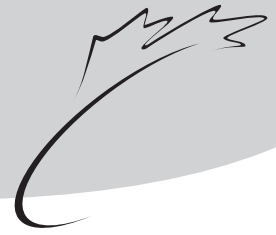




# Bi-weekly Bulletin

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## ARGENTINA

**Argentina is a major exporter and competitor in the world market for soybeans, corn, wheat, and beef. In recent years, it has focussed on developing the manufacturing sector in order to improve its trade balance and to stimulate economic growth. It has become less dependent on agriculture as a contributor to the domestic economy. Argentina has had difficulty in servicing its foreign debt and has been in recession for several years. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Argentina's grains and oilseeds sectors, and the implications for Canada.**

### BACKGROUND

#### The Economy

Argentina has a population of about 37 million, and it is the second largest country in South America. It is rich in natural resources and has a highly literate population, an export-oriented agricultural sector, and a diversified industrial base.

Argentina has invested in equipment and new technologies to improve productivity and competitiveness in world markets, but some of its policies have stifled economic growth. For example, counterproductive export policies and high export duties contributed to the loss of important export markets. That was particularly evident during the 1980s when the country struggled with a stagnant economy, burdensome foreign debt, and hyperinflation.

In response, Argentina embarked on a path of trade liberalization, deregulation, and privatization, including the 1991 *Mercosur Common Market Agreement* with Brazil, Paraguay and Uruguay. Mercosur is not a true common market, but it calls for a gradual elimination of all tariffs on goods originating in and traded among the member nations. Ongoing negotiations are aimed at creating a full common market by 2006, at which time Mercosur would do more than just reduce and harmonize tariffs. Once Mercosur is fully operational, the economic, legislative, environmental, infrastructure and

technology policies of all member countries are expected to be coordinated.

For Argentina, the early effects of Mercosur were almost immediate. The agreement contributed to political stability and, as Argentina overhauled its economy, foreign companies began investing billions of dollars. Argentina's real gross domestic product (GDP) grew steadily, reaching a growth rate of 8% in 1997. Seeing the benefits of Mercosur, Chile and Bolivia became associate members. This created a trading block of 6 countries with a combined population of over 200 million, which is more than two-thirds of South America's population, and a total GDP of over US\$1.0 trillion.

Despite the economic benefits of Mercosur, the financial crises in Asia, Brazil and Russia eroded investor confidence in emerging markets, Argentina being one of them. The result was higher interest rates and a lower rate of economic growth. As Brazil devalued its currency, the *real*, Argentine manufacturers became concerned about the flood of relatively cheap Brazilian imports. Argentine officials accused Brazil of dumping, and imposed quotas on some manufactured goods from Brazil. The relationship between the two countries deteriorated. This relationship worsened when Brazil refused to compensate Argentina for damages due to the devalued *real*. It became apparent that trade disputes were jeopardizing Mercosur's ability to promote the economic well-being

of its member nations. By 1999, Argentina's budgetary deficit was growing by 2.5% of GDP, or about US\$12 billion per year.

Today, Argentina's economy has been in recession for about four years, and domestic and foreign investors remain sceptical about its ability to deal with its huge debt, which stands at about US\$132 billion. To help Argentina deal with its economic problems, the International Monetary Fund (IMF) offered US\$13.7 billion in support in early 2001, that support being conditional on reduced spending by central and provincial governments, and on improvements in the tax collection and banking systems.

However, the Argentine government had difficulty meeting conditions set out by the IMF. GDP had already decreased for the third year in a row, unemployment was up, and external financing from private sources had virtually dried up. Private sector deposits decreased and, with a limited supply of available credit, interest rates soared. The increasing burden of interest payments on the country's debt forced government to reduce primary spending, but it was not enough to prevent a further widening of the government deficit. By December 2001, authorities imposed limits on withdrawals in order to prevent a massive flight of capital out of the country.

Argentina's economic problems have been attributed in part to its monetary policies. When Argentina fixed its *peso* at a one-to-one ratio with the United States (US) dollar in 1991, there were some initial benefits. There was lower inflation, good economic growth, and the convenience of being able to make transactions in either currency. As a further benefit of this fixed exchange rate policy, Argentina appeared to be a relatively safe place for foreign investment, unlike Mexico where investors had experienced big losses when its *peso* was devalued in 1994. But, as the price of Argentina's exports increased due to its over-valued *peso*, Argentina's ability to compete in world markets decreased. Ultimately, even trade with Brazil, which is Argentina's most important trading partner, was affected by the fixed rate policy.

### Transportation

Argentina has an extensive rail network for handling some of its domestic movements of grains and oilseeds, but trucking is the most important mode of land transport. This is due largely to the relatively short distances between the major areas of crop production and its ports, that distance averaging between 200 and 300 kilometres. During the past decade, many of Argentina's port facilities have been privatized, and the result has been more streamlined operations and significant cost reductions for exporters and other users. Investments in infrastructure at major port locations such as Buenos Aires, Bahia Blanca, Rosario, and Necochea have increased storage capacity and resulted in other major capital improvements.

Argentina's inland waterway system plays an important role in facilitating trade, particularly between Mercosur countries. The Hidrovia is a major infrastructure project aimed at improving the competitiveness of Argentina's grains and oilseeds sector by taking advantage of a relatively low cost water transportation system. Once fully developed, this system would be especially suited for large bulk shipments. Dredging the lengthy Paraguay-Parana waterway has already allowed ocean vessels with capacity of up to 35,000 tonnes to easily travel between Buenos Aires and the Rosario agricultural region.

### Agriculture

Argentina's land area is comprised of approximately 2.8 million square kilometres, of which about 9% is arable. Much of that arable land is the Pampa, a fertile plain interrupted only by some low

hills, or sierras. Over millions of years, the Pampa has been enriched by wind-borne soil known as loess, and by water-borne alluvium that washed off the Andes Mountains, making it particularly suitable for crop and livestock production.

The Pampa consists of two climatic zones: the coastal humid pampa, or *pampa humeda*; and the dry pampa, or *pampa seca*. The *pampa humeda* receives abundant precipitation and is Argentina's major crop and livestock producing region. In the *pampa seca* region, there is much less precipitation and crops typically have to be irrigated.

The Pampa is probably best known for the famous Argentine *gaucho*, or cowboy, highlighting the historical significance of its livestock sector. Argentina has about 50 million head (Mhd) of cattle, of which the estimated slaughter in 2001 was 13 Mhd. It also has the highest per capita consumption of beef of the Latin American countries which, at an estimated 60 kilograms per person, is double that of Canada's per capita beef consumption. Although officially declared free of foot and mouth disease (FMD) in 1999, there were outbreaks of FMD in early 2001 which have had detrimental effects on Argentina's livestock industry. To deal with the outbreaks, Argentina's health officials are looking to achieve FMD-free status within four years largely by means of an extensive vaccination program.

Argentina is experiencing many of the problems associated with increased industrialization. These problems include soil degradation, desertification, and air and water pollution. Recognizing the importance of these environmental issues, Argentina has established itself as a world leader in setting voluntary targets for greenhouse gas emissions.

### Argentina's Trade Activities

Argentina is a major exporter. Since 1992, agricultural products, primary and processed, account for about 70% of

## ARGENTINA: SOYBEAN AND SOYBEAN PRODUCTS SUPPLY AND DISPOSITION

May-April Marketing Year	1991 -1992	1999 -2000	2000 -2001	2001 -2002
.....million tonnes.....				
<b>SOYBEANS</b>				
Carry-in Stocks	0.3	6.2	5.7	7.7
Production	11.2	21.2	27.5	28.7
Imports	<u>0.0</u>	<u>0.5</u>	<u>0.4</u>	<u>0.4</u>
<b>Total Supply</b>	<b>11.5</b>	<b>27.9</b>	<b>33.6</b>	<b>36.8</b>
Consumption*	8.4	18.0	18.5	20.5
Exports	<u>2.9</u>	<u>4.1</u>	<u>7.4</u>	<u>8.4</u>
<b>Total Use</b>	<b>11.2</b>	<b>22.2</b>	<b>25.9</b>	<b>28.9</b>
<b>Carry-out Stocks</b>	<b>0.3</b>	<b>5.7</b>	<b>7.7</b>	<b>7.9</b>
<b>SOYMEAL</b>				
Carry-in Stocks	0.2	0.6	0.2	0.2
Production	<u>6.4</u>	<u>13.2</u>	<u>14.9</u>	<u>15.5</u>
<b>Total Supply**</b>	<b>6.6</b>	<b>13.8</b>	<b>15.1</b>	<b>15.7</b>
Consumption	0.2	0.2	0.2	0.2
Exports	<u>6.2</u>	<u>13.4</u>	<u>14.7</u>	<u>15.2</u>
<b>Total Use</b>	<b>6.4</b>	<b>13.6</b>	<b>14.9</b>	<b>15.4</b>
<b>Carry-out Stocks</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>
<b>SOYOIL</b>				
Carry-in Stocks	0.0	0.2	0.0	0.1
Production	<u>1.4</u>	<u>3.0</u>	<u>3.5</u>	<u>3.6</u>
<b>Total Supply**</b>	<b>1.4</b>	<b>3.2</b>	<b>3.5</b>	<b>3.7</b>
Consumption	0.1	0.1	0.1	0.2
Exports	<u>1.3</u>	<u>3.1</u>	<u>3.3</u>	<u>3.4</u>
<b>Total Use</b>	<b>1.4</b>	<b>3.2</b>	<b>3.4</b>	<b>3.6</b>
<b>Carry-out Stocks</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
* includes processing				
** includes imports				
Source: WASDE, USDA, March 2002				

Argentina's total export revenues. Its most important trading partner has been Brazil. The other major destinations for its exports are the European Union (EU) and the US. The EU is an important market for Argentina's organic products, for most which are vegetable based. Some of Argentina's cattle producers have certified their herds as organic. In terms of imported products, Argentina depends heavily on the EU, the US, and Brazil for manufactured and processed goods such as machinery and equipment, motor vehicles, chemical products, and plastics.

Argentina is having some difficulty competing in both domestic and export markets for its primary and processed commodities. Its producers need to invest in capital goods and intermediate inputs that will allow them to better compete on the world stage. Furthermore, to gain

### ARGENTINA: WHEAT SUPPLY AND DISPOSITION

<i>December-November crop year</i>	<b>1991</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<b>-1992</b>	<b>-2000</b>	<b>-2001</b>	<b>-2002</b>
	.....million tonnes.....			
Carry-in Stocks	0.8	0.3	0.3	0.7
Production	<u>9.9</u>	<u>15.7</u>	<u>16.5</u>	<u>15.7</u>
<b>Total Supply*</b>	<b>10.7</b>	<b>16.0</b>	<b>16.8</b>	<b>16.4</b>
Consumption	4.6	4.1	4.4	4.4
Exports	<u>5.8</u>	<u>11.6</u>	<u>11.7</u>	<u>11.5</u>
<b>Total Use</b>	<b>10.4</b>	<b>15.7</b>	<b>16.1</b>	<b>15.9</b>
<b>Carry-out Stocks</b>	<b>0.3</b>	<b>0.3</b>	<b>0.7</b>	<b>0.5</b>

\* includes imports

Source: WASDE, USDA, March 2002

access to new markets, Argentina opened leaving many of its businesses struggling its own markets to foreign competition, to keep their traditional and nearby customers.

#### Agricultural Trade with Canada

For the past three years, the value of Argentina's agricultural exports to Canada has exceeded the value of Canadian exports to Argentina by a factor of more than 10. In 2000-2001, Argentine exports to Canada were CAN\$121.7 million (M), versus CAN\$10.2M in Canadian exports to Argentina. Relations between the two countries are generally good, due in part to their memberships in the Cairns group, an organization of 18 countries committed to liberalizing agricultural trade among member nations. Canada and Argentina are also among the 34 countries of the Western Hemisphere currently involved in negotiations for the Free Trade Area of the Americas.

#### SITUATION

In Argentina, production of major grains and oilseeds has increased considerably during the past decade. The largest increase has been in oilseeds production, and this has been at the expense of those crops that do not provide comparable returns. Agribusiness industries have benefited from the relatively high returns for edible oils such as soyoil and sunflower-seed oil. The growing feed meal market has also contributed to those returns.

By comparison, the production of beef cattle has been relatively static. For the most part, any increases in beef slaughter, necessary to meet increased beef consumption, have been accomplished

through reductions in herd inventory rather than through increased cattle production. The exception is the number of dairy cattle which has increased significantly during the past decade.

#### Soybeans

Argentina's most important field crop is soybeans. Argentina is also the third largest soybean producer and exporter after the US and Brazil. In 2001-2002, individual shares of world soybean exports were as follows: US, 47%; Brazil, 30%; Argentina, 14%; other, 9%.

Soybeans continue to be a relatively low-cost crop for Argentine farmers, and the returns from soybean production exceed that of other field crops. For 2001-2002, the United States Department of Agriculture (USDA) estimates Argentina's soybean production at a record 28.7 Mt, up from the previous record of 27.5 Mt in 2000-2001. The increase is due largely to a record number of hectares harvested, estimated at 11 million hectares (Mha), also up from the previous year's record 10.3 Mha. Argentina's increased soybean production is partially due to higher yielding genetically modified (GM) varieties of soybeans. Currently, about 90% of Argentina's soybean crop is of the GM variety.

Since June 2001, Argentine soybean exports have benefited from a *de facto* "devaluation." Instead of being priced in US dollars, these exports have been priced on a combined average of the US dollar and the Euro, giving Argentine soybean exports the benefit of an effective devaluation of about 8%. Argentine exports are estimated at a record 8.4 Mt, up from the previous record of 7.4 Mt in 2000-2001.

Soybean **crushing** in Argentina has more than doubled during the past decade. The increase is due largely to the policy of taxing raw soybean exports while allowing rebates on meal and oil exports. **Soymeal** production is estimated at a record 15.5 Mt, up from the previous record of 14.9 Mt in 2000-2001. Domestic consumption of soymeal has been relatively flat for the last couple of years, but exports have increased considerably

and are estimated to hit a record high of 15.2 Mt in 2001-2002, making it the largest exporter of soymeal in the world. Similarly, its **soyoil** production is estimated at a record 3.6 Mt, and exports are estimated at a record 3.4 Mt.

#### Wheat

For 2001-2002, Argentina's wheat production is estimated at 15.7 Mt, matching the record set in 2000-2001. The increase in wheat production during the past decade has been due mostly to increased wheat yields, although seeded area has increased significantly during this same period.

Argentina is one of the five largest exporters of wheat in the world, but it does not compete directly with Canada in the premium market for high quality wheat. **Exports** have more than doubled during the past decade, peaking at 11.5 Mt in 2000-2001. Although Argentina exports wheat to North Africa, Eastern Europe, and the EU, the majority of its wheat is exported to Mercosur countries, particularly Brazil which depends heavily on bread wheat from Argentina.

#### Corn

Argentina is the sixth largest producer of corn in the world, and its production of corn peaked at 19.4 Mt in 1997-1998. Although this was due largely to a record yield of 6.1 tonnes per hectare, harvested area that year was 3.2 Mha, second only to the record 3.4 Mha harvested in 1996-1997. Argentina has been studying the use of GM corn, but has yet to approve its use. Having seen the effect of GM corn on US corn sales to the EU, the concern is that GM corn could jeopardize Argentine exports to customers in countries such as Spain and Portugal.

### ARGENTINA: CORN SUPPLY AND DISPOSITION

<i>March-February crop year</i>	<b>1991</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<b>-1992</b>	<b>-2000</b>	<b>-2001</b>	<b>-2002</b>
	.....million tonnes.....			
Carry-in Stocks	0.4	0.7	0.5	0.5
Production	<u>10.6</u>	<u>17.3</u>	<u>15.5</u>	<u>12.0</u>
<b>Total Supply*</b>	<b>11.0</b>	<b>18.0</b>	<b>16.0</b>	<b>12.5</b>
Consumption	4.4	5.5	5.0	4.3
Exports	<u>6.1</u>	<u>12.0</u>	<u>10.5</u>	<u>7.0</u>
<b>Total Use</b>	<b>10.5</b>	<b>17.5</b>	<b>15.5</b>	<b>11.8</b>
<b>Carry-out Stocks</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>

\* includes imports

Source: WASDE, USDA, March 2002

## ARGENTINA: CATTLE SUPPLY AND DISPOSITION

Calendar Year	1992	2000	2001	2002
	.....million head.....			
Beginning Inventory*	55.2	49.8	50.2	50.6
Production	14.4	14.6	14.4	14.7
Imports	0.0	0.1	0.0	0.0
<b>Total Supply</b>	<b>69.6</b>	<b>64.5</b>	<b>64.6</b>	<b>65.3</b>
Slaughter	11.9	13.2	13.0	13.3
Loss	2.2	1.1	1.0	1.0
<b>Total Use</b>	<b>14.1</b>	<b>14.3</b>	<b>14.0</b>	<b>14.3</b>
<b>Ending Inventory*</b>	<b>55.5</b>	<b>50.2</b>	<b>50.6</b>	<b>51.0</b>
Dairy Cows Inventory	2.1	2.5	2.5	2.5
Beef Cows Inventory	22.2	18.3	18.5	18.5

\* includes dairy cows, beef cows, steers, heifers, bulls and calves.

Source: USDA, March 2002

## OUTLOOK

Argentina's economic outlook continues to be clouded by its fiscal and monetary policies. Faced with a large foreign debt and high unemployment, its government has suspended debt payments and focussed on reviving an ailing economy. With the civil unrest, the economic crisis has turned into a political crisis as successive leaders struggle with high unemployment and ineffective policies. A major concern for policy makers is that the devaluation of the *peso*, which commenced when the currency was allowed to float in January 2002, will increase inflationary pressures.

While this model implies that a devaluation in the Argentine *peso* will exert some downward pressure on world prices for grains and oilseeds in the medium term, the impact of such pressure varies between commodities. The most significant price pressure under this model would be on **canola** and **soybeans**, due to Argentina's influence in the world oilseeds market. Any potential impact on Canadian **wheat** prices would be considerably less because Argentina does not have nearly the same influence on the world market for wheat as it has for soybeans. Similarly, for **coarse grains**, the effect on prices would be minimal due to Argentina's limited influence in international coarse grains markets.

**For more information:**  
**Stan Spak**  
**Market Analyst**  
**Phone: (204) 983-8467**  
**E-mail: spaks@em.agr.ca**

For 2001-2002, **production** is estimated at 12.0 Mt, down from 15.5 Mt the previous year due to poor weather conditions. In October, heavy rains in central Argentina delayed planting which caused farmers to adjust their seeding plans and this ultimately resulted in lower seeded area for corn. Soybeans have an advantage over corn because the crop requires fewer days to mature and planting can be delayed longer without fear of frost damage.

Argentina is the second largest exporter of corn in the world, but its **exports** have decreased almost steadily since peaking at 12.2 Mt in 1997-1998. For 2001-2002, Argentina's exports are estimated at 7.5 Mt, the second lowest level in seven years.

### Livestock

Livestock production remains an important component of Argentina's agricultural sector. The number of **beef** cows in Argentina has gradually decreased from the peak of 22.3 Mhd in 1993-1994. For 2002, the USDA estimates the number of beef cattle at 18.5 Mhd, virtually unchanged from 2001. During the past decade, the number of **dairy** cows has increased steadily, peaking at 2.5 Mhd in 1998 and remaining at that level since then.

The impact of the devaluation on grain and oilseed exports is likely to be minimal in the short-term, because the associated economic instability is expected to hamper any increase in exports, and because the next crop which could be affected will not be harvested for about 10 months. The effect of the devaluation in the *peso* is also expected to be mitigated by the imposition of an export tax.

In the **medium-term**, Argentina's crisis could have implications for Canada's grains and oilseeds sector. With this in mind, Agriculture and Agri-Food Canada has undertaken a preliminary analysis of the Argentine situation using the Organization for Economic Co-operation and Development AgLink model.

Based on the results generated by the AgLink model, domestic prices for the major Argentine grains and oilseeds would increase with the devaluation of the *peso*. With higher domestic prices, domestic consumption would decrease. Farmers would increase production in response to higher "real" prices, but this impact would be somewhat offset by increased prices of imported inputs such as fuel, fertilizer and farm machinery. The resulting increase exportable supplies from Argentina would then pressure world prices, specifically in those commodity markets where Argentina exerts a significant influence.

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500-303 Main Street  
Winnipeg, Manitoba, Canada R3C 3G7  
Telephone: (204) 983-8473  
Fax: (204) 983-5524**

Director: Maggie Liu  
Chief: Fred Oleson

Editor: Gordon MacMichael

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