OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 20, December 2010

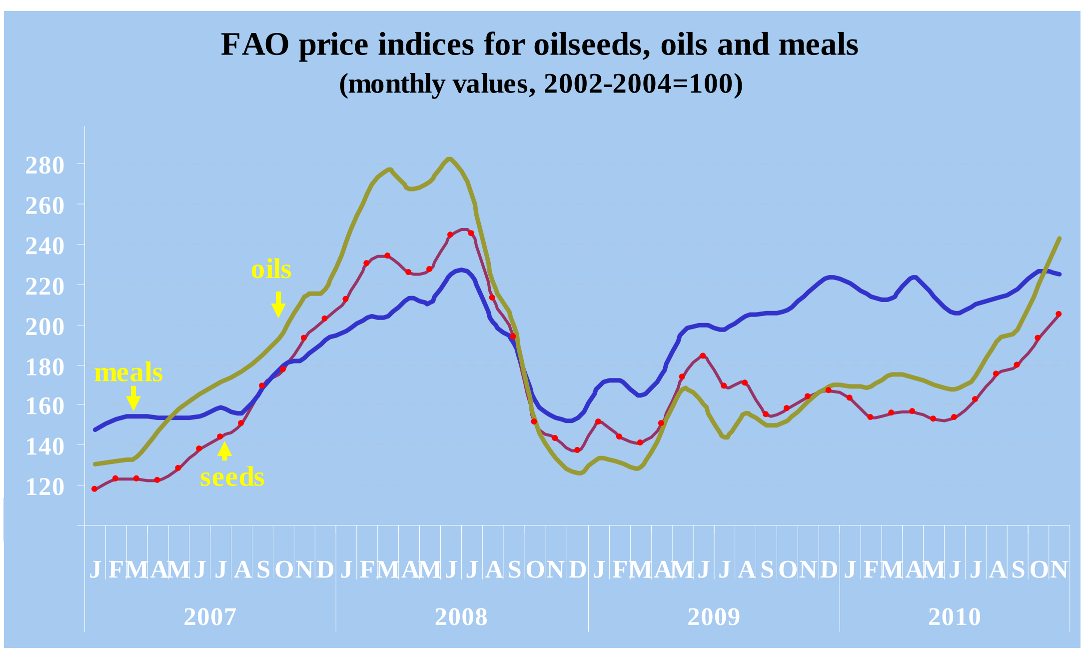
a) Global price review

FAO's price indices for oilseeds, oils and meals continued to rise during the last two months. While the strongest increase occurred in the oils market, the index for meals ceased rising in November. For all three markets, the indices climbed to levels not seen for over two years. The seed and oil indices stopped some 15% short of the respective 2008 peaks, but the meal index matched the past pike.

Prices were propelled upward by reports of lower than expected harvests - of oilcrop as well as grains - in the northern hemisphere, which coincided with unabated growth in soybean import demand (primarily from China), prolonged weakness in the US Dollar, rising inflationary concerns and continued firmness in the energy market. Reports that a new La Niña weather pattern was slowing down palm oil harvests in Southeast Asia and could adversely affect South America's new soybean crop caused additional apprehension, as did the prospect of intensified fight for acreage (between oilseeds and grains) in North America and elsewhere later in the season.

Vegetable oil prices have been gaining versus those of oilmeals, as steadily rising oil demand coincided with slow supply expansion. Meanwhile, oil-driven seed crushing has lead to temporary meal surpluses, bringing some relief to meal prices.

Overall, the prospects of a tight supply and demand situation during the 2010/11 season as a whole started weighing on the market. Global production of meals is anticipated to barely exceed world demand, whereas for oils/fats a new production deficit is likely to develop. Low oil inventories and a critically low stock-to-use ratio can only lend support to oils/fats prices. Furthermore, firm prices will not necessarily dampen demand for oils/fats from the food and biofuel sector.



---

* 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 **October & November 2010**. 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

AFRICA - oil palm development:

- Ghana: Reportedly, the government is developing an oil palm master plan to meet local demand for vegetable oil and improve the country's competitiveness as a regional exporter. Areas covered in the plan include access to finance, land-use policies, technology transfer, transportation infrastructure, pricing mechanisms, product certification and marketing.
- Uganda: A large national oil palm development project launched in 1998 is ready to enter its second phase. Under the project, smallholder oilcrop production (in particular oil palm) is raised and smallholders are directly linked with processors. Plantations are developed according to modern environmental standards. The public-private partnership builds on a loan provided by IFAD as well as local, private capital and bilateral grant money. Reportedly, the project has lead to a significant increase in oil production from domestic sources and marked improvements in average per caput consumption, while reducing the country's dependence on imported oils.

BRAZIL - oil palm expansion: Reportedly, the government decided to introduce a set of rules that guarantees sustainable forms of oil palm expansion and prevents further deforestation. Oil palm plantations may only be established on degraded land, which would allow rehabilitation of previously deforested areas. All oil palm growers will be required to register for regular inspection. Oil palm expansion will also be monitored via satellite images, and companies buying palm oil from areas other than those earmarked for oil palm development risk loosing their environment licenses.

CHINA - measures to stem food price rise: Concerned about rising inflation rates and with domestic vegetable oil prices recently reaching two-year highs, the government has taken the following measures:

- Sale of state reserves: State operated agencies have been instructed to sell - via open bidding - their reserves of rapeseed oil, soy oil and soybeans with a view to increase domestic supplies and thereby stabilize prices. Built over the last 2-3 years for market stabilization purposes, these reserves need to be sold to avoid quality deterioration. Furthermore, room needs to be freed for purchases of new-crop oilseeds and oils that have been ordered by the government.
- Futures markets: Reportedly, the government has asked the country's futures exchanges to raise margin requirements applied to trade in selected commodities, including soybeans, soya meal, soya oil and palm oil. The measure aims at deterring speculation on commodity markets.

CHINA - soyoil imports: Purchases of soybean oil from Argentina - which had come to halt last April when a set of strict quality requirements was introduced - have resumed in October thanks to the suspension of the new rules. Reportedly, only government controlled companies have been granted permission to import. Market observers have linked the change in policies to the country's difficulties to secure sufficient soyoil imports.

CHINA - soybean state purchases: Reportedly, the government is ready to buy soybeans from the last crop to rebuild state reserves. At Yuan 3800 per ton of 3rd grade beans (Yuan 3844 for 2nd grade and Yuan 3880 for 1st grade), purchase prices would be Yuan 60 higher than last season. For wheat, the increase in the state purchase price is reported to be significantly higher, while that for maize has yet to be announced.

INDIA - new commodity exchange: *Ahmedabad Commodity Exchange* has started to operate as the country's fifth national commodity bourse, launching futures trading in five agricultural items, comprising soybean, soybean oil, mustard seed and castor seed.

INDIA - certified palm oil: In a bid to stimulate consumption of certified sustainable palm oil, the country's vegetable oil industry proposed to the government to apply a discounted duty on future imports of 'green' palm oil. The industry expects that pressure on big consumers to move toward environmentally friendly purchasing policies will rise in coming years.

INDIA - support price: Reportedly, the 2010/11 minimum support or procurement price for rapeseed has been raised to Rp 18,500 per tonne, a 1% increase compared to 2009/10.

INDIA - edible oil trade policy: With this seasons' improvement in domestic oilseed output and generally easing food prices, producers are asking that the duty exemption granted for imports of unrefined vegetable oil be discontinued. While considering the request, the government has informed that the exemption would remain in place until early 2011. Furthermore, the government decided to extend the ban on bulk edible oil exports for another year, until September 2011.

INDONESIA - palm oil export tax: Since 2007, the tax is adjusted on a monthly basis with a view to ensure adequate domestic supplies and prevent high volatility and hikes in domestic prices.

- Monthly revision: Following uninterrupted growth in international palm oil prices, in December, the ad-valorem export tax on crude palm oil will be raised for the fourth consecutive month. The rates applied in October, November and December are, respectively, 7.5%, 10% and 15%. A 15% rate had not been applied since August 2008. According to private sources, local traders are concerned that the high tax rates will reduce the competitiveness of the country's exports compared to those of the main competitor, Malaysia. Higher tax rates also imply a bigger gap between the duties applied to palm oil and palm-oil based biodiesel (palm methyl ester). With the export duty on biodiesel kept fix at 2%, companies could step up export-oriented biodiesel production.
- Export taxation system review: Reportedly, a government official stated that the current taxation system will be up for review because - although helpful in reducing fluctuations in domestic supplies and prices - the system has proven ineffective in spurring the downstream palm oil industry, i.e. did not help raising exports of higher-value refined oil as opposed to crude oil.

INDONESIA - palm oil certification: The government announced that, starting in January 2011, national certification of sustainable production (see news item in May 2010 MPPU) will become mandatory for all plantation firms and smallholders cultivating oil palm. Details on certification methods and procedures as well as compliance control are yet to be issued. Indonesia's industry seems to welcome national certification as opposed to RSPO-controlled certification, noting that the latter has been progressing slowly.

JAPAN - voluntary trans fat labelling: Reportedly, the government plans to move to voluntary disclosure of levels of trans fatty acids in food products so as to reduce the risk of cardiovascular diseases. Mandatory labelling may be considered in the future.

KAZAKHSTAN - export ban:
Reportedly, in an effort to secure domestic supplies of oils and fats, the government has banned the export of soybeans, sunseed, cottonseed, soyoil, sunoil, rapeoil and linseed oil for 6 month starting mid October.

MALAYSIA - oil palm replanting:
Concerned about slow output growth and stagnating yield levels, the government has announced a new oil palm replanting scheme for 2011. The state-funded programme shall be implemented over 2-3 years and will involve some 365,000 hectares of palms older than 25 years. The previous, industry-funded scheme (which was introduced in 2008 in response to weak palm oil prices and involved 200,000 hectares) is reported to have been almost completed.

MALAYSIA - support to biodiesel

- Biodiesel blending incentives: The Malaysian Palm Oil Board was reported to have allocated funds to five major petrol companies for investment in infrastructure for biodiesel blending. According to official sources, mandatory blending at B5 level - originally planned for January 2010 - is now set to come into effect in June 2011.
- Petro-diesel subsidy: Reportedly, the government may consider cutting, from next year, subsidies traditionally applied to sales of conventional diesel. The measure would end an advantage currently enjoyed by petro-diesel when compared to palm-based biodiesel. While mandatory biofuel blending is set to commence in soon, the industry is complaining that at the current, high level of palm oil prices and without public support the production and marketing of biodiesel is not economically viable.

MALAYSIA/INDIA - free trade pact: A bilateral trade pact set to come into effect next year will likely include, inter alia, concessions on Malaysian palm oil exports to India - which remained excluded from the India-ASEAN free trade agreement signed last year.

PAKISTAN - flood-related production incentives:

- Sunflowerseed: Reportedly, the government has been charged with the formulation of a comprehensive edible oil policy that would help farmers to recover from the recent floods as well as put and end to the country's dependence on imported oils. A package of incentives, including interest free loans, is to be prepared to encourage farmers to grow sunflowerseed for local oil production. Sunflowerseed has the advantage of being early maturing, low in irrigation water needs and drought resistant.

Rapeseed: The State Bank of Pakistan announced that it is ready to offer concessional loans to farmers sowing rapeseed in flood affected areas.

SYRIA/VENEZUELA - joint olive oil venture: Backed by their national governments, private parties in the two countries are set to form a joint venture for olive oil production and marketing. Olive oil produced in Syria is expected to be exported to Venezuela under preferential conditions. The project is part of new efforts to increase economic integration between the two countries.

SRI LANKA - vegetable oil import duties: Concerned about recent surges in retail prices for edible oil and the resulting hardship for consumers, the government decided to reduce the taxes applied on palm and coconut oil imports. Originally introduced to encourage domestic coconut production, the duties will now be lowered from 60 to 15 Rp per kg of coconut oil, and from 50 to 10 Rp per kg of palm oil.

THAILAND - soymeal import duty: Reportedly, the Government decided to extend the 2% import duty on soyameal for another year. The duty had been lowered in January 2009 (from previously 4%) with a view to contain increases in feed costs. Industry requests to abolish the duty altogether have been rejected so as not to discourage local soybean production.

THAILAND - biodiesel mandate: Reportedly, the shift from mandatory use of B3 to B5 will be delayed from mid to late January 2011, as flooding has adversely affected local palm oil production.

THAILAND - palm oil consumer price: With a view not to add burden to flood affected people, the government-brokered, voluntary price ceiling for palm oil will remain unchanged at Baht 38 per litre - in spite of requests by oil refiners to be allowed to raise retail prices (following rises in production cost due to record high palm fruit values).

UNITED STATES - new olive oil standards: The USDA has launched new voluntary standards for olive oils grown in and imported into the US. The objective is to ensure that labelling of all olive oils is backed by detailed, scientifically verifiable guidelines as well as tests conducted by panels of qualified tasters. To be classified as 'extra virgin', oils must, inter alia, be free of defects and contain no more than 0.8% of free oleic acid, which echoes the guidelines issued by the International Olive Oil Council.

Improved waste oil-to-biodiesel conversion: A group of USA researchers reported to have simplified the conversion of used vegetable oil into biodiesel. The new conversion process is claimed to be environmentally benign and considerably faster than the conventional method. The new technology's viability at industrial scale still has to be proven.

Jatropha developments:

- Hybrid seed material: A US company has patented a technology to produce jatropha hybrid seed at large scale. In addition to resulting in greater yield, uniformity and vigour, the hybrid material is said to permit marked reductions in handling and deployment costs for jatropha plantations.
- Business venture: Reportedly, global oilseed processing company *Bunge* has joined forces with specialized bioenergy and refining firms with the aim to develop the jatropha value chain through the introduction of advanced technologies. The joint venture set out to prove the economic viability and environmental sustainability of jatropha as energy source, thus setting the scene for large-scale deployment of jatropha plantations globally.

Certified sustainable palm oil:

- Global supply and demand situation: Certification of sustainable palm oil started two years ago. Currently, certified oil reaches the market via three RSPO-approved trading systems: the full *segregation* method, *mass balance* calculation, or a *book & claim* mechanism. RSPO estimates current, actual demand for certified palm oil at 1.4 million tonnes per year - while annual production capacity is said to have reached 3 million tonnes. Leading international vegetable oil refining companies are estimating that annual global production of sustainable certified palm oil will need to rise to 15 million tons by 2015: this is because - feeling the pressure form environmental and social interest groups - more and more key buyers (such as Unilever or Nestlé) are committed to gradually move away from non-certified palm oil. However, current annual expansion is estimated at only 1.5 million tonnes globally, meaning that production could fall short of future demand. This view is supported by the fact that many oil palm producers continue to resist moving towards certification, because of costs involved and because premiums offered by the market (for certified product) are small. Reportedly, these premiums have fallen to USD 3-5 per tonne, compared to levels as high as USD 50 only two years ago. The steep drop in premiums occurred when supply of certified palm oil picked up. Overall, future growth of the market for certified palm remains difficult to predict. Some observers even warn of possible excesses of supply over demand, pointing out that buyers in some important consuming nations, notably China and India, are notoriously price-sensitive and therefore not likely to pay the premiums associated with certified oil - at least in the short to medium term.

- Sourcing policies: According to British press, *The Body Shop* (a major retail company for soap and cosmetics) decided to stop buying palm oil from a supplier reported to be producing under socially unsustainable conditions in Colombia. Apparently, the supplier in question used to satisfy up to 90% of the retail company's palm oil needs.
- Trademark: RSPO has launched a trademark/logo for free use by product manufacturers and retail companies when packaging items that use certified sustainable palm ingredients. The mark is meant to reassure consumers that products they buy contribute to sustainable palm cultivation practices. If widely adopted, the measure is expected to induce more companies to commit using only certified palm oil.

Biodiesel South-South cooperation: Colombia continues to offer its technical know-how in biodiesel production to countries in Central America. After participating in the construction of biodiesel plants in El Salvador and Honduras, Colombia's agricultural research institute CORPOICA is now reported to have started cooperation with Mexico, where a plant using jatropha and palm oil will be set up with public funding.

For comments or queries
please use the following Email contact:
Peter.Thoenes@fao.org

	International Prices (US$ per tonne)					FAO Indices (2002-2004=100)		
	Soybeans[1]	Soybean oil[2]	Palm Oil[3]	Soybean Cake[4]	Rapeseed Meal[5]	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
Annual (Oct/Sep)								
2003/04	322	632	488	257	178	121	116	114
2004/05	275	545	419	212	130	105	105	104
2005/06	259	572	451	202	130	100	125	107
2006/07	335	772	684	264	184	129	153	148
2007/08	549	1325	1050	445	296	217	202	243
2008/09	437	849	682	409	206	161	150	194
2009/10	429	924	807	389	221	162	173	215
Monthly								
2008 - October	394	928	545	338	156	151	153	162
2008 - November	378	824	488	323	155	143	133	154
2008 - December	366	737	508	307	172	137	126	154
2009 - January	411	788	553	369	202	152	134	169
2009 - February	386	744	571	378	215	144	131	172
2009 - March	380	728	590	346	208	141	129	165
2009 - April	410	802	699	383	220	151	147	175
2009 - May	472	893	799	441	230	174	168	196
2009 - June	504	894	734	445	227	184	160	200
2009 - July	467	834	641	428	186	169	144	198
2009 - August	474	891	722	437	186	171	156	204
2009 - September	424	850	676	428	192	155	150	206
2009 - October	427	891	676	413	187	158	152	207
2009 - November	442	939	728	422	196	164	162	216
2009 - December	448	931	791	425	219	167	169	224
2010 - January	435	919	793	407	243	163	169	221
2010 - February	406	915	804	393	230	154	169	214
2010 - March	410	920	832	381	200	156	175	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	170	214
2010 - June	408	860	794	342	194	154	168	206
2010 - July	426	911	811	361	225	162	174	211
2010 - August	457	1002	901	389	245	175	192	213
2010 - September	468	1036	910	398	277	180	198	218
2010 - October	496	1165	998	415	285	193	220	227
2010 - November	526	1248	1117	430	292	205	243	225

[1] Soybeans (US, No.2 yellow, c.i.f. Rotterdam)
[2] Soybean oil (Dutch, fob ex-mill)
[3] Palm oil (Crude, c.i.f. North West Europe)
[4] Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)
[5] Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

Note: The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each commodity for the 2002-2004 period. The indices are based on the international prices of five selected seeds, ten selected oils and fats and seven selected cakes and meals.

Sources: FAO and Oil World