



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

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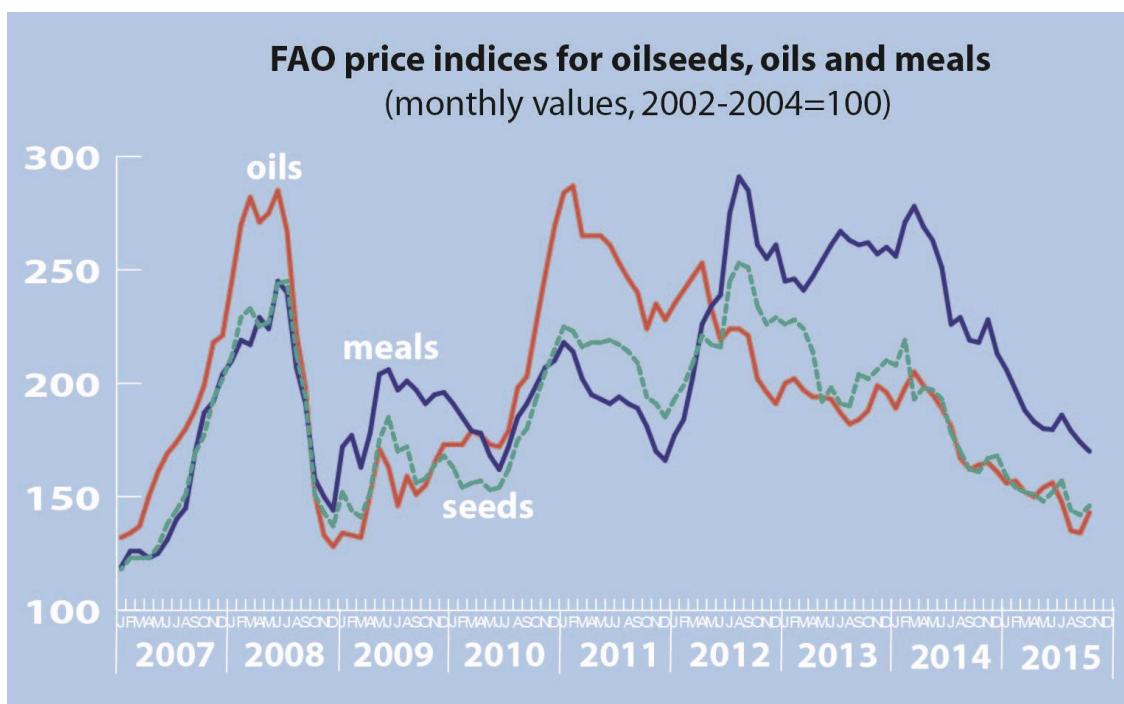
### a) Global price review

In October, the FAO price indices for oilseeds and oils strengthened by, respectively, 4 and 8 points (or 2.8 and 3.4 percent), reversing the declines observed in the past 2-3 months. The price index for oilmeals, on the other hand, continued to trend downward, shedding 4 points (or 2.3 percent) month-on-month. It is important to note that, in historical terms, all three indices continue to fare at multi-year lows.

The modest increase in the oilseed index has been primarily driven by firming world prices of soybean, aided by a further strengthening in sunflower and rapeseed values. The appreciation in soybean prices mainly reflects concerns about

sowing delays in Brazil, where prolonged dry weather slowed down soybean plantings in the Centre-West region, while excessive rainfall hampered sowing operations in the South. Firm global import demand – notably by China and the European Union – also lent support to soybean prices. On the other hand, the global supply outlook for 2015/16 remains bright, especially as the US soy harvest is progressing well, thus containing the rise in world prices. International quotations for sunflower and rapeseed increased on prospects of limited global 2015/16 availabilities amid sustained demand. In the case of rapeseed, some concerns have also been raised regarding the production outlook for 2016/17.

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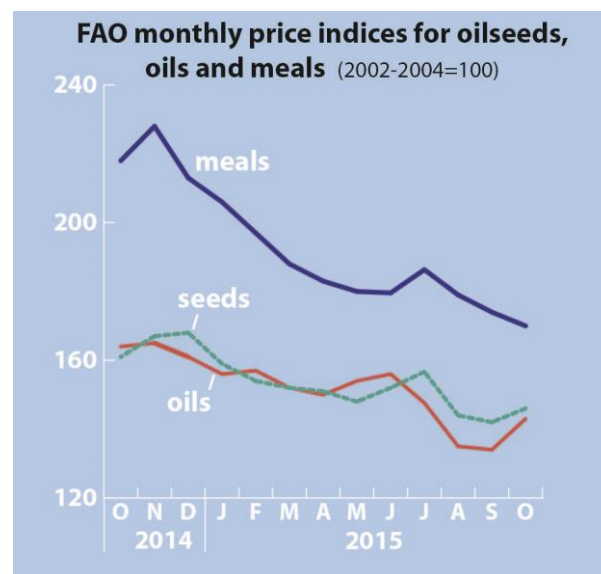
\* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. Section b) of the present issue covers developments observed during **October 2015**. 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

As to the price index for vegetable oils, last month's rebound primarily reflects a marked rise in palm oil values. International prices of soy, sunflower and rapeseed oil also appreciated, largely mirroring the path of the corresponding seeds. Palm oil prices bounced up on concerns that low rainfall – caused by El Niño – could compromise next year's production outlook in Southeast Asia, especially in Indonesia. In addition, in some areas, harvest operations have been negatively affected by the presence of large-scale fire-related haze.

With respect to oilmeals, the fall in the price index has been caused by a further slide in soymeal values. Prices dropped to four year-lows due to an unusually strong pace of crushings in South America and the prospect of record global availabilities in 2015/16. Considering that, in 2015/16, global soybean crush may be driven

mainly by demand for oil (given the need to satisfy rising demand for soyoil and compensate for poor supplies of other vegetable oils), market participants anticipate world soymeal supplies to rise to burdensome levels.



## b) Selected policy developments and industry news

**BRAZIL – biodiesel policy:** Brazil's Council of Energy Policy (CNPE) authorized, effective 1<sup>st</sup> January 2016, the voluntary use – by certain consumer groups – of biodiesel blends exceeding the mandatory blending rate of 7 percent. Public and corporate transport fleets will be allowed to use biodiesel blends of up to 20 percent (B20), while 30 percent blends (B30) will be permitted in rail transport, agriculture and industrial uses. Furthermore, the ruling allows for experimental use of pure biodiesel (100 percent). Until specific assurances are provided by the car and machine manufacturers, the higher blends will not be available at public pumps. Government plans to increase mandatory blending from 7 percent to 10 percent in 2020 remain in place. According to market experts, the voluntary use of B20 and B30 could lift Brazil's annual biodiesel consumption

from 3.6 million tonnes currently, to 4.1–4.2 million tonnes. The higher blends would imply higher domestic demand for soyoil (the predominant biodiesel feedstock), which may lower Brazil's soyoil export availabilities. Brazil's installed biodiesel production capacity is now estimated at 6–7 million tonnes per year.

**CHINA – food standards:** China's National Health and Family Planning Commission (NHFPC) notified the WTO of revised standards for edible meals derived from oilseeds other than rapeseed and cottonseed (as well as from wheat, maize, rice and certain leguminous crops). The new standard for protein meals used in the food industry redefines the products concerned, modifies the existing sensory requirements and sets new contaminant/toxin limits. The NHFPC also submitted a revised code of hygienic practices in the production of edible vegetable oils and fats. The modified code specifies essential

requirements and management rules applying to procurement, processing, packaging, storage and transport and marketing. Comments on the two standards have been invited. Dates of entry for the new standards still have to be determined.

#### **EUROPEAN UNION – GMO policy:**

The European Parliament rejected a draft law – tabled by the European Commission in April 2015 (*see MPPU May & Aug. '15*) – that would have enabled individual EU member states to restrict or ban the sale and use of EU-approved GMO food or feed on their respective territories.

The rejection was based on concerns that the law could prove unworkable and run counter the bloc's single market principles. Reportedly, in addition to requiring the re-introduction of border checks between member countries, the law could have hurt the EU's agricultural sector – which depends heavily on protein supplies, especially GM soybean meal imported from outside the EU – and have negative repercussions on trade.

The European Commission informed that it will not withdraw its proposal. Hence, the draft law will now be submitted to the European Council for comment. The EU's feed and food industry welcomed the Parliament's rejection, reiterating that the proposed legislation would distort competition in the bloc's internal market and hurt EU food production. An impact assessment study undertaken by the industry suggests that substituting GM soy with conventional soy would lead to a 10 percent increase in feed costs, strongly affecting the competitive position of livestock industries in countries banning GMOs, both in their domestic market and their respective export destinations (considering that, on the global market, demand for non-GM-fed animal products is rather small).

#### **EUROPEAN UNION – olive oil import access:**

National olive oil organizations and the EU's umbrella federation of agricultural producers criticized the European Commission's plan to raise Tunisia's duty-free import quota for olive oil (*see MPPU Oct. '15*). Allegedly, the measure would give Tunisian producers an unfair advantage and hit the European olive oil sector

badly at a time of saturated markets and low farm gate prices. Meanwhile, EU officials informed that the EU and Tunisia have opened negotiations on a bilateral 'Deep and Comprehensive Free Trade Area' – aimed at further improving Tunisia's access to the EU's food and non-food markets. The new agreement would replace the 'Association Agreement' in place since 1995.

#### **INDIA – import policy**

- **Butter:** Effective from 5<sup>th</sup> October 2015 to 31<sup>st</sup> March 2016, India's ad valorem import tariff for butter, butter oil and ghee (clarified butter) will be set at 40 percent, compared to 30 percent previously. Private sources reckon that the measure was taken to protect local producers from cheap imports, following recent falls in world prices.

- **Palm oil:** Government officials excluded the possibility of hiking the country's import duty on crude palm oil to protect the country's infant oil palm industry from low-priced imports. Local producer associations, who had asked for a four-fold increase in import tariffs, have been told that such drastic rises would be perceived as a barrier to international trade. While a small increase in duties has not been ruled out yet, the government is also examining the possibility of introducing temporary income support payments, official sources reported. In the meantime, farmers have been urged to explore means to lower production costs, in particular with regard to irrigation (*see also MPPU July & Sep. '15*).

**INDIA – biodiesel policy:** As an additional measure to encourage domestic biodiesel production and consumption, the government decided to exempt raw materials used for biodiesel production – i.e. oil and fat derivatives, methanol and sodium methoxide – from central excise duties. Biodiesel is already exempted from excise duties in its own right. Since 2014, the government has raised its efforts to promote domestic biodiesel consumption – *see MPPU Dec. '14 & Apr. '15*. Last August, it launched the sale of B5 (blends of conventional diesel with 5 percent biodiesel) in certain retail outlets of state-run oil marketing companies.

**INDONESIA – soybean production support:**

Amid renewed government efforts to raise the level of food self-sufficiency in Indonesia, the agricultural ministry has proposed to introduce a 10 percent import tariff on soybean imports as well as to raise the government-set floor price for soybeans from presently IDR 7 700 per kg (USD 570 per tonne) to IDR 8 500 per kg (USD 620 per tonne). In Indonesia, where soybeans are mostly processed directly into staple foods (notably tofu and tempeh), only modest gains in domestic production have been achieved in recent years, and almost 60 percent of local consumption is met by imports. The newly proposed measures are meant to stimulate domestic production, while protecting soy farmers from low-priced imports. In recent years, soybean imports have been subject to a 5 percent import tariff, although the duty was repeatedly suspended to check surges in food retail prices. As to farm-gate prices, private sources report that actual prices tend to range well below the government-set floor price for soybeans. Reportedly, limited access to land, irrigation, storage facilities and fertilizer also impair domestic production growth.

**INDONESIA / MALAYSIA – bilateral palm oil cooperation:** Recent bilateral talks between Malaysia and Indonesia (*see MPPU Sep. '15*) resulted in plans to set up an intergovernmental organization of palm oil producers named Council of Palm Oil Producing Countries (CPOPC). Meant to foster cooperation between producing countries, the new body would be tasked to control production and manage stocks across participating countries, with the goal to stabilize prices. Malaysia and Indonesia, who control 85 percent of the global palm oil market, said that other producing countries, notably Thailand, would be invited to join the new body. Reportedly, the council would also support the development of downstream industries, promote the image of palm oil, and foster the harmonization of production standards. Regarding the widely debated issue of environmentally and socially sustainable production practices, the Council would advocate the creation of standards that also take into consideration the welfare of

smallholders, said Indonesian government officials – reflecting concerns that zero-deforestation pledges recently signed by leading palm oil companies could hurt smallholder producers who are not ready to adopt sustainable forestry practices. In Indonesia, smallholders account for about 40 percent of total palm oil production.

**MALAYSIA – palm oil market regulation:**

On 6<sup>th</sup> October, government officials announced that import volumes of palm oil would be controlled with immediate effect to curb rising domestic stocks and thus prevent domestic prices from falling further. Imports would be minimized but not banned, with long-term or previously signed contracts being allowed to continue. Details on how imports would be cut and for how long were not available. In recent years, Malaysia imported between 0.3 and 1.6 million tonnes of palm oil to improve domestic supplies. However, last September, domestic inventories climbed to a 2.6 million tonnes peak, causing a sharp drop in prices. The government's decision to restrict imports follows other measures to reduce domestic inventories, including encouraging domestic biofuel consumption and implementing an oil palm replanting programme (*see MPPU July & Oct. '15*).

**Trans-Pacific Partnership (TPP) agreement:**

Oilseed growers and processors in Canada and the United States welcomed the successful conclusion, in early October, of the TPP trade agreement, which involves twelve nations and nearly 40 percent of the global economy. Reportedly, once implemented, the TPP will provide new export opportunities for the U.S. soybean and groundnut industry and Canada's rapeseed sector. Producers and processors of these commodities are expected to make considerable gains as trade partners in Asia, particularly in Japan, Vietnam and Malaysia, remove their tariffs and address non-tariff barriers related to phytosanitary and GMO-restrictions. Considering that the trade pact still needs to be signed by heads of government as well as ratified by parliaments and that



implementation of the deal will take several years, its overall impact will not be known for some years.

### **Futures markets**

- **Chicago Mercantile Exchange (CME):** Following a customary semi-annual review, daily price limits for CBOT (Chicago Board of Trade) soybean and soy meal futures have been lowered from November 1<sup>st</sup>. For soybeans, the limit dropped from USD 0.70 to 0.60 per bushel, and for soy meal from USD 0.25 to 0.20 per short tonne. For soy oil, the limit has remained unchanged. Under CBOT rules, the daily price limits for oilseeds (as well as grains) are reviewed in May and November of each year, based on a percentage of the average settlement price of benchmark contracts during a nine-week observation period.
- **India:** The Securities and Exchange Board of India (SEBI) ruled out the possibility of restricting futures trade in soybeans at the national-level on-line exchange NCDEX (National Commodity & Derivatives Exchange). The country's soy processing industry called for restrictions to be imposed after forward prices surged in October, allegedly due to excessive speculation at futures exchanges. Reportedly, the sudden surge in prices is hurting soy processors, which have to pay more for the raw material while prices for soybean oil and meal are depressed due to falling prices of competing products. SEBI stated that NCDEX's soybean contract is well regulated and enjoys wide participation of varied value chain participants. The exchange's regulatory framework, which includes stringent trade limits and margins, was said to ensure transparent and fair price discovery.

### **Biofuel developments**

- **Hydro-treated vegetable oil (HVO):** Swedish truck/bus manufacturer *Scania* has given green light for the use of HVO in its latest generation of engines, stating that HVOs do not affect its vehicles' characteristics and maintenance requirements. Hydro-treating of vegetable oils or animal fats is an alternative process to esterification for producing bio-based

diesel fuels. Commonly referred to as 'renewable diesel fuels' (as opposed to esterification-based 'biodiesel'), HVOs are straight chain paraffinic hydrocarbons that are free of aromatics, oxygen and sulfur and have high cetane numbers. Allegedly, HVOs do not have the unfavourable effects of ester-type biodiesel fuels, like increased mono-nitrogen oxides emission, deposit formation, storage stability problems, more rapid aging of engine oil or poor cold-flow properties.

- **Methanol substitution in ester-type biodiesel:** In the Islamic Rep. of Iran, researchers developed a process to produce biodiesel without using fossil-based methanol. The scientists replaced methanol, a key component in standard transesterification reactions, with bio-ethanol obtained from plant residues, thus using exclusively renewable products. In the research trials, a single raw material – the castor plant – was used to obtain both vegetable oil (extracted from the seeds) and ethanol – obtained via a bio-refinery process from plant residues, mainly stems, leaves and seedcake.

### **High-oleic soybeans – United States:**

According to private sources, in the United States, the acreage of high-oleic soybeans has surpassed 100 000 hectares across nine states and is on its way to achieving the industry target of over 7 million hectares by 2023. Developed using conventional non-transgenic breeding methods, high-oleic varieties are said to have the same yield potential as traditional soybeans, while offering a premium to farmers thanks to the high value of their oil (*see also MPPU Apr. & July '15*).

### **Non-GM oilseed markets**

- **Non-GM rapeseed – Australia:** Private sources consider the West-Australian market for non-GM rapeseed to be at risk, following the discovery of GM plants at different sites of a metropolitan area – in some cases more than 100 km away from the closest grain farm. Considering that the GM plants grew along key trucking routes, their emergence is likely the result of seed spillage during transport. The finding highlights challenges of keeping

GM and non-GM rapeseed separate for the export market. Australia is one the EU's leading suppliers of non-GM rapeseed.

- Non-GM soybean – Germany:

Global agri-trade firm *ADM Co.* announced that it will invest in switch-capacity in its rapeseed crushing facility in Southern Germany, so as to be able to also process locally-sourced non-bioengineered soybeans. By doing so the company hopes to cater for the growing local market for non-GM soymeal.

**Palm oil sourcing:** US food company *McDonald's* pledged to eliminate deforestation from its global supply chain and announced that, by 2020, 100 percent of the palm oil used in its restaurants worldwide would be sourced through systems that support sustainable palm oil production.

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	<b>International Prices (US\$ per tonne) <sup>1</sup></b>					<b>FAO Indices (2002-2004=100) <sup>7</sup></b>		
	<b>Soybeans<sup>2</sup></b>	<b>Soybean oil<sup>3</sup></b>	<b>Palm Oil<sup>4</sup></b>	<b>Soybean Cake<sup>5</sup></b>	<b>Rapeseed Meal<sup>6</sup></b>	<b>Oilseeds</b>	<b>Vegetable oils</b>	<b>Oilcakes/ Meals</b>
<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
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
<b>Monthly</b>								
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
<p><sup>1</sup> Spot prices for nearest forward shipment</p> <p><sup>2</sup> Soybeans (US, No.2 yellow, c.i.f. Rotterdam)</p> <p><sup>3</sup> Soybean oil (Dutch, f.o.b. ex-mill)</p> <p><sup>4</sup> Palm oil (Crude, c.i.f. North West Europe)</p> <p><sup>5</sup> Soybean meal (44/45% Hamburg fob ex-mill)</p> <p><sup>6</sup> Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)</p> <p><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.</p> <p>Sources: FAO and Oil World</p>								