

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Crop 2012/13

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Report Highlights:

Wheat production for 2012/13 is projected to drop to 12 million tons as a result of a lower planted area. Most of the lost area will be planted with barley, which is forecast to increase by 50 percent. Corn planted area is also projected to drop, but yields are expected to recover after a severe drought which affected the 2011/12 crop. Therefore, total production is forecast to reach at 23.6 million metric tons. Most of the loss corn acreage will be planted with soybeans. Sorghum production is expected to increase to 4.8 million tons. Rice production is forecast to drop marginally if prices do not recover in the next few months. Exports for 2012/13 are expected to drop for wheat and increase for corn, sorghum and barley.

Commodities:

Wheat

Corn

Sorghum

Rice, Milled

Production:

Wheat: Argentine production for crop 2012/13 is forecast at 12 million metric tons. Planted area is forecast down to 4 million hectares, the same acreage as in 2009/10 and the lowest since crop 1977/78. Several analysts project an even greater drop, but many producers do not have many alternatives and others need to plant wheat as a cash crop to help finance the soy and corn crops. Producers are disorientated and discouraged as the government is expected to continue to control the local wheat market in order to keep the domestic market well supplied. The government will reserve 7 million tons for the local market and the balance will be allowed to be exported without tranches. Producers claim that this system is making difficult the commercialization of the crop (many still have wheat from past seasons), and prices suffer a significant discount due to the lack of competition between local flour mills and exporters. Most area losses will be in the rich corn belt, where producers will prefer to plant first soybean crop instead of double cropping with wheat. In the center and southern Buenos Aires province the area is projected to fall marginally as there are fewer production alternatives. A large amount of the area lost to wheat will be primarily planted with barley. Other minor alternatives that are expected to increase are canola, peas and chickpeas.

Barley: Production in 2012/13 is forecast at 5.4 million tons. Producers are finding barley a very good alternative to wheat as the government does not intervene in barley marketing. Planted area is expected at 1.5 million hectares, a 50 percent increase, and the highest of the past 50 years. Producers had two consecutive very good barley crops, with higher prices than wheat and with no restrictions to sell. With expected prices and average yields, returns are likely to be higher than wheat. Various factors, including a firm world demand for barley, a new market like China which began to buy in Argentina in 2011, and several big traders now operating in the market and receiving product in different ports are encouraging farmers to expand acreage. Until recently, the barley market was primarily for malt and roughly 85 percent was done under contract growing. This is rapidly changing, as in crop 2011/12 Argentina planted a little more than 1 million hectares of which 50 percent were without contracts. Since last February producers can make forward contracts on the local grain market. Barley gives producers a big advantage as they can plant a second crop (mostly soybeans) two weeks earlier than if its antecessor were wheat. The areas which are expected to grow are in the core production area of south Santa Fe and north of Buenos Aires. There are some doubts about the availability of seed for such a large area expansion, but contacts indicate that farmers kept sufficient seed from the past crop.

Corn: Argentine production for 2012/13 is projected at 23.6 million metric tons and 3.5 million hectares. Despite a significant drop in area, final production is forecast to be higher than crop 2011/12, which was badly affected by a drought during the critical flowering stage. Although it is still too early, the current wet autumn and forecasts of El Nino for the end of the year, which in this area means rainfall above average, could result in good yields. Harvested area for the current crop (2011/12) which is now beginning to be harvested is at 3.6 million hectares, but with many fields which were lost or finally chopped for animal feed. The Argentine Ministry of Agriculture estimates for this same crop a planted area for commercial grain at roughly 4 million hectares. Corn was the crop which was most affected by the drought. Increasing production and freight costs, lower returns, limited and costly credit, higher cost of production vis-à-vis soybeans, a bad result in the past crop, and government controls on the corn market are expected to discourage plantings. The decrease will likely be strong on leased land, while farmers producing on their own land will probably maintain relatively stable their planted area, primarily for rotation purposes. Practically all corn area which will diminish will switch to soybeans. The harvest of corn (crop 2011/12) just started in mid-March and there is quite a lot of uncertainty on the total area to be harvested and its output as expected yields will be very variable. Most analysts estimate production between 20-22 million tons. Post remains at 21.8 million tons, practically the same as USDA's number. Late planted corn (mid November-December), which has recently grown in popularity thanks to the new GMO hybrids, is in very good condition, with expected high yields. There are also strong discrepancies on the percentage of total planted area of late corn, which post believes it is close to 25 percent of total corn area.

Sorghum: Production for 2012/13 is forecast at 4.8 million metric tons. Farmers are showing greater interest in sorghum, shown by the slow, but constant growth in planted area in recent years. There are some new technologies involved; it is planted in more marginal areas, it is a very good crop to rotate with other crops such as soybeans, production costs are significantly lower than corn, and the government does not intervene in its commercialization. There is also a growing interest in the export market.

Rice: Production for 2012/13 is projected to drop marginally at 940,000 metric tons (milled basis), the lowest of the past three years. Acreage is expected to continue to slowly diminish because farmgate prices have stayed practically unchanged in the past 3-4 years while production costs have increased significantly. If prices continue to remain flat, planted area is expected to drop in Entre Rios province, especially in farms where water pumps run on diesel making negative returns. The lost land is expected to be covered by soybeans. In Corrientes, the other major rice producing province, where most production is large scale and utilize ponds to feed water to fields, planted area could grow marginally as returns are higher (due to lower costs) and there are some new investments in infrastructure which is expected to add some more acreage into production.

Consumption:

Wheat: Domestic consumption for 2012/13 is projected to increase slightly to 5.875 million tons. The local wheat flour market is a mature market, with just a marginal increase primarily due to the increase in population. The use of wheat for the flour milling industry reflects also the production of wheat flour for

exports, which in CY2011 grew somewhat. Flour mills continue to be well supplied as the government policy reserves annually 7 million tons for their needs.

Corn: Local consumption is expected to increase further at roughly 8.6 million tons in 2012/13. We expect an increase in demand from practically all the livestock sector and the new grain bioethanol industry.

Consumption in 2011/12 is also expected to expand, especially in a dry year where many planned forage reserves were not done due to the drought. There is a great discrepancy about the level of local corn consumption, as the market involves many different industries and sectors which can utilize corn in different ways. However, there is a general consensus that it is approximately 8 million tons (not counting bioethanol).

Bioethanol from grains (current ethanol production is exclusively based on sugarcane and molasses) is a new sector coming on very strongly with two plants under construction, two ready to begin construction, and several other projects which will begin production after 2014. The two plants under construction are expected to begin production in late 2012 and be at full capacity in 2013. The other projects, of large capacity, would begin production in mid 2013. The owners of these four plants include a large local processor, a foreign grain trader and processor, a group of farmers and a large local cooperative. Early estimations set corn (and at a smaller extent sorghum) consumption for crop 2011/12 at 100,000 tons and 600,000 tons for 2012/13. From then onwards, we should see increased corn demand as more capacity is built-in. The interest in bioethanol is currently very big as the country is expected to need to import more oil and energy in the future; ethanol plants can source corn locally at a discount (due to the 20 percent export tax) and benefit from a profitable price scheme under the official biofuels mandate which sets gasoline to be mixed with 5 percent ethanol.

Sorghum: Domestic consumption for 2012/13 is forecast at 2.4 million tons, slightly higher than in the past few years. Consumption from the livestock sector is expected to continue to grow as well as the use from other industries which incorporate low tannin sorghum in their formulas. The new grain bioethanol industry will try to source as much sorghum as they can to process. Sorghum has a more fluid marketing as the government does not intervene as in the corn or wheat markets.

Rice: Consumption is expected to remain at 360,000 tons (milled basis). This is a mature market, but the fact that growing communities of Peruvians and Bolivians, which consume almost four times more rice than Argentines, is pushing up demand somewhat.

Trade:

Wheat: Exports for 2012/13 are projected at 6.2 million tons, the second lowest level of the past 15 years. This is the result of an expected small production. Consumption and stocks are forecast to remain at relatively similar levels. The government has recently implemented a system, to improve the one in place, that basically subtracts from the estimated production 7 million tons to secure the supply of the domestic market (this volume includes wheat for flour exports). The balance can then be exported entirely without the government announcing tranches throughout the year. The government expects with this system to improve the price paid to farmers, but many doubt this will be the case this year. Even though Argentina's wheat presence in Brazil has fallen significantly in the past few years, it is still by far the main destination for both wheat and wheat flour

with approximately 60 percent of total exports. Other markets for wheat are countries in Southern and Northern Africa and South America. Some exports of flour are also expected to go to neighboring Bolivia.

Barley: Export surpluses in 2012/13 are forecast to be about 4 million metric tons. Large international grain traders are now very active in this market. Malt barley is expected to be exported to Brazil, China and several other South American countries, while feed barley is likely to be exported primarily to Middle East countries.

Corn: Exports for crop 2012/13 are forecast at 15 million tons, quite in line with the volume of the past two years. Despite a larger domestic consumption, primarily due to the newly bioethanol industry, increased production will result in a significant volume surplus. The government is expected to continue administering the market to guarantee an adequate domestic supply, implementing in crop 2011/12 a similar system to the one in place for wheat. It will reserve 8 million tons of corn for the domestic market and open the balance for exports, leaving a stock of about 1 million tons. The final export volumes will be announced next April or May. The main destinations for Argentine corn are expected to be Colombia, Peru and Chile (in the form of broken corn), Middle East and Asian countries. Argentina and China recently agreed sanitary certificates to export local corn. The agreement does not include agreement on GMO events. Technically Argentina can already ship, but local traders so far prefer not to run the risk of having vessels stopped in Chinese ports due to the unresolved GMO issue. They indicate that they have a long list of destinations willing to buy Argentine corn.

Sorghum: Exports in 2012/13 are forecast at 2.4 million tons, as a result of projected larger production. The demand of sorghum for export in the domestic market is firm, as it does not have the complications that the corn market has. Chile is expected to continue as the major destination together with other regional countries. Japan usually purchases significant volumes.

Rice: Projected lower production for 2012/13 will result in lower exports. However, 580,000 tons is still considered high for Argentina's historic average. Brazil is expected to continue to be the major destination. Local contacts indicate that Brazil will have a smaller rice production but will try to maintain the markets it has gained, so there is a strong possibility that it will buy product in Argentina and Uruguay. Other significant markets for Argentine rice are expected to be Venezuela, through bilateral contracts, Iraq, and Chile.

Policy:

Subsidies to agricultural processors (dairy, poultry, feedlots, flour) began in January 2007 with the goal of decoupling high world commodity prices from domestic consumer prices. In order to fund such policy, the government increased soybean export taxes by 4 percentage points. During the period 2007 and 2011 the government paid over \$3 billion to these sectors, of which more than half went to the poultry and flour mill industries. In early 2012 the government eliminated subsidies to the poultry and flour mill sectors as part of a broad policy of reducing overall subsidies in an attempt to cut federal spending. Subsidies to the dairy and feedlot sectors had already been discontinued.

In order to be eligible to export, the government sets export quotas and then issues export licenses (ROE) on the basis of a supply and demand matrix, determining the amount of corn and wheat needed domestically and releasing the balance for export. Until early 2012, the government announced export tranches for both commodities at any time, putting a lot of uncertainty in the market. Based on a proposal from a local large cooperative, the government now gathers production information from producers and elevators subtracts the need for the domestic market and opens the balance for export at one time. With this scheme, the government hopes to have producers receive prices without strong discounts as they currently do.

Export taxes are 23 percent on wheat; 20 percent on corn, sorghum and barley; and 5-10 percent on rice.

The local farm sector continues to have major differences with the government over agricultural policies. They continue to request the elimination of export taxes and the quotas scheme on wheat and corn. The chances that this happens are very slim, as export taxes are one of the government's main sources of income.