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Report Highlights:

For CY 2019/2020, fresh deciduous fruit production is forecast at 550,000 MT for fresh apples and 590,000 MT for fresh pears, unchanged from revised CY 2018/19 levels. Exports of both fruits are expected to remain stable at 90,000 MT and 300,000 MT. Argentine fruit producers continue to struggle with high production costs and a difficult economic and financial environment.

Executive Summary

Although fresh deciduous fruit production is projected to remain unchanged at 550,000 MT for apples and 590,000 MT for pears in 2019/2020, planted area continues to fall below historical levels. 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 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 2019/2020, exports are forecast at 90,000 MT for apples and 300,000 MT for pears. Domestic consumption is expected to remain at 240,000 MT for apples and 100,000 MT for pears. Although, these numbers are flat relative to 2018/2019, they are below historical levels due to problems in the Argentine economy and the international competitiveness of the sector. Since 2017 there has been a steep devaluation of the Argentine peso that improved the competitiveness of Argentine exports in international markets, but major structural problems have raised production costs for small and medium-sized 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 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.

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 CY 2018/2019, 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. These factors have led to a continuing fall in planted and harvested area, below historic levels.

The production costs for a kilogram of apples or pears is around US\$0.25 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.)

Apples

For CY 2019/2020, Post forecasts apple production at 550,000 MT, unchanged from revised 2018/2019 levels. Although planted area is estimated to continue to decrease, new, more vigorous orchards with higher yields are entering production which, added to favorable weather conditions, are expected to help maintain production levels.

For CY 2018/2019, Post projects apple production at 550,000 MT, down 1.7% from 2017/2018. This revised projection is 40,000 MT less than prior Post and USDA estimates as poor weather conditions including excess rain, hail, and high humidity levels during the winter and spring of 2018 reduced production.

For CY 2017/2018, production remains unchanged at 560,000 MT for apples, in line with official estimates.

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 CY 2019/2020, Post forecasts fresh pear production at 590,000 MT unchanged from revised 2018/2019 levels. As in apples, a return to normal weather conditions is expected to compensate for lower planted and harvested area.

For CY 2018/2019, fresh pear production is projected at 590,000 MT, up 1.7% from 2017/2018. This revised projection is 10,000 MT less than prior Post and USDA estimates as poor weather conditions including excess rain, hail and high humidity levels during the winter and spring of 2018 reduced production below expectations.

For CY 2017/2018, pear production remained unchanged at 580,000 MT, in line with official estimates.

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 % 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% from 2017. Because of their higher production costs, organic apples were particularly impacted as part of the broader 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 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 use 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 purchased and leased land formerly in fruit production for exploration and extraction purposes.

For CY 2019/2020 planted area for apples is forecast at 18,000 hectares, down 5.3%. For pears planted area is forecast at 22,000 hectares down 4.3%.

For CY 2018/2019, planted area for apples is projected at 19,000 acres down 5% from the prior year. For pears planted area is projected at 23,000 hectares down 4.2%.

For CY 2017/2018, planted area remains unchanged at 20,000 hectares for apples and 24,000 hectares for pears.

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, communications, and housing for workers. Additional consolidation may also be required to implement gains in efficiency that can lower production costs to match Argentina's competitors. Due to the

fractured nature of the sector though, it may be difficult for stakeholders to reach consensus on structural reform efforts.

Consumption

For CY 2019/2020, domestic consumption of fresh deciduous fruit is forecast at 240,000 MT for apples and 100,000 MT for pears, unchanged from the previous calendar year, but reduced from historical levels due to ongoing economic difficulties and the reduced purchasing power of the Argentine consumer.

For CY 2018/2019, domestic consumption is projected at 240,000 MT for apples, down 4% compared to the previous year, and revised down 25,000 MT from earlier projections. Pear consumption is projected at 100,000 MT, down very slightly. Consumption of deciduous fruit has fallen below historical levels the last two 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 (1 kg of Murcott tangerines: US\$0.80 – 1 kg of Navel oranges: US\$0.70 compared to 1 kg of Red Delicious apples: US\$1.40 – 1 kg of Packham pears: US\$1.13) and has led to further price reductions (see Marketing).

Domestic consumption in CY 2017/2018 remains unchanged at 250,000 MT for apples, and revised slightly up at 100,200 MT for pears, in line with official estimates.

Organic Consumption

Contrasting with the general decline in 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 within the City 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.

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 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

Argentina exports apples and pears to about 60 markets. During the first part of the calendar year, apple and pear exports are destined to overseas markets in the Northern Hemisphere (mainly Europe, Russia, 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.

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. Initially, Argentina was unable to take advantage of the opportunity to increase exports to the Russian market, especially for pears, due to an unfavorable exchange rate after the devaluation of the ruble and a subsequent Russian economic recession. However, in 2018, Argentine apple exports to Russia increased by 95 percent and pear exports increased by 38 percent as a result of reduced fruit availability in the Northern Hemisphere countries. Some in the Argentine deciduous fruit industry are concerned that Russia has become the second largest market for Argentine apples and pears, because Russia pays relatively low prices for second quality fruit.

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. 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 2018, Brazil closed the market to Argentine apples and pears again due to the detection of *Carpocapsa*, and shipments did not resume April 10, 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 2018, Brazil imported 100,344 MT of pears and 19,635 MT of apples from Argentina at a value of USD\$20 million).

Although the Chinese market was opened in CY 2014, Argentine shipments have not been significant due to stringent import requirements (in January-August 2019, 784 MT of apples were imported by China, as reported by Argentina's National Institute of Statistics - 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 January-August 2019, 1,993 MT of pears were imported by India, as per Argentina's National Institute of Statistics - Trade Data Monitor, LLC).

For CY 2019/2020, Posts forecasts exports at 90,000 MT for fresh apples and 300,000 MT for fresh pears, unchanged from the previous calendar year projection, as Argentine production remains stable and Southern Hemisphere competitors continue to provide strong competition in global markets, despite the weakened Argentine peso.

For CY 2018/2019, exports are projected at 90,000 MT for apples, down 6.1% from revised 2017/2018 levels. Pear exports are projected at 300,000 MT, down 6.4% from revised 2017/2018 levels, but up 10,000 MT, from the USDA estimate of 290,000 MT. From January-August 2019, Argentina's apple and pear exports (by volume) went down by 2% for apples (79,000 MT), and by 4% for pears (266,000 MT) over the same period of the previous calendar year, due to poor growing conditions in Argentina, an unexpected increase in the fruit supply in the Northern Hemisphere countries which tempered imports; closure of the Brazilian market for two months at the beginning of the marketing season due to phytosanitary issues; and strong competition from Southern Hemisphere competitors, such as Chile, New Zealand and South Africa, in Argentina's traditional export markets.

For CY 2017/2018 Post's revises its estimates up slightly to 95,800 MT for apples and 320,400 MT for pears, in line with an adjustment of Argentina's National Institute of Statistics (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, 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 US expands its organic apple production. Exports to the EU are projected to remain stable. In CY 2018 organic pear exports were 28,000 MT up 17% 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 CY 2019/2020, apple imports are projected at 500 MT and pear imports at 0 MT.

In CY 2018/2019, apple imports are projected at 400 MT and pear imports at 80 MT as worsening Argentine economic conditions and the devaluation of the Argentine peso further reduces the competitiveness of imported fruit in the domestic market.

In CY 2017/2018, apple imports totaled 2,243 MT, mainly from Chile, and only 6 MT of pears were imported, all from South Korea.

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.

Import and Export Regulations

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 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.

Marketing

FOB Prices

In 2019, average FOB prices for Argentine apples have remained lower than in 2017 and 2018 and did not experience as pronounced of a seasonal rise during the April-June period, due to higher than expected stocks in the Northern Hemisphere. Argentine pears have also seen lower FOB prices compared to recent past years.

The following tables show average export prices for apples and pears:

FOB Prices (USD/MT) Fresh Apples			
Month	2017	2018	Jan-Aug

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

			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	738
Sep	700	625	n/a
Oct	710	607	n/a
Nov	708	636	n/a
Dec	663	677	n/a
Average	862	824	n/a

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

Note: Exchange rate: Argentine Pesos 59.50/US\$1

Date of Quote: 10/16/2019

FOB Prices (USD/MT) Fresh Pears			
Month	2017	2018	Jan-Aug 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	n/a
Oct	973	766	n/a
Nov	1,042	767	n/a
Dec	1,024	770	n/a
Average	938	867	n/a

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

Note: Exchange rate: Argentine Pesos 59.50/US\$1

Date of Quote: 10/16/2019

Domestic Prices

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

The following tables show retail prices for Argentine deciduous fruit:

Retail Prices (US\$/kg) – October 2019		
	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

Apples and Pears, Fresh						
Domestic Wholesale Prices for All Varieties (US\$/kg)						
	2017		2018		2019	
	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

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

<http://www.mercadocentral.gob.ar/servicios/precios-y-vol%C3%BAmenes/precios-mayoristas-0>

Apples, Fresh 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	20000	20000	19000	19000	0	18000
Area Harvested	12500	12500	12000	12000	0	11400
Bearing Trees	15400	15400	14700	14700	0	14000
Non-Bearing Trees	2500	2500	2400	2400	0	2300
Total Trees	17900	17900	17100	17100	0	16300
Commercial Production	560000	560000	590000	550000	0	550000
Non-Comm. Production	0	0	0	0	0	0
Production	560000	560000	590000	550000	0	550000
Imports	2200	2200	2000	400	0	500
Total Supply	562200	562200	592000	550400	0	550500
Fresh Dom. Consumption	250000	250000	265000	240000	0	240000
Exports	95000	95800	90000	90000	0	90000

For Processing	217200	216400	237000	220400	0	220500
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	562200	562200	592000	550400	0	550500
(HA) ,(1000 TREES) ,(MT)						

Pears, Fresh 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	23000	0	22000
Area Harvested	17500	17500	17000	17000	0	16300
Bearing Trees	15800	15800	15200	15200	0	14500
Non-Bearing Trees	2800	2800	2700	2700	0	2600
Total Trees	18600	18600	17900	17900	0	17100
Commercial Production	580000	580000	600000	590000	0	590000
Non-Comm. Production	0	0	0	0	0	0
Production	580000	580000	600000	590000	0	590000
Imports	200	200	700	80	0	0
Total Supply	580200	580200	600700	590080	0	590000
Fresh Dom. Consumption	100200	100200	100700	100000	0	100000
Exports	313000	320400	290000	300000	0	300000
For Processing	167000	159600	210000	190080	0	190000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	580200	580200	600700	590080	0	590000
(HA) ,(1000 TREES) ,(MT)						

Attachments:

No Attachments