

MONTHLY PRICE AND POLICY UPDATE *

No. 6, June 2009

a) Global price review

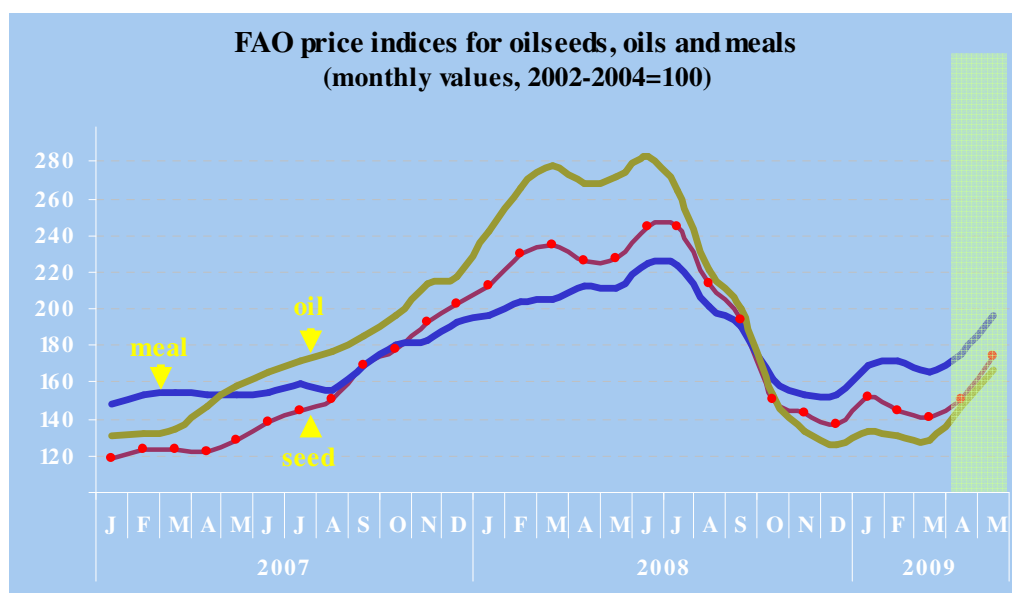
During May, prices in the oilseed complex continued to rise. The three FAO price indices increased between 12-15 percent compared to April. Although still well below the extraordinary level seen in May of last year, the indices now are distinctly above the levels recorded in May 2007, i.e. before the start of the 2007/08 price rally.

The further firming of prices reflects mounting concern by the trade regarding the tightness of global supplies as the heavy, weather related losses in Argentina's soybean crop have been confirmed. The rise in soybean prices has spilled over to the entire oilseeds complex.

Sustained import demand has fostered concerns about tight supplies. In particular,

China's soybean imports continued unabated, exceeding previous levels, while vegetable oil imports by India also continued at a vigorous pace. This situation has led to a tightening of old-crop stocks in key exporting countries, in particular in the United States. Reduced export availabilities in South America have led to an unusually strong dependence on US supplies, which has added nervousness to the market.

For vegetable oils, the temporary slow down in palm oil output in Malaysia has also contributed to the price rise. In order to respond to continued strong import demand (for food purposes as well as for biofuel production) a substantial reduction in palm oil stocks has occurred.



* 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 May 2009.

b) Selected policy developments and industry news

Sri Lanka – palm oil import duty: To assist the domestic coconut industry, the government is considering to raise the special import duty on palm and palmkernel oil above the current level of Rs 60 per 1kg.

Indonesia – taxation of palm oil exports: Considering the recent, steady rise in international palm oil prices, the export tax on palm oil (which, inter alia, aims at protecting domestic supplies of vegetable oil) is likely to be reintroduced in June. The tax had been suspended late last year, when a decline in international prices started weighing on the country's palm oil exports.

Indonesia – palm oil export price: Reportedly, the government is studying a mechanism for setting a national standard price for palm oil exports - so as not to depend on prices determined in the major European import markets.

EU – subsidization of private olive oil storage: The significant and prolonged decrease in community olive oil prices is expected to trigger the reintroduction of private storage aid, which aims at sustaining the income of olive oil farmers. Support shall be limited to 110 000 tons of olive oil in total.

EU – biodiesel duty: The Commission has proposed to extend the countervailing duty on biodiesel imports from the USA (provisionally introduced last March) for five years. The method of calculating the duty could undergo slight modifications.

New Zealand – biodiesel subsidy: To encourage investment into national biodiesel production, from July and for a period of three years, a subsidy will be granted on sales of domestically produced biodiesel that complies with sustainability

standards set by the government. B5 blends are widely accepted in the country, but mandatory consumption targets have been withdrawn last December. All imported material needs to meet the same standards.

Canada – approval of high oleic GM soybean: Low in trans fatty acids and not requiring hydrogenation, the oil from the new variety offers improved nutritional qualities. The bean has been cleared for cultivation, food and feed use in the country.

Russian Federation – import tax on selected vegetable oils: An import tax of 10% is expected to be introduced soon for palm oil and coconut oil for a period of nine months. The intention is to temporarily shield domestic dairy products from the competition of lower priced substitutes.

USA – renewable fuel standard: An expanded renewable fuel standard (RFS-2) issued in draft form by the EPA has attracted criticism from the industry. In assessing the life cycle GHG impact of biofuels, the standard considers direct and indirect emissions, including those related to indirect land use changes. The justification and methodology for attributing emissions from land conversion to soybean-based diesel as well as the practicability of the required feedstock certification are being questioned. Achieving the country's biomass-based diesel targets under the proposed RFS-2 would be challenging if soybean-based diesel was excluded.

Sales of certified sustainable palm oil: Palm oil that has been produced meeting environmental and social safeguards is available on the market since November 2008. However, sales of certified palm oil seem to be slow in taking off. According to tentative figures compiled by the WWF, so far, only about 1 percent of the sustainable

palm oil available on the market has been bought.

Sequencing of oil palm genome:

According to official sources in Malaysia, researchers have finally managed to fully sequence the oil palm genome. Eventually, this breakthrough will allow enhancing the productivity and sustainability of oil palm, a plant where yield levels have not significantly improved over the last decades.

China – soybean state reserves: The government is planning to procure an additional 1 million tons of soybeans from Heilongjiang province for temporary storage, in a bid to stabilize the domestic market and protect farmers' interests. Reportedly, since mid 2008, government purchases have accumulated to a total of 7.25 million tons.

EU – biofuel target: An official report states that the EU is unlikely to reach the

indicative 2010 target of 5.75% of transport fuel coming from renewable energy sources. A community-wide share of 4% is expected instead. The respective share in the year 2005 was 1%. Biodiesel accounts for roughly three quarters of renewable fuel use; bioethanol contributes 15%. The EU-Commission estimates that, by 2020, some 20-30 % of the utilization target is going to be met by second generation biofuels.

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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
<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>Note : 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>Sources : FAO and Oil World</p>								