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Report Name: Fresh Deciduous Fruit Semi-annual

Country: Argentina

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Report Highlights:

For Marketing Year (MY) 2021/22, Post forecasts that fresh deciduous fruit production is estimated to decrease by 7 percent, due to unexpected frost that affected the crops at beginning of October 2021. Some producers had active frost defenses in place and were less affected, while others experienced serious crop losses. Ongoing economic and financial difficulties continue to undermine Argentine fruit exporters' competitiveness in international markets. One of the main concerns among producers is the high international freight cost, as it has doubled due to lower container availability internationally, as a consequence of COVID-19 and major ports lock downs across the globe in the past year. The war between Russia and Ukraine also presented a challenge at the beginning of 2022, since 20 percent of pear production is exported to Russia. Argentine producers were able to resolve this inconvenience by routing their production to new destinations, such as Turkey and Estonia.

Executive summary

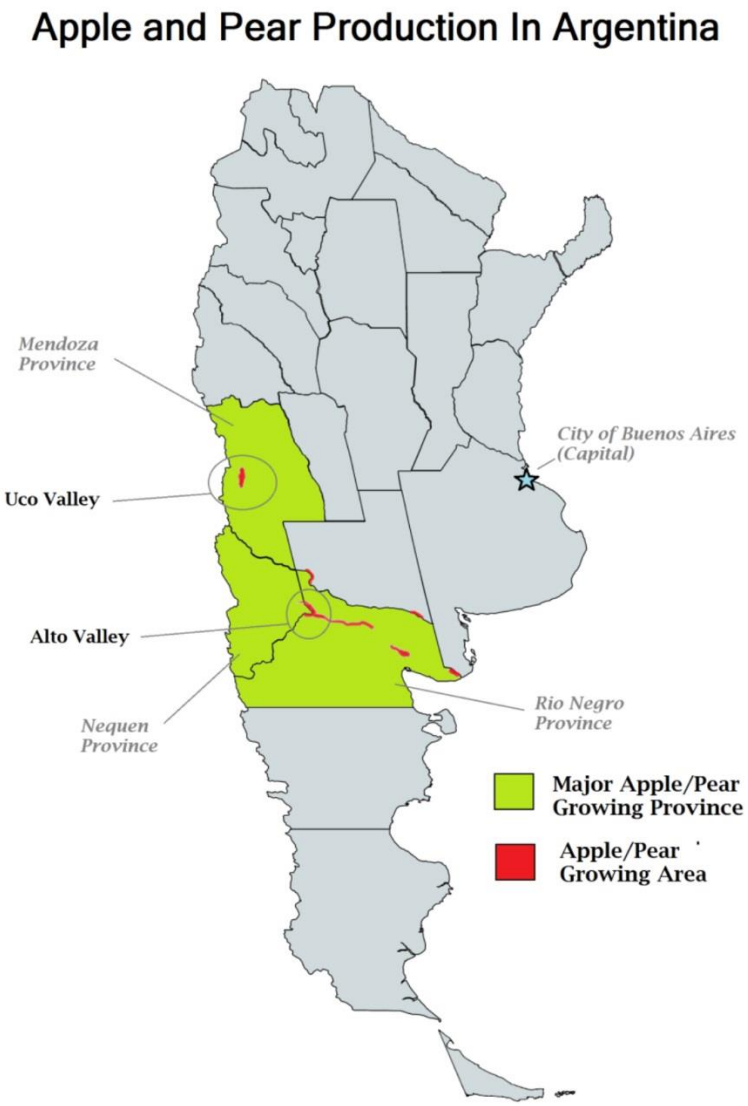
MY 2021/22 fresh apple production is forecast to decrease by 2 percent, and it is estimated at 548,800 MT, compared to the previous marketing year. Fresh pear production is projected to decrease as well by 5 percent, estimated at 584,250 MT.

The weather was favorable for fruit blossom until early October when there was a frost which affected Neuquén and Rio Negro provinces, the main apple and pear producing areas in Argentina.

Over a decade of rising production costs and low profits has eroded the financial sustainability of fresh deciduous fruit producers despite currency devaluations that improved the competitiveness of Argentine exports in international markets. The departure of some key international fruit companies increased sector consolidation. The remaining operations are focusing on overcoming challenges through greater cost sharing and attracting needed investment. Some local operations have utilized technology to access new varieties demanded by export markets in order to bolster revenue. Lack of competitiveness in export markets is still one of the major obstacles affecting Argentine exporters, compared to southern hemisphere competitors.

For MY 2021/22, exports are forecast at 93,100 MT for apples, and at 332,500 MT for pears due to smaller production.

Domestic consumption for apples and pears in MY 2021/22 is forecast to remain stable at 456,900 MT for apples and 251,750 MT for pears.



Production

Apple and pear production is concentrated (85 percent) in Patagonia's Alto Valley in Rio Negro Province with some production also in Neuquén (12 percent) Province. The remaining 3 percent is located in the Uco Valley in Mendoza Province. Producer numbers have fallen from approximately 9,000 in 2005 to 1,646 today, and the sector has 268 packing plants and 205 cold storage facilities (Source: SENASA). In addition, it has about 50,000 direct-hire employees. The recent consolidation that Argentina's apple and pear sector underwent appears to be coming to an end. However, public and private investment is needed to fund technological developments, such as increased mechanization, adoption of new varieties, and to support regional efficiency through improved logistics and communication.

Limited access to capital for reinvestment in orchard health and efficiency practices further limits potential productivity gains. A variety renewal according to market demands, particularly in apple production, is long overdue. Improving efficiency to lower production costs is key to match Argentina's competitors in the international market. Production issues continue to threaten the long-term viability of the industry. Many factors, including the devaluation of the Argentine peso, rising input costs for labor and energy, and the soaring price of reefer containers due to the worldwide shortage of containers, provide significant challenges to producer profitability.

The production cost for a kilogram of apples or pears was estimated at $0.26/ fruit by the "Fruit Contractualization Table" (Mesa de Contractualizacion Fruticola) with 60 percent of the cost attributable to labor (40 percent packing and 20 percent production) and 40 percent to capital, inputs and service costs (energy, fertilizers, transportation, packaging, customs fees, phytosanitary and quality certifications, etc.)

For the past few months, destination ports have been affected by strict lock downs, especially in China, as a consequence of COVID-19 recent outbreaks, causing a lower container availability internationally, which translates into higher freight prices. Global inflation, as well as high fuel prices, also increase transportation costs around the globe.

Apples

For MY 2021/22, fresh apple production is forecast at similar levels compared to the previous marketing year, and it is estimated at 548,800 MT, down by only two percent.

Until the beginning of October 2021, weather conditions were favorable and fruit blossom was very good, but during the first week of October there was a long frost which affected the main apple and pear growing region decreasing initial production estimates. Post's forecast of fresh apple production for MY 2020/21 is expected to remain unchanged at 560,000 MT, following official USDA estimates. Despite favorable weather conditions, production is expected to be lower in MY 2021/22 due to the normal lighter production season of the plants lifecycle, which follows last season's heavy blossom. For MY 2019/20, Post´s estimate for apple production remains unchanged at 600,000 MT, from USDA official estimates.
The main apple varieties planted in MY 2019/2020 were Red Delicious (64.9 percent), Granny Smith (12.6 percent), Gala (12.2 percent), and Cripps Pink (5.3 percent) (Source: SENASA).

Pears

Fresh pear production for MY 2021/22 is forecast at 584,250 MT, down by 5 percent from MY 2020/21, due to unfavorable weather conditions. As with apples, weather conditions were very good until a frost in early October affected the main apple and pear growing region, which decreased preliminary production forecasts. For MY 2020/21, Post estimates pear production at 615,000 MT, down 5,000 MT from official estimates, following revisions from the private sector. Overall, production remained at relatively high levels due to good weather conditions and the natural lifecycle of plants. For MY 2019/20, pear production remained unchanged at 640,000 MT from official USDA estimates.

The main pear varieties planted in MY 2019/20 were William's (40.3 percent), Packham's Triumph (29.2 percent), Beurre D'Anjou (14.7 percent), Abate Fetel (4.8 percent), Red Bartlett (4.7 percent), and Beurre Bosc (2.4 percent) (Source: SENASA).

Organic Production

In MY 2020/21, 5,000 of the 35,700 hectares planted to apples and pears in the Provinces of Rio Negro and Neuquén were certified organic. Producers believe that organic production area will remain stable for the next couple of years.

The international demand for organic fruit products continued to grow pulled by the effects of the pandemic where consumers looked to healthier food options. Higher production costs for organic fruits are primarily due to manual pruning, biological weed control and certification fees.

Planted Area

For MY 2021/22, planted area is expected to remain unchanged for both apples and pears as the reconversion process of abandoned orchards into more profitable crops or urban real estate developments seem to have come to an end, as confirmed by Post's field travel and private sources.

It is estimated that for MY 2020/21 planted area for apples will increase 1,000 hectares, and planted area for pears will decrease 1,000 hectares, following the latest official estimates published in "SENASA Anuario Estadístico 2020 – Centro Regional Patagonia Norte".

In recent years, smaller producers have abandoned or repurposed over 40 percent of orchards due to the lack of financial resources to make investments to keep their orchards in good condition. Moreover, rising production costs prevent the introduction of technological innovations to improve yields and develop new varieties in demand by export markets. For example, in Rio Negro and Neuquén Provinces, agricultural land is turning to more profitable crops such as forage seeds (alfalfa and sorghum) and corn, in line with the growth of the cattle sector. In addition, farmland is being repurposed into urban development uses, and the oil and gas industry has also leased land formerly in fruit production for exploration and extraction purposes. Producers in Mendoza province have been transforming orchards into higher-returning vineyards.

For MY 2020/21, planted area for both deciduous fruit remained unchanged at 19,000 hectares for apples and 19,000 hectares for pears.

Consumption

MY 2021/22 fresh apple domestic consumption is forecast to go down slightly to 456,900 MT from MY 2020/21 USDA estimates, following the production decrease.

For MY 2021/22, fresh pear consumption is expected to decrease to 251,750 MT, down by around 5 percent from MY 2020/21 official estimates, due to smaller production. In MY 2020/21, pear

consumption is expected to decrease to 265,400 MT, down by 11.5 percent from USDA estimates, due to a production decrease and larger exports.

Organic Consumption

In recent years, the popularity of fresh organic products has shown an upward trend especially in more affluent areas within the City of Buenos Aires, and other major cities in the interior of Argentina. However, it remains at low levels due to the higher prices charged for organic products, and the need for addition educational and promotional campaigns to highlight the benefits and virtues of these types of products.

It is estimated that, currently, 2.8 percent of organic certified products are devoted for the domestic market. Of that percentage, 47 percent account for zootechnical meal, plum preserves, wheat flour, dehydrated plums, wine, and sugarcane. (Source: SENASA)

Fresh organic produce is sold in high-end supermarkets and health food stores targeting upscale consumers. In addition, food manufacturers are increasing the volume of organic fruit in their processed products, such as cereal bars and organic juices.

Trade

Exports

MY 2021/22, fresh apple exports are estimated at 93,100 MT, due to smaller production. For MY 2020/21, Post's estimate for apples exports is revised down from 100,000 MT to 95,000 MT from official estimates as a result of larger domestic consumption.

Fresh pear exports in MY 2021/22 are forecast to decrease by 5 percent from the previous marketing year, and are estimated at 332,500 MT, as a result of smaller production. For MY 2020/21, pear exports are revised up 30,000 MT and estimated at 350,000 MT, in line with a consumption decrease.

Exports for both fresh deciduous fruits are projected lower than historical levels as exporters continue to be affected by a lack of competitiveness in international markets, compared to southern hemisphere competitors, due to domestic economic and financial conditions. These factors include relatively steep production costs, high inflation rates, a weakened Argentine peso (raising the cost of imported inputs), and difficulty securing financing even at high interest rates.

In MY 2019/20, fresh apple and pear exports remained stable at 109,400 MT and 340,000 MT, respectively, in line with USDA estimates. There is a gradual trend towards shifting fresh deciduous fruit exports to markets which do not demand high-quality fruits, such as Russia, Paraguay, Bolivia, Peru, Colombia, and Ecuador, and whose proximity has made Argentina´s fruit more competitive. Export volumes to those destinations increased significantly in MY 2020/21.

Generally, during the first part of the marketing year Argentine apple and pear exports are destined to overseas markets in the northern hemisphere (mainly Russia, the EU, and the U.S.) while in the latter part of the year, exports are oriented toward Mercosur countries (mainly Brazil) and other Latin American markets. The United States is a relatively stable market for Argentine apples and pears, especially for organic fruits. Brazil has traditionally been the largest market for Argentine fresh deciduous fruit, primarily for pears. During January-September 2021, Brazil accounted for 21 percent and 29 percent of apple and pear exports, respectively, sourced from Argentina. The second largest market for Argentine fresh pears was Russia accounting for roughly 70,000 MT of total exports (24 percent share), which has historically paid relatively lower prices for second-quality fruit. This presented a challenge during the begging of 2022, since exports to Russia were cancelled due to the war with Ukraine. The U.S. became the third largest market of Argentine pears with a 15 percent share. During the first nine months of 2021, Paraguay became the largest second market for Argentine fresh apples accounting for 17 percent share of total exports (7 percent lower compared to the first nine months of 2020), followed by Bolivia with 14 percent; the EU, 12 percent; Russia, 11 percent; and the U.S., 7 percent. The EU continues to be a significant market for Argentina´s fresh deciduous fruit, especially for pears.

In addition to favorable pricing, Argentine exporters believe that Argentine apples and pears have a strong reputation for food safety and quality among European consumers. The Chinese market was opened in MY 2013/14. Although shipments have not been significant due to stringent import requirements, Argentine fresh pear exports to China increased by 150 percent during January-September 2021 vis-à-vis January- September 2020, from 510 MT to 1,292 MT. Despite gaining access to the Indian market in MY 2015/16, exports of apples and pears remain negligible due to high import tariffs.

Imports

Argentina is a significant producer and exporter of fresh apples and pears and, as such, imports of these fruits are negligible. For MY 2021/22, fresh apple imports are projected at 1,200 MT, and fresh pear imports are estimated at 300 MT.

Policy

The provincial governments of Rio Negro and Neuquén provinces have traditionally provided financial support to apple and pear producers during natural disasters and have subsidized insurance and employment costs, the purchase of agricultural machinery, hail protection nets and irrigation equipment, and other operational expenses. During the past few years, the Government of Argentina (GOA) provided funds to the provinces of Rio Negro and Neuquén for various programs related to plant health issues for a total amount of US$12.5 million. The GOA has also supported the fruit sector under the Agricultural Emergency Law by providing, among other benefits, tax deferrals to struggling producers.

Import and Export Regulations

On December 31, 2020, the GOA published Decree No. 1060/2020 (https://www.argentina.gob.ar/normativa/nacional/decreto-1060-2020-345886) in the Official Bulletin modifying or eliminating export taxes for 4,593 HTS codes related to industrial and agricultural products, including fresh apples and pears. The measure was welcomed by the fruit sector as they

consider export taxes a trade-distorting measure. However, they anticipated that this measure would not bring immediate improvements to their activity but long-term incentives for new investments.

Below is a table including current tariffs, taxes, and rebates for apples and pears:

Tariffs, Taxes, and Rebates for Argentine Fresh Apples (0808.10) & Pears (0808.30)	
Import Tariff (%) (outside Mercosur)	10.00
Import Tariff (%) (inside Mercosur)	0.00
Statistical Tax (%) Applies to Imports	3.00
Value-added Tax (%)	10.5
Export tax (%)	0.00
Export Rebate (%) Bulk (apples) (*)	3.75
Export Rebate (%) Bulk (pears) (*)	3.50
Additional Export Rebate for Organic Fruit (%) (apples & pears) (*)	0.50
Export Rebate (%) Cases containing between 2.5 Kg. and 20 Kg. (*)	4.75
Cases containing 2.5 Kg. or less (*)	5.25

Source: FAS Buenos Aires based on data from Tarifar
(*) All export rebates apply equally within and outside Mercosur

Marketing

Free On Board (FOB) Prices

During January-September 2021, average FOB export prices increased by 7 percent for fresh apples and decreased by 2.5 percent for fresh pears, compared to the first nine months of 2020. Overall, fruit prices were relatively good due to smaller fruit supply in the northern hemisphere countries, except the U.S. In recent years, there has been a downward trend in prices due to an increase of fruit volumes oriented to non-traditional export markets, such as some Latin American countries, which do not demand higher-quality fruits, thus pay lower prices.
The tables on the following pages show export and retail prices for Argentine deciduous fruit:

Fresh Apples - FOB Prices (USD/MT)			
Month	**2019**	**2020**	**Jan-Sep 2021**
Jan	646	567	633
Feb	643	624	538
Mar	754	679	605
Apr	822	783	755
May	860	750	888
Jun	836	675	799
Jul	798	632	744
Aug	737	633	658
Sep	622	564	699
Oct	559	510	n/a
Nov	579	551	n/a
Dec	578	537	n/a
Average	703	625	n/a

Source: FAS Buenos Aires, based on Trade Data Monitor, LLC
Note: Exchange rate: Argentine Pesos 104.75/US$1

Fresh Pears - FOB Prices (USD/MT)			
Month	**2019**	**2020**	**Jan-Sep 2021**
Jan	800	829	696
Feb	798	783	686
Mar	788	817	694
Apr	769	779	694
May	780	717	760
Jun	768	671	769
Jul	815	664	753
Aug	766	660	686
Sep	702	671	696
Oct	711	713	n/a
Nov	818	698	n/a
Dec	841	746	n/a
Average	**780**	**729**	**n/a**

Source: FAS Buenos Aires, based on Trade Data Monitor, LLC
Note: Exchange rate: Argentine Pesos 104.75/US$1

Fresh Apple and Pear Retail Prices (USD/kg)		
	Variety	**Price (US$/kg)**
Pears	Packham's Triumph (Premium)	1.33
	Packham's Triumph (Standard)	1.13
Apples	Red Delicious (Standard)	1.47
	Red Delicious (Premium)	2.66
	Granny Smith (Premium)	2.58
	Cripps Pink	1.66
	Rome	1.34

Source: FAS Buenos Aires, based on data from local Supermarkets and grocery stores.

Production, Supply and Distribution (PS&D) Tables

Apples, Fresh	2019/2020		2020/2021		2021/2022	
Market Year Begins	Jan 2020		Jan 2021		Jan 2022	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (HA)	18800	18800	19000	19000	19000	19000
Area Harvested (HA)	11800	11800	15000	15000	15000	15000
Bearing Trees (1000 TREES)	14500	14500	14700	14700	14700	14700
Non-Bearing Trees (1000 TREES)	2370	2370	2400	2400	2400	2400
Total Trees (1000 TREES)	16870	16870	17100	17100	17100	17100
Commercial Production (MT)	600000	600000	560000	555000	570000	548800
Non-Comm. Production (MT)	0	0	0	0	0	0
Production (MT)	600000	600000	560000	555000	570000	548800
Imports (MT)	1300	1300	1500	1500	1000	1200
Total Supply (MT)	601300	601300	561500	556500	571000	550000
Domestic Consumption (MT)	491900	491900	466500	462500	471000	456900
Exports (MT)	109400	109400	95000	94000	100000	93100
Withdrawal From Market (MT)	0	0	0	0	0	0
Total Distribution (MT)	601300	601300	561500	556500	571000	550000
(HA) ,(1000 TREES) ,(MT)						

Pears, Fresh	2019/2020		2020/2021		2021/2022	
Market Year Begins	Jan 2020		Jan 2021		Jan 2022	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (HA)	21000	21000	19000	19000	19000	19000
Area Harvested (HA)	15500	15500	16000	16000	16000	16000
Bearing Trees (1000 TREES)	13800	13800	12500	12500	12500	12500
Non-Bearing Trees (1000 TREES)	2480	2480	2300	2300	2300	2300
Total Trees (1000 TREES)	16280	16280	14800	14800	14800	14800
Commercial Production (MT)	640000	640000	615000	612000	590000	584250
Non-Comm. Production (MT)	0	0	0	0	0	0
Production (MT)	640000	640000	615000	615000	590000	584250
Imports (MT)	200	200	400	400	300	300
Total Supply (MT)	640200	640200	615400	612400	590300	584550
Domestic Consumption (MT)	300200	300200	265400	262400	280300	251750
Exports (MT)	340000	340000	350000	350000	310000	332800
Withdrawal From Market (MT)	0	0	0	0	0	0
Total Distribution (MT)	640200	640200	615400	612400	590300	584550
(HA) ,(1000 TREES) ,(MT)						

Attachments:

No Attachments