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Report Highlights:
Post forecasts marketing year (MY) 2008/09 wheat production down to 14.7 million tons due to a decrease in planted area. Corn production is forecast at 23.5 million tons due to expected higher yields on the same planted area as MY2007/08. MY2008/09 wheat and corn exports are forecast at 9.2 and 16.2 million tons, respectively. Wheat export registry closures have slowed down the pace of exports for this year's crop and it is uncertain when exports will resume. Uncertainty with respect to subsidy programs aimed at small farmers make planting intentions difficult to determine. The coming weeks should reveal eagerly awaited details on compensation and subsidy packages promised by the GoA during the 20-day agricultural strike.

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

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Executive Summary

Argentine producers faced many uncertainties in marketing year (MY) 2007/08. Farmers staged a 20-day strike demanding an end to the new variable export tax policy implemented by the Government of Argentina (GoA) on March 11, 2008 (see AR8013). Currently the agricultural sector and the government have called a month-long truce during which the government has promised to clarify a package of subsidy programs promised to small farmers. Many of the details of those programs will likely be revealed in the weeks to come. As such, due to the current uncertainty with respect to planting incentives, forecasts in this report may be subject to change as more details are revealed.

Post forecasts a small drop of utilized land area for grains production. It is uncertain that the GoA's stated objective to create incentives to shift production away from oilseeds (mainly soybeans) to grain crops (corn and wheat) will be achieved due to the higher risk and input costs of growing corn and wheat vs. soybeans. The decrease in total utilized land for grains production is forecast near 3 percent below the previous year, with wheat area down by 5 percent -- corn is expected to stay at similar levels as last year. Offsetting the decrease in wheat area will be increases in sorghum, barley, rapeseed and other minor crops. Area shifts will be achieved through the following means:

- A shift to more barley production in southern Buenos Aires and other regions near malting plants;
- An increased concentration of corn within the Corn Belt and via crop rotations while marginal areas such as Entre Rios and northern Santa Fe and Cordoba will drop some corn area to plant sorghum and rapeseed;

Post forecasts a slowdown in adoption of production-enhancing technologies (such as increased fertilization and precision-farming techniques) as well as overall investment to the agricultural sector due to decreased profitability created by the new export tax regime.

Production

Wheat

Post estimates that next year's wheat planted area will fall by 5 percent. Despite favorable international prices, Post expects area to decline due to several factors including: risk of future closure of export registrations; decreased profitability created by increasing input costs and a de-facto ceiling price established under the new variable export tax scheme; and a strong incentive to produce barley in lieu of wheat -- due to barley's 2 to 3 week earlier harvest, which allows for earlier planting and subsequent higher yields for second-crop soybeans. Some analysts are predicting wheat area to fall by as much as 15-20 percent (worst-case scenario) from last year due to the same reasons mentioned above. They also indicate that wheat area will be somewhat displaced by production of other minor crops such as linseed and rapeseed in the more marginal areas -- due to less government intervention in marketing those crops. In addition, there will undoubtedly be increases in barley production predominantly in southern Buenos Aires and other areas within close proximity to malting plants. Post forecasts a 10-percent increase in area planted to barley due to a new malt plant in Punta Alvear, as well as several large traders that are exporting barley. Furthermore, some contacts suggest that farmers will begin to produce barley in limited quantities off-contract with seeds held back from this year. Post contacts also suggest that there will be a doubling of area planted to rapeseed due to several of Argentina's largest farming pools making a strong effort to increase production of that crop.

This forecast is complicated due to much uncertainty with respect to policy outcomes as a result of the farmer strike. Although the strike has been suspended for a period of 30 days, during which the Government agreed to more clearly define the package of benefits promised for small producers, as of yet there has been no further clarification or definition of promised measures. Depending on the extent and nature of subsidies and other incentives given to farmers, the aforementioned forecast could change. New measures for small farmers that the government promised include: export tariff rebates, fertilizer subsidies, transportation subsidies, a re-opening of wheat exports, and subsidized credit for small- and medium-sized producers, among others.

Currently, wheat export registrations are closed and it is unclear when they will be re-opened. Although the government announced on March 31 that wheat export registrations will re-open, the re-opening has been delayed. The unclear horizon with respect to export policy will undoubtedly discourage some farmers from planting wheat next year and opt for other winter crop options that do not face high export taxes or other government market controls.

With optimal planting dates quickly approaching (May through June), producers are anxious to get negotiations underway with the administration of Christina Kirchner and achieve clarity on the government's agricultural policies that will have a significant impact on producers' incentives and planting intentions.

Based on the above discussion, Post forecasts MY2008/09 harvested area at 5.3 million hectares. Foreseeing average weather patterns, MY2008/09 production is set at 14.7 million tons.

Post estimates MY2007/08 wheat production at 15.5 million tons on 5.6 million hectares. Official GOA statistics place wheat production at 15.4 million tons on 5.68 million hectares.

Corn

Post estimates that the 2008/09 area planted to corn will remain at 3.1 million hectares. The primary factors that will affect farmers' decisions to plant corn are high world prices (due, in part, to lower area planted to corn in the United States) and the necessity to have a rotation crop in the production cycle. Those positive incentives, however, will be offset by decreased profitability as a result of increasing input costs and a de-facto ceiling price established under the new export tax regime, and its relatively higher risk than soybeans with respect to moisture requirements.

Despite a slight initial decrease (0.8 %) in the export tax applied to corn under the new export tax regime, it is uncertain that the government's stated goal of creating stronger incentives to grow grain crops in lieu of oilseeds crops will be achieved. Corn is a high risk crop compared to soybeans due, in part, to its higher production costs. Corn requires significantly more fertilizer than soybeans and sources indicate that most inputs for corn production have increased in price by 40-50 percent from last year -- phosphorous based fertilizers have reportedly increased in price by 260 percent. In addition to the higher input costs, corn is a riskier crop than soybeans due to its more stringent moisture requirements. Drought conditions during critical phases of corn crop development could produce irreversible yield losses, while soybeans are much more resilient under such conditions. Due to these reasons Post is expecting corn planted area to maintain at the same level as last year.

Another factor affecting farmers planting decisions is the need to have a summer rotation crop. There are few alternatives to corn for this purpose due to the lack of viable markets for those crops. The predominant alternative, however, is sorghum. Post expects that there will be an increase in area planted to sorghum at the expense of some corn area in marginal areas for 2008/09. Although corn area in the United States will likely be lower this year due to an expanded soybean acreage, the resulting higher prices will provide weakened planting incentives to Argentine farmers due to the variable nature of the new export tax on corn (i.e., as FOB prices rise, export taxes also rise and create a de-facto ceiling price.) Since sorghum does not face a variable export tax as does corn, Post expects to see some acreage shifted from corn to sorghum in those marginal areas.

Post forecasts MY2008/09 corn harvested area at 3.1 million hectares. Foreseeing average weather patterns, MY2008/09 production is forecast at 23.5 million tons. The slight shift from corn to sorghum mentioned above will likely occur mainly in the marginal corn growing areas, such as Entre Rios province, and northern Santa Fe and Cordoba, while the core growing area for corn in northern Buenos Aires will compensate for the shifts to sorghum in marginal areas thereby maintaining the overall area estimate.

Post estimates MY2007/08 corn production at 21.5 million tons on a harvested area of 3.1 million hectares. Although the harvest was somewhat delayed by the 20-day agricultural strike, farmers have now harvested around 30 percent of the crop. Official GOA statistics currently place corn production at 20.5 million tons on planted area of 4 million hectares.

Rice

Post forecasts MY2008/09 milled rice production at 900,000 tons on 200,000 hectares.

The Argentine rice sector is expected to increase planted area due to record high prices and increased export demand. The recent Mercosur export price jump of almost 20 percent in March, combined with very tight global stocks is fueling the incentive to increase production in Argentina. Brazil is a strong purchaser of Argentine rice and it is likely that exports to

Venezuela will increase due to the recent Argentine-Venezuela agreement to increase food exports from Argentina. Furthermore, as rice does not face high export taxes like other major crops, there is little incentive to shift production away from rice in favor of alternative crops.

Post estimates MY2007/08 milled rice production at 810,000 tons on 180,000 HAS.

Sorghum

MY2008/09 sorghum production is forecast to increase by 3 percent due to expected favorable prices, increased export opportunities, and a slight shift of some corn acreage into sorghum in marginal areas. As mentioned, sorghum is the most attractive alternative summer crop to corn, which faces high export taxes along with the other risks mentioned above (particularly in the more marginal areas like Entre Rios). As sorghum does not face domestic policy restrictions to the extent of corn, and less yield risk due to lack of moisture during the growing season, farmers will likely have stronger incentives to increase area planted to sorghum.

Post forecasts MY2008/09 sorghum production at 3.75 million tons on harvested area of 720,000 hectares.

Harvest of the MY2007/08 crop is approximately 32 percent completed. Post estimates MY2007/08 sorghum production at 3.5 million tons on harvested area of 700,000 hectares. Official government estimates place sorghum production at 3.3 million tons on planted area of 820,000 hectares.

Domestic Consumption

Wheat

The government has maintained its system of subsidies established last year to control the domestic wheat supply to the milling industry. The wheat subsidy is two-fold, one part paid to the producer and the other paid to the miller. The total of both parts of the subsidy cannot exceed the difference between the market price, set by the Argentine Secretariat of Agriculture (SAGPyA), and the fixed supply price, set by the Ministry of the Economy (currently set at Argentine Pesos (ARP)370). On April 10, 2008, the total allowable subsidy was ARP426/MT based on the market price of ARP796/MT and a fixed supply price of ARP370/MT. For more detailed information on the subsidy, see AR7008. This subsidy mechanism has not caused a direct increase in consumption of wheat. However, Post contacts indicate that the program has created incentives for those producers who would have previously opted to trade on the black market, to trade legitimately in order to capture the subsidy payments.

Post forecasts MY2008/09 total domestic wheat consumption stable at 5.48 million tons. Wheat for feed use is estimated at 80,000 tons, while food, seed, and industrial (FSI) consumption is forecast at 5.4 million tons.

Total domestic consumption in MY07/08 is estimated at 5.4 million tons. Wheat for the feed component of the total is estimated at 80,000 tons.

Corn

Post forecasts that total domestic corn consumption for 2008/09 will increase slightly to 6.9 million tons. Post has increased the feed component of consumption by 200,000 tons over the previous year due to increased concentration of cattle on feedlots and more cattle on marginal lands that need to be supplemented. FSI consumption is forecast to remain stable at 1.9 million tons.

Total consumption in MY07/08 is estimated at 6.7 million tons. Corn for the feed component of consumption is estimated at 4.8 million tons.

Rice

Post forecasts domestic rice consumption for MY2008/09 up slightly from the previous year to 315,000 MT due to population increases. Rice is not a staple product for the Argentine consumer and is not well incorporated into the Argentine diet. Per capita rice consumption in Argentina is very stable at approximately 7 -8 kilos (rough basis). Post revised downward the ending stock numbers for 2006 and 2007 due to updated information and Post contacts' knowledge concerning Argentina's typical stock holdover levels.

Sorghum

Post forecasts domestic sorghum consumption for MY2008/09 up slightly from the previous year at 2.4 million tons. Sustained and slightly increased dairy production will raise this consumption level, in addition to increasingly concentrated cattle production on marginal lands that need supplemental feed. Post contacts also indicate the increased production of low-tannin sorghum in some areas that is increasingly used for the domestic poultry industry.

Total consumption in MY07/08 is estimated at 2.3 million tons. Sorghum for the feed component of consumption is estimated at 2.1 million tons.

Trade

Wheat

Argentina's wheat export policy during MY2007/08 has been subject to numerous changes. In November 2007, export taxes on wheat were increased from 20 to 28 percent. With that increase, the GoA also implemented new time requirements between registering export sales and loading of wheat for shipment, which complicates export logistics. The export tax scheme was again modified on March 11, 2008, when a variable export tax was implemented that is calculated daily using a formula based on the government's established FOB price for that day and certain pre-determined trigger values. For a full explanation of the variable export tax scheme see AR8013. Although the applied export tax rate was initially lowered by 0.9 percent, due to higher FOB prices the export tax has increased from the 28 percent applied prior to the March 11 change.

In addition to the increased export taxes, the Argentine government has utilized closures of export registrations as a method of controlling domestic supply. As such, wheat export registrations have been closed for most of the 2007/08 marketing year. Although exports were opened in early November 2007, they were re-closed after 13 days when several frost events hit the main wheat growing regions in Argentina, causing much concern about yield losses. During the 13-day period that wheat registrations were open, a total of more than 7 million tons of wheat were registered for export. Currently, export registrations are closed and it is unclear when they will be re-opened.

Based on MY2008/09 domestic consumption forecast and the forecast for reduced production, above, and the uncertainty of future restrictions to control domestic prices that could further dampen export prospects next year, Post forecasts MY2007/08 wheat and wheat product exports down at 9.2 million tons.

Post estimates MY2007/08 exports at 10 million tons. This export number could be revised as it is unclear for how long export registrations will remain closed and to what extent the government will continue to restrict exports.

Corn

Corn export registrations have also been subject to closure during the 2007/08 marketing year. Due to concerns that export demand, as a result of increased international prices and high world demand, would adversely affect domestic consumer prices of poultry, beef, pork, and dairy, the GOA closed the corn export registry in November 2006. Registrations were re-opened in November 2007. Although registrations are currently open, there are rumors among Post contacts that the registration process could be closed again to moderate the quantity exported.

Export registrations for MY2007/08 corn, which has yet to be completely harvested, have reached 9.536 million tons, compared to the 14 million tons registered for the prior year's crop.

Post forecasts MY2008/09 corn exports at 16.2 million tons, as compared to an estimated 15 million tons in 2007/08, due to expected high export demand and higher expected production.

Rice

Post forecasts MY2008/09 total rice exports at 580,000 tons due to low world stocks, high prices, strong export demand from Brazil, Venezuela, and other markets, as well as an 11-percent increase in production.

Post estimates MY2007/08 milled rice exports at 520,000 tons. Preliminary data from private sources indicate that high prices and export demand has resulted in significant increases in exports for 2007/08 over the previous year.

Sorghum

Post forecasts MY2008/09 sorghum exports up slightly at 1.4 million tons.

Sorghum export registrations for the past two years have been above historical levels. MY2007/08 registrations to date total 1.06 million, compared to the 1.09 million for MY2006/07. Unlike the corn sector, the sorghum export registry has not been closed and will likely result in increased exports, particularly to the EU – where sorghum is used as a substitute for genetically modified corn.

Post forecasts MY2007/08 sorghum exports at 1.3 million tons.

PSD Table

Country **Argentina**

Commodity **Wheat**

							(1000 HA)(1000 MT)(MT/HA)			
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		12/2006	12/2006		12/2007	12/2007		12/2008	12/2008	MM/YYYY
Area Harvested	5285	5200	5285	5600	4800	5600	0	0	5300	(1000 HA)
Beginning Stocks	500	500	500	305	295	305	910	295	910	(1000 MT)
Production	15200	14200	15200	15500	13000	15500	0	0	14700	(1000 MT)
MY Imports	5	5	5	5	0	5	0	0	5	(1000 MT)
TY Imports	5	5	5	5	0	5	0	0	5	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	15705	14705	15705	15810	13295	15810	910	295	15615	(1000 MT)
MY Exports	10500	9500	10500	9500	8100	9500	0	0	9200	(1000 MT)
TY Exports	12210	10000	12210	10000	9500	10000	0	0	9500	(1000 MT)
Feed Consumption	80	90	80	80	80	80	0	0	80	(1000 MT)
FSI Consumption	4820	4820	4820	5320	4820	5320	0	0	5400	(1000 MT)
Total Consumption	4900	4910	4900	5400	4900	5400	0	0	5480	(1000 MT)
Ending Stocks	305	295	305	910	295	910	0	0	935	(1000 MT)
Total Distribution	15705	14705	15705	15810	13295	15810	0	0	15615	(1000 MT)
Yield	2.876064	2.730769	2.876064	2.767857	2.708333	2.767857	0	0	2.773585	(MT/HA)
								TS=TD		
								-295		

PSD Table

Country **Argentina**

Commodity **Corn**

							(1000 HA)(1000 MT)(MT/HA)			
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		03/2007	03/2007		03/2008	03/2008		03/2009	03/2009	MM/YYYY
Area Harvested	2800	2850	2800	3100	3200	3100	0	0	3100	(1000 HA)
Beginning Stocks	1156	556	1156	1656	1056	1656	1456	1056	1456	(1000 MT)
Production	22500	22000	22500	21500	23000	21500	0	0	23500	(1000 MT)
MY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	23656	22556	23656	23156	24056	23156	1456	1056	24956	(1000 MT)
MY Exports	15300	14500	15300	15000	16000	15000	0	0	16200	(1000 MT)
TY Exports	15693	13500	15693	14500	0	14500	0	0	15000	(1000 MT)
Feed Consumption	4800	5100	4800	4800	5100	4800	0	0	5000	(1000 MT)
FSI Consumption	1900	1900	1900	1900	1900	1900	0	0	1900	(1000 MT)
Total Consumption	6700	7000	6700	6700	7000	6700	0	0	6900	(1000 MT)
Ending Stocks	1656	1056	1656	1456	1056	1456	0	0	1856	(1000 MT)
Total Distribution	23656	22556	23656	23156	24056	23156	0	0	24956	(1000 MT)
Yield	8.035714	7.719298	8.035714	6.935484	7.1875	6.935484	0	0	7.580645	(MT/HA)
								TS=TD		
								-1056		

Country Argentina
Commodity Rice, Milled

(1000 HA)(1000 MT)(MT/HA)

	2006 Revised			2007 Estimate			2008 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		04/2007	04/2007		04/2008	04/2008		04/2009	04/2009	MM/YYYY
Area Harvested	162	172	162	180	170	180	0	0	200	(1000 HA)
Beginning Stocks	612	646	107	558	666	80	618	681	70	(1000 MT)
Milled Production	691	765	718	810	765	810	0	0	900	(1000 MT)
Rough Production	1063	1177	1105	1246	1177	1246	0	0	1350	(1000 MT)
Milling Rate (.9999)	6500	6500	6500	6500	6500	6500	0	0	6500	(1000 MT)
MY Imports	10	10	10	10	10	10	0	0	0	(1000 MT)
TY Imports	10	10	10	10	0	10	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	1313	1421	835	1378	1441	900	618	681	970	(1000 MT)
MY Exports	450	450	450	450	450	520	0	0	580	(1000 MT)
TY Exports	436	500	436	500	500	550	0	0	600	(1000 MT)
Total Consumption	305	305	305	310	310	310	0	0	315	(1000 MT)
Ending Stocks	558	666	80	618	681	70	0	0	75	(1000 MT)
Total Distribution	1313	1421	835	1378	1441	900	0	0	970	(1000 MT)
Yield (Rough)	6.561728	6.843023	6.820988	6.922222	6.923529	6.922222	0	0	6.75	(MT/HA)
								TS=TD		
								-681		

PSD Table

Country Argentina
Commodity Sorghum

(1000 HA)(1000 MT)(MT/HA)

	2006 Revised			2007 Estimate			2008 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		03/2007	03/2007		03/2008	03/2008		03/2009	03/2009	MM/YYYY
Area Harvested	620	620	620	700	650	700	0	0	720	(1000 HA)
Beginning Stocks	128	128	128	228	228	228	128	428	128	(1000 MT)
Production	3300	3100	3300	3500	3300	3500	0	0	3750	(1000 MT)
MY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	3428	3228	3428	3728	3528	3728	128	428	3878	(1000 MT)
MY Exports	1000	700	1000	1300	800	1300	0	0	1400	(1000 MT)
TY Exports	949	600	949	1200	700	1200	0	0	1300	(1000 MT)
Feed Consumption	2000	2100	2000	2100	2100	2100	0	0	2200	(1000 MT)
FSI Consumption	200	200	200	200	200	200	0	0	200	(1000 MT)
Total Consumption	2200	2300	2200	2300	2300	2300	0	0	2400	(1000 MT)
Ending Stocks	228	228	228	128	428	128	0	0	78	(1000 MT)
Total Distribution	3428	3228	3428	3728	3528	3728	0	0	3878	(1000 MT)
Yield	5.322581	5	5.322581	5	5.076923	5	0	0	5.208333	(MT/HA)
								TS=TD		
								-428		