



## *OILSEEDS, OILS & MEALS* MONTHLY PRICE AND POLICY UPDATE \*

*No. 118, May 2019*

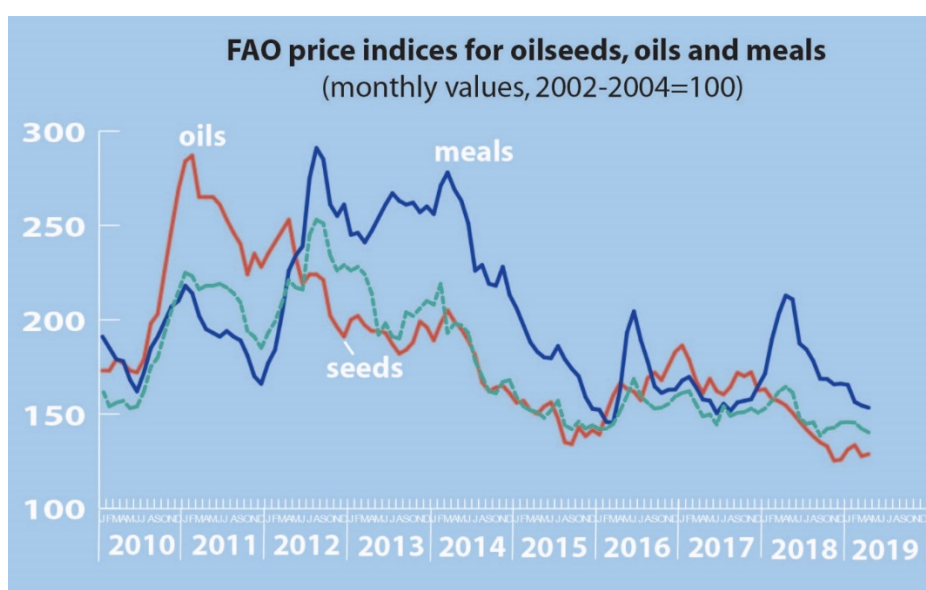
### a) Global price review

In April, FAO's price indices for oilseeds and oilmeals continued to decline, shedding, respectively, 1.9 and 1.2 points (or 1.4 and 0.8 percent), while the index for vegetable oils notched up 1.1 points (or 0.9 percent). Remaining below their respective year-earlier levels, all three indices lingered around historical lows.

The latest drop in the oilseed index extended the downward trend observed in oilcrop prices since the start of 2019, reflecting weakening soybean and sunflowerseed values. International soybean quotations contracted for the fourth consecutive month in April, underpinned by: i) better than earlier-anticipated harvests in Brazil and Argentina thanks to improved pre-harvest weather conditions; ii) subdued global import demand, linked to growing concerns over the negative impact of African Swine Fever in China; iii) prolonged trade negotiations between the

United States and China characterized by lingering uncertainty; and iv) indications that overly wet sowing conditions for maize in the United States could result in higher soybean acreage than originally planned. Concerning the United States, this season's exceptional market and policy environment makes forecasting area planted particularly challenging. In fact, some farmers may consider to keep part of their land fallow and apply for 'prevented planting' payments under the government's Common Crop Insurance Policy scheme. World prices of sunflowerseed also weakened somewhat in April, as good planting progress in the Black Sea region (aided by favourable weather conditions) and prospects of abundant global supplies weighed on market sentiment. By contrast, international rapeseed prices stabilised after falling for two months in a row, underpinned by concerns over increased pest pressure and recent dryness in parts of Europe, as well as by reports of lower than

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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 official and unofficial sources. Section b) of the present issue covers developments observed during **March** and **April 2019**. 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/>.

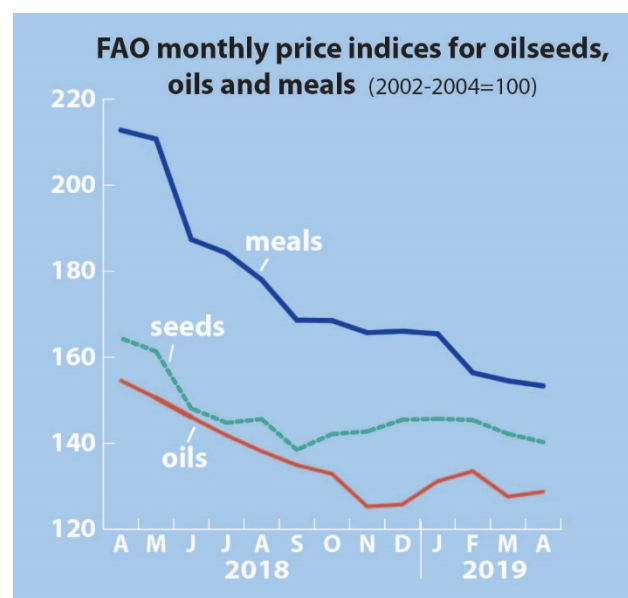
## Global price review – *cont'd*

earlier expected planting intentions for the new crop in Canada – stemming from recent trade tensions with the country's main buyer, China.

FAO's oilmeal price index largely followed the course of the oilseed index, falling for the fourth successive month and marking a 20-month low. Besides the aforementioned subdued demand for protein meals (fuelled primarily by problems in China's pig sector), increased soybean crushing in Argentina – the world's leading soymeal exporter – also contributed to downward pressure on international prices.

As to the global vegetable oil market, the modest rebound in FAO's price index mainly reflects slight gains in palm and soybean oil values, whereas prices for sunflower and rapeseed oils remained virtually unchanged. International palm oil quotations rebounded somewhat in April, as global import demand picked up in a number of countries, particularly in the Near East region, amid preparations for the forthcoming Ramadan festivities. In addition, with production growth poised to slow down in major exporting countries, inventories are anticipated to gradually ease from the burdensome levels recorded earlier in the season. Soyoil prices also inched up, underpinned primarily by robust domestic demand in the

United States, stemming from both the biodiesel and food sectors. This is despite persistently strong crushing activities due to positive processing margins. In general, vegetable oil prices also received support from continually firm crude oil values, which fuelled further growth in renewable biodiesel production. However, the upward trend in prices spared rapeseed and sunflower oil, mainly reflecting, uncertain prospects for Canadian rapeseed oil exports to China and ample global supplies of sunflower oil resulting from upbeat crushings in the Black Sea region.



## b) Selected policy developments and industry news

### **ARGENTINA – export promotion:**

The Government informed that it would support efforts by the country's oilseed processing industry to promote sales of Argentine soy and sunflowerseed oil to India.

### **ARGENTINA – market regulation:**

With a view to curb soaring inflation, on 17 April, the Government decided to freeze the retail price of selected food items including cooking oils, for

a six-month period.

### **BRAZIL – environmental policy:**

The Government launched a six-year programme focusing on environmental conservation and restoration initiatives and on the adoption of low-carbon farming practices by agricultural producers in the country's ecologically fragile Cerrado region. Jointly coordinated by the country's Forestry Service and the Ministry of Agriculture, the new programme will be implemented jointly with farmer organizations and specialized national institutes, with financial

and technical support from the World Bank and the German International Cooperation Agency (GIZ). Under the programme, some 4 000 farmers will be assisted in the adoption of environmentally friendly, economically viable production systems. (See also *MPPU Dec'18 & Jan./Mar.'19*)

**BRAZIL – biofuel policy:** The rise in mandatory blending of regular transport diesel with biodiesel from 10 percent to 11 percent that was originally scheduled for June 2019 (see *MPPU Dec.'18*) has been postponed to the second half of the year, according to local media. Reportedly, the delay was triggered by unexpected complications faced in automotive test with blends containing 15 percent of biodiesel.

**BRAZIL – producer support:**

The Ministry of Agriculture informed that, during the 2018/19 crop cycle, soybean farmers participating in government-supported crop insurance schemes received more than BRL 1 billion (USD 249 million) in indemnities following crop failures due to unfavourable climatic conditions. Reportedly, in 2018/19, total government outlays for soybean-specific insurance contracts amounted to BRL 157 million (USD 39 million).

**BRAZIL – freight rates:** According to industry experts, Brazil's policy makers are considering to raise the government-set minimum truck freight rates in response to recent surges in the wholesale price of diesel (see also *MPPU Oct.'18*). Trade sources pointed out that the rates currently under consideration could add BRL 50–80 per metric tonne (USD 12–20) to the cost of shipping grains from the country's interior to the ports.

**CANADA – producer support:**

The Government informed that it would offer financial assistance to rapeseed farmers affected by China's recent decision to suspend the import permits of selected Canadian rapeseed suppliers (see below). More specifically, for 2019, the Government plans to raise the maximum amount of federal loans available to individual farmers from CAD 400 000 (USD 299 000) to

CAD 1 million (USD 747 000), while, for rapeseed growers, the interest-free portion of such loans would be increased to CAD 500 000 (USD 373 000), compared to CAD 100 000 (USD 75 000) at present. Furthermore, the application deadline for a federal income stabilization programme would be extended by two months. The Government will also support efforts to diversify into other export markets – given that, currently, about 40 percent of the country's exports of rapeseed, oil and meal are destined to China. In particular, Canada's Trade Ministry intends to launch trade promotion missions to Japan and the Republic of Korea. Meanwhile, based on a recent official survey, Canada's rapeseed plantings could drop to a 3-year low this season – in part fuelled by farmer concerns over export prospects.

**CANADA – import policy:** Canada's Food Inspection Agency introduced stringent quality requirements for selected feed ingredients – including oilseeds and associated meals – imported from countries identified as posing potential concerns with regard to African Swine Fever.

**CHINA – import policy**

- **Rapeseed:** China's Customs Authority suspended the import permits of selected Canadian rapeseed suppliers, citing phytosanitary concerns. The measure, which has led to a virtual standstill in China's rapeseed purchases from the world's largest supplier, is expected to severely affect Canada's rapeseed industry, considering that China is Canada's top export market for rapeseed, rapeseed oil and meal.
- **Distillers grains:** Following up on a request received from a U.S. grain trade association, China's Commerce Ministry is evaluating the possibility of reviewing the anti-dumping and countervailing duties applied by China on imports of distillers grains (DDGS) from the United States since 2016 (see also *MPPU Feb. & Dec.'17*). The U.S. industry's request was submitted while the two countries were engaged in comprehensive bilateral trade negotiations.

#### **EUROPEAN UNION – food standards/safety:**

The proposal to set an EU-wide maximum limit for harmful trans fats in food product received final approval by the European Commission (*see MPPU Dec. '18*). Under the new regulation, as of April 2021, the amount of industrially-produced trans fats in processed foods may not exceed 2 grams per 100 grams of fat.

#### **EUROPEAN UNION – biofuel policy:**

On 13 March, the European Commission formally adopted the sustainability criteria for biofuels it presented back in February (*see MPPU Mar. '19*). The regulation remains subject to scrutiny by the European Parliament and Council. While the new rule would not prevent member states from using and importing biofuels listed in the 'high ILUC-risk' category, notably palm oil-based biodiesel, member states would not be able – with a few exemptions – to count these towards their national renewable energy targets. The Commission is expected to review, by mid-June 2021, all aspects of the new regulation, in particular the criteria for certifying certain biofuels as 'low ILUC-risk' fuels. Furthermore, the Commission agreed to review the data underlying its ILUC-risk classification in light of evolving circumstances and latest available scientific evidence. In the meantime, the world's leading palm oil producing countries reiterated their complete disagreement with the EU's classification of palm oil as high ILUC-risk feedstock, adding that they would challenge the measure and consider retaliatory measures in case their concerns were not addressed.

#### **EUROPEAN UNION / UNITED STATES – retaliatory import tariffs:**

Pending final rulings by the WTO dispute settlement body, the two countries released provisional lists of products that could face punitive tariffs in retaliation for state support that both nations provided to their respective aircraft industries. The list published by the United States includes olive oil, while the European Union's list features several oilcrops, vegetable oils and animal fats.

#### **INDIA – public crop procurement:**

According to the media, as of 21 March, the Central Government's nation-wide procurement of Kharif oilcrops at guaranteed minimum prices stood at 730 000 tonnes, which compares to a target of 2.6 million tonnes (*see MPPU Oct. & Dec. '18*).

#### **INDONESIA – biofuel policy:**

In a move to further increase domestic uptake of palm oil amid increasingly uncertain export prospects, the Government launched technical trials with B100 (i.e. pure palm oil-based biodiesel), according to local media. Back in September 2018, the use of B20 (i.e. diesel blends containing 20 percent biodiesel) became mandatory throughout the country (*see also MPPU Aug. '18 & Jan. '19*). Industry experts pointed out that any increase in domestic biodiesel production would require higher government outlays for the subsidization of oil refining companies. To date, such subsidies have been covered entirely by a levy collected on palm oil exports at the country's borders (*see also below*).

#### **INDONESIA – export policy**

- Variable palm oil export duties:  
Palm oil benchmark prices continued to range below the USD 750 per tonne threshold that triggers export taxation in Indonesia. Accordingly, in April and May 2019, the export tax on crude palm oil remains at zero, marking the 26th month in succession of tax-free shipments. Meanwhile, the country's export levy on foreign palm oil sales remains suspended until further notice. It is important to note that, in case no levies are collected for an extended period of time, subsidization of the country's biodiesel production and of the country's nation-wide oil palm replanting programme would be affected (*see also below*).

- Surveying requirements:  
The Government confirmed that the use of independent surveyors for inspecting shipments of palm oil will no longer be mandatory – a move aimed at improving the commodity's export competitiveness (*see also MPPU Mar. '19*).



### **INDONESIA – production support:**

Based on newly released data, the country's two-year old oil palm replanting programme has fallen behind schedule (*see also MPPU Mar. '19*): reportedly, during the last two years, the Government supported the replanting of 48 600 hectares by smallholders – as against a target of 205 000 hectares. According to industry experts, main obstacles to implementation include that i) smallholders often lack the land titles required to participate in the programme, and ii) the payments received by growers cover only about half of total replanting costs. The country's oil palm replanting scheme is entirely funded by levies collected on the country's palm oil exports.

### **JAPAN – biotechnology regulation:**

Japan's Ministry of Environment released a policy for the regulation of genome editing technologies. The policy document, defines the conditions under which genome edited organisms will not be considered 'living modified organisms' (LMO) and hence fall outside the purview of the Cartagena Act, the international treaty regulating the use of LMOs. (*See also MPPU Aug. & Oct. '18*)

### **MALAYSIA – environmental policy:**

Ministry officials confirmed that plans for a moratorium on all expansion of oil palm plantations are under consideration (*see also MPPU Mar. '19*). Reportedly, the country's area under oil palm plantations could be capped at 6.5 million hectares by 2023. Observers pointed out that – with total planted area currently estimated at 5.85 million hectares – there would be room for plantations to expand by another 650 000 hectares, involving either untouched or already logged-over forest land. In this regard, environmentalists underlined the urgency of shedding light on current land use and called on the government to proceed with the planned mapping of oil palm concessions throughout the country, guaranteeing public access. Moreover, observers reiterated concerns over the divergence of objectives between federal and state governments, which are said to give rise to enforcement issues. Meanwhile, the Federal

Government informed that it was working on new initiatives to promote forest restoration activities in collaboration with both state governments and plantation companies.

### **MALAYSIA – sector support:**

Media sources reported that the Government is set to provide MYR 6.23 billion (USD 1.5 billion) of financial aid to state-owned oil palm agency FELDA (Federal Land Development Authority). At the same time, the agency is expected to restructure and delay some of its debt. Reportedly, the Government also set aside MYR 2 billion (USD 0.48 billion) to write off debt interests for FELDA's small settlers.

### **MALAYSIA – market regulation**

- **Palm oil certification:** Ministry sources confirmed that sustainability certification would become mandatory across the palm oil industry by end-2019. To help smallholders that face difficulties in meeting the various certification requirements, the Government contributes MYR 135 per ha (USD 32) to the audit costs that smallholders face when applying for certification. (*See also MPPU Mar. & Oct. '18*)
- **Labelling requirement:** Ministry officials advised companies participating in the distribution of palm oil at controlled prices to add 'pro-palm oil' labels on product packages, as part of a year-long government campaign aimed at raising consumer awareness of the commodity's perceived benefits. The initiative is aimed at counterweighing the arrival of imported food products carrying 'palm oil free' labels on domestic markets.

### **MALAYSIA – export policy**

- **Export promotion:** Malaysia stepped up its efforts to penetrate new markets thereby enhancing the nation's palm oil exports. Countries in Southeast Asia, Africa and Central Asia are eyed as potential import markets. Recently, ministry officials reported new palm oil-based countertrade deals with the Russian Federation and maintained that other countries – including China, India, The Islamic Rep. of Iran, Pakistan and Turkey – would be equally open to such

arrangements. Regarding China, according to a recently signed MoU, the country accepted to purchase an additional 1.9 million tonnes of Malaysian palm oil and palm oil-based products over the next 5 years. The two countries also agreed to set up, in China, an aviation biofuel plant worth MYR 2 billion (USD 0.48 billion), as well as to invest up to MYR 200 million (USD 48 million) in the production of unsaturated fat, depending on market feasibility.

- **Variable export tax:** With benchmark prices of palm oil continuing to range below the MYR 2 250 (USD 538) per tonne threshold that triggers taxation, in April and May 2019, the export tax on crude palm oil remains at zero, marking the 9th consecutive month of tax-free exports.

#### **MALAYSIA – biofuel policy:**

The Malaysian Palm Oil Board asserted that palm oil is suitable for direct blending into aviation fuel and therefore advocates its approval by the International Civil Aviation Organization (ICAO), which currently only accepts palm fatty acid distillate as palm oil-based feedstock for aviation biofuel. ICAO determined that, from 2027, blending of aviation fuel with biofuel would start to become mandatory across the globe.

#### **MEXICO – agricultural support:**

The Government has launched a number of new agricultural support programmes in replacement of the existing ones. As was the case previously, government support will focus on small and marginalized farmers growing grains and beans. Meanwhile, growers of soybean, safflower, rapeseed and sunflowerseed remain eligible for support under the Target Income scheme, which (tied to participation in a hedging programme) provides farmers with supplementary payments when market prices drop below a set target price. For oilcrops, the latter remains at the level fixed in 2018, i.e. MXN 8 400 per tonne (USD 442).

**PAKISTAN – production support:** Reportedly, the Federal Government approved spending of PKR 290 billion (USD 1.9 billion) over the next five years for the development of the agricultural

sector, including the promotion of oilseed cultivation. Meanwhile, the Provincial Government of the Punjab decided to extend its oilcrop promotion programme, which comprises producer subsidies of PKR 5 000 per acre (USD 81 per ha) for cultivating up to 10 acres of rapeseed or sunflowerseed.

#### **THE PHILIPPINES – domestic industry support**

- **Import measures:** After considering to introduce temporary import restrictions for palm oil, the Philippine Government has agreed to set up a technical working group with Malaysian and Indonesian counterparts to address its concerns over the alleged smuggling and dumping of palm oil and its adverse effects on the domestic coconut and oil palm industry. Reportedly, the profitability of domestic copra production has been hurt severely following steep falls in local oils/fats prices.
- **Marketing assistance:** As a means to assist coconut farmers beset by weak copra prices, the Department of Agriculture announced that it would provide financial support for the sale of fresh coconut across the country.

#### **SRI LANKA – food safety policy:**

To combat adulteration and reduce intoxication risks, the country's Coconut Development Authority informed that all coconut oil sold in the domestic cooking oil market would be subject to strict quality controls as well as mandatory certification and labelling.

#### **THAILAND – domestic industry support**

- **Producer assistance:** The Thai Government renewed its assistance to oil palm growers affected by depressed local prices resulting from excess domestic production and the protracted weakness in global prices. Beneficiaries will receive direct payments of THB 1 500 per rai (USD 7.51 per hectare), with a cap of 15 rai (2.4 ha) per household. Reportedly, 100 000 growers will benefit from the new campaign (following a previous campaign that reached 150 000 households).

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- **Biofuel policy:** Ministry officials confirmed the Government's intention to raise mandatory blending of regular diesel with palm oil-based biodiesel from 7 percent to 10 percent in the first half of 2019 – a move that would help absorb excess domestic palm oil production (*see also MPPU May'18*). Furthermore, the Government agreed to subsidize the purchase of 160 000 tonnes of crude palm oil by the country's Electricity Generation Authority.

#### **UZBEKISTAN – consumption policy:**

The Government decided to stop regulating the price of cottonseed oil intended for socially vulnerable parts of the population. Likewise, strategic reserves of the commodity will be dismantled.

#### **Sector development measures – Ghana:**

Ghana's Ministry of Agriculture renewed its efforts to promote the cultivation of coconut as a cash crop for export and domestic consumption. Under the Ministry's Planting for Export and Rural Development initiative, PERD, hybrid coconut seedlings (resistant to the Cape St. Paul wilt disease and of high-yielding type) are distributed for free to smallholders in the country's coastal Central Region.

#### **Pesticide regulation**

- **Canada – neonicotinoids:**  
Based on its latest re-evaluation of risks to pollinators, Canada's Pest Management Regulatory Agency determined that seed treatments with three pesticides belonging to the neonicotinoids group would continue to be allowed. At the same time, restrictions for other permitted uses, prohibition of selected applications, and maximum residue limits would remain in place. (*See also MPPU Oct.'18*)
- **United States – glyphosate:**  
In March, a federal court reviewing a new case linking the use of glyphosate to cancer found that the pesticide had been a substantial factor in causing the disease and determined compensatory damages to be paid by the product's manufacturer (*see also MPPU Dec.'18 on an earlier case*).

Subsequently, in April, the U.S. Environmental Protection Agency reaffirmed that there are no risks to public health when the herbicide is used in accordance to its current label and that glyphosate is not carcinogenic. On ecological grounds, however, the agency recommended management measures to i) ensure applications are properly targeted, and ii) reduce weed resistance problems, given that the number of weeds showing resistance to glyphosate is growing rapidly.

- **Viet Nam – glyphosate:**

The Government has taken steps to ban the production, importation and, eventually, the use of glyphosate-based herbicides, citing concerns over their impact on human health. Reportedly, the bans include a zero tolerance approach on any traces of glyphosate in grain imports.

- **Intergovernmental – *xylella fastidiosa*:**

The FAO-administered International Plant Protection Convention issued protocols on procedures and methods for the diagnosis of *xylella fastidiosa*, a deadly bacterium affecting olive trees and other crops.

#### **Seed markets – Brazil patent dispute:**

Emulating action taken by farmers in Mato Grosso state last year (*see MPPU Aug.'18*), farmers' associations from 10 other states filed a legal petition requesting *Bayer* to deposit royalties collected on soybean variety 'IntactaRR2Pro' into an escrow account – pending the outcome of litigation over a patent dispute.

#### **Overseas investment – China:**

According to media reports, China's state-controlled grain trading group *COFCO* moved into investing in agricultural assets and port infrastructure with the purpose of serving markets outside China. For instance, the company has plans to expand its presence in the Black Sea region, with a view to supply Western European markets. Globally, *COFCO* intends to raise its annual transactions of maize and soybean to over 60 million tonnes by 2022, compared to about 40 million tonnes today, the media reported. (*See also MPPU Aug., Oct. & Dec.'18*)

### Transport infrastructure – Brazil

- Private investments: According to media reports, leading national and international grain trading firms are exploring the possibility of jointly bidding for a 10-year concession to operate a 1 000 km section of BR-163, the highway that connects Mato Grosso state to transshipment ports in the Amazon basin. The move follows earlier expressions of interest to invest in the construction and subsequent operation of ‘Ferrogrão’, a grain railroad which would link Mato Grosso to the said ports (*see also MPPU Jan.’18 & Jan./Mar.’19*).
- Road interruption: A bridge connecting Brazil’s Para state to ports in the Belém region has been damaged seriously, temporarily affecting grain shipments through one of the country’s northern export routes.

**Aviation biofuel**: In the United States, aircraft company *Boeing* informed that it will offer airlines the option of powering freshly delivered jets with biofuel for their flight home. On a similar note, San Francisco Airport reported that it started supplying sustainable aviation fuel produced from used cooking oil to three international carriers.

### Palm oil – RSPO news

- Membership termination: The globally recognized standard setting/certification body for palm oil, RSPO, terminated the membership of two Indonesian oil palm companies for failures to comply with the organization’s principles on workers’ rights and conditions. Consequently, certificates and trademark licenses held by the two companies have become invalid and their trade of certified sustainable palm oil had to cease.
- Peatland inventory: In compliance with its recently revised standards (*see MPPU Dec.’18*), RSPO invited its members to list and report all peatland – planted, unplanted and rehabilitated – existing within their managed area.
- Smallholder standards: RSPO, invited public comments on its draft Independent Smallholder Standard. The new standard will apply exclusively to independent smallholders, taking into account their specific production context and

needs. Reportedly, the development of a separate standard for smallholders has been guided by the need to strike a balance between promoting greater inclusion of smallholders and ensuring that core sustainability requirements are upheld. On a related note, RSPO informed that during the last 5 years it provided funding to programmes supporting 18 100 smallholders in Indonesia, Malaysia, Thailand, Africa and Latin America to achieve certification.

- Workers’ rights: Following similar work in Indonesia, RSPO started extending to Malaysia its efforts to encourage the reporting of worker’s incidents and potential abuses as well as to monitor employee satisfaction and social investments across its members’ oil palm plantations.

### Palm oil – private investments and trade initiatives

- Diversification: To reduce exposure to volatile crude palm oil prices, one of the world’s largest oil palm plantation companies plans to i) expand its palm oil refining capacity, and ii) diversify into higher-margin animal nutrition products, the media reported.
- Indonesia/India trade links: Trade partners in Indonesia and India joined forces to promote trade in ISPO (Indonesian Sustainable Palm Oil) certified palm oil. The Indonesian Palm Oil Board (IPOB), India’s Solvent Extractors Association (SEA) and non-profit organization Solidaridad Network proposed the introduction, in India, of preferential import tariffs for certified sustainable Indonesian palm oil.
- Malaysia/China trade links: Chinese and Malaysian companies have signed several purchase agreements for palm oil and derived products. Reportedly, the contracts are related to cooperation accords signed last year (*see MPPU Oct. & Dec.’18*).

### Palm oil sustainability – third party assessments

- Peatland conversion: The Center for International Forestry Research (CIFOR) set out to analyse how smallholder oil palm cultivation – which accounts for about



40 percent of total oil palm acreage in Indonesia – affects the local environment. When examining the types of land use change associated with independent smallholder oil palm expansion in Indonesian Borneo, the institute detected a rise in the conversion of peat soils – a process that entails high rates of GHG emission, often giving rise to spontaneous combustion. CIFOR’s researchers also found that landowners involved in peatland conversion are less likely to be skilled farmers – although peat is known to be one of the most complex soils to farm responsibly and effectively. Moreover, many farmers cultivating former peat forest plots were found to be incompliant with ISPO, Indonesia’s certification scheme designed to foster sustainable practices. To address these issues, CIFOR’s study calls for increased support to district level governments in i) mapping out existing peatlands, ii) providing technical support in peat soil management, iii) enhancing land use planning, and iv) enforcing ISPO standards. The importance of improving smallholder land-conversion practices is evidenced by CIFOR projections suggesting that the share of small independent growers in total national acreage will rise to 60 percent by 2030 – with most of the expansion involving peat soils, given the rising scarcity of suitable land on mineral soils.

- Industry commitments:

An NGO-conducted study reviewed the pledges of multinational consumer good manufacturers and retailers, as well as financial institutions supporting them, to become ‘deforestation-free’. The review found that only half of the assessed companies set time-bounds targets on the topic. Allegedly, the majority of corporations that do have self-imposed targets for eliminating commodity-driven deforestation from their supply chains and portfolios was not on-track and failed to consistently report corrective action across all of their supply chains. Overall, the companies’ performance varied depending on the commodity sourced, with more extensive commitments and higher rates of achievement observed in palm oil relative to soybean, livestock products and other sectors. The study identified complex and difficult-to-trace supply chains as a key obstacle

to implementing and documenting ‘zero deforestation’ initiatives. Therefore, stakeholders have been urged to focus on mapping supply chains to determine where deforestation occurs, which would allow them to engage directly with their suppliers. The NGO also advised industry players to collaborate more closely with governments, with a view to work along jointly developed guidelines and action plans.

- Supply chain mapping:

In recent months, amid rising pressure from consumers and civil society groups to source raw materials more responsibly, several large palm oil buyers and suppliers as well as the RSPO ventured into using satellite technology to track deforestation in their respective palm oil supply chains (*see MPPU May, Aug., Oct. & Dec. ’18*). In April, global foods and drinks company *Nestlé* (and its two partners, aerospace company *Airbus* and non-profit organization *The Forest Trust/Earthworm*) reported about progress made in leveraging such technologies. To date, *Nestlé* was in a position to trace almost the entirety of its palm oil purchases back to the mill level, but the company could only trace half of its supply back to the plantation level – mainly reflecting difficulties in locating smallholder producers. However, recent progress in integrating satellite imagery with other relevant data is making it possible to spot deforestation occurring across sourcing areas, thus allowing *Nestlé* to engage directly with individual suppliers. Reportedly, inability to account for the spotted deforestation would lead to temporary suspension of concerned suppliers from the company’s order books, especially when large plantation owners are involved. In the case of smallholders, on the other hand, the company reckons that – in a bid to assist smallholder transition to sustainable practices – a more flexible approach is required, notably focusing on replanting initiatives that would allow farmers to raise yields without resorting to deforestation. *Nestlé* informed that it is considering to extend satellite-based monitoring of land-use changes to its other supply chains, including soybeans. Meanwhile, industry experts cautioned that dividing the supply chain in

sustainable versus unsustainable producers carries the risk of driving harmful practices elsewhere rather than curbing deforestation – at least when, as in the case of palm oil, global demand for uncertified produce remains strong.

- **Poverty alleviation:** A group of researchers examined the association between the development of oil palm plantations and change in objective and material well-being across villages in Indonesian Borneo. The study suggests that plantations developed in villages with low to moderate forest cover, where communities previously mostly relied on market-oriented livelihoods, are associated with increased physical and financial well-being. However, the opposite was found in remote villages with high forest cover where communities used to rely on subsistence-based livelihoods. Regardless of the baseline conditions of villages, unsustainable livelihoods, increased socio-economic disparity and environmental issues are said to remain major challenges. To address these issues, the study calls for i) careful evaluation and planning when oil palm is developed in remote forested areas, and ii) well-coordinated fiscal and other policies allowing for the collection and redistribution of revenues.

### **Responsible sourcing**

- **Coconut oil:** Global agribusiness firm *Cargill* informed that its cocoa and chocolate business exclusively uses Rainforest Alliance-certified coconut oil sourced through a mass balance scheme, in line with company efforts to meet rising consumer demand for sustainably sourced ingredients (*see also MPPU Apr. '13 & Aug. '17*). Rainforest Alliance-certified farms are required to meet a set of sustainability standards. Allegedly, participating farms have seen a significant increase in their income following certification.
- **Soybeans:** UK retailer *The Co-operative* pledged to use 100% certified sustainable soy in its supply chain by 2025, in a bid to halt deforestation and loss of native vegetation associated with the expansion of soybean cultivation. As part of its effort, the retailer would

purchase Roundtable on Responsible Soy (RTRS) credits to offset the soy used in its own-brand products – with credits directly supporting responsible, conversion-free soy production in, for example, Brazil's Northern Cerrado region.

### **Olive oil industry initiatives**

- **Blockchain-based quality verification:** An Italian olive oil company started applying blockchain technology to strengthen authentication of extra virgin olive oil certificates throughout its production and distribution chain. Reportedly, the technology allows buyers to cost-effectively trace a bottle back to its origin, thereby rising consumer confidence in product quality.
- **Authentication technique:** In Portugal, researchers combined genomic, gas chromatography and spectroscopy techniques to authenticate and trace extra virgin olive oil. Among other things, the new method can be used to uncover fraudulent practices and to discriminate among different types of oil, such as organic and non-organic, the researchers informed.
- **Fraud detection method:** In the United States, researchers discovered that, compared to counterfeited oil, pure olive oil reacts rather differently when it is chilled with liquid nitrogen – hence offering a simple authentication test method that does not require sophisticated equipment.
- **National quality standard:** In the United States, the olive oil industry is drafting a regulatory standard for olive oil that it intends to submit to the Food and Drug Administration for adoption. Allegedly, the current lack of a mandatory U.S. standard defining olive oil has led to misinformed and inaccurate reporting about product quality as well as to repeated cases of product adulteration.
- **Organic cultivation:** Reportedly, the organic land area used for olive cultivation across the globe has almost tripled since 2004. The country with the largest organic area dedicated to olive cultivation is Tunisia, followed by Italy, Spain Turkey and Greece. Globally, about 8 percent of

the world's olive groves are under organic production. Reportedly, another 18 percent of agricultural land used for olives is currently being converted to organic cultivation methods.

**Price insurance scheme:** Available in several countries as a government-backed service, an alternative, entirely private platform to insure agricultural crops against price volatility has been developed by a UK-based startup. The platform is based on a wide variety of niche commodity indexes in many different countries and is targeted at midsize farmers of the top 200 crops produced around the world. Reportedly, the new approach to price risk management was made possible by recent advances in data science and the reduced cost of computational power.

#### **R & D – varietal research**

- Climate-smart oilcrops – Uganda: Reportedly, in Uganda, national agricultural research institutions are breeding oilseed varieties that mature quickly, can resist drought and are specifically designed for the country's changing climatic conditions. A sunflowerseed variety that also features increased resistance to insect and disease pressure is expected to be released soon.
- Oil palm – China: The Chinese Academy of Tropical Agricultural Sciences has selected an oil palm species suitable for large-scale domestic production – marking a first step towards creating a palm oil industry in China's southern provinces. Currently, China is the world's second-largest importer of palm oil, with purchases amounting to 5.4 million tonnes in 2018.
- Coconut – Australia/Pacific: In Australia, researchers are developing high-performance clones of coconut palms with a view to facilitate urgently required rejuvenation in existing plantations in Australia and across the Pacific region. Reportedly, compared with conventional breeding methods, cloning techniques allow to make available – in a fast and cost-effective manner – high-yielding, disease resistant and

drought tolerant plantlets that turn into fruit-bearing trees after three years.

- High oil-yielding seeds: In Singapore, researches are working on a new technique that, by genetically modifying a protein that regulates seed oil production, allegedly has the potential to raise oil content in rapeseed, sunflowerseed and soybean by 15 percent.
- Rapeseed – Australia: Following the Chinese Government's approval of a new herbicide-resistant trait, two new rapeseed varieties offering growers better weed management possibilities are said to be ready for sale in Australia. China is Australia's largest export market for rapeseed.

#### **R & D – product development**

- High-oleic soyoil – United States: A new soybean oil rich in oleic fatty acid, with zero trans fat and 20 percent less saturated fatty acids, has been launched in the United States. Targeted at health-conscious consumers, the new oil is extracted from a gene-edited soybean, i.e. a variety developed through mutagenesis rather than transgenesis. Reportedly, the new product passed the voluntary review process of the U.S. Food and Drug Administration.
- Contaminant-free oils/fats: In Spain, an oils and fats refiner has launched a new set of products with low levels of 3-monochloropropanediol (3-MCPD) and glycidol esters, contaminants formed during vegetable oil processing that are believed to be genotoxic and carcinogenic.
- Butter substitute: A hydrogenated oil-free butter alternative for food producers – made from sunflower and palm oil – has been launched in the United States. Reportedly, customers can add the ingredient at high temperatures.
- Sunflower-based protein: A US company has launched a food-grade fibre-rich protein flour produced from defatted sunflower seed, the dry matter left after oil extraction.

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	<u>International Prices (US\$ per tonne)</u> <sup>1</sup>					<u>FAO Indices (2002-2004=100)</u> <sup>7</sup>		
	Soybeans <sup>2</sup>	Soybean oil <sup>3</sup>	Palm Oil <sup>4</sup>	Soybean Cake <sup>5</sup>	Rapeseed Meal <sup>6</sup>	Oilseeds	Vegetable oils	Oilcakes/ Meals
<b>Annual (Oct/Sep)</b>								
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
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
2014/15	407	777	658	406	270	155	153	194
2015/16	396	773	655	351	232	151	155	168
2016/17	404	806	729	336	225	154	160	171
2017/18	402	820	648	381	258	153	154	182
<b>Monthly</b>								
2017 - October	397	869	721	331	207	151	170	157
2017 - November	401	885	719	333	204	153	172	158
2017 - December	397	863	666	348	219	151	163	165
2018 - January	404	865	679	361	239	153	163	171
2018 - February	416	848	660	400	265	157	158	190
2018 - March	432	830	684	427	294	162	157	203
2018 - April	441	824	663	447	304	164	155	213
2018 - May	432	787	659	443	282	161	151	211
2018 - June	389	783	631	391	264	148	146	187
2018 - July	378	774	591	382	267	145	142	184
2018 - August	379	763	561	365	282	146	138	178
2018 - September	357	755	545	347	277	139	135	169
2018 - October	369	759	529	347	272	142	133	169
2018 - November	372	735	482	340	276	143	125	166
2018 - December	382	720	494	344	273	145	126	166
2019 - January	381	746	534	343	273	146	131	165
2019 - February	380	766	558	330	263	145	134	156
2019 - March	371	730	527	320	248	142	128	155
2019 - April	365	733	534	318	244	140	129	153
<sup>1</sup> Spot prices for nearest forward shipment <sup>2</sup> Soybeans (US, No 2 yellow, c.f. Rotterdam) <sup>3</sup> Soybean oil (Dutch, f.o.b. ex-mill) <sup>4</sup> Palm oil (Crude, c.f. Rotterdam) <sup>5</sup> Soybean meal (44/45%, Hamburg f.o.b. ex-mill) <sup>6</sup> Rapeseed meal (34%, Hamburg f.o.b. ex-mill) <sup>7</sup> 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								

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