



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

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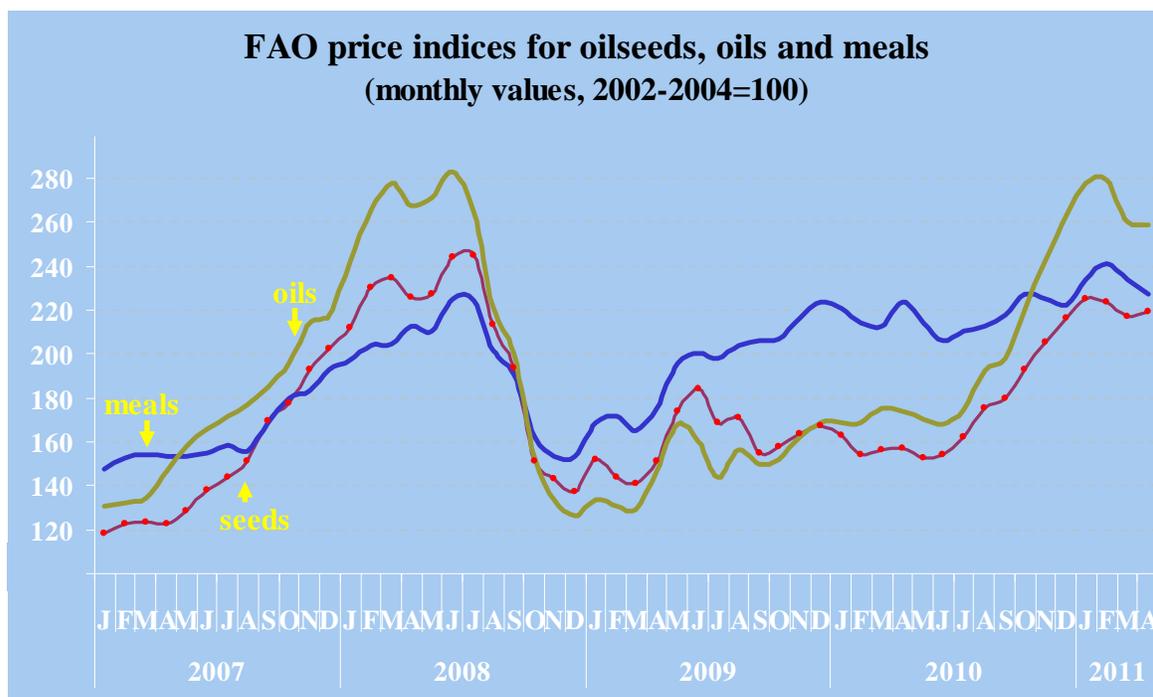
a) Global price review

After falling significantly in March, in April, the FAO price indices for oilseeds and oils/fats stabilized, while the index for meals/cakes recorded a slight further fall.

In the oilseeds market, several factors supported international prices: persistent supply and demand tightness in the United States (possibly lasting into the next season); a likely year-on-year reduction in imminent US soybean plantings; rapeseed crops in the EU and Canada suffering from unfavourable weather; and spill over strength from maize and grain markets. However, other drivers pulled into the opposite direction: ample and larger than expected South American soybean harvests substituting for fading US supplies; low

crush margins in the United States and China; a slowdown in world import demand for soy (in particular in China); and a halt in the depletion of global stocks.

In the case of oils/fats, the stabilization of prices stems primarily from a strong recovery in palm oil production and rising inventories in Southeast Asia. Meanwhile, soybean oil prices remained about unchanged, with concerns about plantings in the United States being compensated by the news of ample harvests in South America. Fish oil values dropped heavily due to the marked recovery in South America's fish catches, combined with good oil yields. Meanwhile, prices for rape, sunflower and copra oils remained strong because of continued supply and demand tightness.



* 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 **April 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

ARGENTINA - foreign land ownership:

Concerned that overseas investors could control a significant percentage of the country's farmland, the government reiterated plans to limit the amount of farmland foreigners can buy. Apparently, with global commodity prices rising, foreign investment in fertile farmland in Argentina and Brazil is increasing, leading, inter alia, to rising land prices. Reportedly, Brazil, Uruguay and Paraguay already took steps to retain control over land ownership. In the countries concerned, the agricultural sector contributes significantly to export earnings and tax revenues. Under Argentina's proposed policy, foreign land purchase ability could be restricted to 1,000 hectares. Past land acquisitions would not be affected. Recently, we reported about negotiations between Argentinean authorities and investors from China over the development of 200,000 ha of soybeans (MPPU October 2010).

ARGENTINA - trade control: The agricultural ministry assured the industry that the government was not considering to create a national grain board controlling trade, and in particular the exportation of maize, oilseeds or oilseed products. He added, that, however, the administration stood by its intervention in agricultural markets to ensure adequate domestic supplies.

AUSTRALIA - draft palm oil labelling bill: Tabled in parliament last year, the proposed bill calls for specific labelling standards being applied to food products that contain palm oil. Under current labelling laws, palm oil (which is estimated to be used in approx. 40 % of food products) falls under the generic label "vegetable oil". Under the proposed bill, consumers would be specifically informed about the inclusion of palm oil in foods.

Furthermore, the use of certified sustainable palm oil (conform with RSPO criteria) would be encouraged. In a public hearing, Malaysian officials criticized the bill stating that it was based on misleading claims, that palm oil would be singled out as the only product with mandatory labelling for reasons not related to health or nutrition, and that palm oil would be classified as a single generic product based on the environmental impact of production methods without differentiating between countries of origin. Malaysia's extensive forest and wildlife preservation policies were also illustrated. As to the bill's recommended use of certified sustainable produce, attention was drawn to the high cost of certification, especially for smallholder producers.

AUSTRALIA - special biodiesel duties:

The country introduced anti-dumping duties on imports of biodiesel from the United States. Triggered by complaints from local biodiesel producers, an official investigation found that shipments of subsidised biodiesel had been sold to Australia, harming the domestic industry. Australia itself currently offers a tax break worth around A\$ 0.40 per litre to producers and importers of biodiesel. The measure is scheduled to expire in June this year. Australia's anti-dumping initiative is very similar to measures introduced in the European Union.

BRAZIL - biodiesel policy: Compared to the previous administration, the new government is reportedly taking a more moderate stance regarding domestic biodiesel production and utilization. The new trend is said to reflect concerns about the country's high dependence on soybean as feedstock (at a time of tight supplies and high prices in Brazil and worldwide) as well as about insufficient supplies of alternative oils as raw material for biodiesel. Reportedly, last year the biodiesel industry absorbed as much as

25% of total domestic soyoil output - compared to less than 5% three years earlier. The second most used feedstock is tallow, part of which is imported into the country. Reportedly, the government negotiated with the biodiesel industry to delay the introduction of mandatory B7 admixture (originally planned for January 2011) by at least 6 month, thus keeping in place the B5 level. In the meantime, measures will be taken to encourage production of alternative vegetable oil feedstock for biodiesel.

CHINA - sales from state reserves:

Reportedly, state auctions aimed at cooling the rise in food prices have continued.

- **Soybean seed:** Following two auctions in March that failed to attract buyers' interest due to high floor prices, in April, auction prices were set at levels attractive to crushers, i.e. Yuan 3500 per ton, which was about Yuan 200 below the market value of soybeans imported from Brazil. According to trade sources, crushers buying from state reserves at discounted prices have agreed to cap retail prices for soybean oil at some Yuan 1000 less than the current market price, thus contributing to government efforts to control continued food price inflation. Reportedly, the on-going sale from state reserves could amount to up to 3 million tons, which, if confirmed, could lead to the deferral or cancellation of several import orders.
- **Rapeseed oil:** Auction of state reserves continued in April. Reportedly, part of the sales was reserved to state-owned refining companies. Auction prices were reported to range between Yuan 8900 and 9600 per ton (which compares to market values around Yuan 10100), with the lower price being reserved for state-owned companies that committed to keeping edible oil prices stable for another two months. Private sources estimate that cumulative sales during the current season to amount to 1.5-2 million tons. During the forthcoming season, public stockpiling

could be scaled down due to the expected higher rapeseed prices.

- **Soybean oil:** Public soybean oil reserves have been estimated at 2.2 million tons in mid April.

CHINA - retail price control: Reportedly, the government decided to extend the 3-months cap on vegetable oil retail prices that was pushed on leading crushing and refining companies last January with a view to control food price inflation.

CHINA - biofuel policies: Official sources reiterated the country's decision to limit all uses of grains and edible oils for biofuel, alcohol and other non-food/feed purposes. The move confirms the country's determination to protect domestic supplies of staples products for human and animal consumption.

ETHIOPIA - edible oil sales: Reportedly, domestic markets have run out of edible oil supplies, which depend heavily on imports. Since retail price caps have been introduced last January to protect consumers, importers found it increasingly difficult to market vegetable oils, the prices of which have surged in international markets. To break the deadlock, the government reportedly decided to buy all palm oil stocked by traders and release it onto the market, shouldering the losses resulting from price differentials. The country's edible oil market is expected to be dominated by government sales for the remainder of this year.

EUROPEAN UNION - energy taxation policy: Reportedly, the European Commission is set to table a proposal to reform energy taxation throughout the Union. The proposal aims at improving coherence and creating a level playing field for all types of fuels, including environmentally friendly biofuels, thereby helping the bloc to achieve climate change objectives. The new directive would

separate fuel into two taxable components based on their CO₂ and energy content, rather than being solely based on volume as at present. The proposed regime could alter the tax structure for different types of fuels, with important repercussions for automotive industries and other industrial sectors as well as for (currently tax exempted) agricultural producers. The draft law would need to be approved by the European Parliament and Council.

INDIA - edible oil marketing controls:

Scheduled to expire in last March, the limits imposed on the volume of edible oil and oilseeds that traders may hold in stock have now been extended until the end of September. The limitations are meant to prevent hoarding and thus price rises as well as to facilitate state procurement when domestic supplies are tight.

INDONESIA - palm oil export tax:

Mirroring a further drops in the international price of palm oil, in May, the country's sliding export tax on crude palm oil will be lowered from previously 22.5 to 17.5%. The local oil palm industry continued to criticize the taxation system, claiming that it hampers trade and discourages investment.

KENYA - GM crops: Reportedly, Kenya is set to join the list of African countries in favour of growing genetically modified crops. According to the press, the long awaited Biosafety Act and respective regulations could come into effect this month. Under the new policy, the National Biosafety Authority will be responsible for granting licences to producers of GM crops proven to have no negative effects on the environment. According to official sources the controversial technology can help addressing food shortage in the country. In Africa, cultivation of GM crops is already allowed in Egypt, Burkina Faso and South Africa.

TANZANIA - edible oil production:

Reportedly, the removal of import duties on vegetable oil in 2009 has made production of edible oil from locally grown seeds (mainly sunflowerseed) unprofitable. To correct this situation, the government recently decided to exempt oil manufacturers using home-grown seeds from paying VAT. Apparently, the move has resulted in a strong rise in the demand for local oilseeds and, eventually, to acute shortages. The ensuing sharp increase in prices reportedly has forced most of the country's edible oil processors to suspend production. Eventually, the observed rise in prices and demand should act as a strong incentive for domestic oilcrop production.

THAILAND - palm oil consumption

policies: Shortage of palm cooking oil in the domestic market is reported to persist. Concerned about adverse effects on consumers, the government decided to indefinitely postpone the planned shift in mandatory biodiesel blending from B3 to B5, and even ordered a cut in the mandate from B3 back to B2 during the months of March and April.

THAILAND - soyoil retail price: At a meeting between the state committee overseeing product prices and edible oil manufacturers an agreement has been reached to raise the price for one-litre bottled soybean oil from Baht 46 to 55. The adjustment was made to reflect recent rises in production costs, in particular the higher cost of imported soybeans. The new retail price shall remain in effect for at least three months. The manufacturers' original request for a stronger price hike was rejected as it would have posed too heavy a burden on consumers. Palm oil producers refrained from asking for similar upward adjustments, which leaves the retail price for palm oil at Baht 47.

UNITED STATES - imports of substandard olive oil: According to study recently completed by a renowned university most olive oils imported into the US fail to meet the international criteria for “extra virgin olive oil” but still find their way to the retailers’ shelves labelled as such and sold at a premium. While excellent imported and domestically produced olive oils are available in the market, many of the country’s top selling imported olive oils reportedly failed to pass the relevant chemical and sensory tests. In the US, demand for “extra virgin” olive oil has enjoyed steep growth rates in recent years and nearly 100% of olive oil consumed in the country is reported to come from imports.

UNITED STATES - soyfoods market: Reportedly, sales of convenience foods made from whole soybeans or soy protein ingredients continued to experience strong growth even if the overall category has matured during recent years. Although the soyfoods market faces a number of challenges, demand growth is forecast to continue in the near term thanks to positive market drivers such as further rising consumer interest in meat-free foods and revised federal nutrition guidelines.

Investment in jatropha: Further investment in *jatropha curcas* as biodiesel feedstock is reported from South America. In Peru, *Heaven Petroleum Operators SAC* (allegedly the country’s largest biofuel producer) has announced the development, over the next 10 years, of 50 000 ha of jatropha in the southern, semi-arid region of Ica.

Jatropha aviation fuel: A study prepared by a respected academic institution and funded by *Boeing* sees jatropha-based biodiesel as a potential substitute for traditional jet fuel. The report states that jatropha can deliver strong environmental and socioeconomic benefits as it is

normally grown on land unsuitable for farming. According to the study jatropha fuel allows GHG emission reductions of up to 60% when compared petroleum-based jet fuel. Faced with constant rises in fuel prices and calls to become more environmentally responsible, civilian as well as military aviation have shown increased interest in jatropha fuel.

Certified sustainable palm oil: RSPO decided to suspend the certification process for an important palm oil plantation in Malaysia until an on-going dispute with natives over plantation land is resolved. The company, which has been given a deadline for reaching an equitable solution over compensation issues, accepted the decision and is working closely with RSPO to find a solution fair towards all parties. Reportedly, this is the second time a company breaching RSPO principles is facing censure. The case is putting to test RSPO’s capacity to implement voluntary dispute resolution mechanisms and sanctions that are acceptable to its entire membership. Meanwhile, consumer good manufacturer *Unilever*, which buys palm oil from the plantation company in question, said that it might review its buying position if the supplier failed to address the alleged violations.

Lending framework for global oil palm development: After an 18-month moratorium on lending for new palm oil investment and extensive consultations with a wide range of stakeholders, the *World Bank/IFC Group* adopted a new framework and strategy for future engagement in the global palm oil sector. The Group recognizes the potential of palm oil production to contribute to poverty reduction - provided good environmental and social practices are followed - and hopes to make a contribution to strengthening the sectors’ sustainability. Future lending by the Group will focus on four key areas: (i) regulatory

and governance reforms, (ii) responsible private investments, (iii) improved benefit sharing with smallholders and communities, and (iv) development and widespread adoption of environmentally and socially sustainable standards and codes of practice. Priority will be given to (a) institutional and market initiatives that support smallholders and foster benefit sharing with rural communities, and (b) initiatives that encourage production on degraded lands and seek to improve productivity of existing plantations.

New screening and assessment procedures will also be introduced to enable appraisal of opportunities and risks around issues of land use and acquisition, governance, community concerns and working conditions.

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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								
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
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)								
<p><i>Note:</i> 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.</p> <p><i>Sources:</i> FAO and Oil World</p>								