

Market Profile for Agritech in Argentina

1.0 MARKET STRUCTURE¹

Argentina is one of the world's main agricultural and livestock producers, and export agricultural commodities account for about two thirds of the country's total export earnings. Moreover, Argentine beef and dairy livestock is basically grass-fed, under similar conditions as New Zealand. Argentina has over 50 million cattle, 2.2 million of which are dairy breeds with just over 20 million beef breeds. There are good opportunities for New Zealand agro-technological exports in the long-term, mainly in pasture-based beef and dairy farming.

Argentina's membership of the South American common market (Mercosur) alongside Brazil, Paraguay, Uruguay and, most recently, Venezuela, gives access to a market with a combined GDP of US\$1,100 billion and a population of over 200 million. Growing intra-state trade between these countries will spur development in Argentina's agricultural sector.

Argentina – Top 10 agritech products imported (millions of US dollars)

| HS code | Product | 2004 | 2005 |
|---------|--|----------------------|----------------------|
| 3105 | Mineral or chemical fertilisers (in tablets/packages not exceeding 10kg) | 265,164,149 | 246,816,633 |
| 8433 | Harvesting or threshing machinery | 261,182,832 | 180,672,861 |
| 3102 | Mineral or chemical fertilisers, nitrogenous | 119,653,171 | 112,966,818 |
| 3808.30 | Herbicides | 68,525,088 | 94,570,626 |
| 3808.20 | Fungicides | 108,150,826 | 74,773,219 |
| 3103 | Mineral or chemical fertilisers, phosphatic | 36,673,879 | 59,459,288 |
| 3808.10 | Insecticides | 37,157,492 | 44,163,297 |
| 1209 | Seeds, fruit and spores, of a kind used for sowing | 38,996,969 | 34,205,520 |
| 8424.81 | Irrigation machinery | 29,353,365 | 26,416,590 |
| 2309 | Preparations of a kind used in animal feeding | 20,290,637 | 22,832,796 |
| | Total agritech imports | 1,091,129,485 | 1,011,228,611 |

Source: United Nations Comtrade Database

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1.1 Soybean

Argentina is the world's third largest soybean producer and the world's largest exporter of soybean derived products. Recent high commodity prices for soybean and other oilseeds has seen increasing conversion of cattle pasture land to cropping. Grain and oilseed production both competes with and complements cattle raising in Argentina, with many farmers practicing crop rotation to maintain soil fertility on pastureland.

Over 45m metric tonnes of soybean oilseed were produced in 2006, with the planted area of over 16m hectares. Exports have fallen in recent years due to government export taxes on both soybean and soybean derivatives, and a broad domestic cross-subsidy programme.

Soybean growers are embracing yield enhancing practices including the increased use of fertilisers and other agricultural crop research. Intensive land cultivation and recent droughts in seed growing regions will also encourage investment in irrigation and water management technologies.

1.2 Beef

Argentina has the world's largest cattle herd at 51 million head. Globally, Argentines are the largest consumers of beef meat at 63 kilos per capita, with total domestic consumption accounting for about 80 percent of total output.

Exports of beef products from Argentina are projected to rise to 680,000 metric tons in 2007, an increase on 2006 but still below 2005 levels. The slowdown in exports is due largely to the imposition of export taxes and bans on beef products during 2005-2006 to stabilise domestic prices, although these measures have been relaxed in recent months. Multiple outbreaks of Foot – and – Mouth Disease, and the subsequent US ban on Argentine meat imports, have also depressed the sector.

Current production of 3.15 million tonnes is predicted to remain unchanged, and is significantly below capacity due to export restrictions. There has been strong investment in the sector over recent years, which has improved sanitary and production standards.

Feeding operations are also expected to shift from good cropland to more marginal areas as farmers switch production to more profitable crops such as wheat and corn. There may be opportunities for pasture and stock improvement in these areas. Feeding of corn to cattle has increased in recent years due to historic low corn prices and increasing use of marginal land. Overall, despite high levels of profitability and growth in the sector, there has been reluctance in the sector for large investment while government intervention remains.

There is a growing trend towards “early calf weaning” using feeds to enhance stock condition, although there is large opportunity to increase capacity in this area. The Argentine

government recently introduced an official cattle programme aimed at addressing these areas, and specifically targeting small to medium sized enterprises.

1.3 Dairy

Total dairy exports for 2006 are estimated at US\$650 million with over 22 percent of milk production now exported, mostly in the form of dry whole milk powder, followed by cheese. The industry is projected to grow to record levels in 2007, due to strong international commodity prices, low exchange rates, and increasing domestic and world demand.

Dairy exports are currently faced with 10 percent export taxes (to curb domestic inflation and retail spending), but returns are still expected to be profitable. Whey and derivative products are also showing growth after strong investment in the industry.

Argentina's milk production costs are among the lowest in the world, with high productivity due to strong capital investment in recent years. Growing output is forecast to put increasing pressure on existing production capacity in coming years, especially in drying facilities.

Key statistics for the dairy industry in Argentina:³

- milk produced – 10,300 million litres
- share of world trade – 0.7 percent in total export Values (Source FAO)
- growth in milk litres per annum – five percent (2005/06 - USDA)
- number of dairy cows – 2,150,000
- milk production per cow – 4.79 MT

1.2 Agricultural Machinery

With the strong growth in Argentina's agricultural sector over recent years and the adoption of more intensive land cultivation practices by local farmers, there is increasing demand for agricultural machinery, including parts and accessories. An emerging trend is the growing use of more sophisticated technologies such as GPS units, fertiliser/seed measurement devices, and advanced sprayers and pumps, as farmers seek increase yields and improve efficiencies to offset higher seed and fertiliser costs. Demand for more comfortable operating environments, including the use of air-conditioning and audio in machinery cabins, is also set to increase.

Local manufacturing of agricultural machinery is dominated by international firms. Production consists mainly of non-sophisticated machinery, with more sophisticated units parts imported from Brazil, the US and Europe.

³ Source: Global Dairy Alliance - <http://www.globaldairyalliance.org/english/2/uruguay/>

1.3 Irrigation

The demand for more sophisticated irrigation systems is expanding as the agricultural sector seeks higher yields through more intensive, productive use of available land. Less than five percent of farmland is currently under irrigation, and most of this is through the use of simple gravity-fed systems.

Argentine farmers are showing increasing interest in newer crop technologies such as fertilisers, hybrid seeds and modern machinery. National crop yields have increased from 27.4m tonnes in 1989 to 83.5m tonnes in 2005, while cultivated area has grown from 19.5m to 28.8m hectares in the same period for rains, oilseeds, vegetables and fruit. When geographically segmented, gravity-fed systems are used mostly in the western provinces, while centre-pivot and gravity-fed systems are dominant in the Pampas. Together, the two regions account for 70 percent of the total irrigated land in Argentina.

Drip and micro-sprinkler systems are limited to non-traditional crops, such as speciality fruits and vegetables.

In the absence of a competitive domestic manufacturing industry, there is a large potential for exporters to enter this market, which is currently dominated by imports from the US and Israel.

1.4 Animal Genetics

Argentina has the world's largest cattle herd at 50m head, with approximately 2.2 million dairy and 20.8m cattle breeds. Local beef cattle are generally of a very high standard, however, dairy cows need to continue to improve to meet high quality standards and achieve productivity gains.

Imports of genetic products have increased rapidly in recent years, growing from US\$5.3m in 2004 to \$9.5m in 2006. Over 95 percent of imported semen is for dairy breeds (96 percent Holsteins; three percent Jerseys; one percent Brown Swiss), with the US and Canada dominating the import market. Black and Red Angus dominate beef cattle genetic imports.

Opportunities in the market remain strong on the back of high beef and dairy commodity prices, led by increased investment in the agricultural sector as farmers pursue higher yields and productivity gains. Imports in Holstein semen are forecast to grow, while cattle genetic products show greatest market potential.

2.0 COMPETITIVE ENVIRONMENT

Argentina imports most of its agritech-related products, and the largest share of the import market is held by Brazil and the United States.

Argentina – source of imports of major agritech products

| Product | Imports | Share of import market | | | | |
|-----------------------------------|------------|------------------------|------------------|-------------------|---------------|---------------|
| | | USA | Australia | Netherlands | Chile | Brazil |
| Seeds, fruits & spores for sowing | US\$34.2m | USA 38% | Australia 25% | Netherlands 5% | Chile 5% | Brazil 4% |
| Preparations for animal feed | US\$22.8m | USA 33% | Brazil 28% | China 12% | UK 5% | Italy 4% |
| Fertilisers | US\$433.5m | USA 41% | Russia 15% | Brazil 9% | Ukraine 5% | Morocco 4% |
| Insecticides, fungicides, etc | \$US225.7m | Brazil 36% | USA 17% | Spain 9% | Belgium 6% | UK 5% |
| Irrigation equipment | US\$26.4m | Brazil 50% | USA 32% | Israel 7% | Chile 3% | Italy 3% |
| Harvesting/threshing machinery | US\$20.5m | Brazil 66% | USA 22% | Germany 10% | Belgium 1% | Italy 0.4% |

Source: United Nations Comtrade Database

3.0 REGULATORY OVERVIEW

3.1 Tariffs and Duties

As a member of the Southern Cone Common Market (Mercosur), Uruguay maintains low trade barriers and tariff rates with Argentina, Brazil and Paraguay. Tariff rates for goods from non-Mercosur countries generally range from zero to 35 percent.

As a guide, average tariff rates for some Mercosur chapters include live animals /animal products (2.5 percent ad-valorem) and fertilizers (2.8 percent ad-valorem).

Certain imported goods for animal or vegetable reproduction are also exempt from paying the common external tariff rates.

Imported food ingredients, pre-packaged foods and beverages are subject to analysis depending on each particular product.

3.2 Import quotas and licences

In general, Argentina does not have any import barriers outside ad-valorem import duties. However, the country has identified a number of products that are protected and/or prohibited from imports, such as some animals, native timber, dangerous chemicals, etc.

3.3 Packing and labelling

All imports can enter the market in the packing of their country and language of origin. However, all imports of consumer goods shall carry an additional label or sticker in Spanish

that should include information including the importer, the name or description of the product, country of origin, volume content. Regulations on labelling may change slightly for specific products like food or pharmaceutical products.

Many food-related imports also require sanitary certificates issued by a relevant authority in the exporting country.

3.4 Industry Standards

Industry standards for agribusiness in Argentina are many and varied and depend on the product to be exported.

The National Secretary of Animal Health (SENASA) is the government agency responsible for standards for animal and vegetable products imported into Argentina, and also conducts quarantine inspections.

3.5 Phytosanitary requirements

Phytosanitary import permits are required for most plant material including livestock, plants, bulbs, cuttings, rhizomes, roots, grains and other plant products. In addition, certain sensitive products must be imported through specifically identified customs points of entry. Such products include vines and their parts for experiment or research purposes.

Details of the phytosanitary requirements are available on the Biosecurity New Zealand website: <http://www.biosecurity.govt.nz/files/exports/plants/standards/uruguay.pdf>

4.0 INVESTMENT OPPORTUNITIES

As of the end of 2005, the total stock FDI in Argentina was estimated at US\$55 billion, with Spain, the US, and France the top three investors. In 2005, the total FDI inflows were estimated at US\$4.6 billion. Other major sources of investment in Argentina include Chile, Italy, Canada and Japan.

Continuing Argentine arrears to international creditors (including over US\$20 billion in default claims by international bondholders and over US\$6 billion owed to official creditors) and a large number of arbitration claims filed by foreign companies are legacies of the 2001/2002 economic crisis that remain to be resolved and adversely impact Argentina's investment climate.

Argentina remains open to foreign investment. Four consecutive years of real GDP growth over eight percent have attracted considerable international investor interest in Argentina. The government of Argentina has signalled its desire to see FDI expand significantly to enhance the nation's productive capacity and sustain high levels of real GDP growth. However, legal uncertainties concerning creditor and contract rights, and frequent and

unpredictable regulatory changes diminish the attractiveness of some sectors for foreign investors.

5.0 RECOMMENDED STRATEGIES

Argentina's economic recovery and recent sustained strong growth is driving demand for innovative agricultural technologies, particularly in modern machinery, hybrid seeds, animal breeding and genetics, and consultancy services for sowing and harvesting.

Agricultural machinery is a growing market as farmers look to increase yields and productivity. Innovative technologies such as GPS soil and crop monitoring systems will lead this drive, and there is also increasing demand for accessories and devices that provide better measurements of seed, agrochemical and fertilizer volumes and requirements.

6.0 RESOURCES

6.1 Websites

Agritotal – provides information and news on target markets

www.agritotal.com.ar

ExpoChacra – information on the largest agribusiness trade show in South America

www.expochacra.com.ar

E-campo – provides agribusiness news and links to international websites

www.e-campo.com.ar

Latin America Business Council

www.lanzbc.co.nz

6.2 Economic Agencies

Ministry of Economy

www.mecon.gov.ar/default_english.htm

Ministry of Foreign Affairs, International Trade and Worship

www.mrecic.gov.ar

Central Bank

www.bcra.gov.ar

Federal Public Revenue Administration

www.afip.gov.ar

Infoleg (Documentation and Information Centre, Ministry of Economy) – database of Argentine regulations

www.infoleg.gov.ar

Importers and Exporters Association (Asociación de Importadores y Exportadores) (Spanish)

www.aiera.org

Cámara de Importadores de la República Argentina (Spanish)

www.cira.org.ar

Cámara Argentina de Comercio (Spanish)

www.cac.com.ar

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