Food and Agriculture Organization of the United Nations

OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 80, March 2016

a) Global price review

In February 2016, the FAO price index for oilseeds remained virtually unchanged (+0.2 percent), while the index for oilmeals shed 6.4 points (or 4.2 percent), marking the seventh monthly consecutive fall. However, the strongest change concerned vegetable oils, the index of which gained 11.2 points (or 8 percent), climbing to its highest level since July 2015.

Regarding the oilseed index, the reference price of soybeans, its leading component, was almost unchanged in February. Amidst prospects of bumper 2015/16 crops and ample export availabilities in South America, international soybean prices remained well below their corresponding levels in preceding years. In Argentina, reports of mostly beneficial weather and lower than expected sales from last year's crop have continued to pressure prices. In Brazil, record crop forecasts have been confirmed, although uncertainties persist regarding the final outcome of the harvest, as expected yields vary considerably from region to region. Meanwhile, unusually long loading times at Brazil's ports provided some temporary support to prices. As for other oilcrops, sunflower seed prices dropped to a 5-month low on larger than anticipated supplies in Ukraine and Argentina, as well as subdued import demand in the EU, caused by low crush margins.

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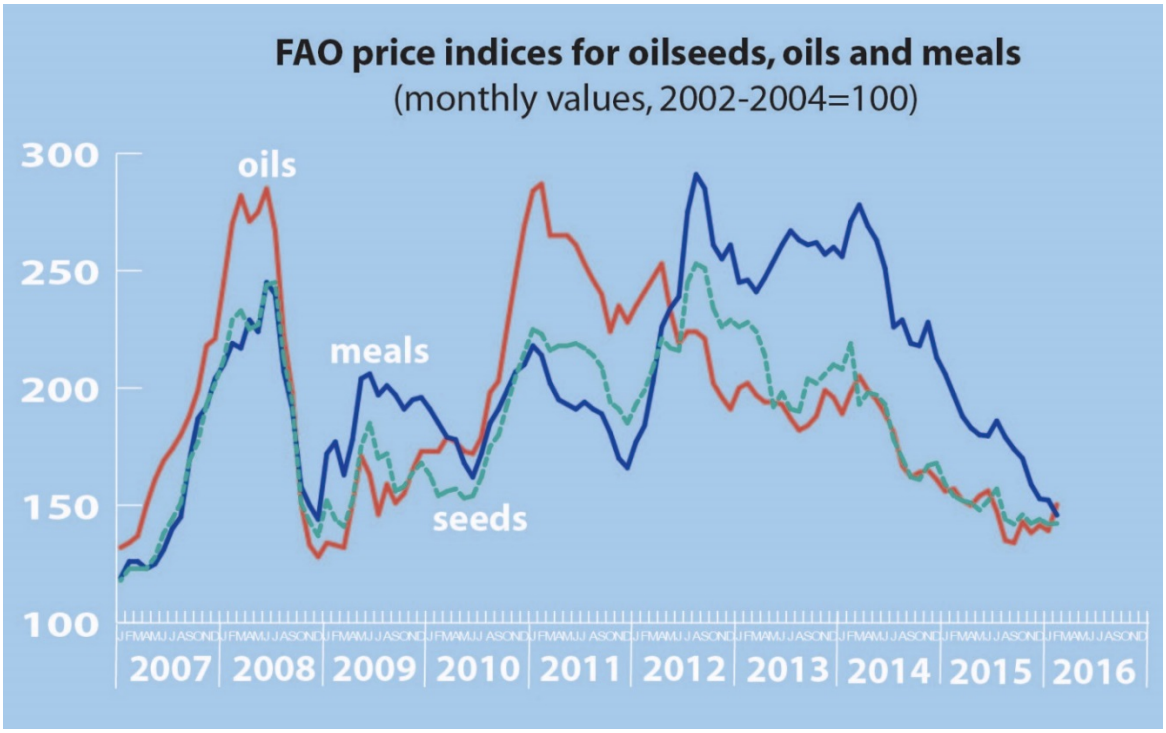
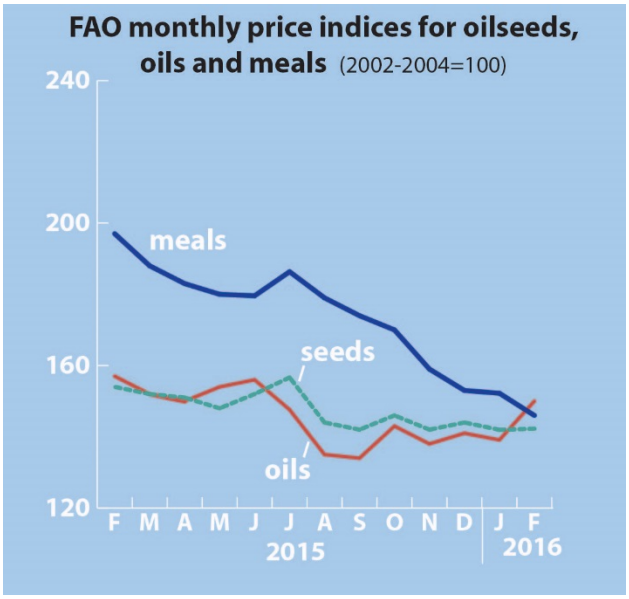


* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. Section b) of the present issue covers developments observed during **February '16**. 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*

Abundant global soymeal supplies remain the key factor behind the steady decline in the oilmeal price index. In February, a strong pace in crushing, notably in Argentina, has boosted soymeal export availabilities, adding to the downward pressure on prices. Lingering weak prices of feed grains weighed further on international oilmeal quotations.

Palm oil was responsible for last month's marked upswing in the vegetable oils index, as its price appreciated by over 13 percent, reaching an 8-month high. The surge was caused by falling inventories in Southeast Asia, where production has slowed down as a result of prolonged dry weather (due to El Niño). Furthermore, given predictions that an El Niño weather pattern will prevail until mid-2016, a rapid recovery in palm oil production seems unlikely. Also international soy oil prices increased appreciably on expectations that poor supplies of both palm oil and other vegetable oils would boost global soy oil demand. Furthermore, recent increases in petroleum prices lent additional support to vegetable oil prices.



b) Selected policy developments and industry news

ARGENTINA – emergency relief payments: Following heavy rains caused by El Niño, six of Argentina's main agricultural provinces have been declared flood emergency areas, making affected grain, fruit and cattle farms eligible to financial assistance in the form of special credit lines and tax breaks. The concerned provinces are Cordoba, Santa Fe, Entre Rios, La Rioja, Chaco and Corrientes.

ARGENTINA – variable biodiesel export tax: In February 2016, the export duty on soyoil-based biodiesel was raised from 1.62 percent – the lowest rate since the introduction of the variable tax regime in 2012 – to 3.89 percent.

CHINA – GM soybean importation: In February, China's regulators approved the importation of the GM soybean variety 'RoundupReady2Xtend' *(see also MPPU Sep.'14)*. The high-yielding variety was developed in the United States to tolerate applications of both Glyphosate and Dicamba herbicides amid growing problems of Glyphosate-resistant weeds in North America. Approval by China – the top destination for US soybean exports – was a key condition for the commercial launching of the new variety in North America. While the new soybean variety is expected to be marketed soon in Canada, where the use of Dicamba is allowed, sales will remain on hold in the United States, pending clearance of the herbicide by the US Environmental Protection Agency *(see MPPU Feb.'15)*.

CHINA / CANADA – rapeseed trade:
In February, Chinese quarantine authorities informed their Canadian counterparts that, as of April 2016, no more than one percent of foreign material would be allowed in Canadian rapeseed shipments (as opposed to the 2.0–2.5 percent range permitted to date). Government experts from both countries worked together since 2009 to address China's concern that the blackleg fungal disease could spread within its territory via the importation of infected rapeseed from Canada *(see MPPU Dec.'09, July'10 & Sep.'14)*. China's recent announcement follows scientific disagreement over the risk of transmitting the disease through foreign material in rapeseed cargoes. Canadian industry officials warned that China's stricter standard would be difficult to meet and make cleaning operations more expensive, possibly discouraging exports. In 2015, China was the top buyer of Canadian rapeseed, importing 4.1 million tonnes.

EUROPEAN UNION – GMO policy:
The European Parliament issued a non-binding resolution that calls on the European Commission to withdraw its proposed approval of three new GM soybean varieties characterized by tolerance to glyphosate-based herbicides. The resolution points out that the proposal lacks the support of a qualified majority of member states and that an agency of the World Health Organization recently classified glyphosate as 'probably carcinogenic to humans' *(see MPPU Apr.'15)*. The EU's own food safety authority last year ascertained that glyphosate were 'unlikely to be carcinogenic' *(see MPPU Dec.'15)*.

EUROPEAN UNION / TUNISIA – olive oil trade: The European Parliament backed the proposal to raise Tunisia's duty-free tariff rate quota for olive oil for two years *(see MPPU Feb.'15)*. However, it added (i) provisions for conducting an assessment of the measure's impact on the EU olive oil market after one year, and (ii) tracking obligations to ensure that the olive oil imported under the quota is actually produced in and shipped directly from Tunisia. The proposal will now be transmitted to the European Council for its final review.

FRANCE – palm oil excise tax: In January, France's Senate endorsed a biodiversity bill that includes an increase in the country's palm oil excise tax from € 103 (USD 115) to € 300 (USD 334) per tonne, citing concerns about the oil's environmental footprint and alleged health problems associated with the consumption of saturated fatty acids. The € 300 per tonne tax would come into effect in 2017, with planned subsequent rises to € 500 in 2018, € 700 in 2019 and € 900 in 2020. The bill now awaits a vote in France's National Assembly, which, back in 2013, had rejected a proposal to tax palm oil consumption *(see MPPU Dec.'12)*. With export prices of palm oil currently below USD 700 per tonne, the newly proposed tax levels could make palm oil uncompetitive and foster replacements with cheaper alternatives, say market experts. Indonesia and Malaysia, the world's key suppliers of palm oil, have filed complaints against the proposed legislation, stating that it would be discriminatory, disproportionate and harmful to their palm oil industries.

INDONESIA – palm oil support: In an effort to ease the financial situation of palm oil producers facing low world prices, Indonesia temporarily lowered the export levy on palmkernel shell, a solid by-product of the palm oil extraction process used as feedstock in power generation. Until the end of 2016, a reduced levy of USD 3 per tonne will be collected. However, to encourage investments in biomass-fired power plants, the levy shall be raised again in 2017, initially to USD 5 per tonne and then back to its original level of USD 10 per tonne.

INDONESIA – variable palm oil export tax:
With palm oil reference prices remaining below the trigger level of USD 750 per tonne, Indonesia's export tax for crude palm oil was kept at zero in March 2016. The export tax has been suspended since October 2014.

INDONESIA / EUROPEAN UNION – partnership agreement: According to government officials, Indonesia is committed to speed up negotiations on the Indonesia–European Union Comprehensive Economic Partnership

Agreement (CEPA), so as to have an agreement in place within two years. With regard to market access, reductions in the EU's import tariffs on Indonesian palm oil and cocoa products, which currently range between 8 and 12 percent, are to be pursued by Indonesia. The EU (together with China) is Indonesia's most prominent market for palm oil after India.

INDIA – copra support price:
The 2016 procurement prices for milling and ball copra have been set at, respectively, Rs 59 500 (USD 888) and Rs 62 400 (USD 932) per tonne – up 7 percent compared to last year.

MALAYSIA – variable palm oil export tax:
In March 2016, the palm oil export tax was kept at zero, as the product's calculated reference price remained below the MYR 2 250 (USD 553) per tonne threshold that triggers taxation. The export tax has been suspended since May 2015.

MALAYSIA – labour market policies:
In Malaysia, where the plantation sector relies heavily on foreigners as manpower, the government raised the levy applied to foreign workers employed in plantations from RM 590 (USD 145) to RM 1 500 (USD 369), effective February 2016. Usually, the cost of such levy is born by the local plantations companies, which warned that their 2016 earnings could fall by between 3–8 percent because of the increase.

PERU – biodiesel anti-dumping duties:
The government imposed anti-dumping tariffs of up to USD 208 per tonne on imports of pure biodiesel from individual Argentine companies. The decision comes 9 months after Peru's competition regulator began investigating the possible dumping of Argentine biodiesel into the Peruvian market *(see MPPU Aug.'15)*. Argentina is Peru's principal supplier of the product. Argentine biodiesel producers said they would appeal Peru's decision.

RUSSIAN FEDERATION – import restrictions:
In February, the Russian Veterinary and Phytosanitary Surveillance Service imposed temporary restrictions on imports of soybean and maize originating from the United States, citing violations of phytosanitary requirements. As Russian soybean imports from the United States typically occur from October to February, limited immediate repercussions on trade are expected. Untouched by Russia's food import embargoes of 2014 (following the Ukrainian crisis), in 2015, soybeans became the number one US agricultural export to Russia. The United States is currently the third most important supplier of the Russian Federation, after Paraguay and Brazil.

UNITED STATES – public health policies:
The US Food and Drug Administration (FDA) is considering to start, in fiscal year 2016, routine tests of certain foods sold in the country for residues of glyphosate, a herbicide broadly used in agriculture world-wide, including in soybean cultivation *(see also MPPU Apr. & May'15)*. Last year, glyphosate has been labeled as 'probably carcinogenic to humans' by an agency of the World Health Organization, a claim disputed by the European Food Safety Authority *(see also above item EUROPEAN UNION – GMO policy)*. Reportedly, FDA didn't test food for glyphosate in the past because of cost and labour restrictions and because glyphosate residue levels are deemed to be reduced during food processing. Tolerance levels for pesticide residues in food are set by the Environmental Protection Agency (EPA). The tolerance level for glyphosate on soybeans is 40 ppb.

Transport infrastructure – Brazil:
Brazil's Tietê-Paraná waterway, a key transport corridor for agricultural products (including soybeans) re-opened after a 20-month closure caused by a prolonged drought (*see MPPU Feb.'15*). The reopening followed recent rains that raised water levels of rivers situated in southern and central-western states. During the closure, farm products from several key farming states had to be diverted to more expensive road and rail networks.

Sector development measures

- India – coconut: India's Coconut Development Board will contribute public funds to 58 coconut processing projects in the states of Kerala and Karnataka. The projects relate to coconut oil manufacturing, processing of neera (coconut inflorescence sap), production of flavoured coconut

juice, coconut water preservation and packaging, desiccated coconut powder processing, virgin coconut oil production, copra drying and ball-copra making, and production of activated carbon.

- Canada – rapeseed: Federal funding will be made available through the Canola Council of Canada to help drive innovation and profitability in the country's rapeseed industry. Investment projects will be designed to improve yields and to position the country's export-oriented sector for future growth and sustainability. Research is expected to focus on disease control, plant establishment and fertility management.

Research & Development

- High protein low-fiber soymeal: In the United States, a private joint venture presented a new soy protein concentrate meant to be used as low-cost replacement for fishmeal in the diets of young pigs, young poultry and fish, which require a high-protein/low-fiber diet. Soybeans naturally contain fibers and complex sugars which inhibit nutrient absorption in animals that have a single-chambered stomach. Reportedly, the concerned companies developed a cost-competitive proprietary water and enzymatic treatment to remove the indigestible components. Livestock and aquaculture feeding trials are being conducted to validate product claims.
- Protein-rich rapeseed: A biotech firm announced the launch later this year in Canada of a new high-protein rapeseed variety. The meal obtained from the new variety is said to contain 44 percent protein, compared to about 37 percent in conventional rapeseed meal. The high-protein low-fiber, meal has been developed (using conventional breeding techniques) to provide pig and poultry farmers with a cost-effective alternative to conventional soybean meal, said the company
In a joint venture with a French seed firm, Canada's spring-grown variety is to be adapted to be cultivated as a winter crop in France.
- Rapeseed vs. soybean meal: In the United States, a public-private research project evaluated the merits of different protein supplements available in cattle diets. According to the tests conducted, conventional rapeseed meal supplements resulted in more milk and milk protein production per day than soybean meal. Rapeseed meal supplements are a relatively new option that started being used as protein source for cattle when new varieties were developed. Reportedly, per unit of protein, conventional rapeseed meal costs about the same as standard soybean meal.

Palm oil sourcing: One of Indonesia's leading oil palm businesses, *Golden Agri-Resources Ltd*, informed that it is able to trace its entire annual supply of over 7 million tonnes of palm oil back to 489 individual mills. The company, which, in addition to producing on in its own right, also buys palm oil from independent mills, claims that tracing all of its product back to source allows it to more effectively engage with independent suppliers to improve their operations in environmental and social terms.

Global trade in sustainable palm oil certificates: *GreenPalm*, the non-physical certificate trading system of RSPO (Roundtable on Sustainable Palm Oil) that supports sustainable forms of palm oil production, is ready to introduce, in 2016, certificate traceability back to individual originating certified mills. The Book&Claim system, which enables customers to offset palm purchases by buying certificates for an equivalent volume of certified product, is said to be the first non-physical supply chain to implement such traceability system-wide. The new feature means that every buyer of certificates will know which certified palm oil mill he is supporting. Allegedly, the *GreenPalm* supply chain also meets the needs of smallholders and independent producers, who have limited access to overseas demand for physically segregated supplies of certified palm oil but can be supported for their efforts through certificate trading.

Sustainable palm oil standards – RSPO: The Roundtable on Sustainable Palm Oil launched a new voluntary add-on palm oil standard dubbed *RSPO-Next*, to address concerns that its basic standard does not adequately attend to all environmental and social issues. Unsatisfied with RSPO's core sustainability standard, several companies adopted their own stricter corporate standards over the last two years *(see, for example, MPPU Dec.'14 & Mar./Oct./Nov.'15)*. Reportedly, *RSPO-Next* has been developed to meet the needs of these companies. Firms applying for the new certificate need to fulfill a range of more demanding

sustainability criteria than the core, mandatory standards. In particular, they need to:

- adhere to a more stringent no-deforestation policy, including the rule that new plantations can only be established on areas with low stocks of carbon, which essentially bans planting on peatland;
- monitor and reduce GHG emissions across their entire operation;
- commit to promote workers' rights and to enhance smallholders' skills;
- refrain from using fire to clear land and from spraying the toxic pesticide Paraquat;
- prove that at least 60 percent of their plantation are already compliant with RSPO's core standard and commit to rolling out the stricter standard across all of their estates – though no timelines are set on when full compliance has to be achieved;
- ensure transparency and due diligence in sourcing from independent suppliers; and
- ensure traceability of all certified palm oil back to the plantation where it was produced.

It is important to note that the new standard will not establish a separate physical supply chain: rather, buyers participate by purchasing *RSPO-Next* credits from verified growers. Such credits, which are likely to be available from the third quarter of 2016, will only be released to customers that are already buying exclusively certified palm oil through established supply chain systems.

RSPO's new initiative has also met criticism. According to some observers, the launching of stronger voluntary standards indicates that the current mandatory standards are inadequate, which suggests that they ought to be toughened across the board. Moreover, the fact that companies can set their own timelines for compliance as well as RSPO's definition of 'no-deforestation' have been criticized. However, others welcomed the new scheme as a sign that the voluntary involvement of more progressive companies could eventually lead to broader change in the sector. Meanwhile, industry representatives reiterated that the price premium for certified sustainable palm oil is not sufficiently attractive and that weak demand for certified produce is a major source of concern.

Certification of sustainable palm oil – Indonesia: A recently released joint study between ISPO, Indonesia's government-backed certification programme, and the global industry-led RSPO compares the two certification schemes and examines how they could complement each other (*see also MPPU Dec.'13 & May'14*). ISPO's focus is on enforcing compliance of plantations with existing rules and regulations of various ministries, agencies and levels of government, thereby contributing to reduced forest coverage losses and lower GHG emissions from land use change. Reportedly, certification efforts are impaired by several factors, in particular the circumstance that small and medium-sized growers account for 40 percent of Indonesia's total palm oil output. Main differences identified between ISPO and RSPO relate to the protection of high conservation value forests, plantation land ownership procedures (including the principle of free prior and informed consent), procedures for the development of new plantations, and independent oversight of the audit and certification process. Implementing sustainability certification throughout Indonesia's expansive palm oil supply chain is said to require increased and effective collaboration between all actors, including between the government and international market participants. Collaboration between ISPO and RSPO could help streamline Indonesia's palm oil certification process.

For comments or queries
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	International Prices *(US$ per tonne)* [1]					FAO Indices *(2002-2004=100)* [7]		
	Soybeans[2]	Soybean oil[3]	Palm Oil[4]	Soybean Cake[5]	Rapeseed Meal[6]	Oilseeds	Vegetable oils	Oilcakes/ Meals
Annual (Oct/Sep)								
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
2007/08	549	1325	1050	445	296	216	246	214
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
Monthly								
2014 - October	430	835	724	463	258	161	164	218
2014 - November	447	827	728	485	265	167	165	228
2014 - December	446	816	694	449	278	168	161	213
2015 - January	421	789	681	431	279	159	156	206
2015 - February	407	775	693	412	273	154	157	197
2015 - March	402	748	673	392	262	152	152	188
2015 - April	396	753	657	380	263	151	150	183
2015 - May	385	781	663	371	290	148	154	180
2015 - June	397	800	670	372	282	152	156	180
2015 - July	413	746	635	389	264	157	148	186
2015 - August	375	729	544	371	270	144	135	179
2015 - September	367	725	533	362	256	142	134	174
2015 - October	377	743	581	351	255	146	143	170
2015 - November	367	726	561	328	232	142	138	159
2015 - December	372	757	568	317	215	144	142	153
2016 - January	368	722	564	316	217	142	139	152

[1] Spot prices for nearest forward shipment

[2] Soybeans (US, No 2 yellow, c.i.f. Rotterdam)

[3] Soybean oil (Dutch, f.o.b. ex-mill)

[4] Palm oil (Crude, c.i.f. North West Europe)

[5] Soybean meal (44/45% Hamburg fob ex-mill)

[6] Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

[7] The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of

Sources: FAO and Oil World