

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

Required Report - public distribution

**Date:** 3/13/2009

**GAIN Report Number:** AR9005

## **Argentina**

### **GRAIN**

### **GRAIN & FEED ANNUAL REPORT**

**Approved By:**

David Mergen

**Prepared By:**

Francisco Pirovano

**Report Highlights:**

Post forecasts marketing year (MY) 2009/10 wheat production at 11 million tons due to higher yields with a smaller harvested area than in MY2008/09. MY2009/10 corn production is forecast at 14 million tons due to expected higher yields on a smaller harvested area than that of MY2008/09. MY2009/10 wheat and corn exports are forecast at 6 and 8 million tons, respectively.

## **Executive Summary:**

Higher production costs and lower prices in MY 2008/09 took break-even yields to values higher than ever before. Reportedly, break-even yields for corn reached up to 8 MT/ha while the same index for wheat was 3.3 MT/ha in MY 2008/09. Wheat yields for 2008/2009 were lower, and corn, rice and sorghum yields are expected to be much lower due to the severe drought lasting from March 2008 through February 2009. Export taxes on corn were reduced from 25 percent to 20 percent and for wheat from 28 to 23 percent in December 2008 (see the policy section for additional information), but continue to negatively affect planting intentions for the next campaign.

Relations between the Argentine Government (GOA) and farm sector remain tense. The four major farmers associations held a four-day strike from February 20 to 24 to protest against government policies for the sector. There was no trade of agricultural products during those four days. Farmers' demands included the elimination of the export taxes for agricultural products; lifting of restrictions on exports of wheat, corn and beef (see the policy section for additional information on export licensing requirements); and a demand for more support to offset the impact of the drought. Farmers did not, however, block major highways as had occurred in previous strikes.

Post forecasts a drop of utilized land area for grain production. Despite the 35 percent export tax on soybean exports, soybeans continue to be the less expensive and less risky crop. The total land area utilized for grain production is forecast at 10 percent below the previous year, with wheat area down by 5 percent -- corn area is expected to drop even more to 12 percent less than the previous year. Offsetting the decrease in wheat area will be increases in sorghum, barley, rapeseed (canola) and other minor crops. Area shifts will be achieved through the following means:

- A more widespread adoption of barley production as a winter crop;
- An increased concentration of corn within the Corn Belt and via crop rotations while marginal areas such as Entre Rios and northern Santa Fe and Cordoba will drop some corn area to plant sorghum;
- An increase in soybean planting all over the country

As it occurred in MY2008/09, Post forecasts a drop in adoption of production-enhancing technologies (such as less fertilizer use) as well as an overall decline in investment in the agricultural sector due to decreased profitability and lack of financing instruments.

Farmers will have to find creative ways to finance the 2009/10 planting season. Many agricultural funds/pools are expected to report losses of between 30 to 40 percent when the corn/soybean harvest ends in April 2009. The largest farming pools will probably be able to continue but the smaller ones will likely be forced out of business. Some funds are already contracting to rent land by sharing between 30 to 35 percent of the next harvest's production with the land owner -- moving away from the up to US\$600 per hectare up-front payments they did in MY 2008/2009. Small independent farmers who had operated on a cash basis in the near past will have to utilize credit for this upcoming crop cycle. However, neither local banks nor agricultural supply companies are keen on loaning money given the current economic environment. Suppliers have already begun to feel the impact of the crisis by having to cover numerous bounced checks from previously trusted customers.

**Commodities:**

Wheat  
Corn  
Rice, Milled  
Sorghum

**Production:  
Wheat**

Post estimates that next year's wheat harvested area will fall by 5 percent due to uncertain economic and production perspectives. Post expects area to decline due to several factors including: continued high export taxes and restrictive export licenses; and a strong incentive to produce other lower cost crops in lieu of wheat. Post expects increases in barley production predominantly in southern Buenos Aires and other areas within close proximity to malting plants due to barley's 2 to 3 week earlier harvest, which allows for earlier planting and subsequent higher yields for second-crop soybeans. Off-contract barley production is expected to grow in MY2009/10.

Wheat area will also be somewhat displaced by production of other minor crops such as rapeseed -- due to lower export taxes and fewer export licensing requirements. Many wheat fields that should have gone to second-crop soybeans in MY2008/2009 in southeastern Buenos Aires province that could not be planted because of the drought will be planted to rapeseed in MY2009/10.

Post forecasts MY2009/10 harvested area at 4 million hectares. Based on average weather patterns and a return to average yields, MY2009/10 production is set at 11 million tons. Post estimates MY2008/09 wheat production at 8.4 million tons on 4.2 million hectares. Official GOA statistics place wheat production at 8.3 million tons on 4.21 million hectares.

**Corn**

Post estimates that the 2009/10 area planted to corn will decline by 12 percent. The primary factors that will affect farmers' decisions to plant corn are the same as for wheat. Additionally corn is a high risk crop compared to soybeans due, in part, to its higher production costs and susceptibility to unfavorable weather events. Corn requires significantly more fertilizer than soybeans. In addition to the higher input costs, corn is a riskier crop than soybeans due to its more stringent moisture requirements. Drought conditions during critical phases of corn crop development can produce irreversible yield losses, while soybeans are much more resilient under such conditions.

Post forecasts MY2009/10 corn harvested area at 2 million hectares. Based on average weather patterns, MY2009/10 production is forecast at 14 million tons. Post estimates MY2008/09 corn production at 13.5 million tons on a harvested area of 2.25 million hectares. Official GOA statistics currently place corn production at 12.5-13.8 million tons on planted area of 2.4 million hectares.

**Rice**

Post forecasts MY2009/10 milled rice production at 950,000 tons on 210,000 hectares. The Argentine rice sector is expected to increase slightly its planted area due to good international prices, increased export demand, and fewer marketing restrictions than in the other grains. The export tax on rice is 10 percent.

## **Sorghum**

Post forecasts MY2009/10 sorghum production to increase from the previous year's levels to 3.5 million tons on a harvested area of 720,000 hectares. Sorghum will continue to be an attractive alternative summer crop to corn, which faces higher export taxes and export licensing requirements. Sorghum also has lower input costs than corn and is more resistant in marginal areas.

Post estimates MY2008/09 sorghum production at 2.3 million tons on a harvested area of 600,000 hectares. Official government estimates place sorghum production at 1.6-1.9 million tons on planted area of 820,000 hectares. This figure assumes a larger area utilized for direct grazing than previous years.

## **Consumption: Wheat**

Post forecasts MY2009/10 total domestic wheat consumption stable at 5.18 million tons. Wheat for feed use is estimated at 80,000 tons, while food, seed, and industrial (FSI) consumption is forecast at 5.1 million tons.

Total domestic consumption in MY08/09 is estimated at 5.08 million tons. Wheat for the feed component of the total is estimated at 80,000 tons.

## **Corn**

Post forecasts that total domestic corn consumption for 2009/10 will decrease slightly to 5.9 million tons. Post has decreased the feed component of consumption by 800,000 tons over the previous year due to a decline in the concentration of cattle on feedlots and less cattle on marginal lands that need to be supplemented. FSI consumption is forecast to remain stable at 1.9 million tons.

Total consumption in MY2008/09 is estimated at 6.7 million tons. Corn for the feed component of consumption is estimated at 4.8 million tons.

## **Rice**

Post forecasts domestic rice consumption for MY2009/10 up slightly from the previous year to 320,000 MT due to population increases. Rice is not a staple product for the Argentine consumer and is not well incorporated into the Argentine diet. Per capita rice consumption in Argentina is very stable at approximately 7 -8 kilos (rough basis).

## **Sorghum**

Post forecasts domestic sorghum consumption for MY2009/10 down slightly from the previous year at 2.28 million tons.

Total consumption in MY08/09 is estimated at 1.5 million tons. Sorghum for the feed component of consumption is estimated at 1.3 million tons.

**Trade:  
Wheat**

Post forecasts MY2009/10 wheat and wheat product exports will be 6 million tons, well above estimated exports in MY2008/09 of 3.5 million tons, but below exports in previous years.

**Corn**

The GOA restricted issuing corn export licenses during the 2008/09 marketing year to ensure domestic supplies, although additional licenses were issued again in February 2009. The National Office of Agricultural Trade Control (ONCCA) has granted corn export licenses for 9.536 million tons in MY2008/09. The latest quota assigned by ONCCA was on February 11, 2009 for 6.05 million MT, of which exporters had taken 4.58 million tons by February 25.

Post forecasts MY2009/10 corn exports at 8 million tons, as compared to an estimated 7 million tons in 2008/09, due to a slightly higher expected level of production.

**Rice**

Post forecasts MY2009/10 total rice exports at 600,000 tons due to low world stocks, high prices, and strong export demand from Brazil, Venezuela, and other markets, as well as a small increase in production.

**Sorghum**

Post forecasts MY2009/10 sorghum exports up at 1.2 million tons. Sorghum export registrations for the past two years have been above historical levels. Unlike the corn sector, the sorghum export market has not been closed through export licensing requirements and will likely see increased exports, particularly to the EU – where sorghum is used as a substitute for genetically modified corn.

Post forecasts MY2007/08 sorghum exports at 800 million tons, down from previous estimates due to lower production as a result of the drought.

**Policy:**

Domestic subsidies

On January 11, 2007, the National Office of Agricultural Trade Control (ONCCA) issued Resolution 9/2007 which established the criteria to subsidize those wheat and corn mills that supply the domestic market for the country's internal consumption. Companies are able to collect subsidies for a maximum volume equal to that produced from December 1, 2005 through November 30, 2006, plus an estimated annual growth for domestic consumption, determined annually by ONCCA. For those companies that did not operate in the period mentioned above, the GOA subsidizes 50 percent of the volume declared at the moment that the company registered for compensation with ONCCA. For the second year

of production of those companies, ONCCA compensates following the criteria first described. For those that have expanded the milling capacity, ONCCA compensates 50 percent of the declared volume expansion for the first year.

Resolution 2242/2009 establishes that, as of April 2009, the system to calculate the subsidy for wheat products will be modified. ONCCA will subsidize only those wheat mills that sell 50 Kg. bags of '000" flour to the domestic market at a price established by the Secretariat of Domestic Trade (both seller and buyer will have to prove this). Payment will be made effective on a monthly basis. ONCCA will compensate for the volume of wheat sold in the domestic market for the manufacturing of bread or other staple foods Mills will have to prove that they paid the theoretical FAS price to the farmers. Additionally, ONCCA will establish maximum volumes per mill eligible to receive subsidies

The subsidy will be the value per metric ton resulting from the difference between the "market (FAS) price", published by the Secretariat of Agriculture (SAGPyA) and the "supply price" published by Secretariat of Domestic Trade. Current supply price has been established by resolution 83/2009 at 420 pesos per MT for wheat and 293 pesos per MT for corn.

<b>PRODUCT</b>	<b>SAGPyA Market (FAS) Price (March 10, 2009) (AR\$ / TON)</b>	<b>ONCCA Supply Price (AR\$ / TON)</b>	<b>Subsidy to the wheat mill (AR\$/TON)</b>
<b>Wheat</b>	561	420	141

([www.sagpya.gov.ar/new/0-0/programas/dma/precios\\_referencia/01\\_precios\\_referencia\\_ant.php](http://www.sagpya.gov.ar/new/0-0/programas/dma/precios_referencia/01_precios_referencia_ant.php))

#### Export Licenses

On May 28, 2008 ONCCA issued resolution 543/2008 which establishes the rules for the allocation of export licenses that are applied in Argentina with the objective of maintaining a steady supply to the domestic market. According to this resolution, exporters have 45 days from the date they request an export license to tell the Argentine Customs Office which destination the shipment will be sent to. However, if the exporter opts to pay the export taxes within 5 days after the license is approved, ONCCA will extend the destination notification period to 180 days.

ONCCA grants licenses depending on:

1. Export surplus;
2. Exporter history (this allows all exporters to participate in the market);

3. Proof that the product is owned by the exporter.

Export surplus is determined by:

1. Stocks declared before ONCCA by elevators and others actors, as well as sales to processors minus the domestic consumption, minus 20 percent for errors.
2. Crop production estimates carried out by SAGPyA, minus the domestic consumption, minus the 20 percent in case of error.
3. Adjustments and revisions that are carried out every three months to control for errors.

The wheat and corn export market has been shut down for periods of times throughout MY2008/2009:

<b>ONCCA Wheat Export License Authorizations (MT)</b>	
6/12/2008	1,009,615
7/28/2008	902,608
8/25/2008	1,438,660
10/8/2008	1,763,063
11/27/2008	1,782,337
2/11/2009	520,056
Total	7,416,339

Source: INFOLEG ([www.infoleg.gov.ar](http://www.infoleg.gov.ar))

On February 11, 2009 ONCCA authorized the approval of export licenses for 6,050,400 MT of corn.

#### Export Taxes

Export taxes have been applied on grains and oilseeds since 2002. The initial rate applied was 10 percent on all grains and oilseeds. The rates were subsequently increased on various occasions, reaching 25 percent for corn and 28 percent for wheat in November 2007

A reduction in the export tax on wheat and corn by five percentage points was published in Argentina's "Boletín Oficial" on December 22, 2008 (Joint Resolution 26/2008 and 28/2008) -- for wheat, the new export tax is 23 percent and for corn 20 percent. The export tax on wheat flour and wheat sub-products was also reduced by 5 percentage points on the same day (Joint Resolution 27/2008 and 29/2008). The new export tax for wheat flour is 15 percent.

#### **Production, Supply and Demand Data Statistics:**

<b>Wheat Argentina</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	
	<b>2007/2008</b>	<b>2008/2009</b>	<b>2009/2010</b>	
	<b>Market Year Begin:</b>	<b>Market Year</b>	<b>Market Year</b>	

	Dec 2007			Begin: Dec 2008			Begin: Dec 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
<b>Area Harvested</b>	5,756	5,756	5,756	4,200	4,200	4,200			4,000 (1000 HA)
<b>Beginning Stocks</b>	305	305	305	302	379	302			147 (1000 MT)
<b>Production</b>	16,300	16,300	16,300	8,400	8,400	8,400			11,000 (1000 MT)
<b>MY Imports</b>	4	4	4	25	5	25			33 (1000 MT)
<b>TY Imports</b>	4	4	4	25	5	25			33 (1000 MT)
<b>TY Imp. from U.S.</b>	0	0	0	0	0	0			0 (1000 MT)
<b>Total Supply</b>	16,609	16,609	16,609	8,727	8,784	8,727			11,180 (1000 MT)
<b>MY Exports</b>	11,177	10,800	11,177	3,500	3,500	3,500			6,000 (1000 MT)
<b>TY Exports</b>	10,224	10,218	10,224	5,800	3,500	5,800			6,000 (1000 MT)
<b>Feed Consumption</b>	80	80	80	80	80	80			80 (1000 MT)
<b>FSI Consumption</b>	5,050	5,350	5,050	5,000	5,000	5,000			5,100 (1000 MT)
<b>Total Consumption</b>	5,130	5,430	5,130	5,080	5,080	5,080			5,180 (1000 MT)
<b>Ending Stocks</b>	302	379	302	147	204	147			0 (1000 MT)
<b>Total Distribution</b>	16,609	16,609	16,609	8,727	8,784	8,727			11,180 (1000 MT)
<b>Yield</b>	3.	3.	2.8318	2.	2.	2.			2.75 (MT/HA)

Corn Argentina	2007		2008			2009		
	2007/2008		2008/2009			2009/2010		
	Market Year Begin: Mar 2008		Market Year Begin: Mar 2009			Market Year Begin: Mar 2009		
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan		
		Data			Data		Data	
<b>Area Harvested</b>	3,413	3,260	3,413	2,250	2,300	2,250		2,000 (1000 HA)
<b>Beginning Stocks</b>	1,657	1,657	1,657	1,707	557	1,707		507 (1000 MT)
<b>Production</b>	22,000	20,850	22,000	13,500	13,800	13,500		14,000 (1000 MT)
<b>MY Imports</b>	50	50	50	0	0	0		0 (1000 MT)
<b>TY Imports</b>	51	51	51	0	0	0		0 (1000 MT)
<b>TY Imp. from U.S.</b>	2	2	2	0	0	0		0 (1000 MT)
<b>Total Supply</b>	23,707	22,557	23,707	15,207	14,357	15,207		14,507 (1000 MT)
<b>MY Exports</b>	15,000	15,000	15,000	7,000	7,000	8,000		8,000 (1000 MT)
<b>TY Exports</b>	15,644	15,644	15,644	7,000	7,000	8,000		8,000 (1000 MT)
<b>Feed Consumption</b>	5,100	5,100	5,100	4,800	5,100	4,800		4,000 (1000 MT)
<b>FSI Consumption</b>	1,900	1,900	1,900	1,900	1,900	1,900		1,900 (1000 MT)

<b>Total Consumption</b>	7,000	7,000	7,000	6,700	7,000	6,700			5,900	(1000 MT)
<b>Ending Stocks</b>	1,707	557	1,707	1,507	357	507			607	(1000 MT)
<b>Total Distribution</b>	23,707	22,557	23,707	15,207	14,357	15,207			14,507	(1000 MT)
<b>Yield</b>	6.	6.	6.4459	6.	6.	6.			7.	(MT/HA)

Rice, Milled Argentina	2007		2008		2009		
	2007/2008		2008/2009		2009/2010		
	Market Year Begin: Apr 2008		Market Year Begin: Apr 2009		Market Year Begin: Apr 2009		
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan	
		Data		Data		Data	
<b>Area Harvested</b>	184	170	184	200	200		210 (1000 HA)
<b>Beginning Stocks</b>	80	666	80	70	70		115 (1000 MT)
<b>Milled Production</b>	810	765	810	900	900		950 (1000 MT)
<b>Rough Production</b>	1,246	1,177	1,246	1,385	1,385		1,462 (1000 MT)
<b>Milling Rate (.9999)</b>	6,500	6,500	6,500	6,500	6,500		6,500 (1000 MT)
<b>MY Imports</b>	10	10	10	10	10		10 (1000 MT)
<b>TY Imports</b>	9	0	9	10	10		10 (1000 MT)
<b>TY Imp. from U.S.</b>	0	0	0	0	0		0 (1000 MT)
<b>Total Supply</b>	900	1,441	900	980	980		1,075 (1000 MT)
<b>MY Exports</b>	520	450	520	550	550		600 (1000 MT)
<b>TY Exports</b>	450	500	450	500	500		550 (1000 MT)
<b>Total Consumption</b>	310	310	310	315	315		320 (1000 MT)
<b>Ending Stocks</b>	70	681	70	115	115		155 (1000 MT)
<b>Total Distribution</b>	900	1,441	900	980	980		1,075 (1000 MT)
<b>Yield (Rough)</b>	7.	7.	6.7717	7.	6.925		6.9619 (MT/HA)

Sorghum Argentina	2007		2008		2009		
	2007/2008		2008/2009		2009/2010		
	Market Year Begin: Mar 2008		Market Year Begin: Mar 2009		Market Year Begin: Mar 2010		
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan	
		Data		Data		Data	
<b>Area Harvested</b>	805	700	620	825	720	700	720 (1000 HA)
<b>Beginning Stocks</b>	350	228	350	180	128	180	180 (1000 MT)
<b>Production</b>	2,930	3,500	2,930	4,300	3,750	2,300	3,500 (1000 MT)

<b>MY Imports</b>	0	0	0	0	0	0		0	(1000 MT)
<b>TY Imports</b>	0	0	0	0	0	0		0	(1000 MT)
<b>TY Imp. from U.S.</b>	0	0	0	0	0	0		0	(1000 MT)
<b>Total Supply</b>	3,280	3,728	3,280	4,480	3,878	2,480		3,680	(1000 MT)
<b>MY Exports</b>	1,100	1,300	1,100	800	1,400	800		1,200	(1000 MT)
<b>TY Exports</b>	1,172	1,200	1,172	700	1,300	700		1,100	(1000 MT)
<b>Feed Consumption</b>	1,800	2,100	1,800	2,700	2,200	1,300		2,080	(1000 MT)
<b>FSI Consumption</b>	200	200	200	200	200	200		200	(1000 MT)
<b>Total Consumption</b>	2,000	2,300	2,000	2,900	2,400	1,500		2,280	(1000 MT)
<b>Ending Stocks</b>	180	128	180	780	78	180		200	(1000 MT)
<b>Total Distribution</b>	3,280	3,728	3,280	4,480	3,878	2,480		3,680	(1000 MT)
<b>Yield</b>	4.	5.	4.7258	5.		3.2857		4.8611	(MT/HA)