

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Argentina

Fresh Deciduous Fruit Semi-annual

Fresh Deciduous Fruit Semi-annual 2019

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Report Highlights:

For CY 2018/2019, production of fresh apples and pears is revised upward to 590,000 MT and 600,000 MT, respectively, from official USDA estimates. Exports are forecast to decrease to 90,000 MT for apples and 290,000 for pears due primarily to abundant production in Northern Hemisphere countries and reduced competitiveness of Argentine exports in international markets.

Commodities:

Apples, Fresh

Pears, Fresh

Executive Summary

Although CY2018/2019 production levels will rise higher than initial estimates to 590,000 MT for apples and 600,000 MT for pears, the volumes remain below historical levels as planted area continues to fall. Exports are forecast to fall below official estimates to 90,000 MT for apples and 290,000 MT for pears due to strong external competition and falling competitiveness in the global market. Although domestic consumption will rise slightly to 265,000 MT for apples and remain stable for pears at 100,000 MT for CY 2018/2019, overall consumption is estimated to remain below normal levels due to the economic recession affecting the country.

Production

For CY 2018/2019, Post's production estimate for fresh deciduous fruit is revised up to 590,000 MT for apples and 600,000 MT for pears. Although production levels will be higher than initially expected, production of both fruits will remain below historical levels due to the continuing fall in planted and harvested area. During the winter and spring of 2018, fruit quality and size were negatively impacted by poor weather conditions, including excess rain, hail and high humidity levels.

For CY 2017/2018, production was increased from 520,000 MT to 560,000 MT for apples and from 550,000 MT to 580,000 MT for pears. Although hail storms during the season did not affect fruit volumes as initially expected, they reduced production potential, thus, overall production remained below historical levels.

Apple and pear production is concentrated in Patagonia's Upper Valley of the provinces of Rio Negro (85 percent) and Neuquen (12 percent). The remaining 3 percent is located in the Valle de Uco in Mendoza province. Currently, the industry consists of approximately 2,200 producers, 270 packing houses, 260 cold storage facilities and 60,000 direct-hire employees, a notable reduction from the approximately 9,000 fruit producers of fifteen years ago.

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). 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.

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 falling currency values, export tax policies and rising input costs for labor and energy, prove significant challenges to producer returns. In addition, limited access to available capital for reinvestment in orchard health and efficiency gains further thwarts potential gains in productivity. In CY 2017/2018, for example, between 30 to 40 percent of apple and pear orchards were not pruned, especially for apples (estimated cost of pruning is \$750 per hectare), and some producers were unable to complete activities related to pest control.

The production costs for a kilogram of apples or pears is around US\$0.22 with 60 percent attributable to labor (40 percent packing and 20 percent production) and 40 percent to capital, inputs, and service costs (i.e., energy, fertilizer, transportation, packaging, customs fees, phytosanitary and quality certifications, etc.)

Organic Production

In CY 2018, 11 percent of the 42,000 hectares planted to apples and pears in Argentina were certified as organic production. That same year, the area devoted to the production of organic fruit in Rio Negro and Neuquen Provinces decreased by 27 percent to 4,700 hectares, compared to 2017, especially for apples, due to the crisis affecting the fruit sector (Source: National Service of Agricultural and Food Health and Quality - SENASA). Higher production costs for organic fruits are primarily due to manual pruning, biological weed control and certification fees.

Organic juices and specialty foods, such as cereal bars, are increasing the volume of organic fruit in their products.

Planted Area

For CY 2017/2018, estimated planted area for apples and pears is expected to remain unchanged at 20,000 hectares for apples and 24,000 hectares for pears. No change is forecast in CY 2018/2019 for either fruit, compared to official estimates, although Post estimates a decrease from the previous year of 1,000 hectares for apples and 1,000 hectares for pears.

Planted area has experienced a downward trend, especially for apples, as economic issues influence agricultural land occupation patterns. In the past few years, 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 other cases, urban development is driving land use from agricultural to commercial and residential uses. Some producers are also eradicating orchards and devoting land to other more profitable crops, such as alfalfa and corn.

Factors Affecting the Fruit Sector

For over a decade, apple and pear producers have seen profits dwindle and their financial sustainability erode due to higher operating costs and poor economic conditions. Large players in the fruit sector have sold their farms and facilities to local integrated companies, which have become leaders in the activity. A few large family-owned companies have utilized technology to access new varieties in demand by export markets that has bolstered their financial stability. The remaining operations are surviving tough conditions through greater cost sharing and marketing outreach. Smaller operations, considerably weakened by this trend, have exited the industry, thus increasing sector consolidation. Nevertheless, the whole sector remains compromised in its ability to attract investment and to compete in international markets with stronger Southern Hemisphere competitors, such as Chile and South Africa.

Although during CY 2017/2018, there was a steep devaluation of the Argentine peso that improved the competitiveness of domestic exports in international markets, major structural problems still remain that provide significant challenges for small and medium-size producers. Industry sources report that, for the apple and pear sector to regain financial viability and profitability in the next few years, the following challenges must be addressed:

- Engage in structural change: secure investment in mechanization to improve yields, and the development of new varieties, primarily for apples.

- Improve financial assistance: secure funding to invest in technological improvements.
- Elevate public infrastructure: better roads, communications, energy, social housing, among others.
- Expand vertical integration: highly efficient players, who are environmentally sustainable, will maximize their natural resources, and will survive the crisis, i.e. vertically integrated companies producing high-quality fruit for demanding markets and for higher prices.
- Regain competitiveness: increase production (less area with higher yields) for better export opportunities.

Consumption:

In CY 2018/2019, domestic consumption of fresh deciduous fruit is forecast to increase to 265,000 MT for apples, compared to official estimates, following the increase in production, and it is projected to remain stable for pears at 100,000 MT. However, consumption will remain below historical levels, especially for apples, due to the economic recession.

Domestic consumption in CY 2017/2018 is revised upward for both fruits to 250,000 MT for apples, from the official estimate of 230,250 MT, and to 100,000 for pears, from 90,000 MT, due to larger production.

Distribution Channels

Apple and pear fruit distribution tends to fall into three categories:

- (1) Hyper and supermarkets: Large-scale sales to these outlets by volume rather than quality.
- (2) Niche markets: Sales of branded products recognized in the domestic and export markets and with a higher price point.
- (3) Pre-established points of sale: Small companies handling small volumes distributed to pre-established points of sale in larger cities that serve a high per capita fruit consumption rate.

Trade:

Exports

Argentina exports apples and pears to about 60 markets. For CY 2018/2019, Post's export estimates are decreased to 90,000 MT for fresh apples and to 290,000 MT for fresh pears, from the official estimates of 100,000 MT and 330,000 MT, respectively. From January-March 2019, Argentina's fruit exports (by volume) went down by 36 percent for apples, and by 10 percent for pears over the same period last year. A reduced volume of fruit is being exported to all destinations due to the following reasons:

- An expected increase in the fruit supply in the Northern Hemisphere countries;
- Closure of the Brazilian market for two months at the beginning of the marketing season due to phytosanitary issues;
- Excess rain in the spring of 2018 affected the fruit size and delayed the harvest about two weeks;
- A lack of competitiveness of Argentine exports in international markets; and
- Strong competition from Southern Hemisphere competitors, such as Chile, New Zealand and South Africa, in its traditional export markets.

Apple exports in CY 2018 remained lower than historical levels following a trend of the past few years. Post's estimates are increased slightly from 90,000 MT to 95,000 MT for apples and are decreased from 320,000 MT to 313,000 MT for pears, from official estimates, to reflect final Customs historical data.

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

Although the Chinese market was opened in CY 2014, shipments have not been significant due to stringent import requirements. Despite gaining access to the Indian market in 2016, exports of Argentine apples and pears remain negligible due to high import tariffs.

After regaining market access to Brazil in CY 2015 under a strict protocol that addressed the detection of *Cydia pomonella* (Carpocapsa), shipments resumed slowly in CY 2016. Apple and pear exports to Brazil fell by 9 percent and 17 percent, respectively, compared to CY 2015. However, in CY 2017, exports to Brazil regained more normal levels despite the stringent phytosanitary conditions.

At the end of 2019, Brazil closed the market to Argentine apples and pears again due to the detection of *Carpocapsa*, and shipments resumed after April 10, 2019. The impact on Argentine exports was significant, especially for pears, as over 20,00 MT of fruit exports were lost due to this phytosanitary issue (in 2018, Brazil imported 100,344 MT of pears and 19,635 MT of apples from Argentina at a value of USD\$20 million).

After Russia imposed an import ban on EU fruit in August 2014 (which was extended to December 31st, 2018) Russia sought other sources of supply. Argentina was unable to take advantage of the opportunity to increase exports to the Russian market, especially for pears, due to its lack of competitiveness (e.g. unfavorable exchange rate) and the devaluation of the ruble followed by a recession in the Russian economy. However, in 2018, apple exports to Russia increased by 95 percent

and pear exports increased by 38 percent, compared to the previous year, as a result of reduced fruit availability in the Northern Hemisphere countries.

For organic products, the United Kingdom and the United States are historically key markets for Argentina's organic apples and pears. Overall, the British and German markets are projected to remain stable, and the U.S. market will continue to grow but at a slower pace than in previous years due to an increase in its organic fruit production.

Organic pear exports in CY 2018 increased by 17 percent over last year to 28,000 MT. The main destination for Argentina's organic apples was the U.S. and for pears the European Union. In CY 2018, 17,000 MT of organic apples were exported, a decrease of 10 percent from CY 2017, due to the lack of competitiveness by Argentine exporters in international markets.

Imports

Argentina is a net producer of apples and pears and, as such, imports of these fruits are normally negligible except when supply or production factors change significantly. In CY 2018, apple imports totaled 2,243 MT, mainly from Chile, and only 6 MT of pears were imported from South Korea.

Policy:

Government Support to Producers

In CY 2017, the Argentine government contributed USD\$10 million and the Government of Rio Negro Province of Rio Negro contributed USD\$3.5 million to producer support. The Government of Rio Negro Province also provided subsidies to smaller producers whose farms had been seriously affected by hail storms. The province provided USD\$320 per hectare to producers with 50-100 hectares, and USD\$290 per hectare to producers with 0-50 hectares. In addition, it contributed USD\$1 million to finance a program aimed at eradicating 3,000 hectares of abandoned fruit acreage with phytosanitary problems that posed a risk to the region.

On May 1, 2017, a comprehensive Agricultural Emergency Law included measures to help the fruit producers in the Provinces of Rio Negro and Neuquen by providing tax deferrals for up to one year. Although the temporary assistance was helpful to the industry, significant structural changes are urgently needed for long-term viability.

The provincial governments in Rio Negro and Neuquen have traditionally provided financial support to apple and pear producers across a broad spectrum of circumstances, including natural disasters, insurance and employment costs, purchase of agricultural machinery such as harvest platforms, hail protection nets and irrigation equipment, and other operational expenses.

Import and Export Regulations

In December 2015, the Argentine government lifted export taxes on all fruits. In addition, one year later, export rebates were increased for several products, including apples and pears, to provide support to regional rural economies. Initially, the removal of export taxes had a significant impact in international markets as it made Argentine agricultural commodities more competitive. However, that benefit has largely been offset by high inflation rates and production cost increases. In addition, the government removed a seven percent export rebate for fruit shipped from Patagonian ports in 2017.

Below are tables on current tariffs, taxes, and rebates for apples and pears:

Fresh Apples (0808.10) & Pears (0808.30)	
Within and Outside the Mercosur area (except for the Import Tariff)	
Import Tariff (%) (outside Mercosur)	10.00
Import Tariff (%) (inside Mercosur)	0.00
Statistical Tax (%)	2.50
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

On September 4, 2018, in an effort to counter the worsening economic situation, the government announced a period of broader 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.

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

Marketing:

Prices

In 2018, average FOB prices for apples and pears were lower than 2017 due to a larger fruit supply in the northern hemisphere resulting in increased financial difficulties for the domestic fruit sector and damaging Argentine exporters competitiveness in export markets. The following tables show average export prices for apples and pears:

FOB Prices (USD/MT) Fresh Apples			
Month	2016	2017	2018
Jan	696	632	667
Feb	705	857	945
Mar	805	939	1,040
Apr	862	1,080	1,125
May	904	1,108	1,107
Jun	891	1,132	1,078
Jul	874	1,061	709
Aug	655	751	666
Sep	667	700	625
Oct	721	710	607
Nov	752	708	636
Dec	671	663	677
Average	767	862	824

Source: FAS Buenos Aires, based on data from the Global Trade Atlas

Note: Exchange rate: Argentine Pesos 45.80/USD1

Date of Quote: 05/16/2019

FOB Prices (USD/MT) Fresh Pears			
Month	2016	2017	2018
Jan	794	880	992
Feb	866	924	991
Mar	850	911	982
Apr	880	904	944
May	893	895	912
Jun	927	906	850
Jul	914	932	838
Aug	874	925	815
Sep	834	939	775
Oct	841	973	766

Nov	892	1,042	767
Dec	883	1,024	770
Average	871	938	867

Source: FAS Buenos Aires, based on data from the Global Trade Atlas

Note: Exchange rate: Argentine Pesos 45.80/USD1

Date of Quote: 05/16/2019

Retail prices are as follows:

Retail Prices (USD/kg) – May 2018		
	Variety	Price (US\$/kg)
Pears	Packham (Premium)	1.08
	Packham (Standard)	0.87
	Beurre Bosc	1.31
	Williams	1.07
	Bartlett	1.24
	Abate Fetel	0.76
Apples	Red Delicious (Premium)	1.42
	Red Delicious (Standard)	1.09
	Granny Smith (Premium)	1.58

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

For fresh organic apples and pears, retail prices may vary 5-20 percent higher than prices of conventional fruit, depending on the fruit variety. Organic fruit is sold in the domestic market as conventional fruit when exporters cannot sell them in international markets.

Apples, and Pears, Fresh Domestic Wholesale Prices for all Varieties (USD/kg)							
	2016		2017			2018	
	Apples	Pears	Apples	Pears		Apples	Pears
January	1.26	0.58	1.36	0.80		0.80	0.60
February	1.07	0.76	1.27	0.95		0.78	0.66
March	0.98	0.83	1.09	0.84		0.67	0.66
April	0.91	0.64	1.11	0.91		0.60	0.61
May	0.86	0.55	1.17	0.76		0.58	0.58
June	0.90	0.51	1.21	0.77		0.63	0.57
July	1.03	0.55	1.21	0.80		0.69	0.59
August	1.12	0.54	1.29	0.88		n/a	n/a

