

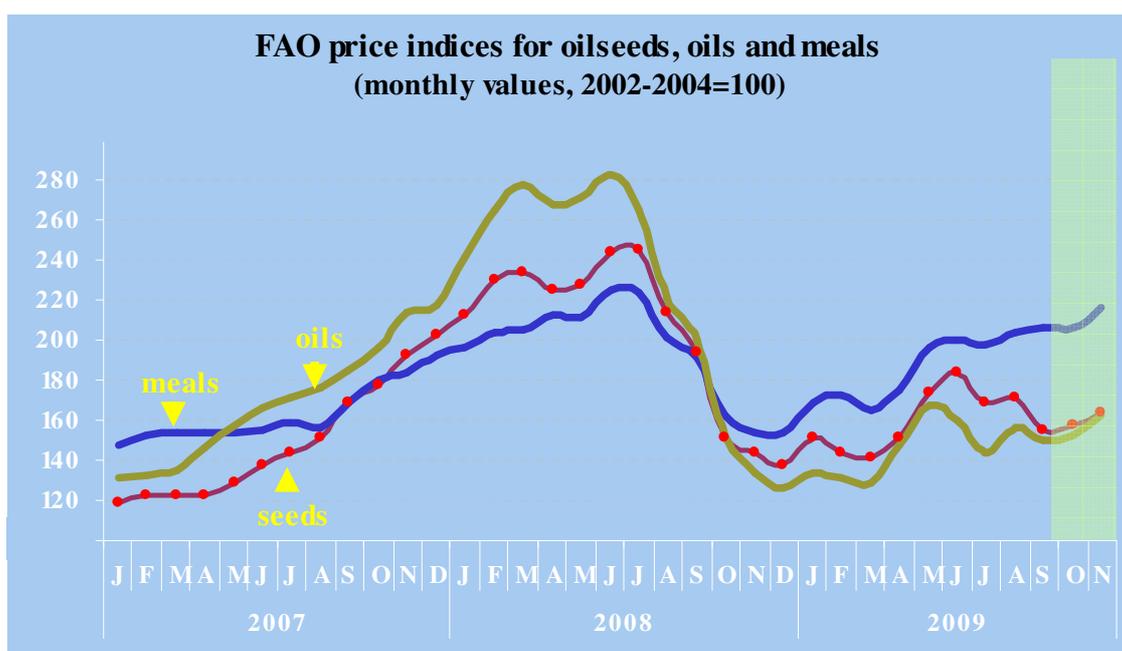
## MONTHLY PRICE AND POLICY UPDATE \*

No. 10, December 2009

### a) Global price review

The majority of prices in the oilseed complex move upward during the months of October and November, with quotations for oils and fats increasing the strongest. For the latter group of products, the FAO price index reached 162 points in November 2009. Excluding the years 2007-08, the period of the extraordinary price swing, the corresponding value in November 2006 was only 124. The current price strength - which may surprise considering US harvest progress and increasing palm oil production and stocks in Malaysia - reflects strong import demand for vegetable oils and active investment fund buying, which coincide with relatively tight export supplies, recovering mineral oil prices and further weakness in the US dollar. In recent weeks, prices also reacted to weather related delays in oilseed planting in Argentina, one of this season's key sources of supply.

The same drivers pushing up oils/fats and prices caused the price indices for oilseeds and for meals/cakes to reach, respectively, 164 and 216 points in November. This compares to historical values of, respectively, 116 and 144 (in November 2006), revealing remarkable price strength. Additional drivers behind the latest price rise (particularly for meals) include a record slow soybean harvest and downward yield revisions in the United States and sustained, strong global import demand. At the same time, export availabilities (especially in South America but also in the United States) are lower than they usually are during this period of the season. And global, heavy dependence on the United States as the only main soybean supplier until early next year inevitably led to price firmness. The pronounced rise in the price index for meals also reflects continued, strong tightness in global supplies of fishmeal, the prices of which have climbed to unprecedented levels.



\* 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 in **October and November 2009**. Previous issues can be downloaded from the FAO website at URL [http://www.fao.org/es/esc/en/15/120/highlight\\_573.html](http://www.fao.org/es/esc/en/15/120/highlight_573.html).

## b) Selected policy developments and industry news

### **Oil palm and rapeseed genome:**

Important progress in sequencing the genome of the two crops has been reported. The scientific advances are expected to accelerate the development of crop varieties with higher yield potential and better resistance to diseases and environmental stress.

**Supply of sustainable palm oil:** Estimates based on current RSPO (Roundtable on Sustainable Palm Oil) membership suggest that the amount of palm oil certified as 'sustainably produced' is set to grow significantly in the next years. Reportedly, in May 2009, 0.5 million tons of certified produce were available; but this figure could rise to 4.5 million tons by end-year, and has been estimated at 9.3 million tons for 2015. These buoyant estimates assume that all RSPO member companies will progressively certify their entire output. Absorbing such amounts would require an expansion in global demand supported by the use of certified palm oil in power plants and as biodiesel feedstock.

**Use of sustainable palm oil:** Retailer and private label brand Sainsbury's in UK has pledged to use, by 2014, exclusively palm oil certified as sustainable, or CSPO; reportedly, the decision was taken after the company observed sales increases following the introduction of CSPO in certain processed foods. Likewise, *Nestle* committed to use only CSPO by 2015 (when sufficient quantities are expected to be available), and a similar pledge was also made by *Marks & Spencer*. The gradual change in buying policies - by which the industry is responding to new consumer concerns - is made possible by increasing supplies of CSPO, the possibility to trade certificates and the related decrease in the CSPO price premium - from, reportedly, USD 40 per ton last year to USD 10-15 today. Some market participants feel that, as supplies of CSPO continue rising, the

price for certified and conventional product will eventually converge.

### **Monitoring of sustainable palm oil use:**

Hoping to encourage the use and accelerate global purchases of available sustainable palm oil, *WWF* (a RSPO founding member) has announced the creation of a 'Palm Oil Buyers Scorecard' - a system to publicly grade leading global retailers, traders and manufacturers of palm oil and palm-based products based on their commitment to purchase, use and promote sustainable palm oil. Preliminary results seem to suggest that today only few buyers in Europe are using CSPO, despite its increased availability and previous commitment by companies to purchase it.

### **Palm oil environmental footprint:**

Malaysia - a potential exporter of palm oil-based biofuel to the EU - decided to conduct in-depth work on the calculation of the oil's impact on the environment. The decision was triggered by forthcoming requirements in the EU, by which, from 2010, biofuels should reduce GHG emissions by at least 35% compared to fossil fuels. The default value for palm oil current assumed by the EU is 19%. However, biofuel suppliers can claim bigger saving rates by providing adequate proof. Currently available studies put GHG saving rates in palm oil in a wide range of 19 to 71%, reflecting rather diverse and complex methods of calculation. Interestingly, up to half of total GHG emissions in palm oil appear to stem from the release of methane gas during the processing stage. Consequently, in Malaysia, efforts are under way to equip palm oil mills with methane capturing technology. Reportedly, the issue of GHG emissions is also under debate at RSPO, with members split over the proposed incorporation of emission targets into the standards for sustainable production. Experts noted that the market is yet to provide clear signals on how it will value efforts by producers to control emissions and feel that, for producers to make

commitments, global compensation mechanisms will need to be put in place.

**Edible cottonseed:** Researchers in the United States reported the development of genetically modified cottonseed that is both free of gossypol (and hence fit for human consumption) and resistant to insects and diseases. The new variety has the potential to add protein to the diet of poor people and raise the income of cotton farmers. Further tests and approvals by regulatory bodies are required before the seed can be made commercially available.

**Philippines - trans fat regulation:** Earlier this year, legislation regulating the commercialization of trans fat was passed. Accordingly, the sale of fats and oils containing significant amounts of trans fats is not allowed; food manufacturers are required to indicate trans fat content on product labels; and trans fat thresholds apply to products that claim to be “free of trans fatty acids”. The regulations are expected to contribute to higher consumption of domestic coconut oil at the expense of imported hydrogenated oils.

**Indonesia - palm oil export tax:** The export tax on crude palm oil will remain suspended in December, i.e. for the fifth consecutive month. The base export price has been adjusted upward but remains below the level that would trigger a reintroduction of the export tax.

**Malaysia - smallholder oil palm support:** Reportedly, the government has allocated funds to assist smallholders in adopting sustainable production practices and in adhering to the RSPO certification process. Furthermore, during 2009-10, financial incentives will be provided to smallholders to allow them to participate in replanting programmes aimed at raising yields - from 20 tons of FFB per ha today to 35 tons in 2020.

**Malaysia - mandatory biodiesel use:** Compulsory 5% blending was scheduled to come into effect country-wide in January 2010, but that rate may now be reduced to 3%. In Malaysia, producers of biodiesel are allowed to buy their feedstock, palm oil, at a fixed, subsidized price, with the oil palm industry contributing to the funding of this scheme. As the recent strengthening in the market value of palm oil implies a higher subsidy, and considering the very slow uptake of biodiesel consumption so far, the government and the oil palm industry plan to contain the outlays for biodiesel subsidization by reducing the compulsory blending rate. Furthermore, to spur domestic biodiesel demand, the government has announced that it will drop the 10% tax currently applying to biodiesel sales.

**China - soybean production and processing:** The government continues to be concerned about the country’s strong dependence on imported soybeans and the uncontrolled expansion in the crushing industry. Reportedly, measures under consideration by the government include a subsidy to soybean farmers, the amount of which would be inversely related to the market value of the crop. Also measures to encourage plantings and processing of groundnut, rape, sunflower and cotton seed will continue, and no new soybean crushing projects will be approved and structural improvements in the processing sector will be encouraged.

**China - oilseed procurement and public stocks:** Reportedly the government decided to release 2 million tons of soybeans (from the 2008 harvest) from state reserves, offering crushers a subsidy of Yuan 210 per ton. Furthermore, public purchases and stockpiling of soybeans is set to resume in December and will last until April 2010. The price paid to farmers should be Yuan 3740 per ton, or about 1% above last season’s procurement price, while the crushing subsidy could be

reduced to Yuan 160 per ton. In line with its effort to support farmers and stabilize domestic output, the government also announced that it will buy 1 million tons of rapeseed (in addition to the 5 million tons planned last June) at a price of Yuan 3700 per ton. Reportedly, by end September, 3.8 million tons of rapeseed had been procured.

**China - rapeseed imports:** As of November 15<sup>th</sup>, rapeseed shipments entering the country are required to be certified free of blackleg disease for phytosanitary reasons - a regulation that hurts in particular exports from Canada (and possibly Australia), where the disease is no longer a major threat, but continuous to be present. The three countries are involved in negotiations about a possible delay in the implementation of the new regulation and about alternative risk mitigation measures. Meanwhile, rapeseed crushers in China are expected to turn to domestic supplies, including the ample government stocks accumulated during the past season.

**India - biodiesel exportation:** An international biofuel producing company has reported a first shipment of biodiesel from India to a customer in Europe.

**India - vegetable oil exports:** The temporary ban on bulk shipments of vegetable oils introduced in early 2008 (to secure domestic supplies and contain price rises) has been extended until October 2010.

**India - commodity exchange:** Reportedly, the Indian Commodity Exchange has become operational end November and commodities traded include soy oil.

**Brazil – soybean moratorium:** The moratorium on buying soybeans planted on land illegally cleared in the Amazon region has been extended for a 4<sup>th</sup> year. Meanwhile, NGOs have launched

discussions on the environmental effects of converting vast tracts of Savannah into arable land, in particular for cultivating soybeans.

**Brazil - currency policies:** Reportedly, the government is determined to tax foreign investments in an effort to prevent further appreciation of the national currency vis-à-vis the US dollar. The strength in the Real tends to raise input costs for farmers and erodes export earnings - for instance from soybean sales.

**Brazil - mandatory biodiesel use:** In recent years, the government accelerated the introduction of mandatory blending rates (inter alia to make better use of the installed production capacity), and compulsory 5% blending is set to come into force nation-wide in July 2010. Now the government was reported to consider gradually moving to 20% blends in big cities by 2015, which is estimated to raise annual biodiesel consumption to 5.5 million tons.

**Colombia - biodiesel mandatory use:** biodiesel blending of 10% will become compulsory in January 2010 - up from 5% in 2009. The new target is estimated to translate into an annual requirement of 500 000 tons of biodiesel - entirely based on domestic palm oil, production of which is set at 0.8-1 million tons in 2010.

**ASEAN free trade agreement:** The agreement (referred to as AFTA) is set to take effect next January, implying the introduction of common preferential tariffs ranging between 5 and zero percent for all products, including those previously deferred under sensitive lists. The six founding members of ASEAN agreed to immediately reduce their tariffs on key agricultural products - including soybeans as well as soy, palm and coconut oil - to zero. This measure is expected to affect internal trade patterns, with the most

competitive producers likely to gain market shares.

**Africa - new investments in oilseed production:** Several countries in the region are reporting renewed interest in oilseeds, in particular as biodiesel feedstock. Government backed, large scale commercial production of biodiesel is planned in Rwanda, where a private consortium is ready to develop 10 000 ha of jatropha, aiming at the production of 16 million litres of biodiesel annually. Other biodiesel feedstock under consideration include, high-altitude oil palm, moringa, castor and soy. Kenya has introduced a plan for developing biodiesel from jatropha and other locally grown trees and is eyeing a biodiesel blending ratio with fossil diesel of 5%. Comparable plans have also been launched in Ethiopia, focusing on castor, jatropha and oil palm cultivation on arid land not used for food crops. In Liberia, the government is securing major investments in oil palm by private companies from Malaysia and Indonesia, expecting significant improvements in livelihoods and social welfare in poor regions, industrial development and new export earning opportunities. Meanwhile, in Uganda, NGOs have criticized large scale investments in oil palm for giving insufficient regard to environmental regulations and social concerns. Exposed to similar criticism and concerned about national food security, in Tanzania, the government decided to closely monitor (and partly suspend) widespread land acquisition and investment by companies involved in biofuel production (from jatropha and other feedstock). And finally, international research is encouraging farmers in Sub-Saharan Africa to cultivate soybeans to improve both, their income and local diets. Soybean is promoted as a versatile crop that can grow well in the region and is suited for small-scale farming and processing, and new uses and marketing systems are expected to reduce

the farmer's dependence on the meal and oil industry.

**Turkey - GMO import rules:** A new law regulating the importation of GMO material that has come into force end October started to negatively affect the country's imports of soybeans and soy meal. Foreign rape and sunflower seed, where non-GMO material is readily available, are expected to partly fill the gap.

**USA - groundnut policy reform:** The government reported that landmark policy changes enacted in the early 2000s transformed the national groundnut sector by eliminating longstanding supply controls and restrictions. Guided by market forces, the industry is reported to have adjusted quickly, resulting in fewer and larger farms in the regions best adapted to production. Total area of and prices for groundnut have fallen, but more efficient and competitive production supported renewed demand growth, especially in export markets.

**USA – biodiesel tax credit:** The tax credit of USD 1 per gallon introduced in 2004 is set to expire at the end of the current year. The tax concession has contributed to making biodiesel an economically viable alternative to conventional diesel. Legislation extending the tax credit by 5 more years - to allow the biodiesel industry to grow further - is reported to be under consideration.

**USA - rapeseed meal imports:** After detecting harmful salmonella bacteria in shipments from Canada, the US Food and Drug Administration introduced import alerts on rapeseed meal plants operated by major processors in five Canadian provinces. The alerts allows inspectors to detain shipments at the border. In the United States, zero tolerance applies to salmonella bacteria. Reportedly, the import measure resulted in a reduction in crushing

and a redirection of meal exports to other markets in Canada.

**EU - approval of GMO maize:**

Importation and consumption of four new GMO maize varieties has been officially approved. The decision is expected to lead to a resumption (in December) in soybean and meal imports from the United States. Shipments had come to a halt during September, after small traces of still unapproved GMO maize were detected in some cargoes.

**EU - butter market intervention:** Due to continued oversupply and persistently low prices, public buying into intervention has been allowed to continue uninterrupted until February 2010, i.e. the start of next year's official intervention period (which normally runs from March to August only). The measure aims at stabilizing milk prices for dairy farmers.

**EU - biofuel environmental footprint:**

EU standards for calculating the footprint of biofuels and their feedstock are expected to be reviewed during 2010, once the EU releases new guidelines for calculating the impact of indirect land use changes (ILUC). In the meantime, a group of NGOs has claimed that the EU's current renewable fuel targets could increase rather than reduce overall GHG emissions in the transport sector, and, accordingly, recommended to replace current energy-based targets with purely GHG-based targets, including life-cycle impact assessments and ILUC indicators. In addition, also the EU's recent assessment that biofuel production in the EU can be increased via productivity gains and improved second generation technologies - rather than major expansions in area - has been questioned.

**EU - private sector complaint against US biodiesel export practices:** Claiming that US biodiesel producers/exporters are circumventing the EU's anti-dumping and countervailing duties, the European Biodiesel Board (EEB) announced that it will lodge a new complaint to the EU trade authorities.

**Russian Federation - import tax on tropical oils:** According to private sources, the 10% temporary tariff - introduced last June to afford protection to the domestic dairy industry - could be lifted in January in an effort to address a domestic shortage in vegetable oil that is expected to arise from reduced domestic crops.

**South African Republic - trans fatty acids legislation:** The government is developing legislation aimed at reducing certain trans-fats in processed and prepared foods so as to contribute to the reduction of chronic diseases associated with the presence of TFAs in the diet. The proposed law would affect especially the use of partially hydrogenated vegetable oils, while naturally occurring TFAs in animal fats would be excluded. Comparable legislation is already in place in Denmark, Canada and the United States.

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	<b>International Prices (US\$ per tonne)</b>					<b>FAO Indices (2002-2004=100)</b>		
	Soybeans <sup>1</sup>	Soybean oil <sup>2</sup>	Palm Oil <sup>3</sup>	Soybean Cake <sup>4</sup>	Rapeseed Meal <sup>5</sup>	Oilseeds	Edible/Soap Fats/Oils	Oilcakes/ Meals
<b>Annual (Oct/Sep)</b>								
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
<b>Monthly</b>								
2007 - October	445	1007	875	384	272	177	196	180
2007 - November	489	1133	955	397	260	193	214	183
2007 - December	516	1158	943	425	268	203	218	193
2008 - January	536	1270	1061	434	308	212	242	197
2008 - February	579	1426	1178	452	346	230	265	204
2008 - March	576	1467	1248	445	359	234	277	205
2008 - April	556	1430	1175	476	328	226	268	213
2008 - May	570	1430	1200	464	348	227	272	211
2008 - June	625	1531	1206	515	329	244	283	225
2008 - July	634	1506	1121	506	292	245	265	224
2008 - August	557	1323	884	435	247	213	222	201
2008 - September	508	1227	760	406	199	194	200	191
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
<p><sup>1</sup> Soybeans (US, No.2 yellow, c.i.f. Rotterdam)</p> <p><sup>2</sup> Soybean oil (Dutch, fob ex-mill)</p> <p><sup>3</sup> Palm oil (Crude, c.i.f. North West Europe)</p> <p><sup>4</sup> Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)</p> <p><sup>5</sup> Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)</p>								
<p><i>Note</i> : The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each</p> <p><i>Sources</i> : FAO and Oil World</p>								