

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Argentina

Fresh Deciduous Fruit Annual

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Report Highlights:

For 2018/2019, apple and pear production is forecast to increase over last year, despite lower planted area, but remain below historical levels. Apple and pear exports are estimated to rise only marginally due to higher inventory in the northern hemisphere. Domestic consumption for both fruits continues a positive trend.

Executive Summary:

For 2018/2019, apple and pear production is forecast to increase to 530,000 metric tons (MT) and 580,000 MT, respectively. However, volumes are expected to be lower than historical levels due to the decrease in planted area that has been affecting the main apple and pear growing region in Argentina. Exports, although projected to rise to 100,000 MT for apples, and to 330,000 MT for pears, will fail to reach normal levels as large volumes of fruit are expected in northern hemisphere competing countries. Domestic consumption will increase in line with the production increase and as the country recuperates gradually from the economic crisis.

Production:

For 2018/2019, production of fresh deciduous fruit, specifically apples and pears, is forecast to increase to 530,000 MT for apples and 580,000 MT for pears. Production for both fruits will remain lower than historical levels due to lower planted area. During winter and spring of 2018, there were excess rains, high humidity levels, and hail storms, which are not expected to affect volumes but the fruit quality, and plant phytosanitary conditions.

For 2017/2018, apple production is decreased from 530,000 MT to 520,000 MT for apples but increased from 530,000 MT to 550,000 MT for pears. Hail storms during the season reduced production potential, thus, overall production remains below historical levels.

For 2016/2017, Post's estimate for apple and pear production remains unchanged at 560,000 MT and 540,000 MT, respectively, from official estimates.

Apple and pear production is concentrated in Patagonia's Upper Valley of the provinces of Rio Negro (85 percent) and Neuquen (10 percent). The remaining 5 percent is located in the Valle de Uco in Mendoza province. Currently, the industry consists of approximately 2,300 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 have been battling a host of production issues in the past several years that have lowered returns and negatively affected the long-term viability of the industry. Many external factors, such as unfavorable weather conditions, falling currency values and domestic tax policies have impacted producer returns. In addition, rising input costs, such as labor and energy expenses, have reduced available capital needed for reinvestment in orchard health and efficiency gains to increase productivity. In 2017/2018, for example, between 30-40 percent of orchards were not pruned, especially for apples (estimated costs of pruning is \$750 per hectare) and, in 2017/2018 some producers were unable to complete pruning and phytosanitary activities.

The production costs for a kilogram of apples or pears is around USD0.12 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

As reported by Argentina's National Service of Agricultural and Food Health and Quality (SENASA), Patagonia's Upper Valley has over 42,000 organic-certified hectares planted primarily to apples and pears. Private sources estimate that about 10 percent of the total production of fresh apples and pears in the Upper Valley is certified organic. In CY 2017/2018, Rio Negro province expanded its organic-certified fruit area by 64 percent over the year before, with between 2,000-3,000 hectares dedicated to apples and pears.

Higher organic production costs are primarily due to the manual pruning of fruit, biological weed control and certification fees. More successful organic apple producers are those growing varieties such as Cripps Pink (Pink Lady), Granny Smith, and Gala. An increasing volume of organic fruit is utilized in the manufacturing of organic juices and specialty food products, such as cereal bars.

Planted Area

For 2018/2019, planted area is expected to decrease to 19,000 hectares for apples and to 23,000 hectares for pears.

For 2017/2018, area is estimated to remain unchanged for apples at 20,000 MT. Pears are estimated to decrease to 24,000 MT, compared to official estimates. Planted area has been experiencing a downward trend, especially for apples, as economic issues influence agricultural land occupation patterns. In the past three years, 40 percent of orchards have been abandoned or removed from production. For example, 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.

For 2016/2017, planted area remains unchanged at 20,000 MT for apples and 26,500 MT for pears, in line with USDA estimates.

Harvested Area

The decreasing trend for harvested area for both apples and pears continues under the financial strain of ongoing low returns. For 2018/2019, harvested area for both fruits is forecast to fall to 12,400 MT for apples and 17,400 MT for pears over last year. For 2017/2018, harvested area for apples is estimated to remain unchanged at 13,000 hectares but lowered for pears to 18,000 hectares from USDA estimates.

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. Smaller operations, considerably weakened by this trend, have exited the industry, thus increasing sector consolidation. The remaining operations, larger and more integrated, are surviving tough conditions through greater cost sharing and marketing outreach. 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 2017/2018, there was a steep devaluation of the Argentine peso which improved the competitiveness of local exporters in international markets, major structural problems still remain that affect

smaller and medium-size producers. Industry sources report that, for the apple and pear sectors 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 from the national government to invest in technological improvements.
- Elevate public infrastructure: Better roads, communications, energy, social housing, among others.
- Expand vertical integration: Highly efficient players, that are environmentally sustainable and maximize their natural resources, will survive the crisis, i.e. vertically integrated companies producing high-quality fruit for demanding markets for higher prices.
- Regain competitiveness: Increase production (less area with higher yields) for more export opportunities

Consumption:

Domestic consumption of fresh deciduous fruit is forecast to increase slightly in CY2019, based on expectations that newly implemented policy measures support the economy's recuperation, to an estimated 240,000 MT for apples and 100,000 MT for pears.

Domestic consumption in CY 2018 is revised down to 230,000 MT for apples, from the official estimate of 260,000 MT, due to a decrease in production. Pear consumption is projected at 90,000 MT, unchanged from USDA estimates. CY 2017 apple and pear domestic consumption of 260,000 MT and 100,000 MT, respectively, remains unchanged from official estimates.

Distribution Channels

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

- (1) Hyper and supermarkets: Large-scale sellers usually sell to these outlets by volume rather than quality.
- (2) Niche markets: Sellers with branded products that are recognized in the domestic and export market and maintain a higher price point.
- (3) pre-established points of sale: Small companies handle small volumes that are 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 2019, fresh apple and pear exports are projected to increase slightly: for apples, from 230,000 MT to 240,000 MT and for pears, from 320,000 MT to

330,000 MT, compared to the previous calendar year. Although local exporters have become more competitive after the devaluation of the Argentine peso, an expected increase in the fruit supply in the Northern Hemisphere countries will negatively affect domestic exports. In addition, Argentina continues to face strong competition from Southern Hemisphere competitors, such as Chile, New Zealand and South Africa, in its traditional export markets. Thus, exports for both fruits are forecast below historical levels.

From January-September 2018, exports (by volume) increased by 15 percent for apples, and by 8 percent for pears over the same period last year. The European Union (EU) continues to be the most significant fruit export market for apples, followed by Russia and Brazil. Paraguay is a growing market for Argentine fruit, especially apples. Brazil remains the top market for Argentine pears, followed by Russia and the EU. Argentina faces strong competition from South Africa for pear market in the EU.

Apple exports in CY 2018 are expected to remain stable at 90,000 MT in line with official estimates, and pear exports are expected to increase to 320,000 MT, up by 10 percent from USDA estimates, due to lower fruit supplies in the Northern Hemisphere and increased competitiveness of Argentine exporters in international markets.

For CY 2017 exports remained stable at 78,000 MT for apples and 280,000 MT for pears, compared to USDA official estimates.

Partner Country	2016		2017		Jan-Sep 2018	
	USD	MT	USD	MT	USD	MT
World	73,728,574	90,909	75,106,460	77,658	77,281,542	77,787
EU	15,287,934	14,718	22,057,982	17,266	29,114,187	21,211
Russia	73,806,692	9,731	8,729,692	10,985	14,679,326	17,354
Brazil	20,769,058	21,928	12,253,006	12,120	14,145,009	14,676
Paraguay	4,302,383	13,850	5,269,150	12,603	3,381,608	9,589
U.S.	11,923,921	10,738	15,070,093	10,072	9,228,137	6,336

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

Partner Country	2016		2017		Jan-Sep 2018	
	USD	MT	USD	MT	USD	MT
World	270,040,941	310,011	256,971,634	279,623	263,889,070	281,308
Brazil	88,839,559	99,467	82,857,510	91,638	74,892,294	87,007
Russia	48,270,683	64,831	56,536,209	69,942	67,466,119	79,326
EU	55,475,021	63,983	45,907,558	48,322	56,699,774	52,958
U.S.	41,220,029	42,366	38,824,932	35,090	45,013,151	39,811
Canada	7,259,065	7,196	7,910,006	6,400	7,768,098	6,456

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

During the first part of the calendar year, apple and pear exports are destined for overseas markets (mainly Europe and the U.S.) while later in the year, exports are oriented toward Mercosur countries.

The United States is a reliable and stable market for Argentine apples and pears, especially for organic products, whose demand continues to grow steadily.

Although the Chinese market was opened in 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.

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

After Russia imposed an import ban on EU fruit in August 2014 (which was recently 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, from January-September 2018, apple exports to Russia increased by 58 percent and pear exports increased by 15 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 traditional markets for Argentine organic apples and pears. Overall, the British and German markets are projected to remain stable and the U.S. market to continue to grow.

Organic pear exports in CY 2017 fell 9 percent over last year to 24,000 MT. Organic exports are forecast to rise in the next few years on the expectation of a continuing price premium of 40 -50 percent over conventional prices. The main destination for Argentine organic apples and pears is the European Union. Argentina exports all of its organic pears. In CY 2017, 19,000 MT of organic apples were exported, an increase of 8 percent from CY 2016.

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 2017, apple imports totaled 10,000 MT, mainly from Chile, and pear imports totaled 400 MT, primarily from Brazil.

Policy:

Government Support to Producers

In CY 2017, the Argentine government contributed USD\$10 million and the Province of Rio Negro (GRN) USD\$3.5 million to producer support. The GRN also provided subsidies to smaller producers whose farms had been seriously affected by hail storms. It 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 land 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 Upper Valley 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 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 last year.

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 will now be 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. Based on the current exchange rate², the export tax for apples and pears is 11 percent.

Export and Import Restrictions

In 2010, the Argentine government implement an import substitution policy to reduce imports and support domestic production. Under this policy, producers have struggled to obtain imported inputs, such as agrochemicals, and agricultural machinery and equipment, which necessitated the purchase of locally manufactured products (when available), often at higher costs. However, this policy was reversed after the accession of President Mauricio Macri in late 2015.

Marketing:

Prices

From January-September 2018, average FOB prices for apples and pears prices were higher than 2017 (especially during the first few months of the year) due to lower fruit supply in the northern hemisphere. In 2017, average FOB prices for apples and pears were higher than 2016, but still inadequate to cover costs, 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	Jan-Sep 2018
Jan	696	632	667

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

² 36 Argentine pesos to 1 U.S. Dollar – November 16, 2018

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	n/a
Nov	752	708	n/a
Dec	671	663	n/a
Average	767	862	n/a

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

Note: Exchange rate: Argentine Pesos 36.40/USD1

Date of Quote: 11/08/2018

FOB Prices (USD/MT) Fresh Pears			
Month	2016	2017	Jan-Sep 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	n/a
Nov	892	1,042	n/a
Dec	883	1,024	n/a
Average	871	938	n/a

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

Note: Exchange rate: Argentine Pesos 36.40/USD1

Date of Quote: 11/08/2018

Retail prices are as follows:

Retail Prices (USD/kg) – May 2018		
	Variety	Price (US\$/kg)
Pears	Packham (Premium)	1.30
	Beurre Bosc	1.29
Apples	Red Delicious (Premium)	1.97
	Red Delicious (Standard)	1.10
	Granny Smith (Premium)	1.55

	Rome (Standard)	1.65
	Golden Delicious	2.20

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 compete 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	
September	1.26	0.56	1.41	0.94	n/a	n/a	
October	1.22	0.61	1.13	0.75	n/a	n/a	
November	1.40	0.65	1.36	0.77	n/a	n/a	
December	1.50	0.72	1.15	0.86	n/a	n/a	
Annual Avg	1.13	0.63	1.23	0.84	n/a	n/a	

Source: FAS Buenos Aires, based on data provided by the Buenos Aires Central Market

Apples, Fresh Market Begin Year	2016/2017		2017/2018		2018/2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Area Planted	20000	20000	20000	20000	0	19000
Area Harvested	13000	13000	13000	13000	0	12400
Bearing Trees	16000	16000	16000	16000	0	15200
Non-Bearing Trees	2600	2600	2600	2600	0	2500
Total Trees	18600	18600	18600	18600	0	17700
Commercial Production	560000	560000	530000	520000	0	530000
Non-Comm. Production	0	0	0	0	0	0
Production	560000	560000	530000	520000	0	530000
Imports	10000	10000	10000	1750	0	1000
Total Supply	570000	570000	540000	521750	0	531000
Fresh Dom. Consumption	260300	260300	260000	230000	0	240000
Exports	77700	77700	90000	90000	0	100000
For Processing	232000	232000	190000	201750	0	191000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	570000	570000	540000	521750	0	531000
(HA) ,(1000 TREES) ,(MT)						

Pears, Fresh Market Begin Year	2016/2017		2017/2018		2018/2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Argentina						
Area Planted	26500	26500	26500	24000	0	23000
Area Harvested	22000	22000	20000	18000	0	17400
Bearing Trees	20500	20500	18000	16300	0	15600
Non-Bearing Trees	3700	3700	3200	2900	0	2800
Total Trees	24200	24200	21200	19200	0	18400
Commercial Production	540000	540000	530000	550000	0	580000
Non-Comm. Production	0	0	0	0	0	0
Production	540000	540000	530000	550000	0	580000
Imports	400	400	400	0	0	0
Total Supply	540400	540400	530400	550000	0	580000
Fresh Dom. Consumption	100400	100400	90000	90000	0	100000
Exports	279600	279600	290000	320000	0	330000
For Processing	160400	160400	150400	140000	0	150000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	540400	540400	530400	550000	0	580000
(HA) ,(1000 TREES) ,(MT)						