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ARGENTINA

Argentina continues to be a major competitor in the world market for soybeans, corn, wheat, and beef. Most recently, Argentina has focused its efforts on increasing its share of the world soybean market, both for soybeans and for products derived from soybeans. These increases in soybean production have raised concerns from critics who feel that, in the longer term, this may be detrimental to Argentina's economic and social well-being. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Argentina's grains and oilseeds sector, and the possible implications for Canada's grains and oilseeds sectors.

Background

Argentina is the second largest country in South America in terms of its land base, and third largest with respect to its population of 39 million (M) people. In 2005, Argentina's gross domestic product was US$176 billion (G), of which agriculture accounted for over 11% of that figure. Argentina's main source of foreign exchange is processed agricultural goods, which account for 25% of its total exports.

For the past few years, Argentina's economy has been recovering from an economic crisis that included a devaluation of its currency, unemployment, inflation, a large public debt load, and general political instability. The recovery can be attributed in part to import substitution and strong agricultural exports.

Argentina's economy has grown at a rate of approximately 9% over past three years and would appear to be positioned for another year of strong economic growth in 2006. Argentina's economic recovery has come partly as a result of strong international commodity prices, as well as the government's ability to maintain a fiscal surplus.

Biofuels in Argentina

Argentina has passed legislation mandating that all gasoline contain at least 5% ethanol and that all diesel fuel contain at least 5% biodiesel by 2010. This essentially gives the fuel industry four years to comply with the new legislation. The Argentine government is providing tax incentives to firms involved in the production and distribution of biofuels. Government will determine which projects qualify for tax exemption and it will set quotas each year for the distribution of tax benefits, aimed primarily at farmers and small to medium companies involved in biofuel initiatives.

Companies in the oil industry and large soybean producers have complained that the new law does not provide for subsidies. Nevertheless, Repsol YPF, which is headquartered in Spain and one of the largest oil companies in the world, is investing in a biodiesel plant in Rosario, Sante Fe Province, Argentina. The company has operations in more than 30 countries and plans to be the first major biodiesel producer in Argentina. The plant, which is expected to be operational by late 2007, is designed to produce about 31.7 million gallons of biodiesel annually. This biodiesel will initially be used to create a B5 (5%) blend, with a B10 blend planned for the future. Biodiesel is not taxed in Argentina, unlike fuels derived from petroleum, and this provides an economic incentive for setting up a biodiesel production facility in Argentina.

Argentina's Soybean Monoculture

Argentina's legislation regarding biofuels has raised concerns about the expansion of the so-called soybean monoculture in Argentina. Argentina's soybean crop is primarily transgenic and critics argue that this threatens biodiversity, and that the soybean monoculture hurts family farms and the rural social fabric. In the past ten years, rapidly expanding soybean production is believed to have caused an exodus of rural workers and resulted in a concentration of land ownership. Critics further argue that increased soybean production has disturbed established land rotation systems and that it has had an undesirable effect on the health of the soil.

As Argentina's farmers increase the amount of land they plant to soybeans, area planted to other field crops diminishes and livestock production shifts to less productive land in the southern and western regions of Argentina. This has raised further concerns about the negative effects of the soybean boom on local economies. Specifically, as soybean production in some areas of Argentina has increased, poverty rates in those areas have increased accordingly. This appears to be particularly true in areas that require 1,000 to 2,000 hectares of land for a farm to be viable and profitable because farms of this size tend to be highly mechanized and therefore they require minimal labour.

Argentina's Soybean Crushing Industry

Argentina crushes about 70% of its annual soybean production. The products of the crushing industry, soyoil and soymeal, are mostly destined for export markets. Currently, about 90% of Argentina's annual soyoil production and 97% of the annual soymeal production is exported.

Government policies during the 1990s, including the privatization and deregulation of railroads and ports, have encouraged companies to make huge investments in Argentine processing and port facilities. Argentina export retention taxes, which were imposed on most of its agricultural goods as a means of generating tax revenue, as well as ensuring maintenance of domestic supply, have also had an effect. In the wake of the 2001 economic crisis, soybean exports have been taxed at 23.5% while soyoil and soymeal have been taxed at 20%. Combined with strong demand from China and a devalued Argentine peso, soybean crushing in Argentina has increased by 45%

during the period between 2001-2002 and 2005-2006.

The bulk of crushing is concentrated in the provinces of Buenos Aires, Santa Fe, Entre Rios, Misiones, and Cordova. However, Rosario, which is the third largest city in Argentina, has the highest concentration of soybean crushing plants in the world. These plants are among the most efficient in the world and, despite occasionally tight soybean supplies, operate at 85 to 90% capacity. With more plants under construction, Argentina will soon be able to crush about 160,000 tonnes per day (t/d). Louis Dreyfus alone is expected to crush 30,000 t/d once their new plant is fully operational. By comparison, Canada's *total* oilseed crushing capacity is 17,650 t/d.

A possible constraint to further expansion of Argentina's crushing industry would be the availability of soybean supplies. The soybean crushing industry has expanded faster than domestic soybean production. Therefore, until primary production catches up, Argentina's crushers will have to rely on soybeans from non-domestic sources, such as Paraguay.

Argentina's Livestock Sector

Argentina is the fifth largest producer and third largest exporter of beef in the world; it has about 300 million acres of pasture land and about 55 million heads of cattle. Argentina's per capita consumption of beef, estimated at 140 pounds annually, makes it the largest per capita consumer of beef in the world, and nearly double that of the United States (U.S.). Livestock production and slaughter are therefore major activities in Argentina, as are refrigeration and processing of meat products. About 15% of the beef produced in Argentina, which averages 3.0 million tonnes (Mt) annually, has traditionally been exported.

In March 2006, Argentina suspended most beef exports. While the majority of its beef exports were affected, high end beef exports sent to Europe as a part of the Hilton beef quota and to countries with which Argentina has bilateral agreements were exempted. These measures have been undertaken as part of wider price control efforts to curb the inflation rate, which reached 12.3% in 2005. Beef producers were targeted, as beef represents a large portion of the domestic diet and has been viewed as a key factor in the rising inflation rate.

In May 2006, the Argentine Government published a resolution that will permit the partial lifting of the suspension on beef exports, as beef prices had dropped in the wholesale market after the export suspension took effect. In addition, towards the end of July, the government announced that it intends to put into place a program to support ranchers with their efforts to increase beef supply, so as to ensure steady domestic supply. The program has not been clearly defined as yet.

Canada/Argentina Agri-Food Trade

In the Argentine market, Canada has been competing directly with Argentina's domestic suppliers who benefit from lower transport costs, import tariffs, and exchange rates that discourage imports. As a result, domestic supplies account for up to 90% of the food products consumed in Argentina. As well, most of the international competition Canada faces comes from the Mercosur group of countries which includes Brazil, Paraguay, Uruguay, Argentina, Venezuela, and associate members Chile, Bolivia and Peru. Mercosur accounts for about 60% of Argentina's imports.

In 2005, bilateral trade between Canada and Argentina in agri-food products totalled CAN$157M, up from CAN$131M in 2002, which was the peak of Argentina's economic crisis. However, the trade imbalance between these two trading partners continues to heavily favour Argentina. In 2005, Canada's imports of agri-food products from Argentina totalled CAN$149.5M, while Canada's exports of agri-food products to Argentina were CAN$7.4M.

According to 2005 trade data compiled by Statistics Canada, the main categories and value (in Canadian dollars) of Canada's agri-food imports from Argentina are: *fruit and nuts*, $35.9M; *beverages, spirits and vinegar*, $28.1M; *dairy products, eggs and honey*, $19.4M; *preparations of vegetables, fruit and nuts*, $13.5M; and *oilseeds, seeds for sowing, fodder*, $10.4M.

Conversely, for 2005, the main categories and value of Canada's exports of agri-food products to Argentina are: *edible vegetables and certain roots and tubers, pulses*, $3.5M; *miscellaneous edible preparations*, $1.3M; *food industry residues and waste, prepared fodder*, $1.2M; *oilseeds, seeds for sowing, fodder*, $0.9M; and *products of animal origin*, $0.9M.

SITUATION 2005-2006

Argentina's major field crops are soybeans, corn, wheat, sorghum, barley and oats, and about 10% of that production is for feed use. By comparison, Canada uses about 40% of its total grains and oilseeds production for animal feed. Argentina's feed use is relatively low because most of its livestock production is located in areas where domesticated animals can graze naturally rather than being housed in feedlots. This non-reliance on gathered animal feed creates an excess supply of animal feed.

As a result, about 40% of Argentina's total field crop production is exported. However, if one were to add in exports of soyoil and soymeal, Argentina's agri-food exports would then represent about 75% of its total field crop production.

For 2005-2006, ***area seeded*** to Argentina's major field crops is estimated at 23.1 million hectares (Mha), down from the record 24.4 Mha in 2004-2005, and ***production*** for 2005-2006 is estimated at 70.3 Mt, down from the record 79.8 Mt in 2004-2005. ***Exports*** for 2005-2006 are estimated at 26.5 Mt, down from the record 36.4 Mt exported in 2004-2005.

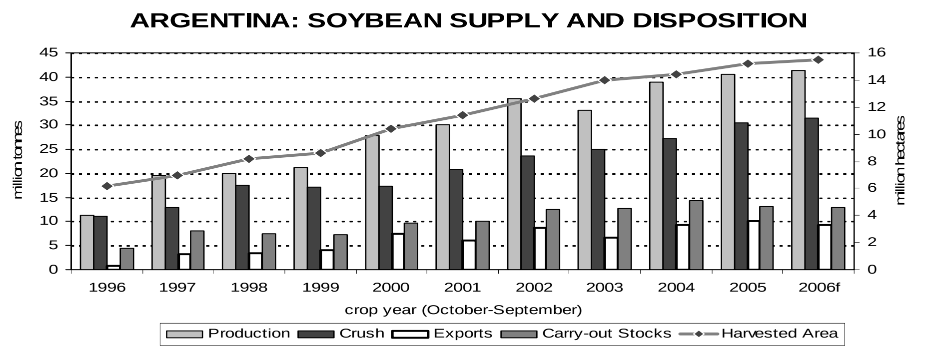
Soybeans and corn generally account for 54% and 23%, respectively, of Argentina's total field crop production. Virtually all soybeans and about one-third of corn produced in Argentina are genetically modified, but Argentina is also known for its production of organic vegetables and beef. About 90% of that organic production is destined for export markets, primarily in the EU.

Soybeans

Argentina is the third largest producer of soybeans in the world, accounting for about 18% of the total world production, which is estimated at 220 Mt for 2005-2006. Argentina has tripled soybean production during the past 10 years as area seeded to soybeans increased from 6.2 Mha, to 15.0 Mha, and yields increased by about 50% during this period.

Logistics have contributed a great deal to increased soybean production in Argentina. About 80% of Argentina's soybean production is located within a 200 mile radius of its ports and crushing facilities. Furthermore, record world crude oil prices have not translated into higher farm fuel costs, unlike Brazil where fuel costs have skyrocketed. In Argentina energy prices have been frozen at devalued rates since 2001-2002.

For 2005-2006, Argentina's soybean ***production*** is estimated at a record 40.5 Mt, up from the previous record of 39.0 Mt in 2004-2005. With record available supplies of soybeans in 2005-2005, Argentina's ***exports*** are estimated at a record 10.1 Mt, up from 9.3 Mt in 2004-2005. The major exports markets are China, Thailand, Turkey and Indonesia. Soybean crush is estimated at a record 30.4 Mt, up from the previous record of 27.3 Mt in 2004-2005. For 2005-



f: forecast, USDA, July 2006
Source: USDA

2006, ***carry-out stocks*** are estimated at 15.3 Mt, down from 16.2 Mt in 2004-2005.

Soyoil
For 2005-2006, Argentina's ***production*** of soyoil is estimated at 5.7 Mt, up from the previous record of 5.1 Mt in 2004-2005. For 2005-2006, ***exports*** of soyoil are estimated at a record 5.4 Mt, up from 4.8 Mt in 2004-2005. The major export markets are China, India, and Bangladesh. Domestic **consumption** of soyoil for 2005-2006 is estimated at 0.4 Mt, virtually unchanged from 2004-2005.

Soymeal
For 2005-2006, Argentina's ***production*** of soymeal is estimated at 23.7 Mt, up from the previous record of 21.5 Mt in 2004-2005. For 2005-2006, ***exports*** of soymeal are estimated at a record 23.1 Mt, up from 20.5 Mt in 2004-2005. The major markets are Spain, Denmark, Philippines, Malaysia and Vietnam. Domestic ***consumption*** of soymeal for 2005-2006 is estimated at 0.6 Mt, up from 0.5 Mt in 2004-2005.

Wheat
Most of Argentina's wheat is produced on its flat fertile plains called the *pampas*, which are further separated into the northern wheat belt and the southern wheat belt. The growing season in the *northern belt* allows for wheat to be double cropped with corn and soybeans. In the *southern belt*, wheat is generally seen as the only cropping choice.

In the past decade, wheat ***area*** has fluctuated from a high of 17.1 Mha in 1996-1997 to a low of 4.9 Mha in 2005-2006. Wheat ***yields*** during this period have also fluctuated considerably, from a high of 2.8 tonnes per hectare (t/ha) in 1997-1998, to a low of 2.1 t/ha in 2002-2003.

For 2005-2006, Argentina's wheat ***production*** is estimated at 12.5 Mt, down from 16.0 Mt in 2004-2005. The decrease is due to a 20% reduction in harvested area as a result of a drought in 2005. The combination of lower production and relatively low carry-in stocks resulted in the lowest available supply of wheat in Argentina in over ten years. As a result, ***exports*** (July-June) for 2005-2006 are estimated at 7.5 Mt, down from 13.5 Mt in 2004-2005. The major markets for Argentine wheat exports are Brazil, Peru, Chile, and South Africa.

For the first time in years, Argentina is not one of the five largest exporters of wheat in the world. Russia temporarily held that position when its wheat exports surged to a record 10.5 Mt in 2005-2006. Despite its tight wheat supplies for 2005-2006, on May 18, 2005, Argentine wheat exporters agreed to self-regulate or limit their sales overseas. This notice came after rumours that the Argentine government was considering possible export restrictions on wheat similar to those already on beef exports. Government concerns grew from observations on the growing external demand for wheat and rising international wheat prices. As a result of this decision, Argentine wheat customers have shown concern, particularly Argentina's most important customer Brazil. Brazil buys around 90% of its wheat from Argentina.

Export taxes on wheat remain at 20%, and the taxes are based on an official f.o.b. price which is set daily by the Agriculture Secretariat. Argentina's wheat ***carry-out stocks*** for 2005-2006 are estimated at 0.5 Mt, down from 0.6 Mt in 2004-2005.

Corn
Argentina is the world's second largest exporter of corn. In 2004-2005, Argentine farmers seeded a record 2.8 Mha to corn and harvested a bumper crop, resulting in unprecedented production of 20.5 Mt. In 2004-2005, Argentine exports of corn were a record 14.6 Mt.

In 2005-2006, corn ***production*** is estimated at 14.0 Mt, down considerably from the previous year's record crop as farmers shifted seeded area out of corn and into soybean production. ***Exports*** are estimated at 8.5 Mt, the lowest level since 1999-2000. ***Carry-out stocks*** are estimated at 0.9 Mt, down slightly from the record 1.0 Mt in 2004-2005.

OUTLOOK 2006-2007

For 2006-2007, ***area seeded*** to Argentina's major field crops is forecast at a record 25.1 Mha, surpassing the previous record of 24.4 Mha in 2004-2005. However, with a return to normal yields expected for 2006-2007, ***production*** of the major field crops is forecast at 77.1 Mt, down slightly from the record of 79.8 Mt in 2004-2005, but up from 70.3 Mt in 2005-2006. For 2006-2007, ***exports*** of Argentina's major field crops are forecast at 30.7 Mt, down from the record of 36.6 Mt in 2004-2005, but up from 26.5 Mt in 2005-2006.

ARGENTINA: SOYOIL SUPPLY AND DISPOSITION

crop year October-September	2001 -2002	2002 -2003	2003 -2004	2004 -2005	2005 -2006	2006 -2007f
	……….thousand tonnes……….					
Carry-in Stocks	201	312	713	862	791	698
Production	3,876	4,404	4,626	5,088	5,740	5,950
Total Supply	**4,077**	**4,716**	**5,339**	**5,950**	**6,531**	**6,648**
Exports	3,438	3,636	4,085	4,753	5,400	5,600
Domestic Consumption	327	367	392	406	433	460
Total Use	**3,765**	**4,003**	**4,477**	**5,159**	**5,833**	**6,060**
Carry-out Stocks	312	713	862	791	698	588

ARGENTINA: SOYMEAL SUPPLY AND DISPOSITION

crop year October-September	2001 -2002	2002 -2003	2003 -2004	2004 -2005	2005 -2006	2006 -2007f
	……….thousand tonnes……….					
Carry-in Stocks	907	1,140	973	1,431	1,970	1,940
Production	16,559	18,416	19,685	21,531	23,680	24,340
Total Supply	**17,466**	**19,556**	**20,658**	**22,962**	**25,650**	**26,280**
Exports	15,936	18,122	18,743	20,497	23,100	23,640
Domestic Consumption	390	461	484	495	610	750
Total Use	**16,326**	**18,583**	**19,227**	**20,992**	**23,710**	**24,390**
Carry-out Stocks	1,140	973	1,431	1,970	1,940	1,890

f: forecast, USDA, July 2006
Source: USDA

Argentina's agricultural sector is heavily dependent on exports. With 60% of its production going to export markets, the agricultural sector is sensitive to any appreciation in the Argentine peso, which is possible given the current surplus on the external accounts. However, the Banco Central de la República Argentina (BCRA, the Central Bank) is expected to maintain its policy of intervening to maintain the export competitiveness of the exchange rate, provided that this can be done without stoking inflationary pressure. The BCRA has kept the Argentine peso steady at around three pesos to the US dollar for approximately the past two years.

Soybeans
For 2006-2007, soybean ***production*** is forecast at a record 41.3 Mt, up from the previous record of 40.5 Mt in 2005-2006. The increase in production is due primarily to record high seeded area, which is forecast at 15.4 Mha for 2006-2007. ***Exports*** are forecast at 9.3 Mt, down from the record 10.1 Mt in 2005-2006, as Argentina continues to expand oilseed crushing capacity. With new and expanded crushing facilities coming on-line in 2006-2007, Argentina is forecast to ***crush*** a record 31.5 Mt of soybeans, up from the previous record 30.4 Mt in 2005-2006. For 2006-2007, ***carry-out stocks*** are forecast at a record 15.1 Mt.

Soyoil
For 2006-2007, soyoil production is forecast at a record 6.0 Mt, up from the previous record of 5.7 Mt in 2005-2006. Early indications are that about 96% of Argentina's soyoil production will be ***exported*** in 2006-2007, which would be a record 5.6 Mt. This is up from the previous record of 5.4 Mt estimated for 2005-2006.

Soymeal
For 2006-2007, soymeal ***production*** is forecast at a record 24.3 Mt, up from the previous record of 23.7 Mt in 2005-2006. Nearly all of Argentina's soymeal production is expected to be ***exported*** in 2006-2007, which would be a record 23.6 Mt, exceeding the previous record of 23.1 Mt set in 2005-2006.

Wheat
For 2006-2007, wheat ***production*** is forecast at 14.3 Mt, up significantly from 12.5 Mt in 2005-2006.

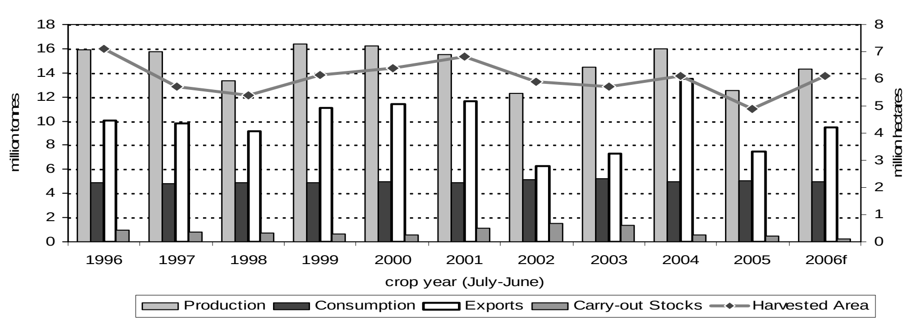
With increased available supplies of wheat for 2006-2007, Argentina is expected to reclaim its position as one of the five largest exporters of wheat, a position it relinquished temporarily to Russia in 2005-2006. For 2006-2007, ***exports*** (July-June) of wheat are forecast at 9.5 Mt, up significantly from 7.5 Mt in 2005-2006. ***Carry-out stocks*** for 2006-2007 are forecast at 0.3 Mt, down from 0.5 Mt in 2005-2006.

Corn
For 2006-2007, corn ***production*** is forecast at 17.5 Mt, up from 14.0 Mt in 2005-2006. The increase is due to increased seeded area and improved yield prospects for 2006-2007. With a 20% increase in available supplies for 2006-2007, ***exports*** are expected to increase to 11.5 Mt, up from 8.5 Mt in 2005-2006. ***Carry-out stocks*** are forecast at 0.8 Mt, down from 0.9 Mt in 2005-2006.

Implications for Canada
Argentina is expected to be a major player in the world wheat market, as it has in recent years. While Argentina does not compete directly with Canada in premium wheat markets, it competes directly with US winter wheat; influencing the benchmark wheat prices in the US Chicago Board of Trade and Kansas City Board of Trade futures markets. World prices for oilseeds and the products derived from oilseeds will continue to be pressured by burgeoning soybean production in Argentina and Brazil. The excess supply in the world oilseed market is expected to translate into lower prices for Canadian producers of canola and soybeans. Furthermore, steadily increasing world demand for vegoils is expected to result in excess supplies of protein meal, driving down the price of protein meal and other sources of animal feed.

Many Canadian companies have seen Argentina as a worthwhile location in which to invest and base their operations for the region as a whole. Companies such as McCains, Saputo and Clearwater have set up operations in Argentina and are currently exporting agri-food products throughout the continent and abroad. As well, wage increases in Argentina continue to exceed inflation, so domestic consumption is expected to remain strong along with export demand for products from foreign sources. This situation bodes well for exporters looking to expand their customer base with sales to Argentine customers.

ARGENTINA: WHEAT SUPPLY AND DISPOSITION



f: forecast, USDA, July 2006
Source: USDA

For more information, please contact:

Stan Spak,
Market Analyst
Phone: (204) 983-8467
E mail: spaks@agr.gc.ca

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Strategic Policy Branch
Agriculture and Agri-Food Canada.
500-303 Main Street
Winnipeg, Manitoba, Canada R3C 3G7
Telephone: (204) 983-8473
Fax: (204) 983-5524

Director: Maggie Liu
Chief: Fred Oleson

Editor: Joe Wang

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