

MONTHLY PRICE AND POLICY UPDATE *

No. 8, September 2009

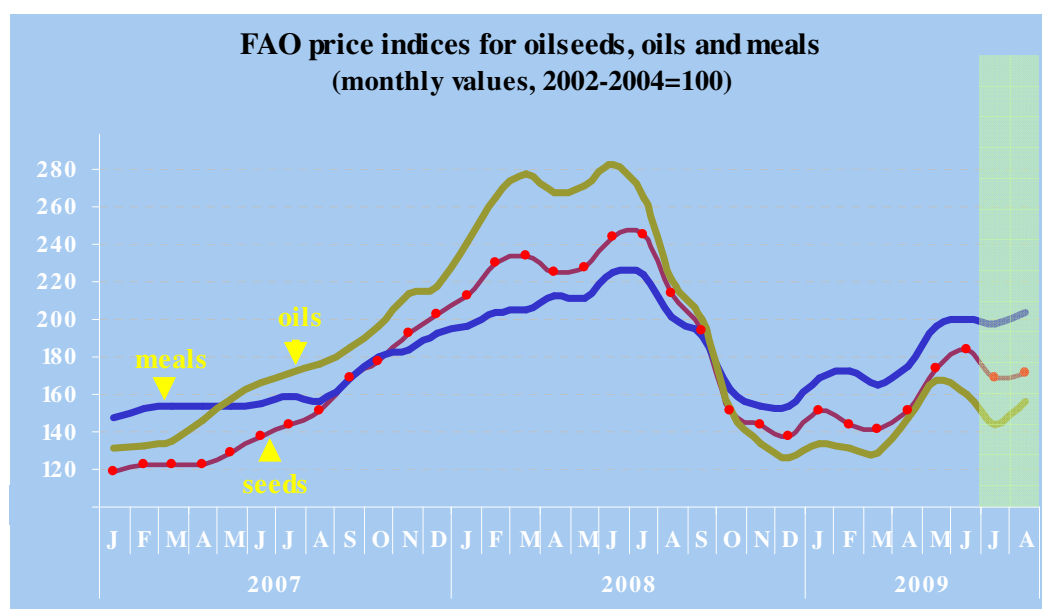
a) Global price review

During July and August, the prices for oilseeds and derived products went through marked swings. Most prices tended to fall during July only to more or less recover in the following month. Overall, compared to the price bottom that characterized the beginning of the current season, prices have firmed considerably and are also above the level observed prior to the 2007/08 price boom.

The present price firmness is the result of sustained demand for oilseeds products while supplies remain tight. It appears that the on-going economic crisis has not led to a pronounced slowdown in demand in the key import dependent countries, notably in China and India. Meanwhile, oilseed supplies available in the market have proven to be insufficient to rebuild stocks in exporting countries, especially in the

United States where export activities remained strong to compensate for reduced South American supplies. Initially, the tightness concerned mainly soybeans and soybean oil. But as palm oil exports accelerated to fill part of the gap, palm oil inventories also remain low, thus contributing to the price firmness.

The current tightness of the market clearly favours international price volatility. The influence of weather developments (including signs of a new El Niño episode) on new crop prospects, possible changes in import and stock policies in countries like China and India and other factors are triggering continuous price responses.



* 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 July and August 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

EU: biodiesel import duty. EU member states have agreed to extend the countervailing duty on biodiesel imported from the USA, which was introduced in March 2009, for the next five years. The measure aims at shielding biodiesel production in the Community from unfair competition by US exporters. The range of the permanent duties has been narrowed compared to the one in place so far. Reportedly, WTO anti-dumping guidelines have been adhered to, thus reducing the likelihood of a legal dispute between the two blocks.

Market support for butter: In an effort to help their dairy sectors coping with the prolonged and general depression in prices, the EU and the USA are prepared to extend their recently re-introduced domestic support measures, comprising aid to private storage, public intervention buying and the granting of export refunds.

USA: GM soybean. Official sources reported that in US agriculture the rate of adoption of GM soybean varieties has reached an estimated 91 percent (compared to 54 percent in 2000 and 7 percent in 1996). Soybeans represent the most widely and rapidly adopted GM crop; all modification concerns herbicide tolerance. The marked expansion has taken place in spite of uncertainty about consumer acceptance and economic and environmental impacts of GM products.

India: biodiesel import duty. The government is planning to reduce the basic customs duty on biodiesel from 7.5 to 2.5 percent. Due to several factors the country is facing difficulties in meeting its biofuel consumption targets from domestic sources.

Certified sustainable palm oil. Suppliers of palm oil certified as sustainably produced (in line with RSPO criteria) report lower than expected demand from

importers. One explanation is that the global economic slowdown has curtailed demand from price-conscious buyers: reportedly, crude certified palm oil sells at a premium of about 50 USD per tonne (uncertified palm oil was traded 600-700 USD per tonne in recent weeks).

India: commodity exchanges taxation. With a view to stimulate trade in commodities, the government decided to abolish transaction taxes levied on commodity futures trading and on commodity options.

India: vegetable oil import duties. After reducing import tariffs markedly during fiscal year 2008/09, the government prefers not to raise them again during 2009/10. As low tariffs remain in place, domestic oilseed and oil prices tend to remain lower, which leads to benefits for consumers but discourages domestic production.

Canada-EU dispute over trade in GM crops. The recent settlement of a long lasting dispute between the two countries is expected to favour in particular future sales of Canadian GM rapeseed into the EU.

China-Senegal land lease deal. Reportedly, China is set to lease land from farmer cooperatives in Senegal to grow groundnuts. One third of the output is envisaged for export while the rest will be destined for local processing and consumption.

India: subsidized vegetable oil sales. The central government is considering to repeat last year's sales of cooking oil through ration shops should retail prices rise. To this end, state-owned trading companies would be directed to import up to 1 million tonnes of crude palm oil. To make the operation economic, a subsidy of 15 Rupees per kg of oil sold would be made available.

Brazil: mandatory biodiesel use.

Effective July 2009, the mandatory content of biodiesel in diesel is 4 percent; it started at 2 percent in Jan 2008 and became 3 percent in July 2008. A further increase to 5 percent is expected for January 2010 or three years earlier than originally planned. Annual biodiesel consumption is estimated to exceed 1.5 million tons by the end of this year.

China: public sales of soybeans. First sales of soybeans from state reserves have been reported in August. Sales were done through auctions. Reportedly, public soybean reserves (established for the first time last year in support of domestic soybean production) have climbed to between 5 and 7 million tonnes. More sales are expected as the government will try to free space for new-crop purchases. In addition, to facilitate disposal of state reserves, subsidies may be offered to crushers.

New options in palm oil futures trading.

The *Chicago Mercantile Exchange* (which includes CBOT) and *Bursa Malaysia* are planning to jointly list dollar denominated palm oil futures using Malaysia's Ringgit-based contract as a benchmark. At the same time, efforts to create its own price benchmark are going on in Indonesia, the world's leading palm oil producing nation: the *Indonesia Commodity and Derivatives Exchange* announced the launch of a new palm oil contract later this year, which follows the launch (with state support) of a new physical crude palm oil contract last June by the *Jakarta Futures Exchange*.

Brazil: soya restrictions to protect rainforest. Leading soybean traders and vegetable oil producers agreed to extend for another year the moratorium on buying soybeans grown on illegally cleared areas in the Amazon rain forest. The ban that went into effect three years ago has been extended to July 2010.

EU: GMO traces halt soy imports from USA. EU importers decided to temporarily suspend soybean imports from the USA after traces of unauthorized GM maize (i.e. varieties not cleared for use in the EU) were found in US soymeal shipments. The EU applies a zero tolerance policy for imports of unauthorized GM material. The USA is a primary source of supply for the EU's highly import dependant feed/livestock industry.

Brazil: biodiesel exportation. The government would like to encourage regular exportation of soy-based biodiesel, notably to the USA and EU. Reportedly, sustainability studies have been carried out proving that in the country biofuel is produced sustainably and in line with EU norms.

Peru: biodiesel imports. The country is reported to have started anti-dumping investigations on biodiesel imports from the USA, which could lead to the imposition of countervailing duties.

India-ASEAN free trade agreement. The newly signed agreement will include a ceiling of 37.5 percent on India's import tariff for crude palm oil. In recent years, the tariff rate ranged between 80 and zero percent. The ceiling could benefit Indonesia's palm oil exports to India.

EU-Indonesia efforts to encourage sustainable palm oil. Reportedly, the EU could offer incentives to Indonesian producers that adopt sustainable production methods. Supposedly, investment aid, tax exemption or refunds would be considered for companies that succeed in reducing GHG emissions along the production cycle.

USA: export credit programme. Funding for export credit guarantees has been raised beyond original allocations for selected countries. The measure aims at facilitating trade flows during the current period of

slow global economic growth and reduced availability of private credit.

EU: special market promotion programmes. EU co-financing for 1-3 year market promotion programmes amounting to a total value of Euro 62.1 million has been approved. The commodities covered under the programmes include olive oil.

Africa: Asian rust resistant soybean. A variety resistant to the fungus has been developed within the region and should be available to farmers in time for the 2010 crop, thus enabling farmers to cultivate soybeans without applying costly fungicides. Cultivation in key producing countries, including Nigeria, Uganda and South Africa, should benefit greatly.

China: crushing capacity. The country's soybean processing capacity is expected to expand further as both, state-owned and leading private edible oil producers are reported to be investing into new, large processing plants.

Progress in sustainable oil palm. According to a study issued by CIFOR (an international research institute belonging to the CGIAR network), progress in the application of sustainability standards such as those developed by RSPO remains limited. Inter alia, the report points to the need for legal and political reforms at national level to achieve progress.

Special announcement:

JOINT MEETING OF THE INTERGOVERNMENTAL GROUP ON OILSEEDS, OILS AND FATS, THE INTERGOVERNMENTAL GROUP ON GRAINS AND THE INTERGOVERNMENTAL GROUP ON RICE
To be held in Santiago, Chile 04/11/2009 - 06/11/2009

The FAO's Intergovernmental Group (IGG) meetings on Oilseeds, Oils and Fats, Grains and Rice provide a unique venue for FAO member government officials to meet and discuss current and prospective aspects of their respective markets. This joint meeting will examine the current challenges facing the sector, including those that can influence production, utilization, prices, marketing, trade and value-addition. Discussions are intended to broaden the understanding of the issues driving the markets both in the short and medium term. This year's meeting also includes a Special Session on Market Uncertainties to discuss how current changes in the world economy as well as developments associated with climate change may influence market conditions and outlook.

Food processors reduce trans fat presence. *Unilever-USA* intends to eliminate all artificial trans fats (i.e. those stemming from the partial hydrogenation of oils) from its margarine brands by early 2010. The food company accounts for half the margarine spreads sold in the country. Concurrently, *Cargill* informed that it is reorganizing and downscaling its production of hydrogenated oil as the company needs to adjust to a significant reduction in demand.

India: changing stance on GMOs. Reportedly, the government is planning to support the introduction of GM food crops in the country in the coming years with a view to raise crop productivity and thereby contribute to reducing malnutrition and hunger. To date the only GM crop allowed in the country is BT cotton.

Indonesia: palm oil export tax. Following the decrease in the international price for crude palm oil, the country's variable exports tax has been reduced to zero percent in July and is set to remain suspended also in September.

*For comments or queries
please use the following Email contact:
Peter.Thoenes@fao.org*

The Intergovernmental Group on Oilseeds, Oils and Fats last met in July 2001 while the previous Session of the Intergovernmental Group on Grains and of the Intergovernmental Group Rice was held jointly in May 2007. This year's joint meeting, hosted by the Government of Chile, will be convened from 4 to 6 November 2009 in Santiago, Chile. The joint meeting (4-5 November 2009) is open only to official delegates from Member Nations and Associate Members of FAO, including observers from international organizations and other institutions, but the one-day conference (6 November 2009) on "Value Chains for Oilseeds, Oils and Fats, Grains and Rice – Present Situation and Perspectives" is open to a wider audience.

More information is available at: http://www.fao.org/es/esc/en/15/120/132/events_584.html

	<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
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
¹ Soybeans (US, No.2 yellow, c.i.f. Rotterdam) ² Soybean oil (Dutch, fob ex-mill) ³ Palm oil (Crude, c.i.f. North West Europe) ⁴ Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam) ⁵ Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)								
<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. <i>Sources:</i> FAO and Oil World								