suffer.

- **Public reserve sales:** In February, successful completion of another state auction of rapeseed oil from public reserves (the seventh since October of last year) has been reported. Allegedly, the auctions played a positive role in stabilizing prices.

EUROPEAN UNION - GMO traces in animal feed shipments:

After two years of negotiations, member countries agreed to grant technical clearance for change proposed to EU regulations on traces of unauthorized GMO in animal feed consignments. The current zero tolerance approach would be replaced by a new 0.1% tolerance threshold, which the industry considers to be more realistic and easier to implement. If introduced, the change could safeguard vital supplies of protein feeds (notably soymeal) to the EU. In 2009, shipments of soymeal to the EU came to a temporary standstill following the detection of (unauthorized) GMO traces at European ports.

EUROPEAN UNION - ban of animal by-products in livestock feed:

A partial easing of the bans introduced in the mid 1990s (to combat BSE risks) will have to wait at least until the end of this year. While the ban on using animal protein (i.e. meat and bone meal or MBM) in feed destined for ruminants as well as the prohibition of intra-species feeding will remain in place, plans are under consideration to allow farmers to feed MBM from pigs to poultry and vice versa. In case of approval, partial lifting of the bans would allow the EU feed and livestock industries to significantly cut their costs and to lower the block's reliance on imported soybean meal.

INDIA - oil palm expansion: The industry expressed doubts regarding recent government initiatives to encourage oil palm cultivation and thus lift palm oil output to 4 million tons over the next 5 years. According to SEA, oil palm cultivation faces important hurdles, including insufficient irrigation facilities. Furthermore, legal impediments and the fact that oil palm does not enjoy plantation crop status are said to discourage private sector investments.

INDIA - import duties on vegetable oils: The government informed that the country's duty structure for edible oils will remain unchanged, with crude oils attracting zero duties and refined produce charged 7.5% so as to protect domestic refining industries. Considering the strong rise in world prices and, consequently, in domestic edible oil prices, industry sources were expecting a reduction in tariffs for refined oils. Government officials stated that the duties were not contributing to food-price driven inflation and pointed to recent signs of easing inflation. The only tariff change introduced concerns crude palm stearin, whose 10% duty will be discontinued. The duty elimination is not expected to have a noteworthy effect on stearin markets.

INDIA - edible oil and oilseed marketing controls: With food prices still high, the government may decide to retain limits imposed on the volume of edible oil and oilseeds (as well as sugar) that traders may hold in stock. The limitations, which are meant to check hoarding and thus price rises, is due to expire in March. On edible oil and oilseeds, stock holding restrictions are currently applied in 18 federal states. Edible oil prices were reported to have risen about 25% nationwide since November last year, mirroring the rise in international prices. To date, several fiscal and monetary measures have been tried to bring down the prices for basic foodstuffs.

INDIA - vegetable oil procurement: Reportedly, to assist low-income consumers affected by spiralling prices, the government decided to step up domestic purchases of edible oils (as well as pulses) for distribution under public welfare schemes.

INDIA/MALAYSIA - free trade pact: The newly signed free trade agreement (which expands on the India-ASEAN trade pact that came into effect January 2010) includes significant additional tariff concessions for Malaysia's palm oil exports to India.

INDONESIA - soybean consumer price: Reportedly, the government measure of temporarily suspending soybean import duties has yet to result in the hoped for stabilization of domestic retail prices. Apparently, the government is closely observing the market to decide on further policy steps to be taken.

INDONESIA - palm oil export tax: During March, export taxes in the palm oil complex will stay at the record level established in February. Custom officers reported that spiralling prices for crude palm oil have led to an extraordinary increase in the country's export tax revenues. In January alone, the export tax collected amounted to 48% of the target set for the entire year. Given the hike in palm oil prices, the government has stepped up the control of deliveries to the national market to ensure that domestic demand is met.

LIBYA - edible oil taxes and duties: Concerned about the impact of rising prices on consumers, the government decided to suspend sales taxes and custom duties on domestically produced and imported vegetable oils (as well as wheat products and rice).

MALAYSIA - minimum wages for oil palm plantation workers: Reportedly, the Human Resources Ministry started discussions with government linked palm oil companies with the aim to raise wages for local and foreign plantation workers. Officials stated that workers deserved improved wages, mirroring the good prices fetched by palm oil.

MALAYSIA - palm oil export earnings: Reportedly, the country's revenue from plantation crop exports has climbed to a new record last year, surpassing the 2008 record. Earnings rose as global demand for vegetable oils, rubber and cocoa surpassed supply, leading to higher world prices. To a certain extent, higher demand was also fuelled by the appreciation of the Ringgit against the US dollar, the currency in which exports tend to be denominated. Palm oil accounted for the bulk of last year's plantation crop export earnings.

MALAYSIA – oil palm seed market: Malaysia is estimated to produce close to 90 million oil palm seeds per year. About two thirds are for domestic use, while the remainder enters exports. The country is a world leader in oil palm breeding and cloning programmes and owns some of the highest yielding varieties. Since the 1970s, exportation is prohibited to ensure domestic supplies as well as to protect related IPRs. Current exports are restricted to Malaysian companies operating overseas and to government-to-government trade with selected countries, including Colombia, Honduras, Indonesia, Sierra Leone and Thailand. Reportedly, one of the country's leading seed producers (Felda Agricultural Services) is proposing to drop the existing seed export ban. Allegedly, the country now produces enough seed to cater for both domestic use as well as the export market. Overseas demand for certified seed is said to be huge, with Indonesia and Africa alone

requiring, respectively, 130 and 50 million seedlings per year.

PAKISTAN - vegetable oil import duties: Contrary to earlier announcements, import duties on palm and soya oil will remain unchanged, according to industry sources. Late last year, duty cuts had been envisaged with a view to halt the escalation in food costs. Allegedly, the government is determined to retain the revenue derived from import taxation.

RUSSIAN FEDERATION - soybean market: Reportedly, domestic soybean producers have expressed concern over recent imports of soybean meal by a state grain trader. Foreign purchases have been justified by the growing domestic shortage in feed grains. Concerned that local feed manufacturers might increasingly rely on imported protein feeds, soybean producers in the southern Kuban region, who produced a record crop this season, have approached the local government asking for protection.

SOUTH KOREA- soybean state reserves: Reportedly, the government announced the inclusion of soybeans (as well as wheat and maize) in public reserves in addition to rice. The measure aims at stabilizing domestic supplies of basic foodstuffs while global supplies are tight and world prices rise.

SRI LANKA - fertiliser subsidization: Reportedly, the government is implementing a new scheme to distribute fertilizer to coconut farmers at a reduced prices. The measure is meant to allow growers to raise production, thus taking advantage of the current record world prices for coconut products.

THAILAND - palm oil consumption policies: Following up on earlier announcements, the government has implemented several measures to address

the domestic shortage in palm oil: (i) crude palm oil originally reserved for biofuel production is being refined into cooking oil; (ii) palm oil stocks held by the private sector are being turned into cooking oil and distributed at discounted prices by the Public Warehouse Organization; and (iii) crude palm oil is being imported with government permission. State ordered refining operations are subsidized to ensure that end prices do not exceed the ceiling set by the government. As to foreign purchases, special import permits amount to a total of 120 000 tons. Shipments have been restricted to February and March in order not to interfere with new local supplies expected from April onward. The distribution of foreign palm oil to food industries and other domestic users is centrally controlled.

UKRAINE - voluntary sunflower oil export restriction: Reportedly, to avert the threat of formal export restrictions, the industry has agreed to temporarily cut sunflower oil exports so as to increase supplies to the domestic market. The government considers part of domestic output as a social good whose price is not allowed to exceed a given level. Following the recent surge in prices, one oil producer has come under investigation for possible abuse of market monopoly.

Global soybean market pattern - role of the United States and China: Concentration in the global soybean market continued to increase in recent years, as the example of the United States and China demonstrates. Last year, China turned into the USA's largest market (in value terms) for agricultural exports, primarily on the account of soybeans. For certain products, notably soybeans (but also vegetable oil, sugar and cotton), China has become highly dependent on imports, while reliance on international markets remains minimal in the case of the other main staples, rice, wheat and maize.

Different from the past, the country is making full use of both, the domestic and overseas markets to achieve food security. As a result, China's influence on world markets has increased greatly as well as vice versa. For instance, China's soybean import demand is increasingly influencing the world soybean price, while general increases in world prices started affecting markets in China, exposing the country to imported inflation.

Oil palm expansion - Brazil: Global agribusiness firm *ADM* is joining the list of oil palm investors in the state of Par . The planned investment aims at diversifying the company's feedstock options for biodiesel production. Over the next five years, 12 000 ha of palm will be developed along with a processing plant. The company is dedicated to using environmentally and socially sustainable production practices. As part of Brazil's *Social Fuel Stamp* programme, *ADM* has committed to purchasing produce also from approximately 600 small family farms (cultivating 6 000 ha) in the neighbourhood, providing them with technical assistance and guidance on sustainable production methods. *ADM's* plantation and processing facility will conform to relevant *RSPO* guidelines.

Vegetable oil-based aviation fuel: European carrier *Lufthansa* is set to start a six-months trial with scheduled commercial passenger flights powered partly by renewable fuel. The company is waiting for the 50/50 blend of vegetable oil-based biofuel and traditional kerosene to be certified by regulators.

New private-public partnerships:

- Mexico: sustainable small-scale sunflowerseed: The *Inter-American Development Bank* and *PepsiCo* will join forces in a social development initiative to revive sunflower production in Mexico. The 5-year partnership includes the

provision of loans, management support and technical assistance to small farmers. *PepsiCo* is committed to purchase the farmers' entire crop over 7 years, thereby securing the supply of edible for the company's production of snacks in the country. Production will be based on high-oleic sunflower varieties that valued for their special health properties.

- Indonesia: forest conservation in oil palm: Indonesian oil palm business *Golden Agri-Resources Ltd* has entered a multi-stakeholder partnership involving the Government of Indonesia and *The Forest Trust* that aims at achieving long-term sustainability in its palm oil operations - in both, environmental and social terms. In an effort to find solutions towards forest conservation, the development of high carbon stock forests, high conservation value forest areas and peat land will be subject to strict controls. In addition, free, prior and informed consent for indigenous and local communities will be guaranteed as will compliance with relevant laws and national interpretations of RSPO principles. The company committed to regularly evaluate and publicly report its performance in these areas.

Rapeseed - blackleg disease control: By sequencing the genome of the blackleg fungus, a French-Australian research team has made a significant step towards controlling the blackleg disease, which causes widespread damage to rapeseed cultivation worldwide. The discovery will help to improve disease resistance in

rapeseed varieties and will allow to tell farmers which varieties they should plant to prevent crop damage. Reportedly, in 2003, the disease caused 90% yield losses in some regions of Australia, and since 2009, China requires rapeseed imports to be certified 100% disease free to prevent the fungus from spreading in its territory.

Environmental footprint of plantation crops: A new international research project called *Stability of Altered Forest Ecosystems (SAFE)* has been launched in Malaysia with government backing. The project will look into the effects of forest fragmentation and the impact plantations have on biodiversity. The private foundation that is funding the project (and has links to oil palm business) committed to publish all research results and to promote corrective action if required. Meanwhile, an international NGO has issued a report claiming that oil palm expansion in Borneo Island continues to include conversion of carbon-rich peat swamp forests.

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	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)</u>		
	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	807	389	221	162	173	215
Monthly								
2008 - October	394	928	545	338	156	151	153	162
2008 - November	378	824	488	323	155	143	133	154
2008 - December	366	737	508	307	172	137	126	154
2009 - January	411	788	553	369	202	152	134	169
2009 - February	386	744	571	378	215	144	131	172
2009 - March	380	728	590	346	208	141	129	165
2009 - April	410	802	699	383	220	151	147	175
2009 - May	472	893	799	441	230	174	168	196
2009 - June	504	894	734	445	227	184	160	200
2009 - July	467	834	641	428	186	169	144	198
2009 - August	474	891	722	437	186	171	156	204
2009 - September	424	850	676	428	192	155	150	206
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

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