



Agri-Food Past, Present & Future Report

Argentina

March 2006



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Canada

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Overview

With almost 39 million residents, Argentina is the second largest country in South America with respect to land and population. Despite recent economic issues, Argentina's rich natural resources, substantial agricultural sector and diversified industrial base make it the second largest economy in South America.

In the past 20 years the Argentine government has focused on a goal of international reintegration. Argentina has achieved this goal in several ways, including taking active roles on the UN Food and Agriculture Organization and Conference on Trade and Development. Argentina has also gained membership to the International Grains Council, Free Trade of the Americas and the International Sugar Organization. By setting voluntary reduction targets for greenhouse gas emissions, Argentina has shown itself to be an international leader of environmental issues.

Despite its regional position, the last five years have brought a substantial amount of political and economic unrest to the country. Uncontrollable external factors and loss of consumer and investor confidence in the Argentine economy resulted in a devalued currency, negative economic growth and capital flight. Once the economy settled at its lower level in mid-2002, the Argentine government used tighter fiscal controls and focused spending attempting to revive the economy. Despite the impact of economic difficulties, the Argentine economy has quickly rebounded and grown to be greater than pre-2002 levels.

Canada - Argentina Relations

Relations between Canada and Argentina are positive, with active diplomatic relations since 1941. Through the Canadian International Development Agency (CIDA), Canada has been a strong supporter of Argentina's efforts toward international reintegration and development. As a token of this support, Canada has moved the CIDA regional office to Buenos Aires. Although Canada and Argentina are not linked by any direct free trade agreements, they are linked by the Canada-Mercosur Trade and Investment Cooperation Arrangement (TICA), signed in 1998. Canada and Mercosur are also currently in negotiations regarding another free trade arena called the Free Trade Area of the Americas.

In 2005 Argentina was Canada's sixth largest trading partner in South America, dropping three positions since 1998. Despite being overtaken by other South American nations, Canada's total bilateral trade with Argentina has increased substantially. Canada has lost market share in two of Argentina's top three import categories since 2001 to Brazil and China, but has seen a 10 fold rise in other areas. Due to favourable exchange rates for Argentina, Canadian grains and oilseeds producers have been forced to deal with lower prices due to increased competition from Argentine production and exports.

Canada-Argentina Bilateral Trade (2005)	
Argentina Total Trade	US\$24.3 billion
Exports	US\$40.0 billion
Imports	US\$28.8 billion
Trade balance	US\$11.2 billion
Canada- Argentina Trade	\$625.9 million
Exports	\$173.4 million
Imports	\$452.5 million
Trade balance	(\$279.1 million)
Canada- Argentina Ag Trade	\$156.9 million
Exports	\$7.4 million
Imports	\$149.5 million
Trade balance	(\$142.1 million)

- Although Canada/Argentina bilateral trade has recovered to pre-2002 levels, Canada now holds a significant negative trade balance, compared to what previously was a significant positive balance.
- Top Canadian exports to Argentina are iron and steel products, fruits and nuts, beverages, wood, preserved foods and dairy products.
- Top Canadian imports from Argentina include mechanical

and electrical machinery, newsprint, mineral fuels, optical and medical instruments, vegetables and plastics.

Agricultural Trade

Accounting for nearly 11% of the country's economy, Argentine agriculture is modern and geared towards supplying domestic demand in addition to the export of large quantities of agricultural products to world markets. Argentina's main source for foreign exchange is in processed agricultural goods, accounting for 25% of total exports. In 2004, Argentina exported approximately US\$960 million in agricultural products. As one of the last countries in the world to still use agricultural export taxes, a large source of revenue for Argentina is from agricultural export taxes ranging from 5% to 23%.

Agricultural exports destined for Argentina decreased significantly in 2002 as the devaluation of the peso made imports too expensive in Argentine markets. Argentina is beginning to increase imports of food products as conditions become more favourable. However, during this time Argentine exports became more competitive on world markets, thus significantly increasing Argentina's positive balance in the trade of agricultural goods.

Although the majority of corn and soybeans produced in Argentina are grown from genetically modified seed, Argentina is a strong organic producer of vegetables and some beef. Approximately 90% of organic production is destined for export markets, particularly the European Union. In addition to being the largest beef exporter in the world, Argentina is the second largest corn exporter, third largest soybean exporter and one of five of the largest wheat exporting countries in the world.

Agricultural imports into Argentina are recuperating; however, it is estimated that in 2006 the level of agri-food imports into Argentina will only be 60% of levels prior to 2002. Total agricultural imports to Argentina will reach nearly US\$1 billion in 2006, with high valued food imports expected to reach US\$600 million, a growth of nearly 10% over 2005. This trend is expected to continue as consumers gain back purchasing power and demand higher price and higher quality goods not currently available from domestic sources.

Canada – Argentina Agricultural Trade

- Canadian agri-food exports to Argentina totalled \$7.4 million in 2005.

- Canadian agri-food imports from Argentina totalled \$149.5 million in 2005.
- Canada had a negative agri-food trade balance of 142 million with Argentina in 2005.

Canada's Top 5 Agricultural Exports to Argentina (2005)	
Lentils, green, incl. French green	\$2.1 million
Lentils, seeds for sowing, dried, shelled	\$703,000
Bovine semen, dairy	\$673,000
Hides, bovine	\$525,000
Alfalfa, seeds for sowing	\$503,000

Complete statistical summary available:
http://www.ats.agr.gc.ca/stats/argentina_e.pdf

- Total Canada/Argentina agri-food trade was valued at almost \$157 million in 2005. Agricultural trade represents over 25% of total trade between the two countries.
- Bulk exports to Argentina in 2005 totalled only \$54,000, dropping by more than 50% each year since 2003. This is a result of dropping shipments of oilseeds for sowing in addition to fluctuating markets for coffee, tea, and spices.
- Intermediate exports dropped 33% to \$6.4 million in 2005 from the 2004 level of almost \$9.5 million, the highest level since 1996. Over 50% of intermediate goods shipped to Argentina from Canada are edible vegetables, roots, tubers and pulses, which have widely varying shipments each year.
- Consumer oriented shipments reached an all time high in 2005 of almost \$1 million, over 70% higher than 2004. Shipments of edible food preparations account for over 45% of consumer shipments, and along with meat preparations have driven the dramatic increase in consumer oriented agricultural exports.
- Top agri-food exports to Argentina were green lentils and lentils for sowing, together accounting for over 38% of agri-food shipments. In addition, dairy genetic material, cow hides and alfalfa seed each accounted for between 6% and 9% of agri-food shipments from Canada to Argentina.
- Besides top exports from Canada, Argentina largely imports processed goods, counter-seasonal fruits and vegetables and processing ingredients not supplied by domestic sources.
- Top prospects in the Argentine food industry include lobster, salmon (smoked, cured or glazed), alternative meats, maple syrup, ice-wine, wild rice, wild mushrooms, tuna, canned corn and peas, tomatoes, confectionary products, sauces, kosher products, cheddar cheese, pet food and convenience and health foods.
- The food ingredients sector contains considerable prospects for Canadian exporting firms. Main ingredients demanded include corn starch, natural sweeteners, powdered milk, egg albumin, soy protein and gelatine.
- Top Canadian imports from Argentina in 2005 were red wine and fresh pears, accounting for 11.5% and 10% respectively of imports from Argentina.

Economy

Although experiencing relatively strong growth for four consecutive years, Argentina has experienced its most difficult economic times in the past decade. In the late 1990's the Argentine government experienced continuous budget deficits, inflationary problems, and high unemployment resulting in civil unrest. In 2001 large bank withdrawals and capital flight from the country led to an economic collapse. Early in 2002 the peso devalued dramatically and GDP declined over 10%.

Since 2002, Argentina has been in a phase of recovery. A new government with stronger economic policies is leading the country towards greater economic prosperity. As a result of growing close to 8% per year between 2003 and 2005, Argentina's economy reached pre-2002 levels. Economic growth is currently beyond expectations, with skilled labour shortages in key industries. Inflation reached double digits in 2005, exceeding the central bank's 5% to 8% target. While inflation is still a going concern, consumption is growing as wages increase and jobs are created.

Argentina's most prominent industries are food processing, motor vehicle, chemical, and metal and plastic manufacturing. Services make up nearly 55% of the economy while industry is just over 35%. The tourism sector is growing and is expected to continue to do so as it the sector becomes an integral part of the economy.

Gross Domestic Product (2005)	
GDP	US\$176.0 billion
GDP growth	(2005) 7.7% (2006e) 5.5%
GDP/ capita	US\$4,586
GDP/ capita (PPP)	US\$14,087

Current

- GDP is growing for the fourth year in a row, although expected to slow to 5.5% in 2006.
- GDP output exceeded US\$176 billion in 2005.
- The unemployment rate is just above 11% at this time.

Forecast

- GDP growth is expected to slow again in 2007, to approximately 4%.
- Inflation is expected to increase to almost 12% by the end of 2006. Wage increases are still higher than inflation, thus not affecting consumption; however, the gap between inflation and wage increases is shrinking.
- The unemployment situation is not expected to change significantly, with the exception of skilled labour shortages in a few industries.
- The value of the peso is expected to continue to increase, making imports more competitive in the Argentine market compared to domestic products.
- Increased investment is expected to continue as confidence in the economy recovers. More importantly, investment is diversifying into a wider number of industries.
- Growing domestic consumption, increased investment, solid export demand, and favourable external conditions are fuelling this strong recovering economy.

Consumer Market

The consumer market, consumption trends and food retailing sectors have adapted in the face of economic fluctuations. Consumer purchasing power had severely decreased and consumption patterns had changed to exclude gourmet, luxury foods and include more basic foods. As purchasing power steadily increases, consumer confidence is expected to grow and prompt increased spending on non essential

goods. In this dynamic consumer market, successful products will meet the current demands of consumers and be able to adapt as incomes grow and food preferences evolve.

In addition to changing consumer preferences, the retail sector also experienced changes during the last 5 years. Hypermarkets, superstores and warehouse stores remain the most popular retail formats, but are losing market share to small supermarkets, grocery stores and kiosks. Reasons for this change are increased convenience of smaller stores, and competitive price. These factors are carrying smaller retailers towards greater market share.

Consumption is on the rise with food and beverage sales reaching an estimated US\$15.5 billion in 2005. Consumption growth is expected to continue into 2006 as conditions improve. Gourmet and high value foods including products such as frozen foods and specialty imports are increasingly demanded by affluent consumers. Recovering spending power may present new opportunities for value-added products in the marketplace.

The traditional food palette of an Argentine consumer is relatively unadventurous. Argentine food makes limited use of spices and seasonings. A typical meal includes beef or pasta, with salad and a potato side dish. However, Argentines do have an appreciation for sweets. Consumers are beginning to demand more consumer-ready foods, although this trend is still in its beginning stages. Functional foods that include higher fibre contents, omega 3 and phytosterol-added milk are also in greater demand. The increasing diversity of beverages consumed is also notable.

Consumption trends are evolving as average household income increases. Consumers are becoming more affluent, and are willing and able to purchase higher quality and luxury food products. Import goods are increasingly desired as they become more affordable to consumers.

General

- Nearly 40% of Argentine expenditures are on food products.
- Dry groceries account for 30% of food expenditure, while beverage and dairy product purchases each account for 20% of food spending.
- One third of the country's population resides in the city of Buenos Aires and surrounding area. Buenos Aires accounts for nearly 50% of consumption.
- Less affluent consumers account for nearly two thirds of the population and purchase few import products due to budget constraints.
- Imports are affordable for approximately 13 million Argentine consumers.
- Consumers tend to spend most of their vacations within Argentina rather than going abroad.
- Just over half of middle and upper class households have microwaves, and approximately three quarters of these households have freezers.

Consumption Patterns

- Argentine consumers demand low prices and good value, with lower income consumers currently prefer price over quality. Consumers want a product that not only tastes good, but looks good too. Packaging is important in this market.
- During the economic crisis consumers shifted from value-added products to more basic foods. This trend was situational as most premium brands are coming back as the economy recovers.

- Wine consumption is currently recovering, with the per capita consumption reaching 35 litres in 2004.
- Demand for gourmet food products are generally limited to upper and upper-middle class consumers.
- Package sizes of processed goods have been adjusted in an attempt to make products more affordable to consumers.
- Argentina is home to the largest Jewish community in Latin America. Kosher products are becoming fashionable with younger consumers in this segment. These products are also viewed as being of higher quality by the general consumer.
- Consumers have only recently started to experiment with spicier foreign flavours and foods.
- Argentines are concerned about biotech ingredients in their diets and are hesitant to support growing GMO crops.
- Major food related health concerns have resulted in increased consumer interest in low-calorie and fat-free products, a category that grew nearly 20% in 2005.

Retail

- Use of delivery services for pizzas, ice cream, empanadas and other fast foods is on the rise.
- Dining out is generally saved for social events during the weekend or for business purposes during the work week.
- Gas marts and convenience stores have wide product selections and are open 24 hours. Generally, these types of retail formats are used for impulse purchases by affluent younger consumers.
- Small neighbourhood specialty stores remain the preferred source for fine foods.
- Brand name products have gained market share as many private label products have disappeared from the market.
- Snack food and ready-made meals are not commonly available although these products are starting to catch on.

Competitors

Due to Argentina's large agricultural sector, Canada's largest competition for agricultural imports is actually domestic supply. The cost of freight, tariffs and current exchange rates make agri-food imports to Argentina less competitive than domestic supply. Argentina does however import products that are not locally produced or processed, specifically in the food processing ingredients sector.

International competition comes primarily from the Mercosur group of countries, which includes Argentina, Brazil, Paraguay and Uruguay, along with Chile, Bolivia and Peru as associate members. Mercosur is a trading union with zero tariffs between member countries. These countries also have a significant advantage due to geographic proximity. The European Union and the United States also have significant share of exports destined for Argentina. Argentina is also an active member of the Cairns group of countries.

- Domestic supply accounts for between 80% and 90% of food consumed in Argentina.
- Argentina's top import sources, and Canada's top trade competitors, are Brazil (27%), U.S. (20%), Germany (6.6%), China (4.6%), France (4.2%)

and Italy (4.1%). Chile and Ecuador are also important import sources for Argentina.

- Mercosur accounts for almost 60% of Argentine imports, followed by the EU with 12% and NAFTA at 7% of total imports.
- Argentina's gourmet food industry is serviced mainly by France, Italy, Spain, Scotland and Denmark.

Access Issues

As Argentina experiences a period of economic recovery, exporters should capitalize on emerging opportunities as domestic companies look to reintroduce imported products into the market. Companies are encouraged to take advantage of the market sooner than later, making early contacts may lead to staying a step ahead of the competition. Firms must remember this market may also serve as a possible entry point for market opportunities in other South American markets, particularly other Mercosur countries. In an attempt to ease the export process to Argentina, it is suggested Canadian exporters use the services of a carefully selected representative, distributor, or agent in Argentina. Canadian firms are encouraged to take advantage of the Canadian Trade Commissioner Service which can assist Canadian firms to access business opportunities in Argentina <http://www.infoexport.gc.ca/Entry.jsp>. The services of the Canadian Embassy to Argentina and Paraguay are also available for use <http://www.international.gc.ca/argentina>

- Prior to export, Canadian firms must register with Argentina's National Drug, Food and Medical Technology Administration (ANMAT) along with Argentina's National Food Institute (INAL).
- INAL regulates processed foods prepared for direct human consumption, health supplements and beverages in accordance to the Argentine Food Code (CAA). INAL resides under Argentina's Ministry of Health.
- It should be noted that Mercosur standards (based on EU and US food standards) are beginning to replace the original Argentine Food Code.
- Canadian Exporters are encouraged to learn more about The National Service of Agricultural Food Health and Quality (SENSA) and the Secretariat of Agriculture, Livestock, Fishing, and Food (SAGPyA), and the National Wine Institute (INV). Each organization governs the import and sale of specific product groups in Argentina.
- Label approval must be obtained for each product. Ingredients and nutritional information must be on imported products in Spanish, in addition to English or French.
- Currently there are no requirements for the traceability or labelling of GMO products.
- Products labelled as organic must originate from a country with organic standards evaluated by SENSA, and are equivalent or greater than Argentine regulations.
- All flour based products must be manufactured using enriched flour only.
- Duties, for the most part, depend on the type of product and its packaging. Import duties have dropped on average of 35% to 19% since 2002. Duties generally range between 15% and 22% for most food products. The value added tax is 21%. Product samples valued at less than US\$100 do not pay import duties.
- Targeting smaller firms might result in greater success as larger firms have less interest and time to promote Canadian products.

- Market access can be gained by directly importing to stores or processors or using local agents.

Business Travel Tips

- Hiring a translator is suggested if the visitor doesn't have a working knowledge of Spanish. All documents are expected to be in Spanish.
- A valid passport is required for entry, and business travellers require a visa.
- Canadian bank cards are widely accepted; however credit cards are not.
- An international driver's license is recommended for rental services, although taxi services are generally economical within the city.
- Both men and women dress more formally than North American standards. Dark, conservative colours and business suites are most appropriate for business functions.
- Social customs are also very formal. Politeness, manners and attention to rank and title is very important. Promptness is expected.
- Make sure appointments are made prior to arrival, it is almost impossible to see anyone without an appointment.
- Travellers should be wary of pickpockets in crowded areas.

Agriculture Sector & Policies

As the largest beef exporter in the world and the third largest producer of soy beans, Argentina has a very strong and significant agricultural sector. Almost 60% of Argentina's total exports are agriculture related. Currently, processing facilities are being updated to meet improved food quality and safety initiatives. Argentina has very good storage, distribution and logistics systems to facilitate the export oriented activities of the sector.

Despite consumer hesitation surrounding genetically modified organisms, Argentina is a world leader in bio-technology. Soy beans, Argentina's most prominent commodity, are planted almost entirely with GMO seeds. In addition, approximately one third of corn acreage is grown using GMO seeds. At the other end of the spectrum, Argentina is also a strong producer of organic products, which are mostly destined for European markets.

- Agriculture accounts for over 11% of Argentine GDP.
- Top agricultural field crops are soy beans, sunflower seeds, lemons, grapes, corn, tobacco, peanuts, tea and wheat.
- Top livestock production is in beef, poultry, dairy and some specialty meats such as llama, frog and iguana.
- Argentina's land base is approximately 12% arable land, with less than 1% in permanent crops.
- Environmental concerns in Argentina include deforestation, soil degradation, desertification, and air and water pollution.

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