

Chapter 6

Oilseeds and Oilseed Products

Market situation

In the last few years, considerable movement has interrupted the historically flat price trend for oilseeds, oils and meals, especially when prices for all three product groups rose dramatically in mid 2008. The price surge was caused by an unusually tight supply and demand situation, spill-over effects from related grain markets as well as a growing importance of biofuel demand and of macroeconomic factors. Even though the rise was followed by a sharp fall in prices towards the end of 2008, values for oilseeds and derived products have since moved at levels above those prevailing prior to the general increase.

In early 2009, prices embarked on a new upward trend, mainly reflecting concerns about the progressive tightening of global supplies following the weather related decimation of South America's soybean crop. Furthermore, demand growth had returned to normal levels (compared to the slowdown at the onset of the global economic crisis), with main importing countries showing robust buying interest. Eventually, the shortage of supplies relative to demand led to record-low stock levels.

The ensuing strengthening in oilseed prices lasted until mid-2009, when ample crops from the Northern hemisphere (notably soybeans) started entering the market. With global oilseed production poised to resume growth, prices for oilseeds started to weaken gradually, although those of oils and fats and in particular of oilmeals remained firm. Sustained oilmeal values are explained by sustained Asian and European import demand and the market's strong reliance on a single type of meal (soymeal) and only few suppliers. By December 2009, meal prices almost matched the level recorded during the 2008 price peak. More recently, however, due to the prospect of a full recovery in South American soybean production in 2010, meal prices started to ease again.

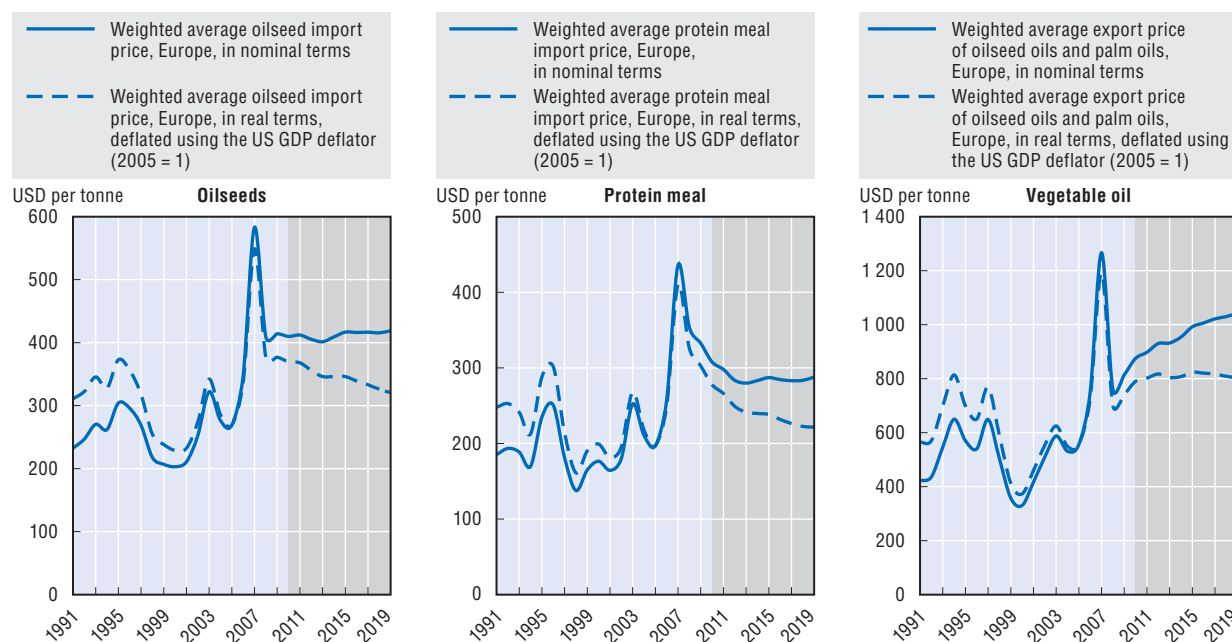
Also, the market for edible oils and fats was characterised by a tight supply and demand situation: in the second half of 2009, limited export supplies and reduced output of high oil-yielding oilseeds coincided with revived growth in global demand for oils from both the food as well as the energy sector. The renewed firmness in crude oil prices contributed to the gradual strengthening in oils and fats values. Unlike meal values, oil and fat prices continued to be firm in early 2010, reflecting the prospect of limited growth in the production and export of palm oil during the remainder of the year, while oil utilisation for food purposes was poised to rise further and demand from the biodiesel industry started accelerating in countries enforcing higher domestic biofuel blending rates.

The medium-term market projections for oilseeds and derived products presented in this chapter are subject to assumptions of average weather conditions, the continuation of current policy packages (concerning agriculture and bioenergy) and an evolution of the macroeconomic environment that has been described in Chapter 3.

Projection highlights

- Given steady demand growth and strong crude oil prices, prices for oilseeds and oilseed products should remain above long term levels in both nominal and real terms. Given biofuel mandates and sustained food demand in developing countries, vegetable oil prices are expected to increase in nominal terms and be fairly flat in real terms over the Outlook period (Figure 6.1).
- Compared to the 2007-09 average, world oilseeds acreage and production are expected to be 10% and almost 30% higher, respectively, by 2019, based on sustained profitability and yield improvements (Figure 6.2). Global oilseed area expansion is limited compared to the previous decade due to higher marginal costs of area expansion and new constraints coming from environmental regulations in developing countries, as well as sustained profitability of competing crops, mainly maize, in the US.
- At the world level, vegetable oil production should increase by almost 40% over the projection period when compared to the base. The share of vegetable oil consumption used for biodiesel production is expected to increase from 9% for 2007-09 to 15% in 2019, driven by biofuel mandates and consumption incentives in many countries. In non-OECD economies, because of increasing population and income, food use accounts for 90% of the 3% annual growth in vegetable oil demand (Figure 6.3).
- During the Outlook period, annual growth in protein meal consumption is projected at 1% in OECD economies, compared with 3.2% in non-OECD economies based on sustained growth and intensification of livestock production around the world.

Figure 6.1. **Oilseeds and oilseed products prices to remain well above long term levels**



Source: OECD and FAO Secretariats.


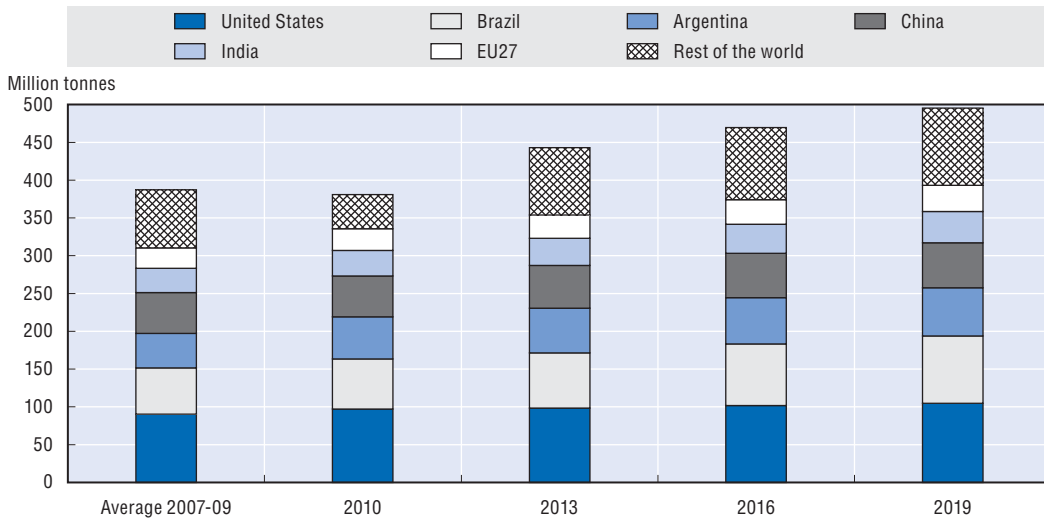
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Figure 6.2. Oilseed production to expand
Evolution of global oilseed production over the projection period

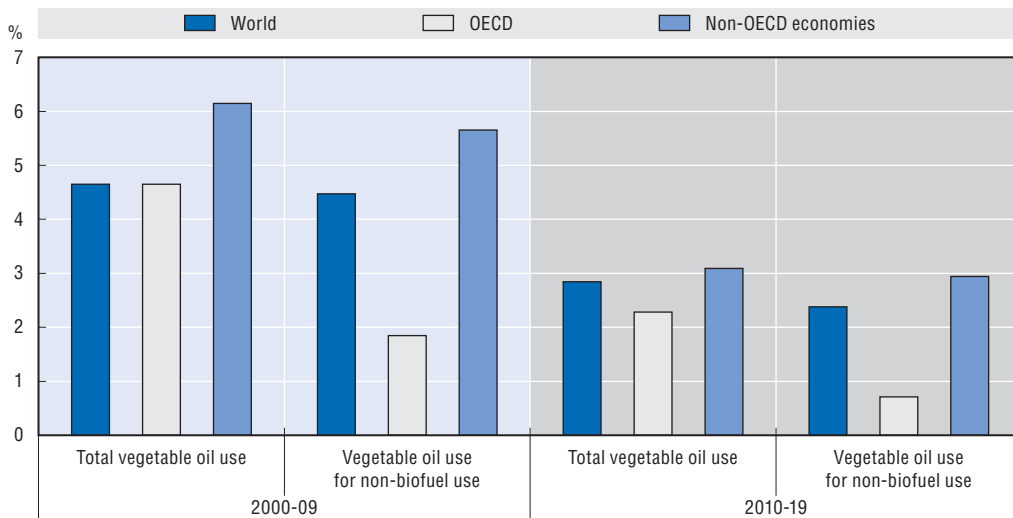


Source: OECD and FAO Secretariats.

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Figure 6.3. Food use to drive vegetable oil consumption in non-OECD economies, biofuel use to drive consumption in OECD economies

Comparison of average annual growth rates of vegetable oil consumption

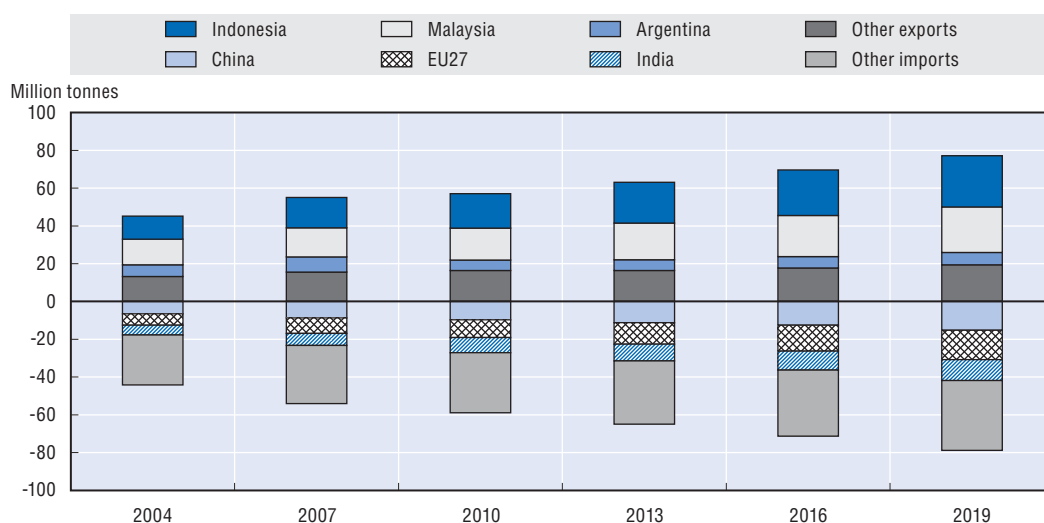


Source: OECD and FAO Secretariats.


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- In continuation of past trends, world trade in oilseeds and derived product will be increasingly dominated by a small number of countries, with no more than four nations accounting for about 85% of global oilseed exports in 2019. Vegetable oil imports by China, India and the EU are expected to represent 55% of total world imports. By 2019, palm oil producers Malaysia and Indonesia are projected to represent two-thirds of total vegetable oil exports (Figure 6.4).

Figure 6.4. Vegetable oil exports to be concentrated
Evolution of vegetable oil trade over the projection period



Source: OECD and FAO Secretariats.

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Market trends and prospects

Prices

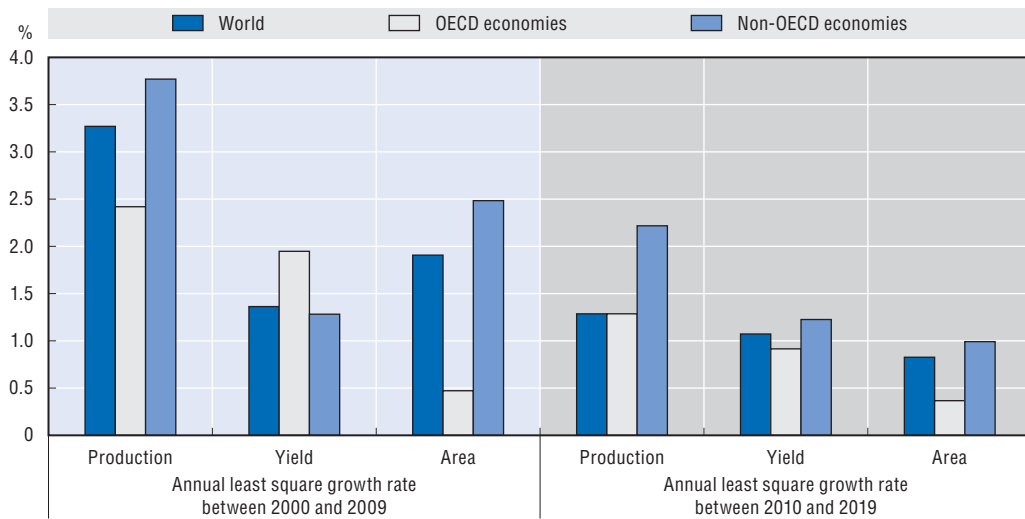
World prices for vegetable oils should remain well above levels prior to the food crisis in both nominal and real terms (Figure 6.1). Sustained food demand growth in developing countries and ambitious targets for biodiesel consumption, together with strong and increasing crude oil prices throughout the Outlook period are expected to lead to a sustained increase of prices in nominal terms. The pace of increase should be slower in the later years of the Outlook period as the pressure on biodiesel markets becomes lower because of the assumption of second generation biofuels slowly becoming available in the European Union. World vegetable oil prices expressed in real terms should remain fairly flat over the projection period.

Compared to the levels prior to the food crisis, also oilseeds and protein meal prices are projected to remain strong over the projection period as global stock-to-use ratios are expected to stay at low levels. In a context of sustained crush demand and increasing production, oilseeds prices are expected to remain about unchanged in nominal terms and to decrease in real terms all over the course of the projection period. In line with other feed commodities, protein meal prices are expected to decrease in the early years of the Outlook period before marginally increasing over the rest of the projection period.

Oilseed production and crush

Compared to the 2007-09 average, world oilseeds acreage and production are expected to be 10% and almost 30% higher, respectively, by 2019, based on sustained profitability and yield improvements (Figures 6.2 and 6.5). Global oilseed area expansion is limited compared to the previous decade due to higher marginal costs of area expansion and new constraints coming from environmental regulations in developing countries, as well as sustained profitability of competing crops, mainly maize, in the US. The yield gap between OECD and non-OECD countries is expected to diminish over the Outlook period. The US

Figure 6.5. Potential for oilseed area expansion is limited
Comparison of average annual growth rates of oilseed production, acreage and yield



Source: OECD and FAO Secretariats.

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should remain the major oilseed producer over the projection period (Figure 6.2) with oilseed acreage remaining constant at about 35.2 Mha as US domestic producer prices for soybean and maize are expected to move together over the projection period.

Brazil and Argentina should strengthen their role in oilseeds supply with a combined share of global oilseed production of more than 30% in 2019, compared to about 27% in the base period. Brazil is projected to be the main contributor to area expansion in non-OECD economies although due to increasing environmental limitations plantings should expand at a much slower pace than over the previous decade. Paraguay has been emerging as the third South American oilseeds producer. Driven by sustained high profitability, the country's area under soybeans is expected to expand to more than 3.2 Mha producing over 8.3 Mt by 2019.

China's agricultural policy doctrine is expected to continue to focus on domestic production of coarse grains. As a result, oilseeds production growth is limited as yields and area are not projected to improve significantly. India is expected to continue its expansion of edible oilseeds production (i.e. this does not take into account the expansion in *jatropha* cultivation) by adding about 2.7 Mha over the projection period to reach 36 Mha in 2019. Improved yields also contribute to production growth. However, the anticipated annual growth rate of 2.2% over the projection period compares to almost 6% in the past decade, reflecting a comparable slow down in both, yield improvements and area expansion, indicating that investments and public support for and returns from oil crops tend to remain behind those of alternative crops. Oilseed production in other parts of Asia is expected to expand by less than 2% per year.

Oilseeds production should increase by almost 30% in the EU over the projection period with yield gains contributing strongly to this increase. Driven by strong prices, oilseed area – mainly rapeseed – is projected to continue to grow over the projection period at a rate of 0.5% per year. The growth should however be slower than over the previous decade where the rapeseed sector developed quickly in response to strong demand from

the expanding biodiesel sector. Within the OECD, oilseed production expansion is expected to also occur in Canada and Australia to satisfy both domestic crushing industries and export markets.

Driven by strong demand for protein meals from the livestock industry, oilseed plantings and production in the Russian Federation should expand, respectively, at a rate of 1% and 2.7% per year. As export opportunities within Europe have developed over recent years, Ukraine has become a significant sunflower seed producer with compound annual growth close to 15% during 2000-09 and total output exceeding 10 Mt in 2008. Further consolidation and modernisation in oilseed production should allow production to continue growing at more than 5% per year reaching more than 15 Mt by 2019.

With growing demand for oilseeds products, global oilseed crush is projected to continue expanding. It should grow at an average growth rate of 2% compared to 3.8% over the previous decade. This is due to the slowdown in protein meal and vegetable oil demand growth rates compared to the previous decade. Countries oriented towards the export of oilseed products or of biodiesel like Brazil and Argentina are expected to continue to develop their crushing industries with annual growth rates close to 2.5% over the projection period. Oilseed processing in Paraguay has been expanding along with seed production and is expected to grow further, with about 30% of domestic production being crushed in the country.

China is expected to continue to favour the imports of oilseeds to capture the value added from processing oilseeds into protein meals and vegetable oils. Its crushing capacity is expected to continue to grow at a rate of 2.2% per year which, however, is significantly below the previous decade. In India, about 80% of the domestic production is crushed; the remainder is consumed directly as food. Direct consumption is expected to fall slightly as the mix of oil crops shifts slowly towards seeds with higher crushing rates. The crushing sector in Ukraine has not quite kept up with seed production and is expected to maintain a growth rate just below seed production, processing 8.2 Mt in 2019.

In the US, strong soybean oil prices should be behind higher average annual growth rates of oilseed crush over the projection period than over the previous decade. In the EU, after the strong increase in crushing facilities between 2003 and 2009 due to the emerging biodiesel industry, crush is expected to continue to develop but at a slower pace of 1.3% per year.

Products production and consumption

Vegetable oil

At the world level, vegetable oil production should increase by almost 40% over the projection period. Global production of palm oil remains very concentrated. Malaysia and Indonesia are expected to produce almost 70 Mt in 2019, i.e. about 40% of global vegetable oil production. Because of environmental concerns and area restrictions the growth rates are projected below recent trends.

In line with the development of their crush industries, the main non-OECD oilseed oil producers, Argentina, Brazil and China, are expected to reduce the increase in their outputs to about 2.5% per year. When compared to the base, the increasing EU oilseeds production and crush capacity are expected to lead to a rise in oilseed oil production of 25% over the Outlook period. Vegetable oil is also produced from other tropical oilseeds as described in Box 6.1.

Box 6.1. Tropical oilseeds and oilseed products

The 2010-19 Outlook covers a wider range of oilseeds and products than previous editions. Traditionally, temperate climate oilseeds, soybean, rapeseed, and sunflower plus tropical palm oil were covered in the Aglink-Cosimo model. Starting with the current edition, the oilseeds complex also includes groundnut, cottonseed, coconut and palm kernel. While the quantities of all of these products are small in a global context they have significance for certain regions, especially tropical island nations. The inclusion of these additional products enhances the coverage of the OECD-FAO commodity aggregate for oil bearing commodities and their processed products especially for tropical countries and regions. Groundnuts are mainly grown in the US, Argentina, West Africa and East Asia. The oil is of high value, mostly used for special cooking applications. Confectionary groundnuts are an important source of fat and protein in many parts of Africa and Asia.

Cottonseeds are a by-product of the cotton harvest, where lint represents the main product. Cotton cultivation is concentrated in developing countries, notably in the higher latitudes of the Asian continent, but is also present in North and South America and Africa. Cottonseeds are crushed as any other oilseed, primarily to obtain oil.

Coconut palms are grown throughout the tropics. The dried flesh of the coconut (copra) is processed for oil and meal. The oil has industrial and human consumption uses and, together with palm kernel oil, stands out for its high melting point. The meal is fed to animals. Coconuts play an important role in the culture and economy of coastal areas in many tropical countries.

The Philippines are by far the largest producer of copra and its products. It is projected to produce 1.6 Mt in 2019, up from 1.4 Mt currently. Coconut oil accounts for more than 90% of the country's vegetable oil production. Furthermore, the oil is expected to play an increasingly important role as biofuel feedstock. Other notable producers are Indonesia and India. Coconuts are processed all around the tropics where they play an important role in the rural economy. In the least developed countries of the Oceania region, coconut oil accounts for about one third of local oil production, copra meal for over 80% of total protein meal production. At the global level, the share of global coconut oil production in total vegetable oil production is currently of about 2.4% and the share of copra meal in total protein meals production stands at 0.8%.

Palm oil is one of the world's leading vegetable oils, produced from the fruits of the oil palm. These fruits contain a kernel which is also processed into an oil and a protein-rich meal. The oil is mostly used for industrial applications; the meal is fed to animals. Indonesia and Malaysia are the dominant producers. Palm kernel oil and meal are exported to Europe and Asia. Malaysia also maintains a specialised chemical industry for further processing of palm kernel oil.

Palm kernel meal and oil are co-products of palm oil, Malaysia and Indonesia are the leading producers. Combined they currently produce about 4.5 Mt of palm kernel oil, which is expected to grow to 6.3 Mt. Palm kernel meal production amounts to currently about 5.6 Mt, projected to grow to around 8 Mt. At the world level, palm kernel oil production currently represents almost 4% of total vegetable oil production. Palm kernel meal has also currently a share of 4% in total protein meals production.

Rising per capita income and population growth combined with continued growth in non-food uses of vegetable oil are behind the solid vegetable oil demand expected worldwide over the projection period. Per capita food consumption is expected to level off

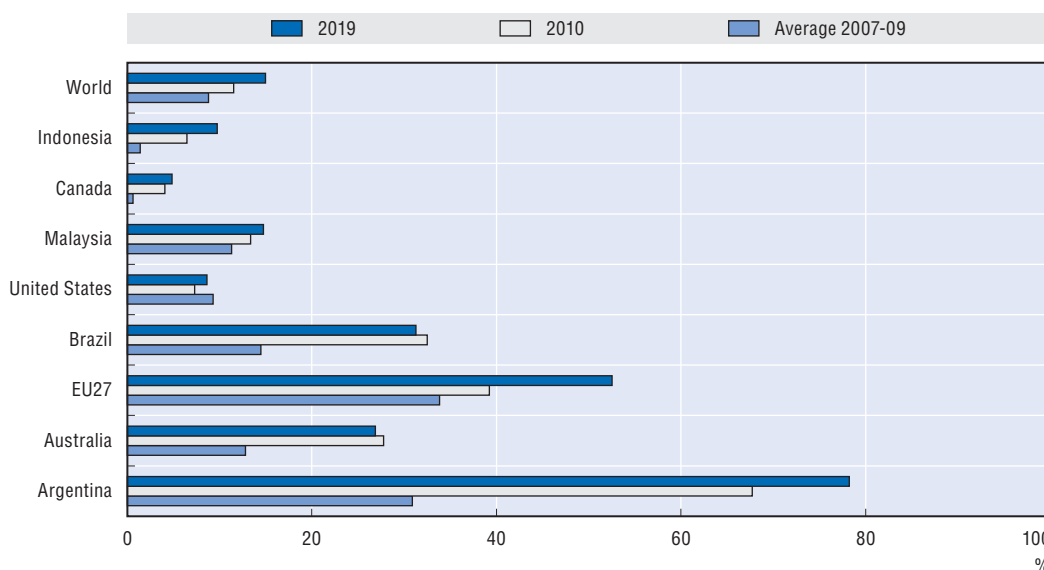
in more and more countries due to saturation effects. Overall, the average annual growth rate of global consumption is expected to weaken compared to the past decade, reflecting relatively slower growth in demand from the biofuel industry.

The share of vegetable oil consumption used for biodiesel production is expected to increase from 9% during the base to 15% in 2019, driven by biofuel mandates and consumption incentives in many countries, *i.e.* almost 16 Mt of vegetable oil will be additionally used to produce biodiesel over the Outlook period, a third of the global use increase. The biofuel chapter describes in details the evolution of biodiesel markets projected over the Outlook.

In the EU, vegetable oil used for biodiesel production is expected to represent 9% of worldwide and 53% of domestic vegetable oil consumption by 2019 (Figure 6.6). Vegetable oil use for biodiesel production is expected to increase by 130% over the course of the Outlook period compared to the base. The strong annual growth rate should slow-down a little toward the end of the Outlook period when second generation biofuels (based on feedstock other than edible crops) are assumed to take-off. The availability of second-generation biofuels is expected to calm down the pressure on edible feedstock-based biodiesel prices and thus on vegetable oil prices.

Figure 6.6. Vegetable oil use for biodiesel production to increase because of mandates

Share of vegetable oil consumption used for biodiesel production in selected countries



Source: OECD and FAO Secretariats.

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Biodiesel consumption in the US should increase to the mandate set by the Renewable Fuels Standard in 2012. Vegetable oil use for biodiesel production should represent about 9% of total vegetable use after 2012. Argentina is expected to continue developing an export-oriented biodiesel industry. Vegetable oil for biodiesel production is expected to reach 3.5 Mt by 2019. Government targets for domestic biodiesel use are projected to encourage the use of vegetable oil for biodiesel production in Brazil which should account

for more than 30% of domestic consumption by 2019. The soybean oil based biofuel industries in Argentina and Brazil account for 60% of the expansion in biofuel use of vegetable oils in non-OECD economies.

Malaysia and Indonesia have invested into flexible production structures that will allow channelling more palm oil towards biodiesel production if economically profitable. Currently, biodiesel output is very low, but production is expected to increase over the projection period, mainly to satisfy domestic consumption mandates. Actual outcomes will depend on economic and political conditions. Malaysia also maintains a flourishing oleo-chemical industry that is projected to utilise over 4 Mt per year by the end of the coming decade.

Because of increasing population and income, food use accounts for 90% of the 3.1% annual growth in vegetable oil demand in non-OECD economies (Figure 6.3). Growth is strongly concentrated in Asia, with China expected to remain the world leading vegetable oil consumer with an annual growth rate of 3.2% p.a. Vegetable oil market in India is dominated by the food demand for vegetable oils. Despite expansion efforts, vegetable oil production from locally grown crops covers only about 45% of domestic requirements with a declining tendency. In countries where production is strongly driven by the export market, such as the Ukraine or Paraguay, the weight of domestic vegetable oil consumption is expected to fall further in the future.

Protein meal

The global livestock industry is expected to develop over the course of the projection period leading to a 25% growth of global demand for protein over this period when compared to the base. As OECD livestock industries are mature and the share of protein meals in animal feed rations is not expected to move significantly in most OECD countries over the projection period, the average annual growth rate of protein meals use should remain lower than over the previous decade.

However, in the US, after a drop between 2006 and 2008 due to high meal prices relative to other feed grains and the increasing availability of dried distillers' grains, protein meal use is expected to increase at a rate of 1.6% per year. By 2016 meal consumption in the US will return to the level of 2006. Dried distillers grains, are expected to replace almost 8% of protein meal consumption in the US towards the end of the projection period.

As livestock industries continue to intensify but at a slower pace than over the previous years, annual growth in meal consumption is expected to average 3.2% in non-OECD countries, about half the previous decade's growth rate. Surpassing the EU in 2012, China is expected to become the leading protein meal consumer. Brazil is also projected to see an increase in protein meal use of more than 30% over the projection period compared to the base. In Paraguay, more than half of local meal output is exported; the cattle oriented domestic livestock industry consumes the remaining amount.

In India, protein meal output should be more than sufficient to cover the domestic feed market, leaving about 5.5 Mt for the more lucrative export market. Oilseeds' processing in Ukraine has turned into an export oriented industry. Local consumption of meal accounts for only about 25% of domestic output. With feed demand and production growing at similar rates, that share is expected to remain unchanged during the Outlook.

Trade in oilseeds and products

Oilseeds

Oilseed trade is expected to grow by more than 26.5 Mt over the Outlook. World oilseed trade should continue to be dominated by few major market players: the US, Brazil, Argentina, Canada and increasingly Paraguay. US exports are determined by the relative development of crushing facilities and oilseed production. Their comparable development is anticipated to lead to stable oilseed exports over the projection period at about 38 Mt on average. Despite the rapid development of its crushing industry, Brazil is expected to affirm its position as the global trade growth leader. Over the Outlook period, almost 70% of the total growth in oilseed exports is projected to originate from Brazil, growing from 26% of global exports over the base to 35% in 2019. Brazil should become the largest oilseeds exporter surpassing the US in 2018.

The differential export tax system in Argentina continues to favour domestic processing of seeds and exporting oilseed products rather than exporting oilseeds. It favours even more exports of biodiesel. As a consequence, total oilseed exports are expected to diminish over the projection period at a rate of 3.5% per year. Paraguay is an emerging exporter of oilseeds and products. Its seed exports are projected to reach over 5.5 Mt in 2019. The processing industry is mostly export oriented, but is small in size and is not yet a major player on the global scale. Traditionally, India does not trade in oilseeds. Prohibitive tariffs prevent imports and the domestic market absorbs all domestic production.

Within the OECD, Canada remains the second largest oilseed exporter. Exports are projected to remain stable over the projection period because of the development of the Canadian crushing industry in line with increasing oilseed production. The fast growth of the Ukrainian seed production is projected to provide the country with a growing export potential of almost 5 Mt over the Outlook period.

China and the European Union are the major oilseed importers. Because of the expansion of the Chinese crushing industry over the projection period, Chinese oilseed imports are expected to increase by 13 Mt accounting for most of the global increase in imports over the projection period when compared to the base. Despite the expansion of domestic oilseed production, mainly rapeseed, the European Union should remain a strong and stable importer of oilseeds over the Outlook period.

Vegetable oil

World vegetable oil trade is projected to increase over the projection period as production in the main consumption regions is not anticipated to keep up with demand. Trade is projected to increase to reach 77 Mt in 2019, 40% higher than the base level. World vegetable oil exports are very concentrated with Indonesia and Malaysia providing two-thirds of shipments. Strong demand in India, China and Europe support their expansion in trade to over 50 Mt by 2019. By 2019, Argentina is expected to produce almost 6% of the global vegetable oil and to be the third largest exporter with a share of 8.5% of total exports. Its differential export tax system favours exports of biodiesel and oilseed products rather than oilseeds exports. In Ukraine, vegetable oil production continues to grow leading to exports of 3 Mt over the coming decade.

Due to biofuel consumption incentives and mandates being in place in many countries, vegetable oil trade will be increasingly influenced by biodiesel markets on both the exporting and the importing side. To meet both industrial and traditional vegetable oil

demand, EU imports are expected to increase by almost 75%, becoming the leading vegetable oil importer after 2011. Income and population growth support a strongly expanding vegetable oils market in India which has to import more than 11 Mt in 2019. Imports by the three dominant trading countries (EU, China and India) are expected to represent 55% of total world imports.

Protein meal

Over the Outlook period, because of the slowing of global protein meal use, the protein meal trade growth rate is expected to fall to about 2% per year, significantly lower than over the previous decade. Argentina is expected to strengthen its position as the largest protein meal exporter in the world because of its well developed, efficient crushing industry and small domestic market. The differential export tax system affects the exports adversely in general, but provides a relative advantage to the exports of processed products. Argentina should account for more than 40% of global exports by 2019.

Brazil is expected to remain the second largest protein meal exporter. Exports originating from Brazil are expected to increase by almost 20% over the course of the Outlook period despite an increasing domestic consumption. As their domestic crush industry develops US protein meal exports are projected to expand over the projection period at a similar rate as over the previous decade.

The expansion of the Indian livestock industry will keep pace with the production of protein meals, limiting the country's annual meal exports to nearby destinations in South East Asia (where it enjoys a competitive advantage) to about 5.7 Mt. Annual protein meal exports from the Ukraine are projected to grow from 1.7 to 2.7 Mt by 2019 because the processing industry outpaces feed demand and the country is well placed as a supplier for the growing feed markets in the Middle East and Western Europe.

The European Union is projected to keep its position of principal protein meal importer over the Outlook period. Because of increasing domestic rapeseed production and the development of new crushing facilities, oilseed meal imports are expected to remain stable over the course of the projection period. In China, meal demand should be mostly satisfied by domestically produced meal, as well as through an expansion in meal imports. They should reach 7 Mt by 2019.

Key issues and uncertainties

A number of issues and uncertainties that are embedded in the projections presented in the *OECD-FAO Agricultural Outlook* are discussed in this section. Obviously all these uncertainties are inter-related and changes may also arise in light of developments in other sectors of the economy.

Development of the biodiesel sector

Since the early 2000s, vegetable oil-based biodiesel production experienced a considerable expansion. Increased demand for oils and fats from biodiesel producers became one of the driving forces of the global vegetable oil market – with repercussions for the oilseed complex as a whole as well as marked cross-sectoral linkages (notably in the form of competition for land with maize, another highly demanded biofuel feedstock).

Any deviation from current national bioenergy policies and investors decisions may affect the biofuel demand for vegetable oil and thus the global oilseeds and oilseed products market. This was evident from mid-2008 onward when weaker energy prices together with weaker policy support for biofuels and sluggish private investment, caused a slow-down in the expansion of biofuel production, which contributed to the sharp drop in world prices for vegetable oils and fats. Conversely, the renewed firmness in mineral oil prices during the second half of 2009, along with the implementation of higher biofuel blending rates in 2010 triggered acceleration in oil and fat demand from the biodiesel industry. Both factors were contributing to the recent strengthening in world prices for oils and fats. For a more extensive treatment of the major issues and uncertainties associated with the expansion of biofuel markets please refer to the “Biofuels” chapter of this publication.

Supply and demand concentration

The global market for oilseeds and derived products is characterised by a high degree of concentration. Today, soybeans account for well over half of global oilseed output, with production concentrated in just three countries. Similarly, palm oil occupies a key role in global vegetable oil production, with the bulk of output stemming from two countries. The potential for further expansion in the production of oilseeds and oil also remains strongly concentrated in a few regions: the global market will depend heavily on South America and Southeast Asia for additional supplies of respectively, soybean and palm oil. At the same time, the growth potential in these areas could be increasingly constrained by resource limitations and environmental concerns, a prospect that introduces considerable uncertainty into the global market.

Furthermore, as far as international trade is concerned, exports of the worlds' most widely shipped oilseeds, oils and meals tend to be dominated by no more than two or three nations. Given the size of production and exports by the countries in question, any weather anomalies, important shocks to their economies or radical policy decisions would have huge consequences on markets and world prices for oilseeds and oilseed products. Also on the demand side, consumption growth tends to be heavily concentrated in a few, import dependent countries, in particular China and India, which can again lead to increased market instability as any unexpected developments in these countries would strongly affect the global market.

Sustainability issues

Concerns about the environmental and/or social sustainability of current crop production methods are voiced by society in many countries and involve annual and perennial oilseeds in developing and developed nations. Large scale palm oil plantations in Asia and extensive soybean cultivation in South America, for example, are increasingly facing challenges in this regard.

Environmental issues also started playing a prominent role in the discussion on how agriculture should contribute to mitigating climate change and on ways of adapting to it. Policy makers and the private industry in many countries – including producers as well as consumers of oilseeds and derived products – started paying more attention to the problem and efforts to identify appropriate responses are increasing. An array of measures can be conceived: from bans on deforestation in high conservation value areas, to voluntary or compulsory production restrictions in environmentally sensitive areas, to general requirements regarding the application of good agricultural and social practices in

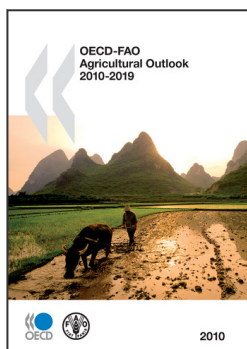
production and processing, to the certification and preferential treatment of sustainably produced products. When introduced on a larger scale, such measures could lead to gradual shifts in oilseed production patterns as well as global trade flows.

In recent years, a number of initiatives have been launched by the private sector for application on a voluntary basis. In particular, commercial production and global marketing of palm oil produced in South East Asia following specific sustainability standards is slowly taking hold and the soybean industry in parts of South America is about to embark on a similar path. The speed and direction, and thus the likely market impact of ongoing and future initiatives in this field remain difficult to predict.

Rising demand for new oils with special properties

In recent years, the production of oilseeds and oils featuring particular traits required by the industry for special food and non-food uses started growing in a number of mainly developed countries – a development supported by new genetic engineering techniques that allow cost-effective modification of planting materials. The trend applies in particular to vegetable oils with special nutritional profiles, notably regarding the trans-fat content and fatty acid composition, which have become increasingly important to health conscious consumers. Relatively small but lucrative markets for such products are beginning to emerge, especially among developed countries.

The further evolution of the market for specialty oils depends on a variety of country specific factors of a technical, economic, regulatory and social nature, which implies considerable uncertainty in any projections. A continuation or intensification of recently emerged trends could eventually lead to adjustments in the global pattern of oil and oilseed production and trade, especially if the health concerns currently present in developed countries should start spreading to the developing world.



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