



Bi-weekly Bulletin

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VEGETABLE OIL: SITUATION AND OUTLOOK

For 2002-2003, world consumption of vegetable oil (vegoil) is forecast to reach a record high and production is forecast to increase despite reduced oilseed production as a result of drought in several key producing countries. Higher palmoil and soyoil production more than offset lower production of other vegoils. World vegoil trade is forecast to set a record high. Vegoil prices are forecast to increase by about 25% from the 10-year low set in 2001-2002. In Canada, canola oil production is forecast to decline sharply, with crushers operating at about half capacity, due to drought across western Canada, and exports of canola oil are forecast to decline significantly for 2002-2003. However, Canadian production of soyoil is forecast to be near record high and exports are expected to increase slightly. This issue of the *Bi-weekly Bulletin* examines the world and Canadian situation and outlook for vegoils.

Vegoils and protein meals are co-products derived from crushing oilseeds. Supply and demand conditions in one market affect the other (see *Bi-weekly Bulletin*, Volume 14, Number 19 entitled, "Protein Meal: Situation and Outlook"). Vegoil production occurs closer to raw oilseed supplies, mainly soybeans and canola. World oilseed production is forecast by the United States Department of Agriculture (USDA) to decrease to 318 million tonnes (Mt) from 323 Mt in 2001-2002 as lower cottonseed, rapeseed, and peanut production more than offset higher soybean and sunflowerseed production.

The supply of vegoil is projected to be the same as 2001-2002 as lower carry-in stocks offset higher production. However, the unbroken 19-year trend of steadily rising consumption is expected to continue with world usage increasing by 2% due to higher consumption in China, India and the United States. Carry-out stocks are projected to fall sharply, to 16% below the 5-year average, supporting the recent rise in world vegoil prices. However, for 2002-2003 European Union (EU) soyoil and palmoil prices are expected to remain well below the highs of US\$606 per tonne (/t) and US\$601/t set during 1994-1995 and 1997-1998, respectively.

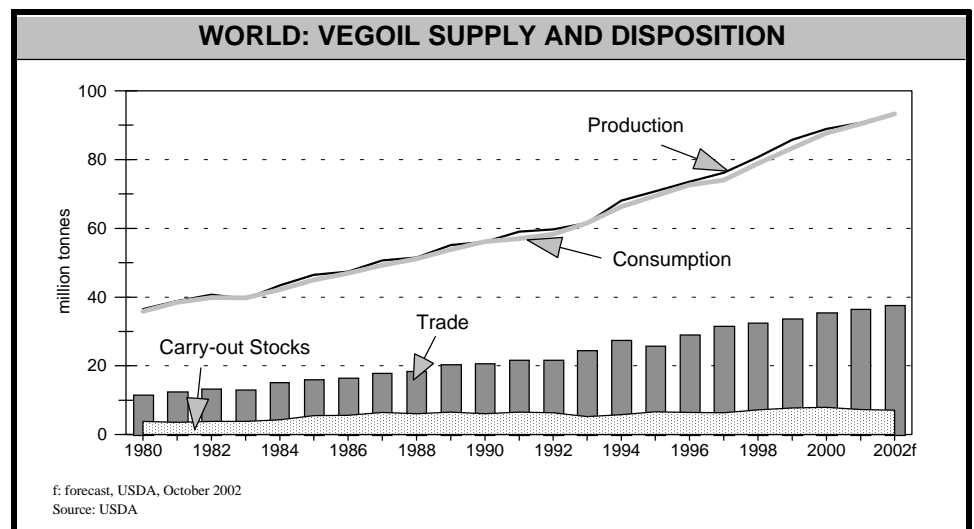
Trade volumes have grown steadily as vegoils are transported from the production areas, typically situated near large agricultural regions, to heavily populated regions where it is consumed. This rise in international trade has been partly supported by a generally higher standard of living throughout Asia, so despite the sharp rise in prices, world trade in vegoils is forecast to be record high for 2002-2003.

Soyoil

Soyoil makes up about one-third of the world vegoil complex and remains the most important commodity, although its dominance

WORLD

For 2002-2003, world edible oil **production** is projected to increase to a record high 93.0 million tonnes (Mt), on support from higher vegoil production of 91.8 Mt and a stable output of marine oil of 1.2 Mt. The percentage distribution of vegoil production by type is as follows: soyoil (32%), palmoil (28%), canola/rapeseed oil (13%), and sunflowerseed oil (9%). The remainder consists of cottonseed oil, peanut oil, coconut oil, olive oil and palm kernel oil. The production of soyoil, palmoil and sunflowerseed oil is expected to increase, more than offsetting a drop in canola/rapeseed oil production.



has been reduced by the expansion of palm oil production since the early 1990s. For 2002-2003, **world soyoil production** is projected to rise by about 4%, largely due to increased soybean crush in the major soyoil exporting countries. Consequently, world soyoil supplies are projected to grow to a record high 32.4 Mt from 31.3 Mt for 2001-2002. World soyoil **trade**, which makes up about one-quarter of the total world trade of vegoils, is expected to rise by 11%, due to increased exports from the US, Brazil, and Argentina. Indian and Iranian import demand is expected to remain strong. World **carry-out stocks** of soyoil are projected to decline by 16%, to the lowest level since 1998-1999, supporting the significant forecast rise in prices.

In the **US**, soyoil **production** is expected to rise slightly, to a record high 8.6 Mt for 2002-2003, on support from stable crush margins,

ample soybean supplies, and increased demand for soyoil because of reduced supplies of competing vegoils. Domestic **consumption** is forecast to increase slightly, to 7.87 Mt as end users switch out of competing canola oils and palm oils because of higher prices. **Exports** are projected to decrease slightly, to 1.09 Mt, approximately 25% above the 10-year average. **US carry-out stocks** are expected to decrease sharply, to 0.74 Mt, supporting the USDA October 2002 US farm price forecast of US\$0.19-0.22 per pound (/lb), versus the 2001-2002 average of US\$0.17/lb.

Brazilian soyoil production is projected to rise sharply, to 5.25 Mt, for 2002-2003, aided by the low value of the Brazilian *real* relative to the US dollar and European *euro*, and record large supplies of raw soybeans. As a result of the 75% devaluation of the Brazilian *real*, local commodity and input prices have increased sharply. This is expected to support a massive shift into soybean area out of corn and wheat, due to lower requirements for fertilizer and pesticide use. In Brazil, differential export taxes favour the export of soybeans and restricts the expansion

of domestic processing, limiting the production and exports of soyoil. For 2002-2003, Brazilian soyoil exports are forecast to rise to slightly over 2 Mt compared to the 5-year average of 1.5 Mt.

Since 1990, **Argentina** has nearly tripled its annual production of soyoil, which now accounts for 14% of world soyoil output. For 2002-2003, the production of soyoil is projected at a record high 4 Mt, due to higher domestic prices resulting from the devaluation of the Argentine *peso*. However, producers may choose to store their soybeans as a hedge against inflation, resulting in slower marketings than in previous years. Due to the favourable tax rates for exporting soyoil and meal, compared to raw soybeans, about 70% of the Argentine soybean crop is crushed domestically and most of the oil and meal is exported. For 2002-2003, exports are expected to rise by about 0.3 Mt, to a record 4.0 Mt, providing Argentina with a 39% market share of world soyoil trade. The rise in soyoil exports is attributed to increased Chinese and Indian import demand for vegoils.

For 2002-2003, the EU is forecast to produce a record 3.2 Mt of **soyoil** due to an increase in the soybean crush. Demand for **soymeal** has increased sharply following the ban on the use of animal meals in livestock rations as a result of the Bovine Spongiform Encephalopathy (BSE) outbreak. The EU is expected to import a record 20 Mt of **soybeans**, mostly from Brazil and the US. For 2002-2003, intra-EU consumption of **soyoil** is projected at 1.8 Mt, while exports are forecast at 2.0 Mt. Although exports are expected to be widely dispersed among importing countries, Russia is expected to be the most important buyer of soyoil from the EU.

Palm oil
World palm oil production has increased by about 2 1/4 times since 1990, as Malaysia and Indonesia expanded palm tree area. For 2002-2003 (October-September crop year), the output of palm oil is forecast by Oil World to

WORLD: OILSEED AND VEGOIL SUPPLY AND DISPOSITION

	2000 -2001	2001 -2002	2002 -2003f
..... million tonnes.....			
OILSEEDS			
Production			
Soybeans	175.1	183.8	184.5
Canola/Rapeseed	37.5	35.9	32.2
Other	100.8	103.4	101.2
Total	313.4	323.1	317.9
Crush			
Soybeans	147.0	157.9	163.5
Canola/Rapeseed	35.2	33.2	30.8
Other	72.1	73.4	73.0
Total	254.3	264.5	267.3
VEGETABLE OILS			
Production			
Soyoil	26.8	28.7	29.9
Palm oil	23.9	24.9	25.4
Canola/Rapeseed oil	13.0	12.2	11.4
Other	25.3	25.1	25.1
Total	89.0	90.9	91.8
Trade			
Soyoil	7.6	8.9	9.9
Palm oil	16.8	17.5	17.8
Canola/Rapeseed oil	2.6	2.4	2.3
Other	7.6	7.0	7.3
Total	34.6	35.8	37.3
Carry-out Stocks			
Soyoil	2.6	2.5	2.1
Palm oil	2.8	2.3	2.3
Canola/Rapeseed oil	0.7	0.6	0.4
Other	2.2	1.9	1.6
Total	8.3	7.3	6.4

Note: Other includes sunflowerseed, cottonseed, peanut, coconut, olive, and palm kernel

f: forecast, USDA, October 2002

Source: USDA

WORLD: VEGOIL TRADE*

	2000 -2001	2001 -2002	2002 -2003f
..... million tonnes.....			
SOYOIL			
Major Exporters			
Argentina	3.21	3.67	4.01
Brazil	1.53	1.65	2.26
EU	1.81	1.90	1.97
US	0.64	1.13	1.09
Major Importers			
India	1.40	1.65	2.00
Iran	0.85	0.90	0.95
CANOLA/RAPESEED OIL			
Major Exporters			
Canada	0.71	0.50	0.45
EU	0.30	0.21	0.27
Major Importers			
US	0.55	0.50	0.47
North Africa **	0.01	0.14	0.15
Hong Kong	0.19	0.13	0.14
PALMOIL			
Major Exporters			
Malaysia	10.48	10.45	10.60
Indonesia	4.58	5.45	5.50
Major Importers			
India	4.00	3.40	3.80
EU	2.85	3.05	3.10
China	1.58	2.00	2.20

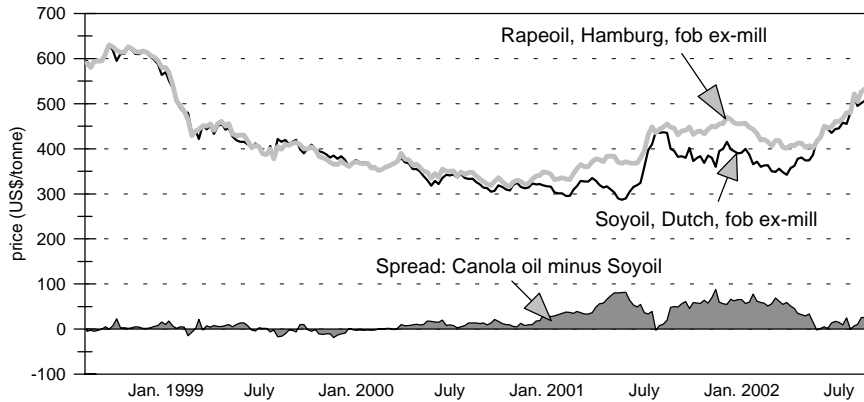
* Major exporters and importers

** Algeria, Egypt, Libya, Morocco, and Tunisia

f: forecast, USDA, October 2002

Source: USDA, Oil World, AAFC

EU: SOYOIL AND RAPEOIL PRICES



Source: Oil World

increase by 2% from 2001-2002 to 24.8 Mt, although at a much slower pace than during the late-1990s and early 2000s, due to a slowdown in the replanting of palm trees and a projected drop in yields from older trees. Supplies are forecast to be similar to 2001-2002. Total consumption is projected to rise by 0.9 Mt, largely due to increased Indian and Chinese usage. As a result, carry-out stocks are expected to fall to the lowest level since 1997-1998.

Following the sharp rise in output during the early to mid-1990s, the production of palmoil in **Malaysia** is forecast to remain stable for 2002-2003. After a rapid increase in palm

tree area during the 1990s, the pace of expansion declined sharply due to economic upheaval experienced during 2000 and 2001. As well, yields are expected to fall under pressure from drought across Malaysia and a host of agronomic factors. For 2002-2003, exports are expected to be stable while domestic usage rises slightly. Carry-out stocks are forecast to drop to 0.9 Mt, about 30% of the world's total carry-out of palmoil, significantly below the 5-year average of 1.1 Mt, supporting an expected rise in Malaysian palmoil prices to US\$350-450/t for 2002-2003.

Indonesia is the world's second largest producer of palmoil and is projected to produce 8.4 Mt in 2002-2003, a 63% increase since 1997-1998, when output was only 5.2 Mt. The rise in production is being supported by improved security in rural areas, increased harvestable, mature, palm tree area and higher yields. Recent investment in the palmoil industry has been negligible as most palmoil processing companies are delaying expansion plans in anticipation of an improved domestic political and economic environment. Domestic consumption of palmoil is expected to be 2.9 Mt, which equates to a per-capita consumption figure of 11 kilograms per year. About 65% of the total crude palmoil production is exported and is projected to be stable at about 5.5 Mt for 2002-2003. The 3% export tax for crude palmoil and its derivative products, plus an

additional 1% tax on refined, bleached, deodorized (RBD) palmoil, RBD palm olein and crude olein, remain in place.

Canola/Rapeseed Oil

Canola/rapeseed oil is the third largest vegoil and **world** production has increased by almost 50% since 1990-1991. For 2002-2003, output worldwide is forecast to drop by 10%, under pressure from lower supplies of canola/rapeseed. As a result of the decline in supplies, global consumption and trade in canola/rapeseed oil is projected to be constrained during 2002-2003.

Canola/rapeseed oil prices are expected to trade at a significant premium to soyoil which will pressure some end users out of the higher priced vegoil. However, the shift away from canola/rapeseed oil is expected to be limited in those higher income countries whose labeling restrictions and health claims favour canola oil.

Rapeseed oil is the dominant vegoil produced in the **EU**. Estimated at 3.7 Mt for 2002-2003, it represents about 25% of their total vegoil output. Intra-EU consumption is projected to increase slightly to 3.4 Mt for 2002-2003, significantly above the 5-year average of 3.1 Mt. Exports are expected to rise marginally to 0.3 Mt for 2002-2003, but remain well short of the 0.8 Mt exported in 1998-1999.

Importers

Historically, **India** consumes approximately 12% of the world's vegoils, and its domestic consumption is forecast to rise slightly to 10.9 Mt for 2002-2003. By contrast, in 1998-1999, India consumed 9.2 Mt of vegoils. By type, the major oils consumed are palmoil (33%), soyoil (25%), peanut oil (15%), rapeseed oil (11%), and cottonseed oil (5%).

For 2002-2003, India is expected to be the world's largest importer of vegoils. Estimated at 5.9 Mt, India's imports represent almost 16% of total world trade. Imports of palmoil and soyoil are forecast to increase significantly, to 3.7 Mt and 2 Mt, respectively. The rise in imports is the result of below normal monsoon activity across the north, northwestern and central regions of India. Although growing conditions improved later in the crop year, several state governments had already prepared contingency plans to deal with possible shortages, and market prices for most commodities had already risen.

Total **Chinese** imports of vegoil are expected to rise to 3.4 Mt for 2002-2003, up from 2.7 Mt in 2001-2002 and the 5-year average of 2.5 Mt. Imports of palmoil and soyoil are

WORLD: PALMOIL SUPPLY AND DISPOSITION

October-September crop year	2000 -2001	2001 -2002e	2002 -2003f
million tonnes.....		
Carry-in Stocks	3.7	4.0	3.8
Production			
Malaysia	11.9	11.6	11.8
Indonesia	7.5	8.1	8.4
Other	4.3	4.6	4.6
Total Production	<u>23.7</u>	<u>24.3</u>	<u>24.8</u>
Total Supplies	27.4	28.3	28.6
Consumption			
India	3.9	3.4	3.9
EU-15	2.7	2.9	3.0
Indonesia	2.8	2.8	2.9
China	2.0	2.2	2.4
Other	12.0	13.2	13.2
Total Consumption	<u>23.4</u>	<u>24.5</u>	<u>25.4</u>
Carry-out Stocks	4.0	3.8	3.2
Trade	17.4	18.1	18.9

e: estimate, Oil World, October 2002

f: forecast, Oil World, October 2002

Source: Oil World

expected to rise to 2.3 Mt and 0.5 Mt, respectively. The growth in imports is due to the combination of higher per capita consumption, reduced production for 2002-2003, and improved access since China was granted membership in the World Trade Organization. Domestic consumption is expected to continue growing, reaching almost 14 Mt for 2002-2003, on support from steady population growth and rising disposable incomes. However, domestic production of vegoils is expected to decline slightly to 10.5 Mt, because of tight oilseed supplies due to reduced production and the biotech regulations restricting soybean imports.

CANADA

Canada has a productive capacity to produce about 2 Mt of vegoil annually, of which 1.7 Mt is canola oil and 0.3 Mt is soyoil. Most of the canola oil is produced in western Canada and all of the soyoil is extracted in eastern Canada. Since 1990-1991, the production of soyoil and canola oil has increased by over 175% and 200%, respectively, due to increased crushing capacity and seed supplies.

The Canadian crush industry earned \$230 million in revenues (oil and meal sales minus seed purchases, not accounting for operating costs) in 2001, according to the Canadian Oilseeds Processors Association (COPA). As well, further refining of crude soy, canola and sunflowerseed oils contributed \$335 million to the processing industry. The oilseed processors purchased about \$1.2 billion of oilseeds from producers. In total, COPA estimates that exports and import substitution of vegoil and protein meal contributed \$1.9 billion to Canada's balance of payments for 2001.

The sale of one of Canada's largest vegoil producing companies, CanAmera Foods, is not expected to affect domestic vegoil output. The change in ownership is part of Bunge Limited's purchase of the large French oilseed processor Cereol. Cereol owned 100% of US soybean crusher Central Soya, which in turn owned 100% of CanAmera Foods of Canada. Despite being the world's largest processor, Bunge had not produced canola oil up to this point. Operations at CanAmera are expected to remain unchanged with the domestic offices operating with the normal degree of autonomy.

By contrast, Canadian **soyoil** production is forecast at 0.3 Mt, based on an expected soybean crush of 1.7 Mt. Supplies of raw soybeans are forecast to remain ample within transport distance of the two major processing plants in southern Ontario. Supplies and domestic consumption of soyoil are expected to decrease marginally, while exports increase slightly.

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CANADA: CANOLA OIL SUPPLY AND DISPOSITION			
<i>August-July crop year</i>	2000 -2001	2001 -2002e	2002 -2003f
..... thousand tonnes.....			
CANOLA SEED			
Crush	3,013	2,293	2,000
CANOLA OIL			
Carry-in Stocks	30	40	30
Production ^{/1}	1,266	971	840
Imports ^{/2}	10	11	12
Total Supply	1,306	1,022	882
Exports ^{/2}	714	512	450
Domestic Use ^{/3}	552	480	407
Total Use	1,266	992	857
Carry-out Stocks	40	30	25
/1 Conversion factors: canola oil = 0.42 x canola			
/2 Includes crude and refined oil, but excludes hydrogenated oil and processed products (margarine, salad oil and shortening).			
/3 Domestic use=Total Supply minus Exports minus Carry-out Stocks. Domestic use includes exports of processed products.			
e: estimate, AAFC, October 2002			
f: forecast, AAFC, October 2002			
Source: Statistics Canada			

For 2002-2003, due to tight canola supplies, canola oil production is forecast to drop to 0.84 Mt (based on a crush of 2 Mt), versus 0.96 Mt for 2001-2002 and the 5-year average of 1.23 Mt. This forecast assumes a conversion factor of 0.42 which could be too high given the poor quality of the 2002-2003 crop. Competition for raw seed will be strong as domestic canola supplies fall to a 10-year low as a result of record dry growing conditions across major regions of western Canada. Crushers not owned by an elevator company in western Canada will be at a further disadvantage as most seed supplies will be located in the eastern half of the prairies, while the processing plants are spread out across the region. **Crush** margins are expected to be pressured by high canola prices. Crush capacity utilization is expected to be significantly below potential. Canadian canola oil exports are expected to drop to about 0.5 Mt with trade to the US representing about 90% of total trade. The price of canola oil, crude, in-store, Vancouver is forecast to average \$775-825/t for 2002-2003, versus \$625/t for 2001-2002.

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