USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 4/03/2008

GAIN Report Number: AR8013

Argentina

Agricultural Situation

Argentina Imposes Variable Export Taxes; Raises Duty on Major Commodities

2008

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Report Highlights:
On March 12, the GOA modified its agricultural export tax regime by implementing a sliding tax, based on FOB prices. At current world prices, the change significantly increased taxes for soybeans and sunflowerseeds, while corn and wheat were slightly reduced. Differential export taxes were slightly modified, but continue to create incentives to process primary products. This new measure is a sweeping change that de-links producer prices from world prices and will generate many shifting incentives.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1]
[AR]

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Executive Summary

On March 12, the GOA modified its agricultural export tax regime by implementing a sliding tax, based on FOB prices. The new tax scheme will be in place for four years. As a result, under current market conditions, the GOA will collect an additional US$1 billion in revenue (0.4 percent of GDP). The change significantly increased taxes for soybeans and sunflowerseeds, while corn and wheat were slightly reduced. Differential export taxes were slightly modified, but continue to create incentives to process primary products. Producers will be forced to re-evaluate the profitability of continually expanding soybean acreage, and have apparent incentives to increase production of grain crops. However, the overall effect will be a reduction in profitability for producers. In protest of the government intervention, Argentina's four predominant agricultural entities supported a strike by the sector from March 13 to April 2.

Argentina Implements Sliding Export Taxes

On Tuesday, March 11, the GOA closed export registrations for all major grains and oilseeds for a period of two days (later extended to three days), indicating an imminent increase in export taxes for those products. The following day, Wednesday, March 12, the export tax regime was modified by implementing a sliding tax, based on FOB prices for soybeans, sunflowerseed, wheat, and corn. At current prices, the applied tax on soybeans increased from 35 to 44.1 percent, while the tax on sunflowerseed rose from 32 to 39 percent. Corn and wheat taxes were slightly reduced as a result of the action to 24.2 percent (from 25) and 27.1 percent (from 28), respectively. The new tax scheme will be in place for four years. Additionally, the GOA indicated that part of the revenue will be used to subsidize other agricultural sectors, such as meats, dairy, and to encourage increased use of fertilizers.

Resolution 125/2008, defines a formula by which the applied tax rate is determined. The formula utilizes the FOB price of the commodity at the time of registering the export sale, and other variables (pre-determined trigger values established for each commodity), to calculate the applied rate. Table 1 below shows a summary of the effects of the new tax collection scheme.

Table 1. Summary Effects of Sliding Export Tax

Commodity	Average FOB Price Feb.'08 (in USD)	New sliding export tax (Avg. FOB price for Feb.'08)	FOB Price (USD/ton)	Old tax	New tax rate
Soybeans	515	44.1%	0-200 201-300 301-400 401-500 501-600 More than 600	35% 35% 35% 35% 35% 35%	23.5% From 23.5% to 28% From 28% to 36% From 36% to 43% From 43% to 49% 49%
Sunflower	569	39.1%	0-200 201-300 301-400 401-500 501-600 More than 600	32% 32% 32% 32% 32% 32%	23.5% From 23.5% to 25% From 25% to 31% From 31% to 37% From 37% to 45% 45%
Wheat	345	27.1%	0-200 201-300 301-400 401-600 More than 600	28% 28% 28% 28% 28%	20% From 20% to 24% From 24% to 30% From 30% to 46% 46%
Corn	217	24.2%	0-180 181-220 221-260 261-300 More than 301	25% 25% 25% 25% 25%	20% From 20% to 25% From 25% to 32% From 32% to 40% 40%

Differential Export Taxes

In addition to changing the export taxes on primary products, the GOA (in the original Resolution) slightly modified the differential export taxes applied to derivative products. Differential taxes were again modified on March 17, 2008, with Resolution 141/2008, which increased the differential for several oilseeds products.

Differential export taxes continue to provide incentives for processing primary products domestically. For example, the differential between the export tax on soybeans and soybean oil and meal increased from 3 to 4 percent (which is a slight benefit to soybean crushers), while the differential between wheat and wheat flour was reduced to 10 percent, from the previous 20, narrowing millers' margins. Table 2 shows the new differential taxes applied to major derived products.

The differential taxes function by subtracting the fixed percentage point differential from the variable tax applied to the raw product. For example, if the variable tax on soybeans is calculated at 45 percent on the day that an exporter registers an export of crude soybean oil, the export tax applied to crude soybean oil will be 41 percent, (i.e., 45 minus 4). Likewise, if the FOB price for soybeans increases the following week, creating a new sliding export tax of 49 percent, the export tax applied to crude oil will then be 45 percent (i.e., 49 minus 4). See the differential for crude oil below from Table 2.

The GOA increased the export tax for biodiesel in a separate Resolution (126/2008) from 5 to 20 percent. By doing so, the margins for biodiesel producers was reduced -- since the differential between the tax on soybean oil and biodiesel was reduced from 29.5 percent to around 22.5 percent (at current prices, the soybean oil export tax is 40 percent). However, producing biodiesel should still be highly profitable (at least for now), although the profit margins will decrease further if soybean oil prices fall.

Table 2: Differential Export Taxes

HS code of processed product (Derived Product)	HS code of primary product (Primary Product)	Differential export tax (%)
1101.00.10 (wheat flour)	1001.90.90 (wheat)	10
1208.10.00 (soybean meal)	1201.00.90 (soybeans)	4
1507.10.00 (crude soy oil)	1201.00.90 (soybeans)	4
1507.90.11 (refined soy oil, in containers <= A 5L)	1201.00.90 (soybeans)	4.5
1507.90.19 (refined soy oil, except in containers <= A 5L)	1201.00.90 (soybeans)	4
1507.90.90 (soy oil NES)	1201.00.90 (soybeans)	4
1512.11.10 (sunflower oil, bulk)	1206.00.90 (1) (sunflowerseeds)	4
1512.19.11 (refined sunflower oil, in containers <= A 5L)	1206.00.90 (1) (sunflowerseeds)	4.5
1512.19.19 (sunflower oil NES)	1206.00.90 (1) (sunflowerseeds)	4
1517.90.10 (2) (mixed refined oils, except hydrogenated, in containers <= A 5L)	1201.00.90 (soybeans)	4.5
1517.90.90 (3)	1201.00.90	4

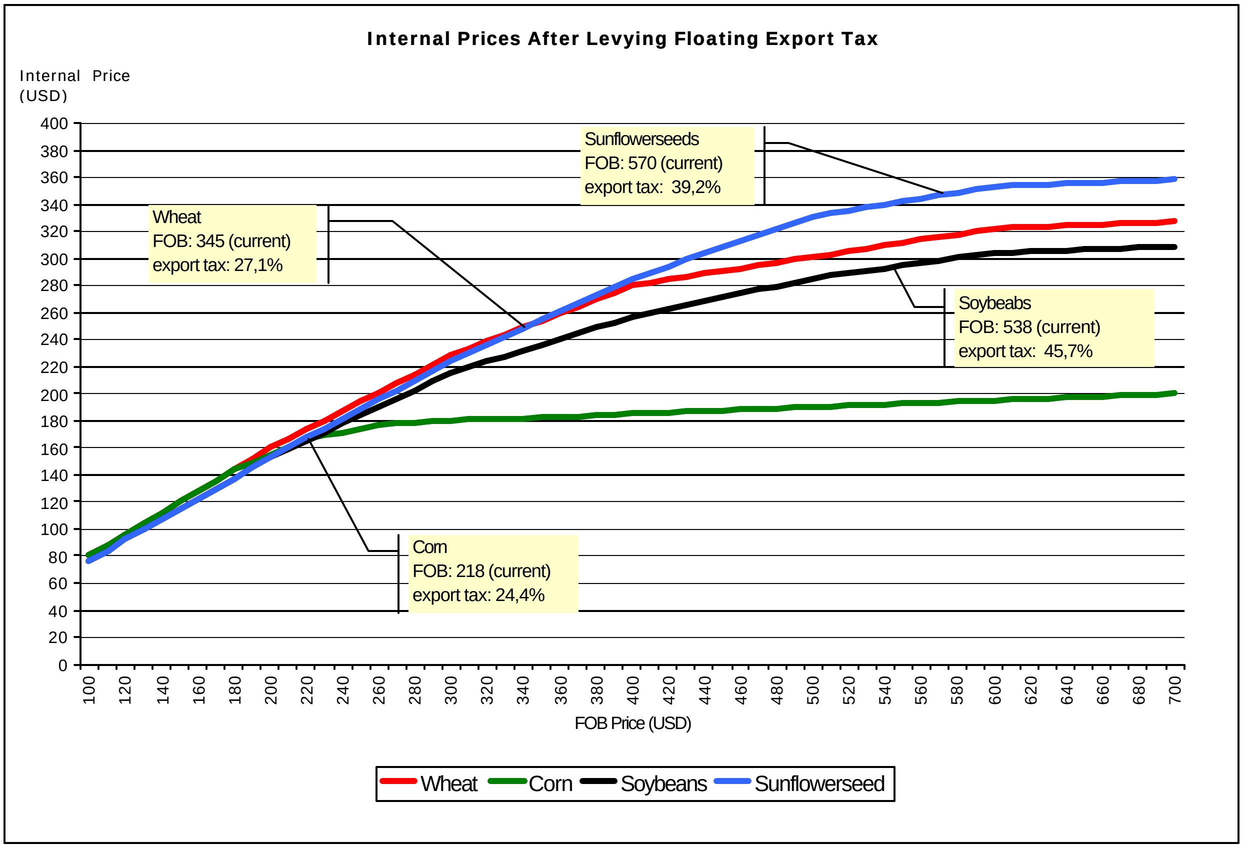
(mixed oils, except hydrogenated or refined)	(soybeans)	
1901.20.00 (4) Mixes of flour for baking	1001.90.90 (wheat)	10
1901.90.90 (flour NES)	1001.90.90 (wheat)	10
2304.00.10 (soybean flour and pellets)	1201.00.90 (soybeans)	4
2304.00.90 (cakes and solid residuals of soybean oil)	1201.00.90 (soybeans)	4
2306.30.10 (sunflower pellets)	1206.00.90 (1) (sunflowerseeds)	4
2306.30.90 (sunflower residuals NES)	1206.00.90 (1) (sunflowerseeds)	4
Note: (1) Excluding sunflower seeds for confectionary use and shelled sunflower seeds (2) Only mixes that contain soybean oil (3) Only mixes, food preparations and other products that contain soybean oil (4) Only preparations of a wheat flour base (excluding pastas in disk form and other solid forms, and preparations for making cakes, biscuits, and similar products in packages that contain less than or equal to1 kilogram) with added ingredients, including salt, in any proportion		

Changing Incentives

The GOA has utilized export taxes on agricultural products for a dual purpose: 1) to generate tax revenue; and 2) to put downward pressure on domestic food prices by limiting exports. As soybean production in recent years has grown more rapidly than wheat and corn, the GOA has attempted to increase the incentives for farmers to opt for producing the latter grain crops, thereby relieving price pressure on domestic food products.

The strong increase in export taxes applied to major oilseeds crops, combined with the insignificant decrease for grains crops, creates significant changes to producer incentives. Producers will be forced to re-evaluate the profitability of continually expanding soybean acreage, and have apparent incentives to increase production of grains crops.

Chart 1: Internal Prices After Levying Floating Export Tax



The chart above shows the internal prices that will be received at varying FOB prices under the new scheme. As shown, at current FOB prices, internal prices received for sunflowerseeds and soybeans are nearly at their de facto ceiling price. Only increases in FOB prices for wheat and corn will result in small internal price increases that would be passed to farmers.

At this point, it is difficult to forecast the quantitative effects of the new regime with regard to next year's planting decisions. Despite the apparent incentives to shift production from oilseeds to grains, wheat and corn (corn to an even greater extent) require more expensive inputs than soybeans--fertilizer costs for the 2008/09 season will be significantly higher than this year, complicating farmers' planting decisions (at this point it is unknown what incentives or subsidies the GOA will create to increase fertilizer use). Furthermore, corn and wheat are more susceptible to climatic variations than soybeans, which make grain crops more risky than soybeans. Due to these changing risks, incentives, and profitability created by the new regime, it is likely that there will be an increase in minor crops, such as barley, sorghum, rapeseed, and others, that do not face high export taxes. Much of the shift in crop production will likely take place in the more distant, marginal production zones, while the core agricultural areas will likely continue to produce those crop rotations (particularly wheat and soybeans) that prove most profitable.

Increased Revenue for Fiscal Surplus

Argentina relies heavily on revenue generated through export taxes to generate a fiscal surplus. With the latest change to their export tax regime on agricultural commodities, the GOA will collect, at least, an additional US$1 billion (0.4 percent of GDP). Analysts estimate that this year, given current commodity prices, Argentina's fiscal surplus could reach 4 percent of GDP -- an equivalent of 40 billion pesos (US$12.7 billion).

Agricultural Sector Strike

In protest of the new variable export tax, Argentina's four major agricultural producer entities (Sociedad Rural, CRA, Coninagro and FAA), were on strike from March 13 to April 2 during which no commodities were sold.