

## MONTHLY PRICE AND POLICY UPDATE \*

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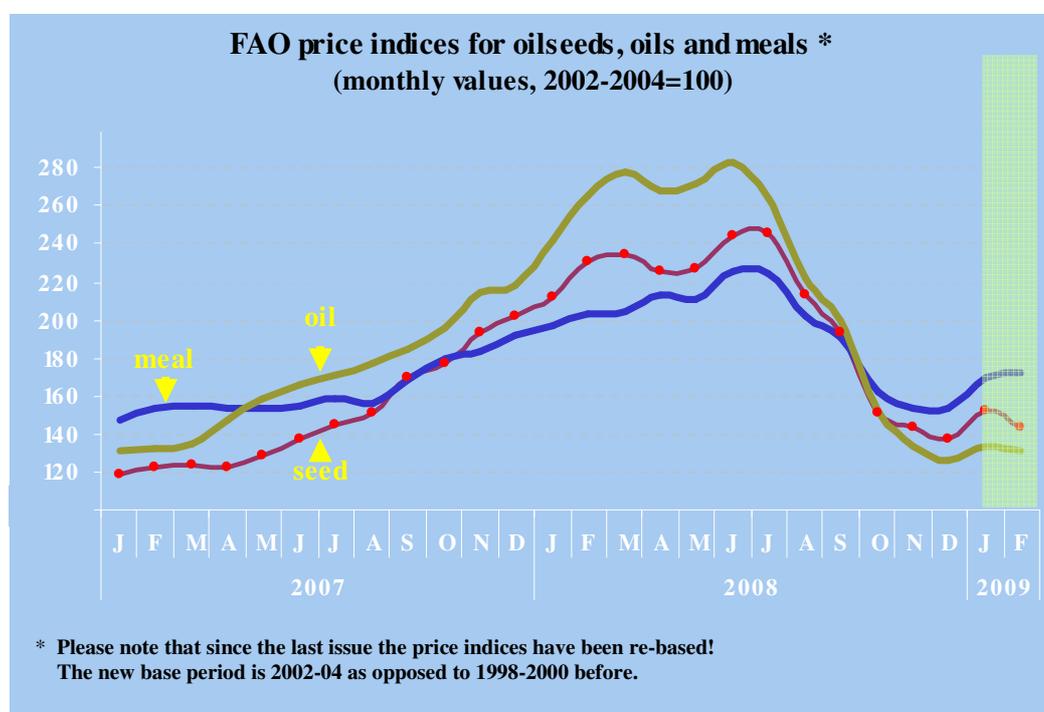
### a) Global price review

The recovery in oilseed complex prices observed in January did not continue last month. In February, the FAO price index for oilseeds has fallen again, losing more than half of gain recorded in January, while the index for oils/fats has fallen slightly and that for meals has recorded a modest increase.

A main reason why the rise in prices has not continued lies in the recent improvement of weather conditions in South America. In particular, long awaited rainfalls finally arrived in Argentina, removing the spectre of a major soybean crop failure. However, the renewed weakening in prices also reveals the effect poor global economic growth is having on demand. Reduced buying power worldwide has started to affect demand for

oilseed products, including in major importing countries. Furthermore, the trade is confronted with reduced availability of credit.

In the vegetable oil market, the relative tightness of global soy and palm oil supplies started to weigh less on prices. Instead, record availabilities of rape and sun oil, together with weak demand from the biofuel sector following very low mineral oil prices seem to prevent vegetable oil prices from rising further. As to oilmeal prices, their relative firmness is explained by recent supply shortages stemming from reduced soybean crushings as well as exports among the three major soybean producing countries.



\* 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 February 2009.

## b) Selected policy developments and industry news

### **Indonesia - oil palm plantations:**

Reportedly, the government is considering to lift temporary restrictions (in place since late 2007) on the use of peatland forests for oil palm plantations. The measure would allow to increase productivity in the oil palm sector. The restrictions had been introduced to control carbon dioxide emissions associated with the use of peatland.

### **Brazil - conventional soybeans:**

Reversing the trend of recent years, in the state of Parana, farmers' demand for conventional soybean varieties has grown this season at the expense of GM seed material. Increased interest for conventional varieties is explained by the lower cultivation cost associated with those seeds.

### **China - state reserves of vegetable oil:**

After the recent release of reserves to prevent supply shortages and thus price increases, private sources reported that public stocks are being replenished via the importation of oils from South America.

**Canada - trans fat:** The government reported progress towards the reduction of trans fats in food products without increasing the levels of saturated fats. The country had made the requirement to indicate trans fat content in pre-packaged food mandatory and, in 2006, the industry agreed to voluntary limits in the trans fat content of food products.

**Malaysia - biodiesel:** Government sources confirmed that blending of diesel fuel with five percent palm oil biofuel will become mandatory on January 2010. This year, all government vehicles will start using the blend. To remain competitive, biodiesel sales shall benefit from a subsidy. Once fully operational the programme is

expected to absorb 500 000 tons of palm oil annually.

### **India - state imports of vegetable oil:**

Following the drop in global and domestic prices for vegetable oils, the importation of oils by state trading agencies for subsequent distribution to poor households has been suspended.

**EU - temporary biodiesel duty:** From mid March, imports of biodiesel from the USA will face temporary anti-dumping and anti-subsidy duties. Tariffs ranging from 26 to 41 € per 100 kg are expected to apply for an initial period of six months. Surging imports of biodiesel produced in the USA - and benefiting from government support there - are considered to have severely injured the competing EU biodiesel industry.

**India - trans fat:** A recent study confirms that, on average, trans fat levels in vanaspati and other products based on partially hydrogenated oils exceed generally recommended levels. Among refined vegetable oils sold on the market this problem was not detected. Last year, India has joined the list of countries where the trans fat content must be declared on labels. Discussions about revised product standards and the feasibility of introducing binding maximum levels for trans fat are underway.

**Germany - biofuel legislation:** The EU Commission has requested that the sustainability criteria included in a national law on the promotion of biofuels be streamlined with the relevant EU directive. As a result, importation of vegetable oils - especially soy and palm oil - for local biodiesel production is expected to resume. Furthermore, new legislation excluding biofuels that have previously received state aids from being eligible for national incentives and mandates will go ahead. Consequently, the importation of biodiesel

that has benefited from state aid could become uneconomical.

**Indonesia - biodiesel support:** The government confirmed its plan to subsidize the sale of biofuels by state owned companies depending on how the prices for fossil fuel and biofuel feedstock (notably palm oil) develop. The subsidy would amount to Rp 1000 per litre of biofuel distributed. Under the currently envisaged level of government funding, the sale of up to 750 000 tons of biofuel could be supported in 2009 - an amount close to the country's mandatory consumption of biofuels in 2009. Palm oil based biodiesel should account for about three quarters of all biofuel sales.

**France - biodiesel taxation:** Similar to Germany, where taxes on biodiesel and biodiesel feedstock have been raised in January, France has announced that all tax advantages granted to biofuel will be discontinued by 2012.

**Indonesia - palm oil exchange:** To date the world's leading producer of palm oil lacks an own exchange and futures market for palm oil; local traders and policy makers are used to follow contracts traded in Malaysia or the EU to determine prices. Now private sources report that physical trading in CPO through a local exchange is going to start later this year. State plantations seem committed to sell at least 20% of their output through the new platform.

**United Kingdom and Germany - biofuel targets:** The rates of mandatory inclusion of biofuels in transportation fuel are being corrected downward in both countries: in the UK, the rate for 2009/10 is expected to be set at 3.25% (down from originally 3.75%), rising gradually to 5% by 2013/14. In Germany, the rate for 2009 is being reduced from initially 6.25% to 5.25%, and shall be frozen at 6.25% from 2010.

**USA - special traits soybeans:** According to industry sources, the importance of special trait varieties – developed to reduce trans fat and saturated fat content in the human diet – is growing steadily. The swift replacement of traditional soybean varieties with new ones (i.e. low linolenic, high oleic and mid olein/low saturate lines that deliver direct health benefits) is said to have shielded domestic markets from possible disruptions or contractions in consumption.

**EU - olive oil labelling:** In July 2009, origin labelling will become mandatory for extra virgin olive oil sold in the Community. The country of origin, or, in the case of blends, the type of blending will have to be displayed. The measure aims at improving guarantees of quality to consumers.

**Argentina - trade control:** Reportedly, the government has met with farmer groups and grains exchanges to discuss about the possibility of setting up a national board that directly regulates and controls foreign trade in grains and oilseeds. A state agency charged with the same task, the National Grains Board, was dismantled in the early 1990s.

**USA - farm support rules:** Motivated primarily by budgetary considerations, President Obama has called for cuts in farm subsidies over the next decade. Proposals are reported to include the gradual exclusion of large farms from direct payments, reductions in the individual payment caps under the commodity programmes and reduced subsidies for crop insurance. Actual spending for agriculture is determined by the Congress.

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	<b>International Prices (US\$ per tonne)</b>					<b>FAO Indices (2002-2004=100) *</b>		
	<b>Soybeans<sup>1</sup></b>	<b>Soybean oil<sup>2</sup></b>	<b>Palm Oil<sup>3</sup></b>	<b>Soybean Cake<sup>4</sup></b>	<b>Rapeseed Meal<sup>5</sup></b>	<b>Oilseeds</b>	<b>Edible/Soap Fats/Oils</b>	<b>Oilcakes/ Meals</b>
<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
* Please note that the price indices have been re-based! The new base period is 2002-04 as opposed to 1998-2000 before.								
<sup>1</sup> Soybeans (US, No.2 yellow, c.i.f. Rotterdam)								
<sup>2</sup> Soybean oil (Dutch, fob ex-mill)								
<sup>3</sup> Palm oil (Crude, c.i.f. North West Europe)								
<sup>4</sup> Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)								
<sup>5</sup> Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)								
<b>Note</b> : 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.								
<b>Sources</b> : FAO and Oil World								