



OILSEEDS, OILS & MEALS MONTHLY PRICE AND POLICY UPDATE *

No. 21, January 2011

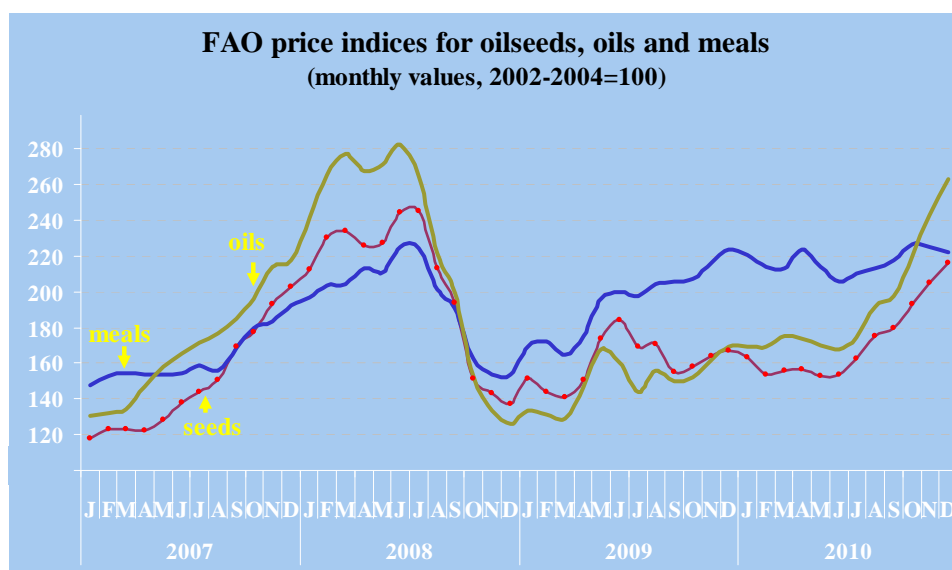
a) Global price review

The month of December saw another marked upward move in prices across the oilseed complex, with the exception of the meal sector. Compared to the previous month, FAO's price indices for oilseeds and oils/fats rose by around 5 and 10 percent respectively. Year-on-year, the two indices were up by as much as 30 and 56 percent respectively. And for all three sectors, i.e. including oilmeals, prices are now close to the record levels recorded in 2008: in December, average oilseed and oils/fats prices were only some 10 percent off the 2008 peaks, while the meal index has been moving close to the 2008 record values throughout last year.

The latest price rises and historic highs reflect tight fundamentals across the oilseeds complex as well as in the grains market. Oil and meal production levels have not kept pace with accelerating demand and inventory levels are declining as a result. These production shortfalls and stock reductions have characterized the sector for several successive months and may well continue in early 2011.

With regard to seeds, prolonged dry conditions in parts of South America have worsened soybean production prospects further, weighing increasingly on the global market. Given insufficient rape and sunseed crops and considering the on-going rapid disposal of the US soybean crop, the outcome of the South American crop is going to play a crucial role. In any event, a pronounced fight for acreage between oilseeds, grains and cotton (for the next season) has become inevitable, which should keep markets under considerable pressure.

The current supply deficit and depletion of stocks is particularly pronounced in the oils/fats market. Combined with insufficient supplies of rape, sunflower and copra oil and uncertain soyoil prospects, the on-going below-normal production growth in palm oil is contrasting sharply with sustained demand growth in both, the food and non-food sectors. Overly wet weather has impaired harvest and transport operations in Southeast Asia's palm areas since October and may well continue to do so for another 2-3 months.



* 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 during **December 2010**. Previous issues can be downloaded from the FAO website at URL <http://www.fao.org/economic/est/publications/oilcrops-publications/monthly-price-and-policy-update/en/>

b) Selected policy developments and industry news

ALGERIA - measures to lower cooking oil prices: Alarmed by a sharp rise in consumer prices, the government is determined to reduce taxes and import tariffs on selected staple foods, including cooking oil. Reportedly, the envisaged measures would reduce cooking oil retail prices by 40 percent.

BANGLADESH - fix soyoil retail price: In the wake of rising domestic prices for edible oils (resulting from higher prices of imported raw material), the government obtained the processors' agreement to keep retail prices for soybean oil below a set level in major cities. The commitment is believed to be of a temporary nature and new negotiations may be required should international prices continue to rise.

CHINA - measures to stem food price rise: Government efforts to curb inflation in food prices, including for vegetable oils, have continued:

- **Temporary retail price stop:** Reportedly, the government advised major vegetable oil retailers to refrain - irrespective of rising prices of (imported) raw materials - from raising retail prices until March 2011. Similar measures were last adopted in 2008, when affected companies were compensated via subsidies.
- **Sales from reserves:** Sales of soybeans and of edible oils from public reserves were reported to continue at both central and regional level.

CHINA - biodiesel tax credit: Biodiesel derived from waste animal fats or vegetable oils has been exempted from paying consumption taxes. The exemption applies retroactively from January 2009 and is estimated to amount to around Yuan 900 per ton. The measure is part of

government efforts to improve competitiveness in the bioenergy sector. Reportedly, national biodiesel use is targeted at 2 million tons in 2020.

INDIA - vegetable oil import duties: According to a senior ministry official the government is not planning to change its current import duty structure for vegetable oils as this would directly lead to higher domestic retail prices. Recently, local producers and manufacturers had renewed their calls for a reintroduction of duties on crude edible oils (which currently pay zero duty) so as to be able to better compete against imported products. The government's position needs to be seen against the background of pronounced rises in cooking oils retail prices and general food price inflation in recent weeks.

INDIA - copra procurement price: The minimum support price for copra has been lifted by Rs 0.75 per kg for the 2011 season with a view to encourage investment and increase productivity in coconut cultivation. NAFED continues to be in charge of procurement operations. The new prices for milling and ball copra are, respectively Rs 45 250 and 47 750 per tonne.

INDIA - oil palm development: Given the country's almost total dependence on palm oil imports, the federal government is looking into possibilities of developing domestic production. To date, the country's oil palm development programme has produced limited results, with no more than 178 000 ha covered by plantations as against a potential area estimated at 1.03 million ha. Reportedly, the federal government has urged traditional growing states to step up efforts and has decided to also explore expansion possibilities in other Eastern states. Furthermore, the Rs 15 000 per ha subsidy granted to producers might be increased to Rs 40 000 and higher input subsidies are

being considered. A special thrust is expected to be given to oil palm cultivation in the next five-year plan (2012-17).

INDONESIA - palm oil export tax:

Following the steady rise in international palm oil prices, the government decided to lift the country's export tax further to 20% (effective 1st January) - the highest level since 18 months. The adjustment implies a considerable burden for export sales especially of processed palm oil, making shipments less profitable compared to those of competitors, notably Malaysia.

PAKISTAN - sunflower support price:

The government is planning to further raise the seed purchase price for 2010-11, bringing it from formerly Rs 1 800 per 40kg to Rs 2 000. The move is meant to stimulate domestic production thereby reducing dependence on vegetable oil imports. Apparently, crushing companies have agreed to pay farmers the higher price.

PAKISTAN - poor household

consumption subsidies: Reportedly, over the last two months, the subsidized distribution of cooking oil and ghee via special government outlets has been subject to successive price increases. The rise in prices is expected to adversely affect low-income consumers.

PHILIPPINES - coconut industry

roadmap: The Philippine Coconut Authority presented the Coconut Industry Roadmap 2011-2016, a six-year programme worth over Pesos 8 billion meant to raise the productivity of the sector. Proposed activities, which will require joint private-public funding, comprise schemes for planting, replanting, fertilization, pest management and seed farm development.

TANZANIA/BURUNDI - oil palm development: Palm oil production and

processing is being promoted in the region to cater for the needs of local soap producers who at present heavily rely on imported raw material. The initiative is backed by *Kilimo Trust*, a NGO dedicated to the promotion of market-led sustainable agriculture among East African Community members.

THAILAND - palm oil market

interventions: Following steep rises in the cost of crude palm oil, manufacturers sought government permission to raise palm oil retail prices by at least 25%, which, however, was not granted.

Subsequently, temporary supply shortages and price inflation developed in the domestic market. Eventually, the government and manufacturers agreed on a one-time release of palm oil in retail packages at a fixed price so as to calm domestic markets. In turn, the government has given the green light for a gradual upward adjustment in prices - in accordance with rising raw material prices and based on a review of real costs of production. The gradual increase in retail prices is expected to reduce the burden on consumers. Furthermore, the government requested the cooperation of large palm oil producers regarding a steady flow of supplies and informed that it would consider granting special palm oil import licenses.

UNITED STATES - biodiesel subsidy:

Finally, the extension of the biodiesel tax credit (US Dollar 1 per gallon) has been approved - referring to the year 2011 as well as, retroactively, to 2010. As a result, biodiesel production is expected to quickly return to previous levels.

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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
2009/10	429	924	807	389	221	162	173	215
Monthly								
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
2010 - January	435	919	793	407	243	163	169	221
2010 - February	406	915	804	393	230	154	169	214
2010 - March	410	920	832	381	200	156	175	213
2010 - April	412	900	826	378	205	157	174	224
2010 - May	406	864	813	353	226	153	170	214
2010 - June	408	860	794	342	194	154	168	206
2010 - July	426	911	811	361	225	162	174	211
2010 - August	457	1002	901	389	245	175	192	213
2010 - September	468	1036	910	398	277	180	198	218
2010 - October	496	1165	998	415	285	193	220	227
2010 - November	526	1248	1117	430	292	205	243	225
2010 - December	550	1321	1229	437	289	216	263	222

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)

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.

Sources: FAO and Oil World