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Recent developments and new challenges in commodity markets: Energy

By

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How does Argentina stand in the world market of grain and their by-products?



Port of Rosario, Province of Santa Fe, one of important Parana River ports on the *Hidrovía*.

Argentina is number one world exporter of soybean meal and soybean oil¹ (when looking at the 2016/17 figures). At present it produces 5 per cent of total world grain and shares 15 percent of grain and their by-products world trade².

¹ INFOCAMPO, Argentina July 14th, 2017

² The information used in the above comes from estimates by the USDA (Department of Agriculture) and from Oil World Statistic.

Figure 1 - ARGENTINA - Exports of Soybean Meal to some selected countries (In metric tons) 2016

Soybean meal	23.788.283
Vietnam	3.692.229
Indonesia	2.214.062
Malaysia	958.930
Thailand	431.110
Pakistan	321.203
Algeria	1.215.838
Brunei	9.234
Poland	1.262.362
Filipinas	561.458
Italia	1.106.767
Egypt	1.567.147
Saudi Arabia	397.745
Turkey	634.164
Spain	1.323.177
Other destinations	8.092.823

**Figure 2 - Argentine exports of some of the main groups of commodities according to the Harmonized System (HS) code -
 - in million US dollars ³**

HS code	Description	Jan-Sept 2017	Jan - Sept 2016
230400	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	7,148	7,523
100590	Maize (excl. seed for sowing)	2,960	3,263
150710	Crude soya-bean oil, whether or not degummed	2,908	2,936
120190	Soya beans, whether or not broken (excluding seed for sowing)	2,466	3,091
870421	Motor vehicles for the transport of goods, with compression-ignition internal combustion piston engine (diesel or semi-diesel) of a gross vehicle weight <= 5 t	2,151	1,616
100199	Wheat and meslin [mixture of wheat and barley] (excl. seed for sowing, and durum wheat)	1,720	1,388
710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (excl. gold in powder form)	1,567	1,569
030617	Frozen shrimps and prawns, (excluding cold-water shrimps and prawns)	870	714
382600	Biodiesel and mixtures thereof, not containing or containing < 70% by weight of petroleum oils or oils obtained from bituminous minerals	809	811
220421	Wine of fresh grapes excluding grape of heading 20.09 in containers holding 2 litres or less	547	550
020130	Fresh or chilled bovine meat, boneless	474	430

³ According to the National Statistics Institute - Argentina

How did the present administration in Argentina spur commodities export diversification, especially regarding grain and their by-products?

Besides a series of measures destined to liberalize our foreign exchange market, in mid-December 2015 the new administration undertook the task of reducing soybean export taxes and eliminating the export taxes involving our key agricultural export products⁴.

Figure 3 -The export tax rebating - mid-December 2015⁵

Export product	Tax before mid-December 2015	Tax after mid-December 2015
Soybean	35 %	30 %
Soybean by-products	32 %	27 %
Soybean oil	32 %	27 %
Sunflower	32 %	ZERO
Sunflower by-products	30 %	ZERO
Sunflower oil	30 %	ZERO
Wheat	23 %	ZERO
Maize	20 %	ZERO
Fresh or chilled bovine meat	15 %	ZERO

In addition, Argentina decided to remove export quotas for maize and wheat (wheat being the product most affected) and agricultural goods such as bovine meat (another product line hit by the export quota “system”) and dairy products.

⁴ On December 15th, 2015, *ambito.com* stated that this would have a fiscal cost of 60,000 million Argentine pesos, which if one took a rate of exchange of 15 pesos/US dollar, meant around 4,000 million US dollars; this cost also considered an annual increase of exports of the agro sector of 10 percent. In 2016 the GDP was estimated at 544,500 million US dollars, according to *INFOBAE* using information from the National Statistics Institute - Argentina.

[Today the rate of exchange is of roughly 20 Argentine pesos/US dollar].

⁵ *ambito.com*, December 15th, 2015

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The fiscal sacrifice was fittingly compensated by the very positive reaction of the agricultural producers.

In 2016 Argentina exported 57,737 million US dollars⁶. These are total exports.

If we add soybean and sunflower and their by-products to maize, wheat, barley, rice and sorghum and their respective by-products, we get **26,500 million US dollars**, which means **46 percent of all Argentine exports** for that year.⁷

In 2016 Argentina exported 4,129 million US dollars of **un-processed maize grain, slightly more than 7 percent** of all exports. However, the rest of maize by-products had a small relevance as far as exports are concerned (in 2016)⁸.

In 2016 **wheat and its by-products** accounted for **3.5 percent** of all exports. This was one of our star export products (together with chilled bovine meat) during the first half of the XXth Century and a pillar of our country's wealth. The **reduction of the 23 percent export tax to zero** triggered a rather positive answer: the previous **2015/2016** wheat harvest yielded **10.9 million metric tons** whilst the next, the **2016/2017** crop brought in some **14.9 million tons**.

Last, but not least, let us say that **the average exports of Argentine beef between January and November 2017** is the highest since 2011. Bovine meat exports were of 19,000 metric tons (gross weight) in November 2017, a 30 per cent increase when compared with (ABC)⁹.

During the January-November 2017 period, 282,000 metric tons were exported, **32 per cent more that during Jan-Nov 2016**. The highest

⁶ Let me say, as a consultant, that Argentina's exports are way under the country's potential export capacity. The **why** is a long story.

⁷ Rosario Stock Exchange, January 2017.

⁸ Because of lack of reliable statistical information we have not added those exported products that use maize as their feedstock, such as sweeteners and other sugars, breakfast cereals, animal foodstuff and domestic pet food, Rosario Stock Exchange, January 2017.

⁹ *AgroVoz*, January 2018.

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average of the last decade -but bellow the historic monthly average when we take the series starting in 1970-

The US Department of Agriculture¹⁰ estimates Argentine exports will total 350,000 metric tons in 2018. This means Argentina would be again within the world top ten meat exporters. However, one ought to bear in mind that in 2005 Argentina had already exported 750,000 metric tons, and was then the third world exporter in this sector.

[To look at the above figures within the world framework, let us say that according to the US Department of Agriculture¹¹ the world traded around a total of 9,461,000 metric tons of bovine meat in 2017.]

¹⁰ Source cited under (9).

¹¹ *El Cronista*, April 2017-

Food Trade Chokepoints and the Hidrovía Paraná-Paraguay in MERCOSUR

Figure 4 - The MERCOSUR Paraguay-Paraná Hidrovía and potential chokepoints



Among the significant questions that concern us today, as far as food security is concerned, are the “three principal kinds of chokepoint [which] are critical to global food security: *maritime corridors* such as straits and canals; *coastal infrastructure* in major crop-exporting regions; and *inland transport infrastructure* in [these] major crop-exporting regions. A serious interruption at one or more of these chokepoints could conceivably lead to supply shortfalls and price spikes, with

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systemic consequences”¹². This June 2017 study states that “each year, *the world’s transport system moves enough maize, wheat, rice and soybean to feed approximately 2.8 billion people*. Meanwhile, the 180 million tonnes of fertilizers applied to farmland annually play a vital role in helping us grow enough wheat, rice and maize to sustain our expanding populations. International trade in these commodities is growing, increasing pressure on a small number of ‘chokepoints’ – critical junctures on transport routes through which exceptional volumes of trade pass”¹³.

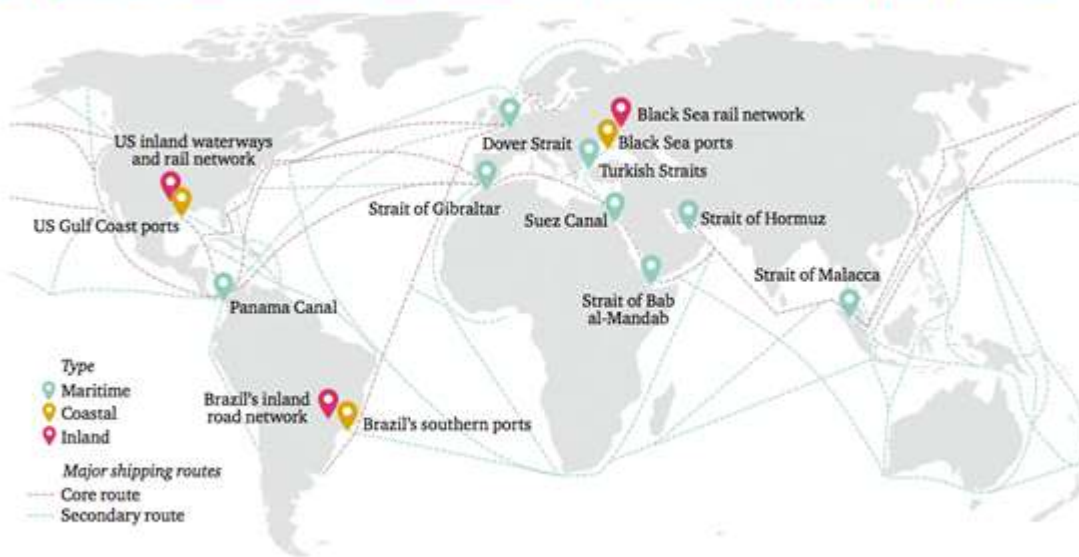
- We consider the *development of infrastructure* to minimise the effect of chokepoints is of vital importance.
- The study referred to says that “one of the key features of this complex system is the *concentration of grain supply in a handful of crop-supplying regions* and the even greater concentration of fertilizer supply.

¹² Chokepoints and Vulnerabilities in Global Food Trade, Chatham House Report Rob Bailey and Laura Wellesley, Energy, Environment and Resources Department, June 2017

¹³ Op. Cit.

Figure 5 – The chokepoints selected for the Chatham House report

Figure 1: Maritime, coastal and inland chokepoints and major shipping routes



Source: Shipping routes adapted from Rodrigue, J.-P., Comtois, C. and Slack, B. (2017), *The Geography of Transport Systems*, New York: Routledge, <https://people.hofstra.edu/geotrans/>.

Local communities are connected to, and reliant on, production sites often thousands of miles away”¹⁴. Argentina is an important soy-bean exporter. So are the other Mercosur Countries¹⁵. If we look at Figure 4, we see that the vital Paraná River flows into the Río de la Plata, a huge estuary that in time flows into the Atlantic Ocean. But this is a shallow

¹⁴ Op. Cit.

¹⁵ The **MERCOSUR** founding countries are Argentina, Brazil, Paraguay and Uruguay. Venezuela, that became a member under late president Chávez, is at present suspended from Mercosur, though controversy hovers over this decision, as controversial was, at the time it was taken, the decision involving the suspension of Paraguay. All Decisions, the highest level of ruling within Mercosur, must be taken by consensus.

Mercosur was created in 1991 within the framework of the ALADI -the Latin American Integration Association of 1980, which followed the 1960 former ALALC- Mercosur came of age on January 1st. 1995 after a rather short period of import and complete tax converge. It actually became almost a Free Trade Area, with an effective External Common Tariff, but is still struggling to free all of its internal trade. With its pros and cons, Mercosur - in my personal opinion- has brought prosperity to the Region it covers. However, we appear to have lacked the political decision to make of Mercosur a full-fledged Free Trade Area, let alone the Customs Union which still remains an essential part of the vision of its founders.

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estuary with canals that need constant hydraulic dredging. The first important sea ports on the Atlantic are Montevideo, Uruguay, east of Buenos Aires, and Ingeniero White in Bahía Blanca, Argentina, some 600 km south of Buenos Aires. This sea port is by no means a potential chokepoint.

One rather simple conclusion is, that without bearing geography in mind, well maintained infrastructure is of essence¹⁶.

Mauricio López Dardaine, Geneva, April 2018.

¹⁶ These being only the guidelines for a presentation that cannot exceed 15 minutes, the figures given here are meant only to serve as background for the examples of the two issues discussed above: (1) how the Argentine Administration spurred export diversification as from December 2015 and (1) why we need to take potential chokepoints into careful consideration when we focus Food Security.