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Recent developments in Argentina's agricultural export policies

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Recent developments in Argentina's agricultural export policies

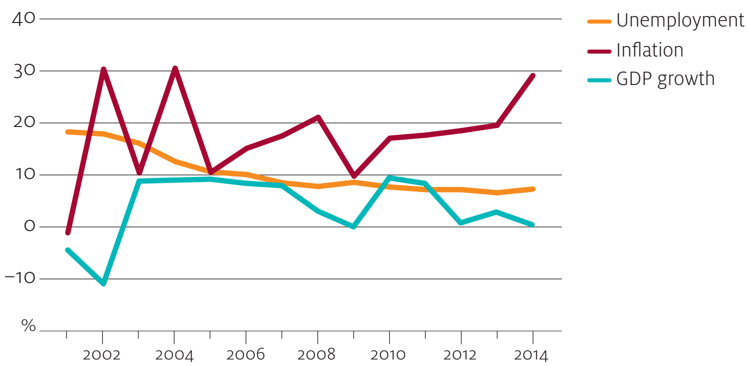
Lex Williamson

Argentina is the second-largest agricultural exporter in Latin America. However, until recently export restrictions and currency controls constrained the growth of Argentine agricultural production and exports. Following the presidential election in late 2015, these restrictions were either removed or reduced. This box discusses the history of Argentina's restrictive trade policies and potential adjustments to its agricultural sector.

Argentina's macroeconomic environment

In 2001 and 2002 Argentina faced a financial crisis triggered by a range of factors, including high foreign debt and currency overvaluation. The economy contracted, with gross domestic product (GDP) falling by 4.4 per cent in 2001 and by 10.9 per cent in 2002. In late 2001, the crisis resulted in Argentina's sovereign default on foreign debt and a significant government budget deficit. To increase revenue, one measure taken by the Argentine Government was to impose export taxes on major agricultural commodities.

Economic indicators, Argentina, 2000 to 2014



Source: World Bank 2015

In 2003 the government embarked on high government spending and interventionist policies. Key institutions were nationalised and export taxes were raised for many agricultural commodities. Increased public spending encouraged higher workforce participation and led to a period of strong economic growth. From 2003 to 2011 (except 2009) annual GDP growth averaged 8 per cent and unemployment fell steadily from its peak of around 18 per cent in 2002 to around 7 per cent in 2011. However, the high public spending fuelled inflation, which rose by an average of around 17 per cent a year over the same period.

Despite relatively high economic growth, the interaction of high inflation with currency controls hindered the Argentine economy. From 2002 the Central Bank of Argentina set the exchange rate of the Argentine peso against the US dollar, resulting in its overvaluation. Overvaluation of the peso lowered the comparative returns of businesses converting currency through the official channels. This and other factors contributed to the stagnation of foreign investment in Argentina.

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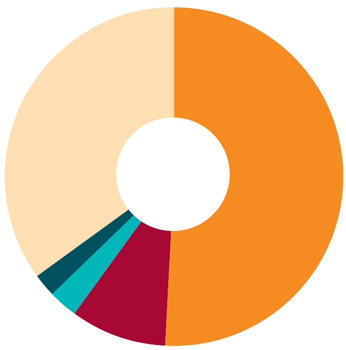
Between 2012 and 2014, GDP growth slowed significantly to an average of 1.4 per cent a year, reflecting the economic costs of high inflation and rising public sector debt coupled with falling foreign reserves.

Argentina's agricultural sector

Agriculture is an important component of the Argentine economy. It accounted for around 10 per cent of Argentina's GDP in 2014, with agricultural exports of US$37.8 billion or 55 per cent of total Argentine exports.

Argentina's major agricultural exports are soybeans and soybean products, corn, beef and wheat. In 2014 Argentina was the world's largest exporter of soybean meal and soybean oil, the third-largest exporter of soybeans and the fourth-largest exporter of corn.

Argentine agricultural exports, 2014



US$37.8 billion

Soybeans and soybean products	**51%**
Corn	**9%**
Beef	**3%**
Wheat	**2%**
Other	**35%**

Source: United Nations Statistics Division 2015

Argentina's largest agricultural export markets in 2014 were mainly in Asia (35 per cent), with China accounting for almost 11 per cent. Other significant markets included the European Union (18 per cent) and other South American countries (20 per cent), particularly Brazil (7 per cent).

In 2014 about 80 per cent of Argentina's soybean exports were destined for China, while India accounted for 41 per cent of soybean oil exports. Soybean meal accounted for 62 per cent of the total value of soybean and soybean product exports in 2014. It is sold to several countries, mostly in Asia and the Middle East.

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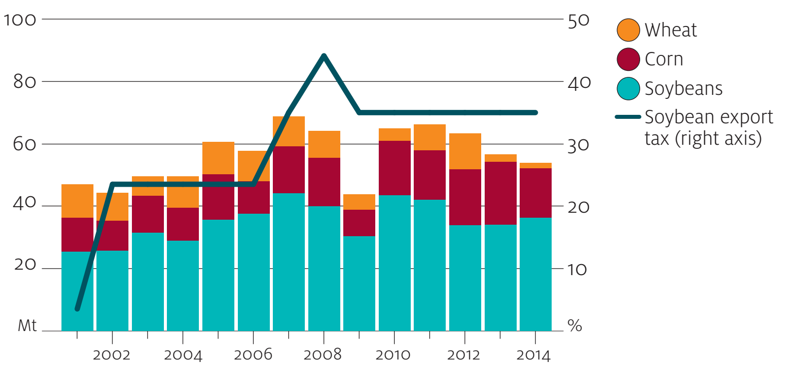
Agricultural export policy

Export taxes on major Argentine agricultural exports were first introduced in 2002 in response to decreased government revenue resulting from the financial crisis. As well as boosting revenue, this policy allowed the Argentine Government to address other domestic concerns such as maintaining low food prices for consumers by constraining exports and increasing domestic supply. Export taxes slowed export growth. However, the real value of grain and oilseed exports (in 2014 US dollars) continued to grow by an average of 25 per cent a year and beef exports by an average of 36 per cent a year between 2002 and 2007.

In 2007 the Argentine Government raised export taxes on major agricultural products. The government increased rates by between 10 and 15 percentage points, with the new rates ranging from 15 per cent for beef to 35 per cent for soybeans. Export growth remained positive in 2007, but another increase to the export tax rates in 2008 contributed to a 6 per cent decrease in the volume of grain and oilseed exports in that year. In 2009 the cropping sector contracted significantly, with total grain and oilseed production falling by 32 per cent and exports by 30 per cent. Beef production was not affected by the change to export taxes because around 90 per cent of production is consumed domestically. But the decline in crop production was significant enough for the Argentine Government to revert export tax rates to those of 2007.

Argentine major grain and oilseed exports and soybean export tax rate, 2001 to 2014



Sources: Richardson 2008; United Nations Statistics Division 2015

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In May 2008 an export permit system known as the Register of Export Operations (ROE) was introduced and coexisted with the export tax system. The ROE functioned as a quantitative restriction on agricultural exports, requiring exporters to obtain government approval before exports could take place. The aim of the ROE was to ensure a sufficient domestic supply of agricultural products and keep domestic prices below world prices. Commodities considered staples in the Argentine diet, including wheat and beef, were subject to more stringent quantitative export restrictions than goods such as soybeans and soybean products.

High export taxes and the increasingly tight restrictions imposed by the ROE resulted in agricultural production stagnating between 2010 and 2014. As a result, the total volume of grain and oilseed exports declined by 17 per cent between 2010 and 2014 and the volume of beef exports fell by 8 per cent, to roughly half of what it had been in 2007.

Presidential elections of 2015

In November 2015 President Macri was elected on a platform of economic liberalisation. His government removed or reduced most export taxes, export permits and currency controls affecting agricultural products. ROE export permits for grains and oilseeds were removed and replaced with a new reporting system of Affidavits of Foreign Sale that requires exporters to report only what they export rather than seeking approval to export. At time of publication, changes had not been made to the export permit requirements for beef.

Unlike other agricultural products, export taxes on soybeans and soybean products are subject to a phased removal, with planned annual reductions of 5 percentage points starting in 2015 and ending in 2021. In 2014 soybeans and soybean products accounted for almost 51 per cent of the value of Argentina's total agricultural exports and 28 per cent of total exports.

Argentine agricultural export taxes

Commodity	Pre-election rate (November 2015)	Post-election rate (January 2016)
	%	%
Soybeans	35	30 **a**
Soybean oil	32	27 **a**
Soybean meal	32	27 **a**
Sunflower seeds	32	0
Peanuts	23.5	0
Wheat	23	0
Corn	20	0
Barley	20	0
Beef	15	0

a To be reduced by 5 percentage points a year until eliminated in 2021.
Source: USDA–FAS 2015a

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In December 2015 the new Argentine Government also introduced a floating exchange rate scheme. This allows both domestic and foreign firms to freely convert pesos to foreign currency. Following this change the peso depreciated by around 25 per cent by 1 January 2016, from 9.8 pesos to US$1 to around 13 pesos to US$1. A lower value of the peso against major world currencies is expected to increase farm sector incomes and improve the competitiveness of Argentine agricultural exports on the world market.

Implications

The removal or reduction of export restrictions and currency controls by the Argentine Government is expected to lead to both short-term and long-term changes to Argentina's agricultural sector. In the short term, exports of grains and oilseeds are expected to increase because large stockpiles of soybeans, corn and wheat are likely to be made available for export. At the end of September 2015 the United States Department of Agriculture (USDA–FAS 2015b) estimated that a total of 36 million tonnes of soybeans, wheat and corn were held by producers in stocks, with the majority being soybeans. This was 44 per cent higher than average closing stock volumes between 2010 and 2014.

The continued use of export taxes on soybeans and related products is likely to discourage a significant increase in soybean production in the short term as corn and wheat become relatively more profitable and the areas planted to those crops increase at a greater rate. However, as the tax rates on soybeans decline in the longer term, Argentine grain production is expected to adjust. Production of major exported crops is expected to rise as farmers respond to the policy changes in future planting seasons.

Beef and livestock exports are also expected to gradually increase over the longer term as producers adjust to the removal of export taxes. However, the extent of any increase will depend on whether and when quantitative export restrictions are lifted. Because beef is an important staple food in Argentina, the government may be less likely to remove the quantitative restrictions quickly to prevent any significant domestic price increase for beef.

Domestic producers are expected to benefit significantly from the more liberal trading environment because they will be able to freely sell their stockpiled grains and any chosen volume of production on the world market for a greater return than previously. Export returns will also be supported by the devaluation of the peso.

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