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Government Reshuffles Cabinet and Introduces New Export Taxes

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Report Highlights:

The Argentine government announced a plan to halve the number of Ministries which will bring the Ministry of Agroindustry under the Ministry of Production as a sub-secretariat. Furthermore, the Government will begin imposing variable export taxes on all products and suspend the gradual reduction of the export tax for soybeans amidst a difficult fiscal situation.

Evolving Fiscal Situation Alters Policy Promises

Since the beginning of 2018, the value of the Argentine peso against the US dollar has fallen over 50 percent amidst economic volatility associated with the state of Argentina's economy and fiscal readjustment measures. Due to rising criticism that the Government's measures were not strong enough and additional austerity measures imposed by the International Monetary Fund, the Argentine government recently announced a government reshuffle and a series of new revenue-generating policies intended to regain the confidence of the financial markets and to retain access to currency liquidity. In so doing, the Argentine government reversed its decision to reduce agriculture-export taxes but presented the measures as needed during this transition period. The government further announced that the number of Ministries would be cut in half to gain greater efficiency and cost cutting.

Cabinet Reshuffle Centralizes Policy Making

As part of the government's plan to calm markets and spur confidence, President Macri introduced a dramatic restructuring of the Argentine government that included the merger of 22 Ministries into 10. As part of this plan, the Ministry of Agroindustry is being absorbed into the Ministry of Production and Labor, turning it into a sub-secretariat under the guidance of Production Minister Dante Sica. Former Agroindustry Minister Luis Miguel Etchevehere will remain in the government, now as the head (Secretary) of the Agroindustry Secretariat. Etchevehere defends the new taxes on agricultural exports claiming that they are fair because all export sectors will now be subject to export taxes. Etchevehere added that based on the evolution of prices and inflation, the export tax will be "diluted." Finally, Etchevehere made it clear that this tax is necessary due to the country's "crisis" and lack of funds.[1]

New Export Taxes Aimed at Generating Greater Revenue and Achieving Fiscal Solvency

In August 2018, in an effort to increase government revenue, Argentina issued Decree 757/2018 modifying its campaign pledge to reduce export taxes on soybean oil and soybean meal products by imposing a six-month suspension of the gradual tax reduction announced soon after the new Macri administration took office. (See Graph 2) The gradual reduction of export taxes on soybeans, however, was not suspended. This policy shift received mixed reactions with soybean processors warning of economic losses with producers more optimistic, citing a more level playing field and hopes for better long-term prices.

Nevertheless, due to a worsening and chaotic economic situation, on September 4, 2018, the government announced a period of broader measures to increase government revenue. Under Decree 793/2018, all products will now be subject to variable export taxes,[2] (See Graph 1) except for industrialized and value-added products[3], of 4 Argentine pesos for every 1 U.S. Dollar, by value or FOB export price, until December 31, 2020. Industrialized and value-added products will be taxed at 3 Argentine pesos every 1 U.S. Dollar, by value or FOB export price. Based on the current exchange rate,[4] the export tax for industrialized and value-added products is 8.1 percent.

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[1] https://www.clarin.com/politica/luis-miguel-etchevere-defendio-retenciones-equitativas-discriman-campo_0_rkw-yabOQ.html
[2] https://www.argentina.gob.ar/normativa/decreto-793-2018-314042/texto
[3] Detailed in Annex 2 of 793/2018
[4] 37 Argentine pesos to 1 U.S. Dollar - September 10, 2018

Raw commodities, which include corn, wheat, soybeans and soybean products, will be taxed at 4 Argentine pesos for every 1 U.S. Dollar, by value. This variable export tax is approximately 10.8 percent, based on the current exchange rate. In addition, the government also established a fixed export tax on soybeans and soy products of 18 percent, a reduction from the 25.5 percent and 23 percent for soybeans and soy meal and oil products, respectively. As a result, the effective tax rate for soybeans and soybean products is a combination of the revised export tax rate (18) and the new variable tax rate of 4 pesos for every 1 U.S. dollar, presently at 10.8 present.

Graph 1.

New Variable Export Taxes		
Product	**Export Tax**	**Duration**
Raw Commodities	4 Argentine Pesos for every U.S. Dollar	September 4, 2018 - December 31, 2020
Industrialized Products*	3 Argentine Pesos for every U.S. Dollar	September 4, 2018 - December 31, 2020
Decree 793/2018 (September 4, 2018) *Outlined in Annex 2 of 793/2018		

Graph 2.

Argentine Government's Original Export Tax Reduction Schedule			
Month	**Soy Meal % Export Tax**	**Soy Oil % Export Tax**	**Soybeans % Export Tax**
December 2017	27	27	30
January 2018	26.5	26.5	29.5
February 2018	26	26	29
March 2018	25.5	25.5	28.5
April 2018	25	25	28
May 2018	24.5	24.5	27.5
June 2018	24	24	27
July 2018	23.5	23.5	26.5
August 2018	23	23	26
Decree 1343/17 (January 2, 2018)			
Revised Soybeans and Soybean Products Export Tax			
Duration	**Soy Meal % Export Tax**	**Soy Oil % Export Tax**	**Soybeans % Export Tax**
Sep 2018 – Dec 2020	18	18	18
Decree 757/2018 (August 15, 2018) and Decree 793/2018 (September 4, 2018)			

Graph 3.

Effective Soybeans and Soybean Products Export Tax – September 10, 2018	
Export Tax	**Rate**
Fixed	18
Variable	4 Argentine Pesos per U.S. Dollar (10.8)
Total	**28.8**
Decree 793/2018 (September 4, 2018), based on exchange rate of 37 pesos to 1 U.S. dollar.	

Potential Effects on Agricultural Production and Exports

Politically, these measures allow the Government to affirm its promise to the rural vote to lower soybean and soybean product export taxes (from 25.5 and 23 percent to 18 percent) and incorporate a broader range of products (not just soybeans) in an effort to raise funds to move the country past this transitory period. In any case, the farm sector is expected to adjust to these new policy measures.

Soybeans: Considering the financial implications for soybeans, the new mixture of fixed (18 percent) and variable export taxes (~10 percent) raises the current tax rate from 25.5 to approximately 28, an increase of roughly 3 percent.(See Graph 3) As such, reaction in the soybean sector is not expected to result any dramatic adjustments. Producers and processors are holding an estimated 10-12 million tons of soybean stocks and the recent policy changes are not expected to result in a significant liquidation of these stocks worth $1 billion in government revenue.

Corn: Corn margins will be squeezed due to the addition of the 10 percent tax on exports. Longer-term impacts are complicated as current prices support exports but higher prices domestically from lower supplies and lower returns may alter sales decisions between domestic and export options.

Livestock production: Higher domestic corn prices will raise the cost of production for livestock producers and exporters, another key income base for the government.

Planting: While spring planting decisions are still one to two months away, local contacts indicate that the new tax situation will likely encourage greater soybean planting area. To limit risk, soybean's lower production cost and higher margins are likely to favor them over corn. With interest rates over 60 percent, producers are weary of or incapable of accessing financing (especially dollar dominated ones). Instead, producers are self-financing and/or seeking informal means of financing, such as bartering product for inputs. Speculation abounds that producer's investment in inputs and mechanization next season will be minimal to limit financial exposure which could lower overall production.

Other sectors: As for other key agricultural exports such as meat, horticultural products and wine, the new export tax is not expected to significantly alter export volume for the foreseeable future. Industry contacts report that the sectors will adjust prices to offset the tax impact and secure adequate returns. Nevertheless, these sectors remain highly concerned about the evolving inflation (according to latest projections estimated at 40 percent for 2018) and its potential to raise costs dramatically and lower profitability.

Farmer Reactions

Producer groups continue to express dismay over the suspension of the soybean export tax reduction and the introduction of the new variable export tax, declaring that President Macri has broken his promise to the agriculture sector.[5] These groups claim the new taxes are a "terrible mistake" and that the farm sector already bears an inordinately heavy cost in supporting the national economy, adding that such a move discriminates against a sector that brings in U.S. dollars, and furthermore that this policy has not worked in the past.[6] Farm leaders acknowledge that although the country is going through a difficult economic situation, this move represents a step backwards, highlighting that other sectors are not contributing their share. These groups highlight that this policy change and current exchange rate complicate the financial situation of producers who planned their planting decisions for this season under completely different economic circumstances.[7]

[5] https://www.infobae.com/campo/2018/09/05/una-de-las-entidades-del-campo-critico-al-gobierno-por-el-regreso-de-las-retenciones/

[6] https://www.lanacion.com.ar/2167774-rechaza-campo-suba-impuestos

[7] https://www.minutouno.com/notas/3087311-la-sociedad-rural-y-las-retenciones-hay-sectores-que-no-estan-contribuyendo-debidamente