

Required Report: Required - Public Distribution

Date: May 12,2020

Report Number: AR2020-0018

Report Name: Fresh Deciduous Fruit Semi-annual

Country: Argentina

Post: Buenos Aires

Report Category: Fresh Deciduous Fruit

Prepared By: Maria Julia Balbi

Approved By: Melinda Meador

Report Highlights:

For MY 2019/20, fresh deciduous fruit production is revised down to 480,000 MT for apples and 550,000 MT for pears due to poor weather conditions. Exports are estimated to increase to 100,000 MT for fresh apples and 300,000 MT for fresh pear exports, unchanged from previous official estimates. Ongoing economic and financial difficulties continue to undermine the competitiveness of Argentine exporters. The COVID-19 pandemic has not had a major impact on the activity of the Argentine deciduous fruit industry.

Executive Summary

Although in MY 2019/20 fresh apple production is projected to decrease to 480,000 MT and fresh pear production to 550,000 MT, Argentina will benefit from lower fruit supply in northern hemisphere countries, which will foster exports this marketing season. For over a decade, apple and pear producers have seen profits dwindle and their financial sustainability erode due to higher production costs and decreased profitability. Large international companies in the fruit sector have sold their farms and facilities to local integrated companies, which have become leaders in the industry. A few large family-owned companies have utilized technology to access new varieties demanded by export markets which has bolstered their financial stability. The remaining operations are surviving tough conditions through greater cost sharing and marketing outreach. Nevertheless, the whole sector remains compromised in its ability to attract investment. Smaller operations, considerably weakened by this trend, have exited the industry, thus increasing sector consolidation. During the past decade, the fresh deciduous fruit sector in Argentina lost 6,300 hectares, apple and pear production decreased by 36 percent, and fruit for processing fell 30 percent, resulting in almost US\$950 million in economic losses (*Source: Diario Rio Negro*).

For MY 2019/20, exports are forecast at 100,000 MT for apples and 300,000 MT for pears. Domestic consumption is expected to decrease to 230,000 MT for apples and 85,000 MT for pears. Due to problems in the Argentine economy, including an ongoing recession and declining international competitiveness of the sector, both consumption and exports have fallen below historical levels. Despite the steep devaluation of the Argentine peso since 2017 that improved the competitiveness of Argentine exports in international markets, major structural problems have raised production costs for local producers and limited Argentina's ability to compete against other Southern Hemisphere competitors, such as Chile, New Zealand, and South Africa.

Production

Apple and pear production is concentrated in Patagonia's Upper Valley in the provinces of Rio Negro (85 percent) and Neuquen (12 percent). The remaining 3 percent is located in the Uco Valley in Mendoza province. Over the last 15 years, the number of producers has fallen about 75 percent. From approximately 9,000 producers in 2005, the industry currently consists of approximately 2,200 producers, 270 packing houses, 260 cold storage facilities and 60,000 direct-hire employees.

Argentina's fruit producers continue to battle a host of production issues that threaten the long-term viability of the industry. Many factors, such as the devaluation of the Argentine Peso, export tax policies, and rising input costs for labor and energy, provide significant challenges to producer profitability. In addition, limited access to capital for reinvestment in orchard health and efficiency practices further limits potential productivity gains. In MY 2018/19, for example, between 30 to 40 percent of apple and pear orchards were not pruned (estimated cost of pruning is \$750 per hectare), and some producers were unable to conduct basic pest control activities, which continued to be difficult to afford during the MY 2019/20 season. These factors have led to a continuing fall in planted and harvested area, below historic levels.

The production cost for a kilogram of apples or pears is around US\$0.25-0.30 with 60 percent of the cost attributable to labor (40 percent packing and 20 percent production) and 40 percent to capital, inputs and service costs (energy, fertilizers, transportation, packaging, customs fees, phytosanitary and quality certifications, etc.)

The MY 2019/20 harvest was carried out smoothly, without major concerns related to the COVID-19 pandemic. As reported by the Argentine Chamber of Integrated Fruit Producers (CAFI in Spanish), the Argentine fruit sector was in the middle of the harvesting season when the COVID-19 pandemic arrived in the country. The national government enacted a mandatory quarantine, but the fruit harvest was declared an excepted activity, allowing the industry to continue working under a stringent protocol. Because fruit operations already operate under strict national and international certification standards, such as Good Agricultural Standards, Good Manufacturing Standards, among others, adapting to the new measures was not difficult. The industry coordinated effectively with Customs and SENASA (national plant health officials) to implement new protocols for packing and shipping thus, most export shipments were able to depart without significant incident or delay. The Argentine apple and pear industry has also not experienced major delays or COVID-19 related logistical problems at destination ports. Post was not able to travel for field observations due to COVID-10 restrictions.

Apples

For MY 2019/20, Post's estimate of fresh apple production is decreased to 480,000 MT, down 70,000 MT or 12.5 percent from USDA official estimates, primarily due to a hail storm in mid-January 2020. For MY 2018/19, Post apple production remained unchanged at 550,000 MT, following latest official data. Production forecasts for both seasons were below historical levels, not only due to poor weather conditions (for MY 2018/19, excess rain, hail, and high humidity levels during the winter and spring of 2018), but also as a result of a gradual decrease of planted area in Rio Negro and Neuquen Provinces (see latest revisions of planted area in Mendoza Province in "Planted Area Section" below).

The main apple varieties in production are Red Delicious (64 percent), Granny Smith (14 percent), Gala (13 percent), Cripps Pink/Pink Lady (6 percent) and others (3 percent). (*Source: Top Info Marketing S.A.*)

Pears

For MY 2019/20, Post forecasts a decrease of fresh pear production to 550,000 MT, down 40,000 MT or 6.5 percent from the USDA estimate of 590,000 MT. The hail storm affecting the main fresh deciduous fruit-growing region of Argentina did not affect pears as much as apples. For MY 2018/19, fresh pear production is revised to 600,000 MT, up 10,000 MT due to revised estimates in the Province of Mendoza, carried out by *Instituto de Desarrollo Rural – IDR* (Rural Development Institute).

The main pear varieties are Packham's Triumph (41 percent), D'Anjou (24 percent), Williams (16 percent), Abate Fetel (6 percent), Bosc (5 percent), and others (8 percent). (*Source: Top Info Marketing S.A.*)

Organic Production

In CY 2018, 4,700 hectares, or 11 percent of the total area planted to apples and pears in Argentina, were certified as organic production. In Rio Negro and Neuquen provinces, organic acreage fell by 27 percent from 2017. Because of their higher production costs, organic apples were particularly impacted as part of the broader crisis affecting the fruit sector (*Source: SENASA - National Service of Agricultural and Food Health and Quality*). Higher production costs for organic fruits are primarily due to the expense of manual pruning, biological weed control, and certification fees.

Planted Area

Planted area has experienced a downward trend, especially for apples, as economic issues influence agricultural land occupation patterns. In the recent years, over 40 percent of orchards have been abandoned or removed from production. Apple orchards in Mendoza province are being transformed into more profitable operations, such as vineyards. In Rio Negro and Neuquen Provinces, urban development is driving land conversion from agricultural to residential uses. Some producers are also uprooting orchards and devoting land to other more profitable crops, such as alfalfa and corn. The oil and gas industry has also leased land formerly in fruit production for exploration and extraction purposes.

MY 2019/20 planted area for apples is forecast at 19,400 hectares, up 100 hectares from revised 2018/19 estimates. For MY 2018/19, planted area for apples was estimated at 19,300 hectares, down 700 hectares from MY 2017/18. MY 2019/20 planted area for pears is projected at 22,000 hectares up 100 hectares from revised MY 2018/19 estimates. MY 2018/19 planted acreage for pears is estimated at 21,900 hectares, down 2,100 hectares from MY 2017/18. Since Post's 2019 Fresh Deciduous Fruit Annual, planted acreage for apples was revised upward, and pear acreage revised downward for MY 2019/20 and 2018/19 on the basis of newly available data.

Structural Reform

Industry sources suggest that, for the apple and pear sector to regain financial viability and profitability in coming years, public and private investment will be needed to fund technological improvements, such as increased mechanization and the adoption of new varieties, and to support regional efficiency through better roads and communications. Additional consolidation may be also required to implement gains in efficiency that can lower production costs to match Argentina's competitors. However, it may be a challenge for stakeholders to reach consensus on structural reform efforts.

Consumption

For MY 2019/20, domestic consumption of fresh deciduous fruit is forecast at 230,000 MT for apples and 85,000 MT for pears, down 10,000 MT and 15,500 MT, respectively, from official estimates, and decreased from historical levels due to a production decrease combined with ongoing economic difficulties and the reduced purchasing power of the Argentine consumer. For MY 2018/19, domestic consumption is revised up 10,000 MT for apples and 5,280 MT for pears from official estimates. Apple consumption totaled 250,000 MT and pear consumption 106,000 MT.

Consumption of deciduous fruit has been falling below historical levels during the past few years, especially for apples, due to the economic recession. The loss of purchasing power by Argentine consumers has led to substitution with less expensive fruit, such as citrus. This competition has intensified since the start of the COVID-19 pandemic as Argentine consumers have sought out citrus fruit in hopes of increasing immune performance through increased intake of Vitamin C. (1 kg of Okitsu tangerines: US\$0.72 – 1 kg of Navel oranges: US\$1.30 compared to 1 kg of Red Delicious apples: US\$1.61 – 1 kg of Bartlett pears: US\$1.23).

Organic Consumption

Contrasting with the general decline in fruit consumption related to the downturn in the Argentine economy, there has been an upward trend toward the consumption of fresh organic products, such as fruit and vegetables, especially in more affluent areas of Buenos Aires in recent years. Fresh organic produce is mostly sold in high-end supermarkets and health food stores targeting upscale consumers with specialized eating habits. Food manufacturers are increasing the volume of organic fruit used in their processed products, such as cereal bars and organic juices.

Processing

Like other parts of the Argentine apple and pear industry, the processing sector has struggled in recent years and the number of active processing companies has fallen. The United States has been the primary destination for Argentine processed fruit exports, principally apple juice concentrate (AJC), but Argentina's relatively high cost of processing has reduced the competitiveness of Argentine AJC in the US market, especially in comparison to China. The remaining processors primarily focus on supplying the domestic market. In some high cost production areas, there have been instances where processors and farmers could not agree on a final price, leaving fruit unharvested in the orchards. In CY 2005, Argentina exported 65,000 tons of AJC and accounted for 17% of the US import market, but for the period CY 2017-2019, Argentina averaged 10,600 tons of AJC per year and 2.8% of the US import market.

Marketing and Distribution Strategies

There are three primary marketing and distribution strategies used by fresh deciduous fruit companies in Argentina. Company size and fruit quality are important determining factors for the strategy chosen.

Export-Oriented, Commodity Production: Large firms from Upper Valley focus on export markets and use the domestic market as a secondary outlet for their products. They usually sell by volume rather than quality. Domestically, their main customers are hyper and supermarkets.

Specialty, Branded Production: Medium-sized firms have carved out niches by focusing on specialized markets, principally domestically, but some also in high-value export markets. These firms, which handle smaller volumes and focus on quality, have developed brands that are well-known both in the domestic and export markets. They regulate their supply to maintain high prices.

Local Retail Oriented, Small Volume Production: Small firms distribute fruit, in small volumes, to pre-established points of sale in larger cities. They usually serve those stores where large exporters and medium-sized firms find it uneconomical to serve. Despite the small individual volumes, these small retailers have access to customers with a high per capita fruit consumption rate.

Trade

Exports

During the first part of the calendar year, Argentine apple and pear exports are primarily destined to overseas markets in the Northern Hemisphere (mainly Russia, the EU, and the U.S.) while later in the year, exports are oriented toward Mercosur countries (mainly Brazil) and other Latin American markets. The United States is a relatively stable market for Argentine apples and pears, especially for organic products.

For MY 2019/20, Post forecasts exports at 100,000 MT for fresh apples, a 10,000 MT increase compared to USDA estimates, but below the previous calendar year exports. For fresh pears, Post's estimate of 300,000 MT remains unchanged from previous official estimates. Despite lower production and the steep currency devaluations in Argentina's primary export markets (the real in Brazil and the ruble in Russia), lower fruit supply in northern hemisphere countries has benefitted Argentine fruit exports to most primary export destinations. However, Argentine exporters continue to be affected by lack of competitiveness in international markets, compared to its Southern Hemisphere competitors, as a result of domestic economic and financial conditions which affect their profitability. These factors include relatively high production costs, high inflation rates, a weakened Argentine peso (raising the cost of imported inputs), and difficulty securing financing even at extremely high interest rates.

For MY 2018/19, exports totaled 111,000 MT for apples, up 20,000 MT or 23 percent from prior estimates, and pear exports were revised to 310,000 MT, up 20,000 MT or 6.8 percent from prior Post estimate. In MY 2018/19, Argentina's apple and pear exports went up by 15.9 percent for apples (111,000 MT), and decreased by 3.2 percent for pears (310,000 MT), respectively, compared to MY 2017/18, despite difficult growing conditions, large fruit supply in the Northern Hemisphere countries, closure of the Brazilian market for two months due to phytosanitary

issues, and strong export competition from Southern Hemisphere competitors, such as Chile, New Zealand and South Africa.

Brazil is traditionally the largest market for Argentina apples and pears. During January-February 2020, apple exports to Brazil increased by 320 percent compared to the same period of CY 2019. That was due to remaining fresh apple stocks from the previous calendar year.

After regaining market access to Brazil in CY 2015 under a strict phytosanitary protocol that addressed the detection of *Cydia pomonella* (Carpocapsa), shipments resumed slowly in CY 2016, but it was not until the CY 2017 marketing season that exports to Brazil regained normal levels despite the stringent phytosanitary conditions. At the end of CY 2018, Brazil closed the market to Argentine apples and pears again due to the detection of *Carpocapsa*, and shipments did not resume until April 2019. The impact on Argentine exports was significant, especially for pears, as over 20,000 MT of fruit exports were lost due to this market closure (in CY 2019, Brazil imported 98,420 MT of pears and 28,058 MT of apples from Argentina).

Some players in the Argentine fresh deciduous fruit industry are concerned that Russia remains the second largest market for Argentine apples and pears, because Russia pays relatively low prices for second quality fruit.

The EU continues to be a significant market for Argentina's fresh deciduous fruit, especially for pears. In addition to favorable pricing, Argentine apples and pears are perceived to have a strong reputation for food safety by European consumers.

Although the Chinese market was opened in CY 2014, Argentine shipments have not been significant due to stringent import requirements. In CY 2019, 784 MT of pears were imported by China (*Source: Trade Data Monitor, LLC*).

Despite gaining access to the Indian market in 2016, exports of Argentine apples and pears remain negligible due to high import tariffs. During CY 2019, 1,993 MT of apples were imported by India (*Source: Trade Data Monitor, LLC*).

Organic Exports

The European Union (specifically the UK and Germany) and the United States have been the key markets for Argentina's organic pears and apples in recent years. The U.S. has been the main destination for Argentina's organic apples. In CY 2018, 17,000 MT of organic apples were exported to global markets, a decrease of 10 percent from CY 2017, due to higher Argentine prices relative to other exporters. While the U.S. market for Argentine organic apples is projected to continue to grow, the rate of growth will slow as the U.S. expands its own organic apple production. Exports to the EU are projected to remain stable. In CY 2018 organic pear exports were 28,000 MT, up 17 percent from 2017.

Imports

Argentina is a significant producer and exporters of apples and pears and, as such, imports of these fruits are normally negligible except when supply or production factors change significantly.

In MY 2019/20, fresh apple and pear imports are forecast at 100 MT, down from the official estimate of 500 MT for both fruits, due to the economic slowdown resulting from the COVID pandemic. In MY 2018/19, apple imports were revised down to 102 MT for apples and 112 MT for pears as worsening Argentine economic conditions and the devaluation of the Argentine peso further reduced the competitiveness of imported fruit in the domestic market.

Policy

Government Support to Producers

The provincial governments of Rio Negro and Neuquen provinces have traditionally provided financial support to apple and pear producers during natural disasters and have subsidized insurance and employment costs, the purchase of agricultural machinery such as harvest platforms, hail protection nets and irrigation equipment, and other operational expenses.

During 2016-2019, the Government of Argentina (at the national level) provided funds to the Provinces of Rio Negro and Neuquen for various programs related to plant health issues for a total amount of US\$12.5 million. The Government of Argentina also supported the fruit sector through the Agricultural Emergency Law, which was passed on May 1, 2017, and included measures to help fruit producers in the Provinces of Rio Negro and Neuquen by providing among other benefits, tax deferrals to struggling producers. In April 2020, senators from fruit producing provinces requested a one-year extension of the law on account of the critical and still unsolved situation for fruit producers in the country.

Import and Export Regulations

On September 4, 2018, in an effort to counter the worsening domestic economic situation, the Government of Argentina announced a series of temporary measures to increase government revenue. Under Decree 793/2018¹, apples and pears became subject to a variable export tax of 4 Argentine pesos for every 1 U.S. dollar, by value or FOB export price, until December 31, 2020. However, on July 11, 2019, the government published Decree No. 464/2019, which reduced the export tax from 4 to 3 Argentine pesos for every 1 U.S. dollar, by value or FOB export price. This measure benefited two-hundred and seven different Harmonized Tariff Schedule codes, including fresh apples and pears. Private sources estimate that the apple and pear sector will save US\$80 million per year as a result of the reduction of the export tax from 4 to 3 Argentine pesos per US Dollar. Despite adjustments to the export tax scheme in December and March made by the new Fernandez Administration, apples and pears were unaffected.

1 <https://www.argentina.gob.ar/normativa/decreto-793-2018-314042/texto>

Below is a table including current tariffs, taxes, and rebates for apples and pears:

Tariffs, Taxes, and Rebates for Argentine Fresh Apples (0808.10) & Pears (0808.30)	
Import Tariff (%) (outside Mercosur)	10.00
Import Tariff (%) (inside Mercosur)	0.00
Statistical Tax (%) Applies to Imports	3.00
Value-added Tax (%)	10.5
Export tax (%)	12.00
Export Rebate (%) Bulk (apples) (*)	3.75
Export Rebate (%) Bulk (pears) (*)	3.50
Additional Export Rebate for Organic Fruit (%) (apples & pears) (*)	0.50
Export Rebate (%) Cases containing between 2.5 Kg. and 20 Kg. (*)	4.75
Cases containing 2.5 Kg. or less (*)	5.25

Source: FAS Buenos Aires based on data from Tarifar

(*) All export rebates apply equally within and outside Mercosur

Marketing

FOB Prices

In CY 2019, average FOB prices for Argentine apples and pears remained lower than in CY 2017 and 2018 and did not experience as pronounced of a seasonal rise during the peak of the marketing season due to higher stocks in the Northern Hemisphere.

Domestic Prices

During 2019, apple and pear domestic prices were lower than during the same period of CY 2018, due to large supplies of fruit that remained in the local market as a result of the decrease in exports compared to CY 2018. Both fruits compete with sweet citrus (oranges and tangerines) in a price-oriented market.

The tables on the following pages show export and retail prices for Argentine deciduous fruit.

FOB Prices (USD/MT) Fresh Apples			
Month	2017	2018	2019
Jan	632	667	646
Feb	857	945	643
Mar	939	1,040	754
Apr	1,080	1,125	822
May	1,108	1,107	860
Jun	1,132	1,078	836
Jul	1,061	709	798
Aug	751	666	737
Sep	700	625	622
Oct	710	607	559
Nov	708	636	579
Dec	663	677	578
Average	862	824	703

Source: FAS Buenos Aires, based on Trade Data Monitor, LLC

Note: Exchange rate: Argentine Pesos 68.50/US\$1

Date of Quote: 04/29/2020

FOB Prices (USD/MT) Fresh Pears			
Month	2017	2018	2019
Jan	880	992	800
Feb	924	991	798
Mar	911	982	788
Apr	904	944	769
May	895	912	780
Jun	906	850	768
Jul	932	838	815
Aug	925	815	766
Sep	939	775	702
Oct	973	766	711
Nov	1,042	767	818
Dec	1,024	770	841
Average	938	867	780

Source: FAS Buenos Aires, based on Trade Data Monitor, LLC

Note: Exchange rate: Argentine Pesos 68.50/US\$1

Date of Quote: 04/29/2020

Retail Prices (US\$/kg)		
	Variety	Price (US\$/kg)
Pears	Packham (Premium)	1.13
	Packham (Standard)	0.67
	Bartlett	1.17
Apples	Red Delicious (Premium)	1.40
	Red Delicious (Standard)	0.88
	Granny Smith (Premium)	1.59
	Rome Beauty (Standard)	1.26
	Gala (Premium)	1.34
	Cripps Pink	1.01
	Golden	1.34

Source: FAS Buenos Aires, based on data from local supermarkets and grocery stores.
Date of Quote: 04/29/2020

The link below to the Buenos Aires Central Market provides updated wholesale apple and pear prices:

<http://www.mercadocentral.gob.ar/paginas/precios-mayoristas>

Apples, Fresh	2017/2018	2018/2019	2019/2020
----------------------	------------------	------------------	------------------

Market Begin Year Argentina	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
	Area Planted	20000	20000	19000	19300	18000
Area Harvested	12500	12500	12000	12200	11400	12250
Bearing Trees	15400	15400	14700	14900	14000	15000
Non-Bearing Trees	2500	2500	2400	2430	2300	2450
Total Trees	17900	17900	17100	17330	16300	17450
Commercial Production	560000	560000	550000	550000	550000	480000
Non-Comm. Production	0	0	0	0	0	0
Production	560000	560000	550000	550000	550000	480000
Imports	2400	2400	400	102	500	100
Total Supply	562400	562400	550400	550102	550500	480100
Fresh Dom. Consumption	250200	250200	240000	250000	240000	230000
Exports	95800	95800	90000	111000	90000	100000
For Processing	216400	216400	220400	189102	220500	150100
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	562400	562400	550400	550102	550500	480100
(HA) ,(1000 TREES) ,(MT)						

Market Begin Year Argentina	2017/2018		2018/2019		2019/2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	24000	24000	23000	21900	22000	22000
Area Harvested	17500	17500	17000	16200	16300	16300
Bearing Trees	15800	15800	15200	14470	14500	14500
Non-Bearing Trees	2800	2800	2700	2570	2600	2600
Total Trees	18600	18600	17900	17040	17100	17100
Commercial Production	580000	580000	590000	600000	590000	550000
Non-Comm. Production	0	0	0	0	0	0
Production	580000	580000	590000	600000	590000	550000
Imports	200	200	800	112	500	100
Total Supply	580200	580200	590800	600112	590500	550100
Fresh Dom. Consumption	100200	100200	100720	106000	100500	85000
Exports	320400	320400	300000	310000	300000	300000
For Processing	159600	159600	190080	184112	190000	165100
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	580200	580200	590800	600112	590500	550100
(HA) ,(1000 TREES) ,(MT)						

Attachments:

No Attachments