

Argentina: Poised for a wheat export revival!

Christian Bengtsson¹, Yelto Zimmer²

For decades, Argentina was a major player in global commodities trade - particularly in wheat. However, beginning in 2001, increasing export taxes and restrictive quotas caused a significant downturn in wheat production and exports. Between 2001 and 2007, wheat export levies rose from 10% to 28%. During the same period, wheat area fell by about 38% to below the 5-million-hectare (12.35 million acre) mark. In 2012/2013, plantings plunged to just 3.1 million hectares (7.65 million acres), the lowest in 100 years.

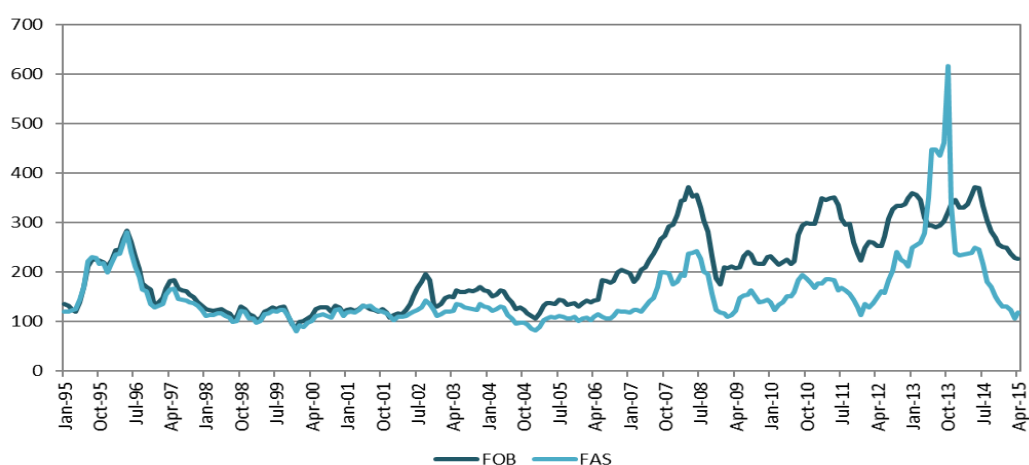
Since the 2015 election, duties on wheat and corn have been abolished while those on soybeans are being reduced gradually. The resulting economics suggest wheat production and exports will rebound – and Argentina is likely to return to the list of top global wheat exporters.

Duties and quotas caused a risk premium

Not only did export taxes depress what exporters could pay for wheat, but uncertainties tied to the quota system drove farm-gate prices even lower. This effect can be illustrated by comparing free-on-board (FOB) prices (i.e. world market prices), which include export duties, with so-called “free alongside ship” (FAS) prices. The latter represent domestic prices plus transport costs to the harbor. The spread between FOB and FAS, without any other influences, should equal the value of the export duty and fobbing costs.

On average, between 2008 and 2015, the spread was 170 USD/t, while the export tax was only about 70 USD/t and the fobbing fees were in the range of 8-10 USD/t. This implied an additional penalty for Argentine wheat producers of about 90 USD/t.

Figure 1: Evolution FOB vs. FAS wheat prices (USD/t)



Source: Ministry of Agribusiness (2016), ed. by Hillock

¹ Manager, Hillock Capital Management, Argentina; contact: cbengtsson@hillockcapital.com

² Managing director, global networks, Coordinator *agri benchmark* Cash Crop, Braunschweig, Germany; contact: yelto.zimmer@agribenchmark.net.

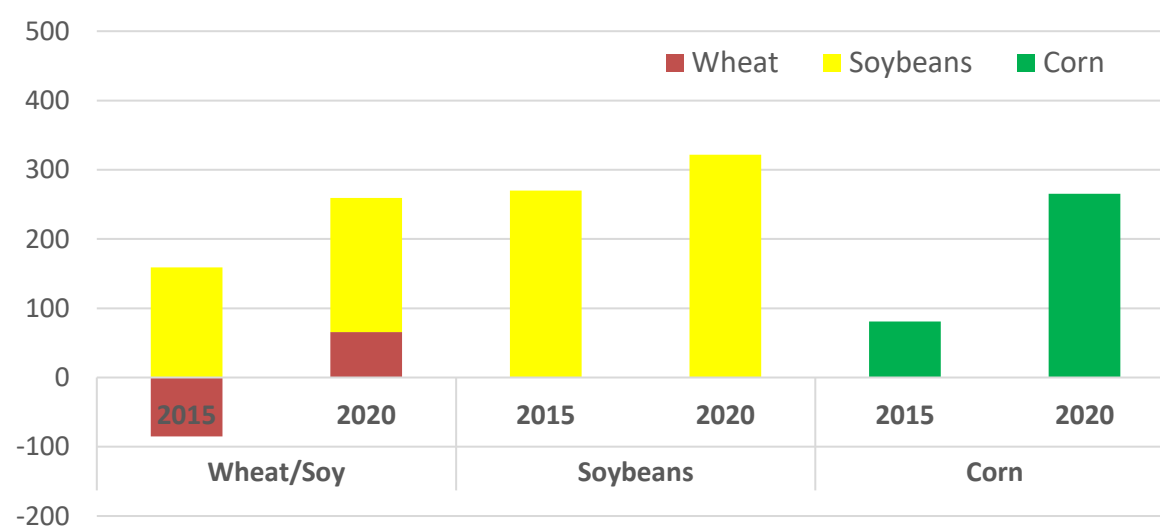
The negative impact on farm-gate wheat prices led to additional economic pressure for Argentine wheat producers both relative to other crops and to other wheat producers in the world. This is particularly true when considering that due to transport costs, farm gate prices are about 30 to 40 USD/t lower than FAS prices. For example, in 2015, FAS prices averaged in the range of 120 USD/t, which implied a farm gate price of about 90 USD/t.

Argentinian wheat industry revival ahead

To assess the impact from this significant improvement in economic framework conditions, a scenario calculation was conducted for a typical *agri benchmark* farm in South Buenos Aires (SBA), one of the key wheat production regions. Using current FOB prices, current input levels and 10-year average yields for the typical farm, and the soybean export tax reduced to 30%, the baseline scenario calculation for 2020 yields the following findings in comparison with 2015 (see [Figure 2](#)):

- (1) Gross margins rise dramatically for all three crop options considered – wheat-soybean double-cropping, main-crop soybeans and corn.
- (2) The increase is most pronounced for the wheat-soybean option – from margins of slightly more than 50 USD to about 260 USD/ha. Mind the fact that wheat margins alone were negative in 2015.
- (3) The soybean-wheat option is projected to generate consistently higher margins than corn and very close to those of full-season soybeans.

Figure 2: Gross margins typical farm South Buenos Aires (2015 vs. 2020; baseline scenario)



Source: agri benchmark 2017

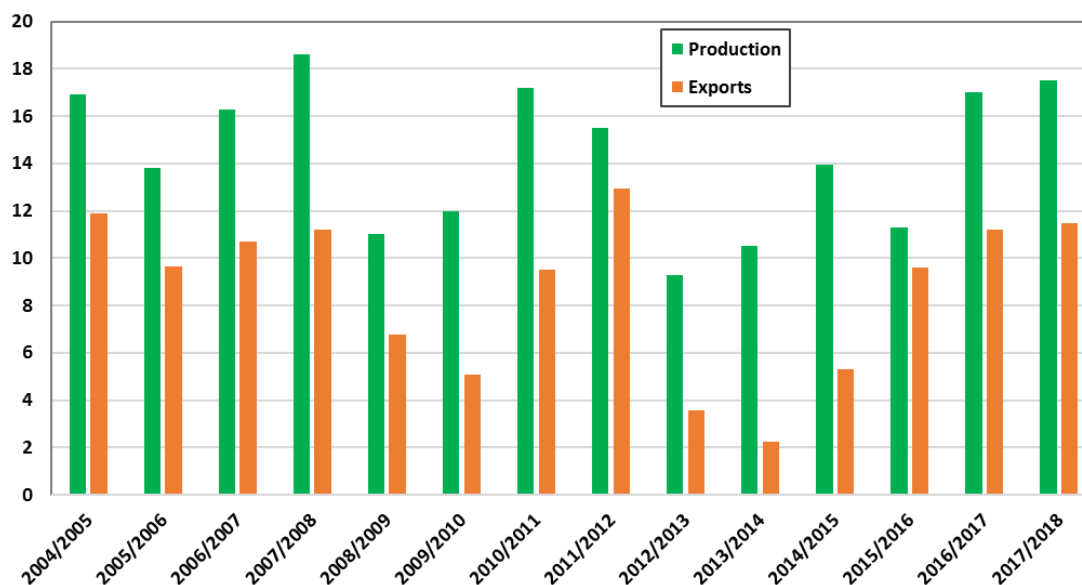
A second optimistic scenario assumes the same FOB price levels with a progressive reduction of soybean export taxes that converge to 18% towards 2020, as recently announced by the

government³. In this scenario, a 20% increase in fertilization and yields is applied in order to reflect improved market returns and liquidity. This will lead to an additional increase in gross margins of about 120 USD/ha for first-crop soybeans and 140 USD/ha for the wheat-soy combination.

Impact on wheat exports

Already in 2016/17 wheat production grew by about 3 million ton (+20%) compared to 2014/15 while exports went up to more than 11 million t (+100%). For 2017/18 USDA projections are almost flat. We assume until 2020 another increase by 5 million ton in production is likely. Because domestic demand is almost stable, the bulk of this boost could make its way into exports. Therefore, exports in the 14-16 million ton range are quite possible. This would return Argentina to the list of top global wheat exporters, right next to No. 5 Australia.

Figure 3: Evolution of Argentinian wheat production and exports (million t)



Source: FAS-USDA (2017)

A comprehensive paper on the perspectives of Argentinian wheat production has been published by the authors and can be found here:

www.agribenchmark.org/fileadmin/Dateiablage/B-Cash-Crop/Working-Paper/WPWheatAR-YZ-170615.pdf

³ Initially, the government was eager to more quickly reduce export taxes on soybeans. The fact that the government stepped back from the initial goals indicates how important export tax revenues are.