Required Report: Required - Public Distribution **Date:** May 18, 2021

Report Number: AR2021-0011

Report Name: Fresh Deciduous Fruit Semi-annual

Country: Argentina

Post: Buenos Aires

Report Category: Fresh Deciduous Fruit

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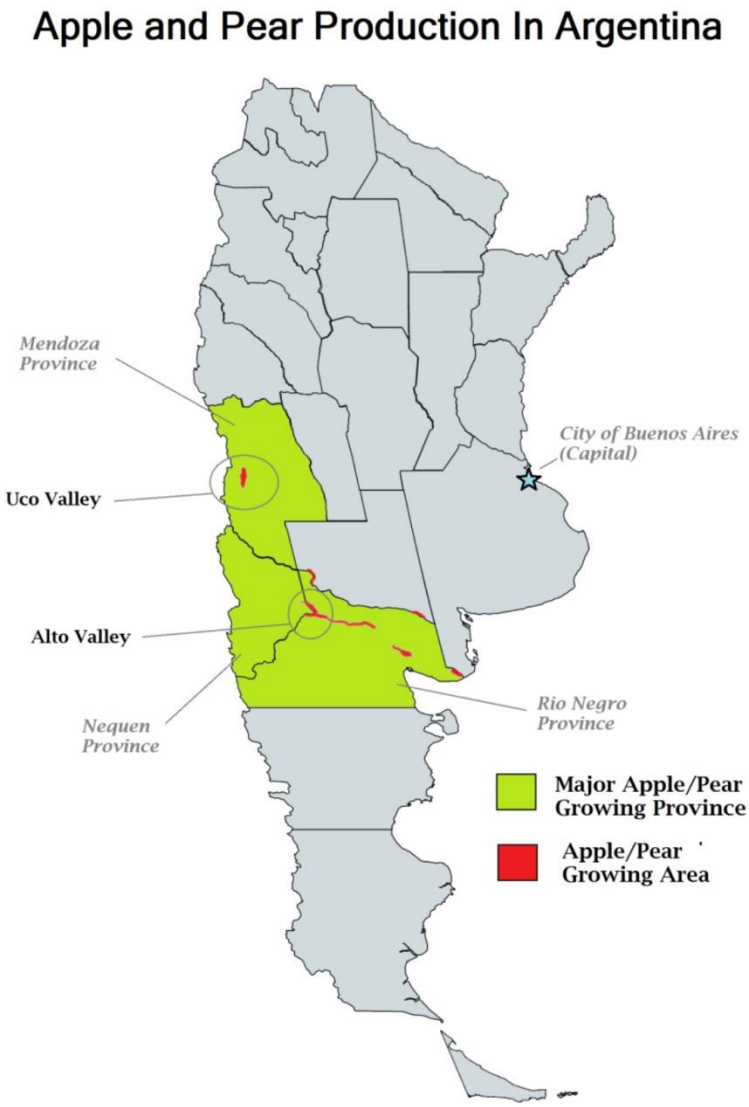
Report Highlights:

For MY 2020/21, Post revises down its estimate for fresh apple production to 560,000 MT. Fresh pear production is estimated to increase to 620,000 MT. Exports are projected to fall to 100,000 MT for apples but remain stable at 320,000 MT for pears, in line with USDA Official. The COVID-19 pandemic has had no major impact on the apple and pear industries due to public-private coordination on stringent protocols. However, ongoing economic and financial difficulties continue to undermine Argentine fruit exporters' competitiveness in international markets.

Executive Summary

MY 2020/21 fresh apple production is projected to decrease 10,000 metric tons (MT) to 560,000 MT while fresh pear production will rise 10,000 to 620,000 MT from USDA estimates. A decade of rising production costs and low profits has eroded the financial sustainability of fresh deciduous fruit producers despite currency devaluations that improved the competitiveness of local exports in international markets. The departure of some key international fruit companies has increased the sector consolidation. The remaining operations are surviving tough conditions through greater cost sharing and marketing outreach but struggle to attract needed investment. Some local operations have utilized technology to access new varieties demanded by export markets to bolster revenue.

For MY 2020/21, exports are forecast to decrease to 100,000 MT for apples and remain unchanged at 320,000 MT for pears due to larger fruit supply in the northern-hemisphere countries. Domestic consumption of apples is estimated to remain stable at 460,800 MT and increase slightly to 300,000 MT for pears due to a production increase, compared to official estimates.



Production

Apple and pear production is concentrated (85 percent) in Patagonia's Alto Valley in Rio Negro Province with some production also in Neuquen (12 percent) Province. The remaining 3 percent is located in the Uco Valley in Mendoza Province. Producer numbers have fallen from approximately 9,000 in 2005 to less than 2,000 today. Currently, the sector has 270 packing houses, 260 cold storage facilities and 50,000 direct-hire employees.

Production issues continue to threaten the long-term viability of the industry. Many factors, such as the devaluation of the Argentine peso 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, producers failed to prune between 30 to 40 percent of apple and pear orchards (estimated cost of pruning is $750 per hectare), and/or treat with basic pest

controls during the MY 2019/20 season. The production cost for a kilogram of apples or pears was estimated at $0.26 by the "Fruit Contractualization Table" (*Mesa de Contractualizacion Fruticola*) 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 not interrupted by COVID-19 restrictions. Although the national government enacted a mandatory quarantine, the fruit harvest was declared an excepted activity, allowing the industry to continue working under a stringent protocol. Because fruit operations are monitored closely pursuant to national and international certification standards, such as "Good Agricultural Practices (GAP)" and "Good Manufacturing Practices (GMP)," 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, exports were shipped without significant delay. Industry sources report no major delays or COVID-19 related logistical problems at destination ports. For MY 2020/21 harvesting and marketing season, protocols are being met without major disruptions and seasonal migrant labor has not faced any challenging situations under COVID-19-related movement restrictions.

Apples

Post's forecast of fresh apple production for MY 2020/21 is revised to 560,000 MT, down 10,000 MT from the official USDA estimate. Despite favorable weather conditions, production is expected to be lower in MY 2020/21 due to the normal lighter production season of the plants lifecycle, which follows last season's heavy blossom. In addition, a lack of investment in the orchards due to challenging economic and financial difficulties for smaller producers has forced them either to abandon their orchards or revert the land to other uses, thus reducing cultivated area.

For MY 2019/20, Post´s estimate for fresh apple production is increased from 570,000 MT to 600,000 MT, from USDA official estimates, as poor weather conditions (especially effects from the hail storm in mid-January 2020) were less severe than expected.

The main apple varieties planted in MY 2018/2019 were Red Delicious (65 percent), Granny Smith (13 percent), Gala (12 percent), Cripps Pink (5 percent) and Rosy Glow A1 (1.5 percent). (Source: SENASA)

Pears

For MY 2020/21, Post estimates pear production at 620,000 MT, up 10,000 MT from official estimates, due to good weather conditions and the natural lifecycle of plants.

For MY 2019/20, fresh pear production was increased to 640,000 MT, up 40,000 MT or 6.5 percent from the USDA estimate of 600,000 MT. Similar to apples, the hail storm affecting the main fresh deciduous fruit growing region of Argentina did not affect pears to the extent initially expected.

The main pear varieties planted in MY 2018/19 were William's (40 percent), Packham's Triumph (29 percent), Beurre D'Anjou (15 percent), and Abate Fetel (5 percent). (Source: SENASA)

Organic Production

In MY 2019/20, of the 39,800 hectares planted to apples and pears in the Provinces of Rio Negro and Neuquen, 3,737 were certified organic[1]

The international demand for organic fruit products continued to grow pulled by the effects of the pandemic where consumers looked to healthier food options. Higher production costs for organic fruits are primarily due to manual pruning, biological weed control and certification fees.

Planted Area

Planted area continues a downward trend, especially for apples, as economic issues influence agricultural land-use patterns. In recent years, producers have abandoned or repurposed over 40 percent of orchards. For example, in Mendoza province, they have been transforming orchards into higher-returning vineyards while other areas are turning to substitutes such as alfalfa and corn. In Rio Negro and Neuquen Provinces, agricultural land is being repurposed into urban development uses. The oil and gas industry has also leased land formerly in fruit production for exploration and extraction purposes.

Planted area for apples and pears in MY 2020/21 is forecast at 18,000 hectares and 20,000 hectares, respectively, compared to USDA estimates. The decrease is the result of the gradual abandonment of land by smaller producers due to the lack of financial resources to make investments to keep their orchards in good condition. In addition, rising production costs prevent the introduction of technological innovations to improve yields and develop new varieties in demand by export markets. For MY 2019/20, planted area declined to 18,800 hectares for apples and 21,000 hectares for pears, from official estimates, following adjustments made by official sources.

Industry sources suggest that, for the apple and pear sector to regain financial viability and profitability, public and private investment is needed to fund technological developments, such as increased mechanization, and the adoption of new varieties, and to support regional efficiency through improved logistics and communication. Additional consolidation may be also required to implement gains in efficiency that can lower production costs to match Argentina's competitors.

[1] *Source*: *Situacion dela Produccion Organica en la Republica Argentina 2020 - National Service of Agricultural and Food Health and Quality – SENASA*

Consumption

For MY 2020/21, domestic consumption of fresh apples is forecast to remain unchanged at 460,800 MT, from previous official estimates. However, consumption will decrease by 6.5 percent compared to MY 2019/20, due to smaller production. Fresh pear consumption is expected to increase to 300,000 MT, up by 3.5 percent from USDA estimates, due to a production increase.

For MY 2019/20, domestic consumption of fresh deciduous fruit totaled 491,800 MT for apples and 299,600 MT for pears, up 41,000 MT and 29,600 MT, respectively. Despite the ongoing economic recession which has tracked with a slide in deciduous fruit consumption, both apples and pears rebounded in MY 2019/20. This was due to consumers changing eating preferences towards more fruit consumption as a part of a healthier lifestyle during the pandemic.

Organic Consumption

In recent years the popularity of fresh organic products has shown an upward trend especially in more affluent areas within the City of Buenos Aires, and other major cities in the interior of Argentina. However, it remains at low levels due to the higher prices charged for organic products, and the need for addition educational and promotional campaigns to highlight the benefits and virtues of these types of products.

It is estimated that, currently, 2.8 percent of organic certified products are devoted for the domestic market. Of that percentage, 47 percent account for zootechnical meal, plum preserves, wheat flour, dehydrated plums, wine, and sugarcane[2].

Fresh organic produce is sold in high-end supermarkets and health food stores targeting upscale consumers. In addition, food manufacturers are increasing the volume of organic fruit in their processed products, such as cereal bars and organic juices.

Trade

Exports

For MY 2020/21, fresh deciduous fruit exports are forecast down to 100,000 MT for apples as a result of a production decrease, and remain stable at 320,000 MT for pears, from official estimates. Exports for both fruits are projected at lower levels than the previous marketing year due to larger fruit supply in the northern hemisphere.
In MY 2019/20, fresh apple exports reached 109,400 MT, 10,600 MT lower than USDA estimates. Fresh pear exports were estimated at 340,400 MT, 10,400 MT higher than official estimates. Despite the steep currency devaluations in Argentina´s primary export markets (the real in Brazil and the ruble in Russia), larger than expected local production and lower fruit supply in northern hemisphere countries benefitted Argentine fruit exports to most of its primary

[2] *Source: Situacion dela Produccion Organica en la Republica Argentina 2020 - National Service of Agricultural and Food Health and Quality – SENASA*

export destinations. However, exporters continue to be affected by a lack of competitiveness in international markets, compared to southern hemisphere competitors, as a result of domestic economic and financial conditions. These factors include relatively steep 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.

During MY 2019/20 apple exports decreased in volume and value by 1.8 percent and 12 percent, respectively, compared with MY 2018/19, while pear exports rose by 10 percent in volume, and 5 percent in value due to a sustained demand in export markets. There is a gradual trend towards orienting apple and pear exports to markets which do not demand higher-quality fruits, such as Russia, Brazil, Paraguay, Peru, Bolivia, Colombia, and Ecuador, and whose proximity has made Argentina´s fruit more competitive. Export volumes to those destinations increased significantly in MY 2019/20.

Generally, during the first part of the marketing year Argentine apple and pear exports are destined to overseas markets in the northern hemisphere (mainly Russia, the EU, and the U.S.) while in the latter part of 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 fruits.

Brazil has traditionally been the largest market for Argentine fresh deciduous fruit, primarily for pears. During MY 2019/20, Brazil accounted for 30 percent of both apple and pear exports sourced from Argentina.

After regaining market access to Brazil in MY 2014/15 pursuant to a strict phytosanitary protocol to mitigate Cydia pomonella (Carpocapsa), shipments resumed slowly in MY 2015/16 and regained normal levels in MY 2016/17 marketing season. At the end of MY 2017/18, however, Brazil closed the market to Argentine apples and pears after a 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 MY 2018/19, Brazil imported 98,420 MT of pears and 28,058 MT of apples from Argentina, compared to MY 2019/20 when Brazilian pear imports from Argentina totaled 101,800 MT, and apple imports reached 32,560 MT).

The second largest market for Argentine fresh pears is Russia accounting for 88,484 MT of total exports, which has historically paid relatively low prices for second-quality fruit. In MY 2019/20, Paraguay became the largest second market for Argentine fresh apples accounting for 19,208 MT of total exports.

The EU continues to be a significant market for Argentina´s fresh deciduous fruit, especially for pears. In addition to favorable pricing, Argentine exporters believe that Argentine apples and pears have a strong reputation for food safety and quality among European consumers.

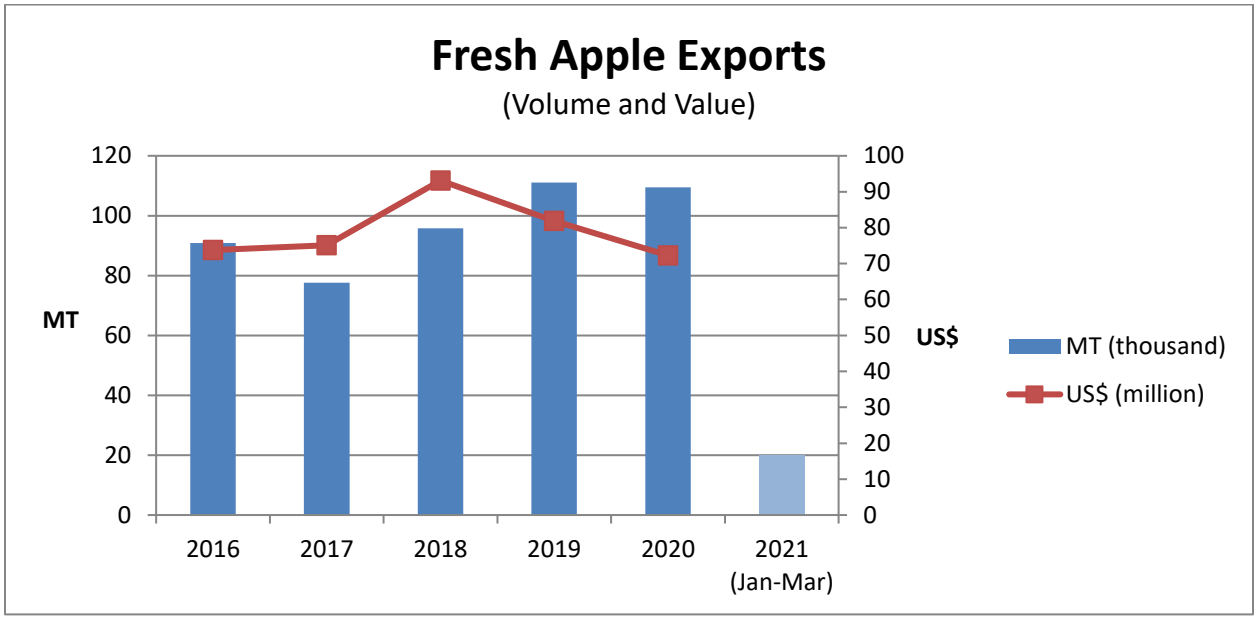
Although the Chinese market was opened in MY 2013/14, shipments have not been significant due to stringent import requirements.

Despite gaining access to the Indian market in MY 2015/16, exports of apples and pears remain negligible due to high import tariffs. During MY 2019/20, 543 MT of apples were imported by India (Source: Trade Data Monitor, LLC).

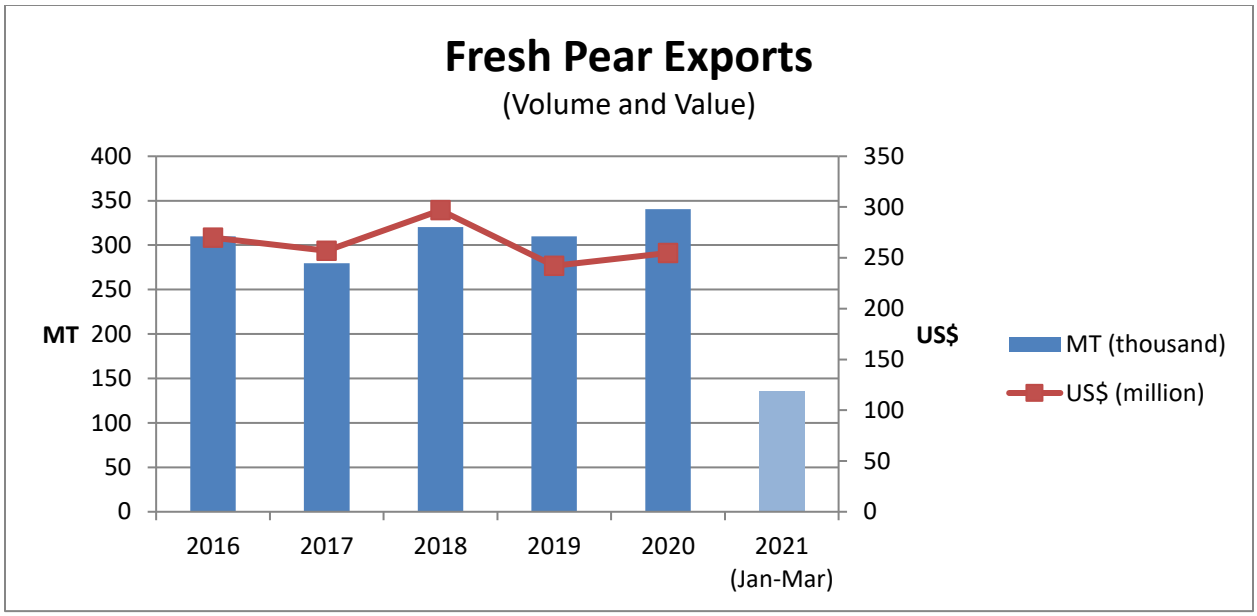
Organic Exports

The U.S. and the EU have been key markets for Argentina's organic pears and apples in recent years. In MY 2019/20, the U.S. was the main destination for Argentina's organic pears and the EU, for organic apples.

In CY 2020, 13,000 MT of organic apples were exported to global markets, a decrease of 29.5 percent from CY 2019, despite lower fruit supply in the northern hemisphere countries. 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 relatively stable. In CY 2020, organic pear exports totaled 24,300 MT, down 9 percent from CY 2019[3]. .



[3] *Source*: *Situacion dela Produccion Organica en la Republica Argentina 2020 - National Service of Agricultural and Food Health and Quality – SENASA*



Imports

Argentina is a significant producer and exporter of apples and pears and, as such, imports of these fruits are normally negligible except when supply or production factors change significantly. In MY 2020/21, fresh apple imports are forecast at 800 MT, in line with official estimates, and Post estimates that there will be no pear imports, compared with the USDA estimate of 100 MT.

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 has also supported the fruit sector under the Agricultural Emergency Law by providing among other benefits, tax deferrals to struggling producers.

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 793/2018, 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. Despite adjustments to the export tax scheme in December and March made by the new Fernandez Administration, apples and pears were unaffected.

On December 31, 2020, the Argentina published Decree No. 1060/2020 (https://www.argentina.gob.ar/normativa/nacional/decreto-1060-2020-345886) in the Official Bulletin modifying or eliminating export taxes for 4,593 HTS codes related to industrial and agricultural products, including fresh apples and pears. The measure was welcomed by the fruit sector as they consider export taxes a trade-distorting measure. However, they anticipate that this measure will not bring immediate improvements to their activity but long-term incentives for new investments (Source: *Camara Argentina de Fruticultores Integrados – CAFI*).

On April 22, 2021, the Federal Tax Administration (AFIP) published General *Resolucion* No. 4974/21 (http://biblioteca.afip.gob.ar/dcp/REAG01004974_2021_04_22) stating reference prices for five varieties of apples between $0.55-0.89/kg, and for five varieties of pears between $0.50-0.88/kg. The goal of this measure is to exert control over apple and pear export prices since they have detected under-invoicing in shipments to certain markets.

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 (%)	0.00
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 2020, despite a sustained demand in export markets, average FOB prices for Argentine fresh apples and pears remained lower than in CY 2019. That was due to an increase of fruit volumes oriented to non-traditional export markets, such as some Latin American countries, which do not demand higher-quality fruits, thus pay lower prices.

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

Fresh Apples - FOB Prices (USD/MT)			
Month	**2019**	**2020**	**Jan-Mar 2021**
Jan	646	567	633
Feb	643	624	538
Mar	754	679	605
Apr	822	783	n/a
May	860	750	n/a
Jun	836	675	n/a
Jul	798	632	n/a
Aug	737	633	n/a
Sep	622	564	n/a
Oct	559	510	n/a
Nov	579	551	n/a
Dec	578	537	n/a
Average	**703**	**625**	n/a

Source: FAS Buenos Aires, based on Trade Data Monitor, LLC
Note: Exchange rate: Argentine Pesos 99.00/US$1
Date of Quote: 05/07/2021

Fresh Pears - FOB Prices (USD/MT)			
Month	**2019**	**2020**	**Jan-Mar 2021**
Jan	800	829	696
Feb	798	783	686
Mar	788	817	695
Apr	769	779	n/a
May	780	717	n/a
Jun	768	671	n/a
Jul	815	664	n/a
Aug	766	660	n/a
Sep	702	671	n/a
Oct	711	713	n/a
Nov	818	698	n/a
Dec	841	746	n/a
Average	**780**	**729**	n/a

Source: FAS Buenos Aires, based on Trade Data Monitor, LLC
Note: Exchange rate: Argentine Pesos 99.00/US$1
Date of Quote: 05/07/2021

Fresh Apple and Pear Retail Prices (USD/kg)		
	Variety	**Price (US$/kg)**
Pears	Packham's Triumph	2.01
	Abate Fetel	1.51
	Red Bartlett	1.81
	Williams (Standard)	1.06
	Williams (Premium)	1.81
	Williams (Organic)	1.81
Apples	Red Delicious (Standard)	1.40
	Red Delicious (Premium)	2.85
	Red Delicious (Organic)	2.42
	Granny Smith (Standard)	1.81
	Granny Smith (Premium)	2.91
	Cripps Pink	1.91
	Rome (Standard)	1.41
	Rome (Premium)	1.91

Source: FAS Buenos Aires, based on data from local supermarkets and grocery stores.

The link below to the Buenos Aires Central Market provides updated wholesale apple and pear prices: http://www.mercadocentral.gob.ar/paginas/precios-mayoristas

Pears, Fresh	2018/2019		2019/2020		2020/2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (HA)	21900	21900	22000	21000	220000	20000
Area Harvested (HA)	16200	16200	16300	15500	16300	14800
Bearing Trees (1000 TREES)	14470	14470	14500	13800	14500	13200
Non-Bearing Trees (1000 TREES)	2570	2570	2600	2480	2600	2400
Total Trees (1000 TREES)	17040	17040	17100	16280	17100	15600
Commercial Production (MT)	600000	600000	600000	640000	610000	620000
Non-Comm. Production (MT)	0	0	0	0	0	0
Production (MT)	600000	600000	600000	640000	610000	620000
Imports (MT)	100	100	0	0	100	0
Total Supply (MT)	600100	600100	600000	640000	610100	620000
Domestic Consumption (MT)	290100	290100	270000	299600	290100	300000
Exports (MT)	310000	310000	330000	340400	320000	320000
Withdrawal From Market (MT)	0	0	0	0	0	0
Total Distribution (MT)	600100	600100	600000	640000	610100	620000
(HA) ,(1000 TREES) ,(MT)						

Apples, Fresh	2018/2019		2019/2020		2020/2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Argentina	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (HA)	19300	19300	19400	18800	19400	18000
Area Harvested (HA)	12200	12200	12250	11800	12250	11360
Bearing Trees (1000 TREES)	14900	14900	15000	14500	15000	13900
Non-Bearing Trees (1000 TREES)	2430	2430	2450	2370	2450	2270
Total Trees (1000 TREES)	17330	17330	17450	16870	17450	16170
Commercial Production (MT)	550000	550000	570000	600000	570000	560000
Non-Comm. Production (MT)	0	0	0	0	0	0
Production (MT)	550000	550000	570000	600000	570000	560000
Imports (MT)	100	100	800	1200	800	800
Total Supply (MT)	550100	550100	570800	601200	570800	560800
Domestic Consumption (MT)	439100	439100	450800	491800	460800	460800
Exports (MT)	111000	111000	120000	109400	110000	100000
Withdrawal From Market (MT)	0	0	0	0	0	0
Total Distribution (MT)	550100	550100	570800	601200	570800	560800
(HA) ,(1000 TREES) ,(MT)						

Attachments:

No Attachments