

MONTHLY PRICE AND POLICY UPDATE *

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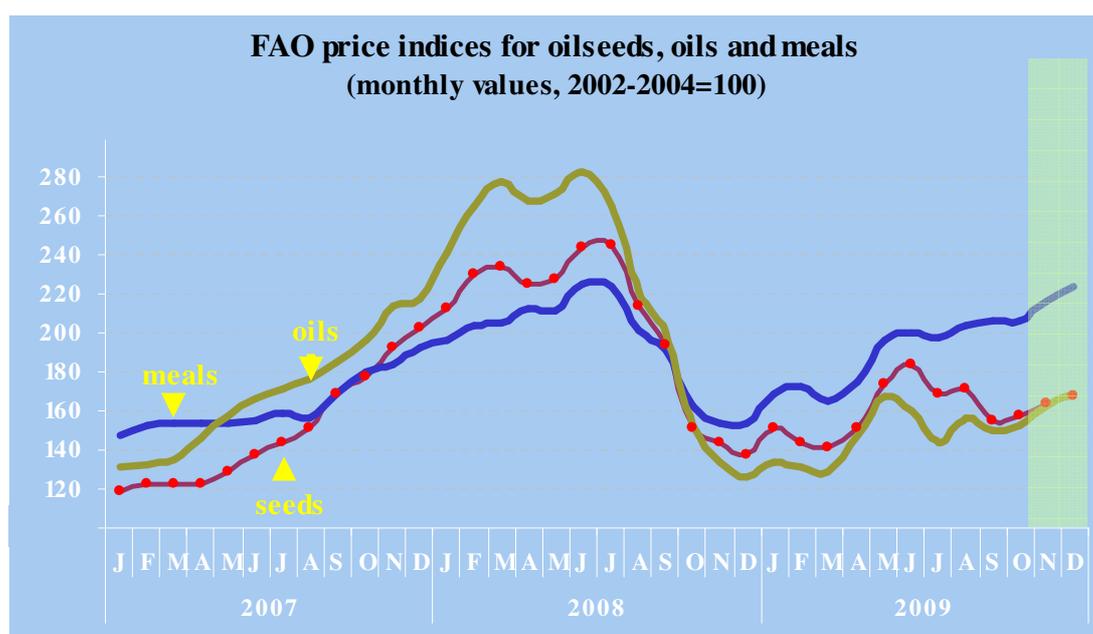
a) Global price review

In December 2009, the FAO price indices for oilseeds and for oils/fats moved up for the third consecutive month, while the index for meals/cakes recorded an increase for the 5th month in a row. The indices exceed the levels observed in December 2008 (i.e. when price fell to their lowest level following the mid 2008 peak) by 22, 34 and 45% for, respectively, oilseeds, oils and meals, thus rising well above the values prevailing prior to the 2007/08 surge.

The general strength in prices comes at a time when markets normally experience downward pressure from Northern hemisphere harvests, which, in fact, have been rather abundant. Prices have firmed nonetheless, in particular for meals, reflecting persisting scarcity of overall supplies that started with the failure in South America's 2009 soybean crop.

Regarding utilization, global import demand for soybeans and derived products continued unabated (heavily concentrated in China), while the United States gradually turned into the sole supplier to the market (with the persistent weakness in the US dollar further favouring sales from that country).

Compared to meals/cakes, the prices for oils/fats have strengthened a bit less because, in vegetable oil markets, soyoil supplies are complemented with those of other oils, in particular palm oil. Overall, however, also oils/fats prices remained subject to an upward trend, reflecting recent seasonal declines in palm oil output, possibly limited growth in that oil's production during 2010 and below-average supplies of sun oil for entire 2009/10 - combined with steadily growing global demand and renewed firmness in mineral oil prices.



* 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 **December 2009**. Previous issues can be downloaded from the FAO website at URL http://www.fao.org/es/esc/en/15/120/highlight_573.html.

b) Selected policy developments and industry news

Indonesia - palm oil shipment facilities:

Reportedly, official sources announced plans to build three new ports for shipping palm oil to handle rising output in the world's top producing country. Traders reported that congestions at ports are increasingly hampering exports from the country. The government is also planning to provide incentives to boost the development of the palm oil industry at the downstream level with a view to raise value addition and provide more employment.

India - trans fat regulation: The Food Safety and Standards Authority of India was reported to consider introducing a 10% limit on the amount of trans fat contained in partially hydrogenated vegetable oils (notably vanaspati or vegetable ghee). The limit could come into effect in 2010 and would be reduced to 5% during the three subsequent years. The measure is being considered as a means to lower the incidence of cardiovascular diseases.

Indonesia - palm oil export tax:

Following the rise in the international price for palm oil beyond 750 USD, the government has announced the reintroduction of the export tax on crude palm oil at 3% in January 2010. The tax had remained suspended since August 2009.

Myanmar - vegetable oil importation:

Reportedly, the country's health ministry has banned the importation of selected brands of vegetable oils of Thai and Malaysian origin on the basis that these contain chemical colour agents that do not conform with the relevant health standards.

Argentina - mandatory biodiesel use: A delay in the implementation of the 5% mandatory biodiesel blending into conventional diesel from January to March

2010 has been reported. Apparently, negotiations between the government and biodiesel producers regarding the required adjustments in infrastructure could not be completed in time.

Republic of Korea - biodiesel support:

Reportedly, the government has decided to raise mandatory biodiesel blending to 2% in 2010 compared to the 2009 level of 1.5%. In addition, also the tax due on diesel fuel will be waived. Korea started blending with biodiesel in 2006 as the first country in Asia.

India - coconut support: A new insurance scheme for coconut farmers has been launched in Kerala, the country's main coconut growing state. Farmers are expected to pay 25% of the insurance premium, while the remainder will be borne by the federal and state government.

EU - biodiesel tax breaks: Norway decided to significantly reduce the tax break enjoyed by biodiesel; the measure is taking effect in January 2010. Similarly, Italy plans to drastically cut the biodiesel quota that enjoys reduced excise duty. By contrast, in Germany, the government decided to postpone the gradual rise in taxes levied on biofuels that was to be implemented from 2010 onward.

USA - biodiesel tax credit: The US House of Representatives has approved the extension of the USD 1 per gallon tax incentive - which was due to expire on 31 December 2009 - by one year, i.e. through the end of 2010. Now final approval is required by the Senate. According to industry sources, biodiesel production could become uneconomic in the absence of the tax credit.

Sustainable palm oil:

- Reportedly, at a recent RSPO meeting, *WWF* reported that despite the availability of safe, environmentally-friendly palm oil options, Western companies did not appear to meet commitments to only buy

sustainably produced palm oil. The organization found that, while RSPO members were increasingly adopting improved production practices, the major issue of GHG emissions involved in land use changes was not adequately addressed and that related measures continued to be of a voluntary nature only.

- Meanwhile, global consumer goods company *Unilever* decided to suspend purchases of palm oil from a particular supplier in Indonesia until the same could prove that its plantations were not damaging high conservation value forests nor expanding onto peatland areas.
- In the meantime, official sources in Indonesia confirmed the national target to expand total area under oil palm to 18 mill ha (from today's level of 9.7 mill ha) - while fully adhering to social, economic and environmental sustainability standards. Allegedly, the expansion was needed to allow the country meeting its commitments regarding overall reduction in GHG emissions.
- In Colombia, the government seems determined to promote environmental and social certification in palm oil-based biofuel production. It claims that current

oil palm production and the sector's planned expansion does not threaten local rainforests nor displace food crop production thanks to the availability of vast tracts of underutilized agricultural land.

China - soybean import licensing:

Reportedly, the government has announced that all foreign soybeans purchases will become subject to an automatic import license system. The measure would facilitate monitoring the flow of soybean imports into the country. Among traders, concern has been voiced that the new licensing system could delay shipment operations.

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	<u>International Prices (US\$ per tonne)</u>					<u>FAO Indices (2002-2004=100)</u>		
	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
Monthly								
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
2009 - December	448	931	791	425	219	167	169	224
<p>¹ Soybeans (US, No.2 yellow, c.i.f. Rotterdam)</p> <p>² Soybean oil (Dutch, fob ex-mill)</p> <p>³ Palm oil (Crude, c.i.f. North West Europe)</p> <p>⁴ Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)</p> <p>⁵ 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 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.</p> <p><i>Sources</i>: FAO and Oil World</p>								