

MONTHLY PRICE AND POLICY UPDATE *

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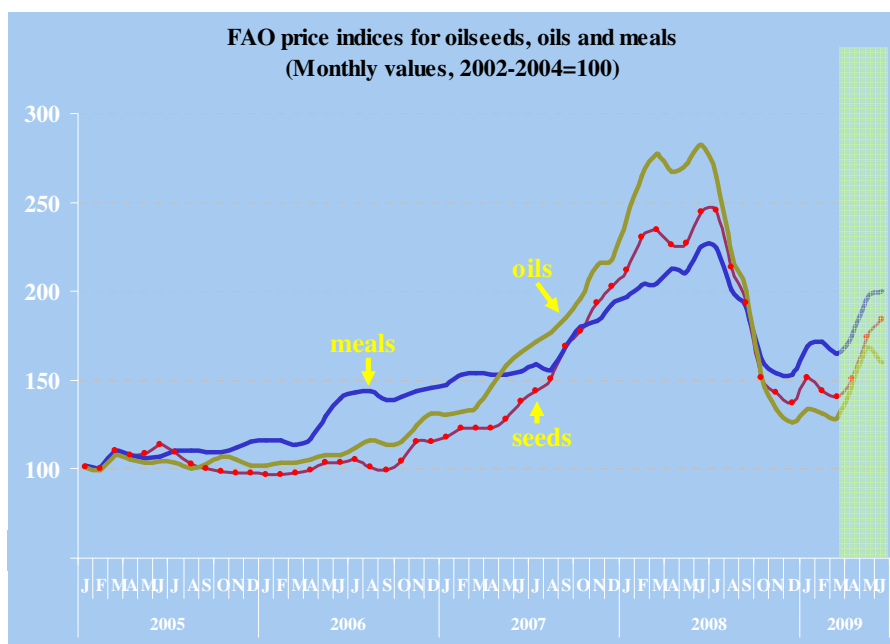
a) Global price review

During June, further rises in prices were recorded for oilseeds and meals, while prices for oils and fats faltered. Compared to May, the FAO indices for oilseeds and meals rose by, respectively, 6 and 2 percent, whereas that for oils and fats decreased by almost 5 percent.

The continued price firmness reflects market concern about the exceptional tightness of global supplies, notably of soybeans and derived products. This year's decline in South American soybean production combined with steady global export demand has led to a sharp drop in global inventories. In the key exporting countries, the 2008/09 stock-to-use ratio has fallen to very low values, most likely precluding a recovery to average levels in the next marketing season.

The current weakness of the US dollar vis-à-vis other currencies has contributed to the tightening of markets. Market sentiments now also start to be influenced by weather developments in countries where 2009/10 crops have been planted. Especially weather related planting delays in the United States and dry conditions affecting newly planted crops in Eastern Europe, Canada and India are of concern.

Last month's weakening of oil and fats prices can be explained by the seasonal increase in palm oil production reported from Malaysia and Indonesia, which coincided with moderate palm oil export demand, thus leading to a recovery in stocks. Lower vegetable oil demand for biodiesel production (especially in the United States and parts of the Europe Union) also contributed to the recent softening in 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 June 2009.

b) Selected policy developments and industry news

Indonesia - palm oil export tax:

Suspended since December of last year, in June the export tax was re-introduced at a level of 3 percent, in line with the government's policy to levy taxes when the world price exceeds a given level. While palm oil shipments are likely to decrease, the value of exports is anticipated to remain stable as are domestic cooking oil prices.

United States - export incentives: After remaining unutilized for five years, subsidies for butterfat exports will be reactivated for 2008/09 under the Dairy Export Incentive Program (DEIP). The payments are meant to help exporters meet prevailing world prices and to remain competitive vis-à-vis subsidized products from other countries. Allegedly, U.S. producers have seen their international market shares erode, in part due to the recent reintroduction of export subsidies by the European Union.

Round Table for Responsible Soy (RTRS): Following in the footsteps of the Roundtable for Sustainable Palm Oil (RSPO), the international multi-stakeholder initiative on soy has approved principles and criteria for responsible soybean production, thereby establishing the basis for the formulation of global standards on environmentally sustainable and socially responsible soy production, trade and processing. The next steps will be field-testing the criteria and, eventually, developing proper certification standards to be used by traders.

Certified palm oil: *Neste Oil*, a Finnish biodiesel producer, committed to shift to certified palm oil as sole feedstock (i.e. palm oil produced according to RSPO's criteria for environmentally and socially sustainable production). The company, which introduced a system of full traceability of the palm oil it uses, expects

to use 50 000 tons of certified palm oil in 2009 and considerably higher amounts in the coming years. Similarly, snack food producer *Mars* committed to use exclusively RSPO certified palm oil originating from sustainable sources by 2015. On the other hand, to date global sales of certified palm oil seem to have been minimal. Apparently, buyers are concerned about costs and uncertainty of supply. Reportedly, certification can add a premium of US\$ 50 a tonne to palm oil in the wholesale market.

Brazil - agricultural support 2009/10:

The recently announced package of support measures addresses the increasing economic difficulties faced by the sector. In particular, the programme raises the supply of credit at controlled interest rates and lifts the financing limits per beneficiary. Interest rates will remain unchanged, and the volume of subsidized production loans will increase by 21 percent over last season. Furthermore, agricultural insurance programmes will be enhanced, cooperatives will be strengthened and guaranteed minimum prices will increase - especially for soybeans (plus 10%). Overall, special emphasis seems to be given to commercial and export oriented agriculture (as opposed to family agriculture). Private sources expect the package to contribute to a recovery in production in the coming crop season.

China - support to crushers: Reportedly, to support farm sales of rapeseed at officially set prices, the government plans to offer subsidies to crushers (Yuan 200 per ton crushed). This measure would help farmers to sell their rapeseed crop, which is expected to hit a new record this year. Similar measures seem to be under consideration for soybeans, with a view to stimulate domestic soybean production and to stem the on-going surge in soybean importation.

Germany - biofuel target: Despite opposition expressed by the German parliament's upper house, government plans to cut the 2009 biofuel blending target - from the current level of 6.25% to 5.25% - and to further raise taxes levied on biofuels have finally been confirmed. The higher blending ratio will be introduced only in 2010 and then remain at that level in subsequent years.

Biofuel blends as jet fuel: A major commercial carrier in the USA reported successful completion of a demonstration flight using a biofuel blend comprising jatropha oil. Reportedly, the blend performed as well as traditional jet fuel. Among the key results were a higher fuel efficiency of the blend and substantially lower greenhouse gas emissions (over the entire life cycle) compared to conventional fuel. No modifications were required to the aircraft or its engines. The airline hopes to see those fuels produced in commercial quantities in the near future.

China - soybean export duty: According to a local news agency the current 3 percent duty levied on exports of soybean (as well as other grains and industrial products) will be abolished from July with a view to promote exports.

Brazil - GM soybean submission: Monsanto's submission of *insect-protected Roundup Ready2Yield soybean* for regulatory approval has been completed in Brazil. The US developed variety is heavily targeted at foreign markets and its approval in producing and importing countries will be key.

Canada - GM soybean approved: A variety high in oleic acid, and thus with improved nutritional qualities, has been approved for cultivation, food use and as a feed in Canada. Due to its specific fatty acid profile the oil does not require hydrogenation, resulting in food free of trans fats. Developed in Canada, the new variety is being submitted for regulatory approval in major soybean producing/importing countries including the USA.

Ukraine - biofuel incentives: Through a new law granting significant tax benefits to biofuel producers the government aims at stimulating domestic production and consumption of biofuels, notably rapeseed-based biodiesel. To date, only non-mandatory targets were in place, biofuel production has been negligible, and rapeseed has been primarily exported to the EU as feedstock for biodiesel. Once effectively implemented, the new law could make domestic biodiesel production (for local use and export) more attractive, potentially limiting rapeseed shipments and stimulating exportation of finished biodiesel, in particular to the EU.

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	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
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
<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>								