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Report Name: Fresh Deciduous Fruit Annual

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Report Highlights:

For MY 2020/21, apple production is forecast steady at 570,000 MT while pears rise 10,000 MT to 610,000 MT. Exports are estimated to decrease to 110,000 MT for apples and 320,000 MT for pears due to larger fruit supplies in the northern hemisphere fruit-producing countries. The COVID-19 pandemic has not had a major impact on the apple and pear industries due to public-private coordination on new safety protocols. However, ongoing economic difficulties continue to undermine Argentina's competitiveness in international markets.

Executive Summary

MY 2020/21 fresh apple production is projected steady at 570,000 MT while fresh pear production will rise 10,000 to 610,000 MT. A decade long trend of rising production costs and low profits has eroded the financial sustainability of fresh deciduous fruit producers despite a steep devaluation of the Argentine peso that improved the competitiveness of local exports in international markets. Over the past decade, the fresh deciduous fruit sector shrank by 6,300 hectares, with apple and pear production and fruit for processing falling by 36 and 30 percent, respectively, resulting in almost \$950 million in economic losses (Source: Diario Rio Negro).

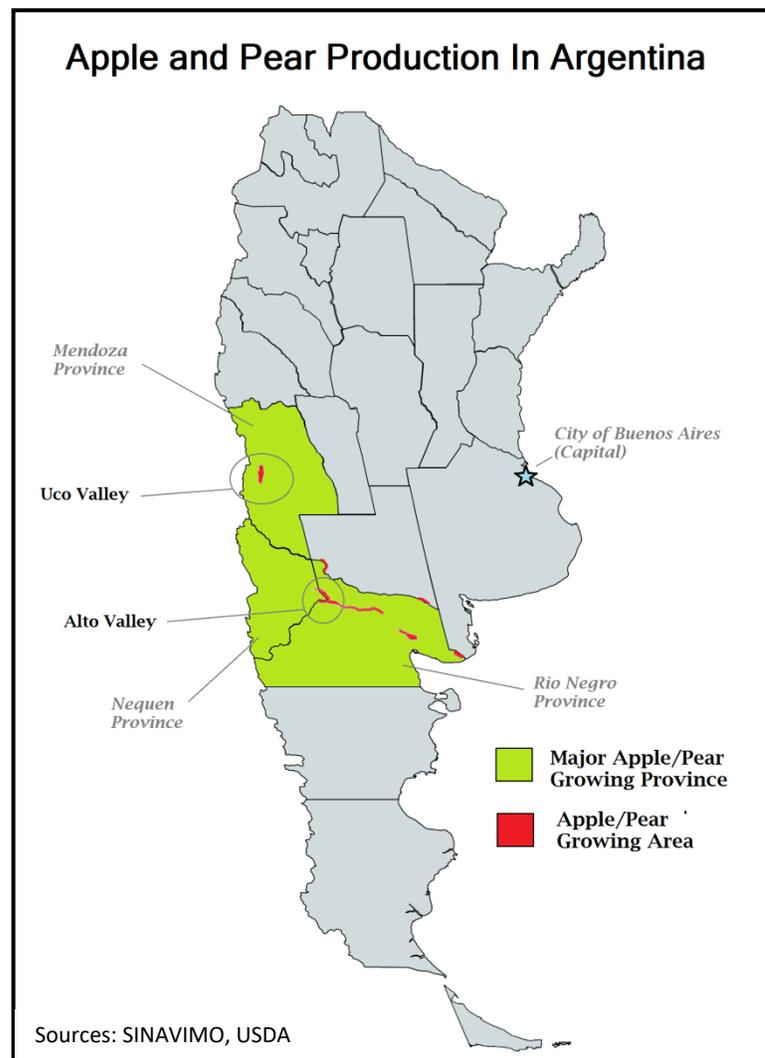
International fruit companies have exited the sector increasing industry consolidation. The remaining operations are surviving tough conditions through greater cost sharing and marketing outreach but struggle to attract needed investment. Some local operations have utilized technology to access new varieties demanded by export markets to bolster revenue.

For MY 2020/21, exports are projected to decrease to 110,000 MT for apples and 320,000 MT for pears due to a larger fruit supply in the northern-hemisphere countries. Domestic consumption is estimated to rise to 460,800 MT for apples and 290,000 MT for pears due to decreased exports.

Production

Apple and pear production is concentrated in Patagonia's Alto Valley in Rio Negro (85 percent) and Neuquen (12 percent) provinces. The remaining 3 percent is located in the Uco Valley in Mendoza province. A declining trend over 15 years has seen producer numbers fall from approximately 9,000 in 2005 to approximately 2,200 today. Currently, the sector has 270 packing houses, 260 cold storage facilities and 60,000 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, 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 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 is around \$0.25-0.30 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.)

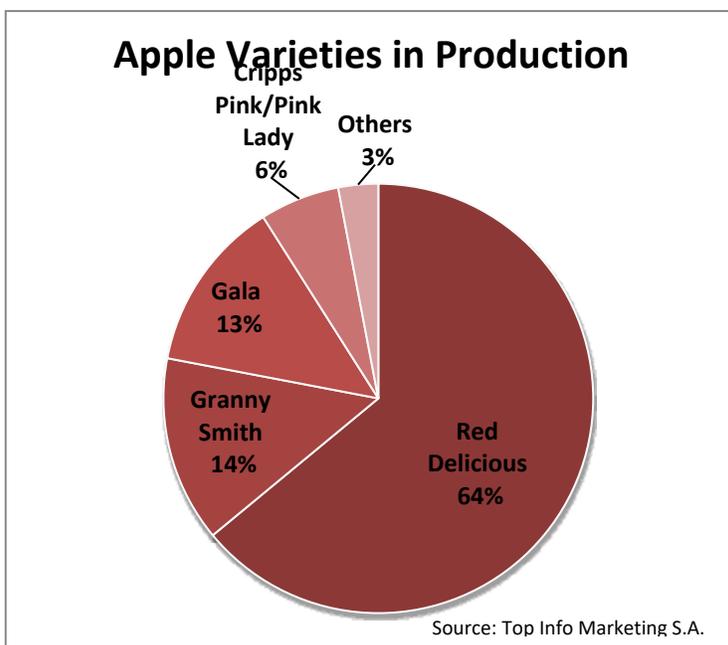
The MY 2019/20 harvest occurred without major disruptions related to covid restrictions. Although the national government enacted a mandatory quarantine, the fruit harvest was declared an excepted activity, allowing the industry to continue working under a stringent protocol. Because fruit operations already operate under strict national and international certification standards, such as Good Agricultural Standards and Good Manufacturing Standards, among others, 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 departed without significant delay. Industry sources report no major delays or COVID-19 related logistical problems at destination ports. For MY 2020/21 harvesting season, the availability of seasonal migrant labor remains uncertain under COVID-19-related movement restrictions.

Apples

Post forecasts apple production in MY 2020/21 at 570,000 MT, even with adjusted figures for the previous marketing year. Production is estimated to continue at normal levels due to good weather conditions.

For MY 2019/20, Post’s estimate of fresh apple production is increased from 480,000 MT to 570,000 MT, from USDA official estimates, as poor weather conditions (especially the effects of the hail storm in mid-January 2020) were less severe than expected. For MY 2018/19, fresh apple production remained unchanged from official estimates at 550,000 MT.

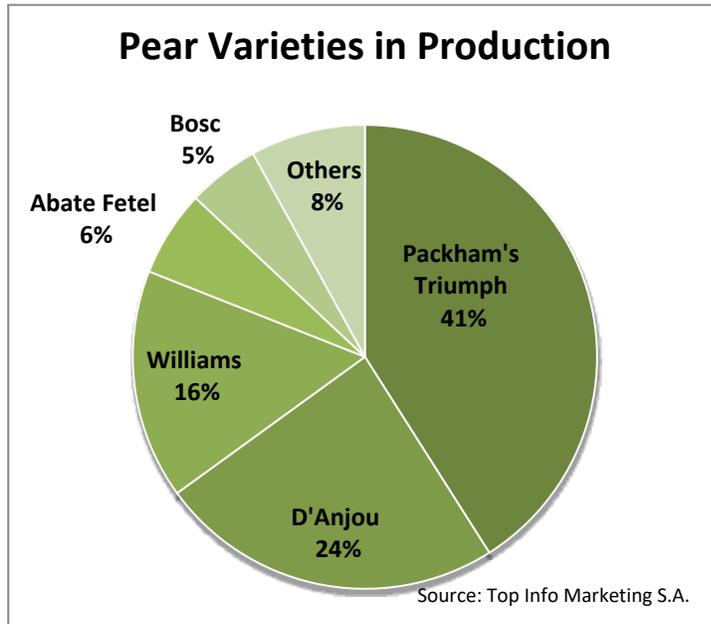
The main apple varieties in production are Red Delicious (64 percent), Granny Smith (14 percent), Gala (13 percent), Cripps Pink/Pink Lady (6 percent) and others (3 percent). (Source: Top Info Marketing S.A.)



Pears

For MY 2020/21, Post estimates pear production at 610,000 MT, down 20,000 MT from MY 2019/20. Production is expected to return to normal levels as a result of favorable weather conditions, but it was

decreased as a result of carry-over stocks from the previous marketing year which increased production during MY 2019/20.



For MY 2019/20, Post forecasts an increase in fresh pear production to 600,000 MT, up 50,000 MT or 9 percent from the USDA estimate of 550,000 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. For MY 2018/19, fresh pear production remained unchanged at 600,000 MT from USDA 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 2019, 10 percent of the 41,200 hectares planted to apples and pears were certified organic. That same year, the harvested area devoted to the production of organic fruit in Rio Negro and Neuquen Provinces was 4,175 hectares, an increase of 9 percent compared to 2018, as a result of the growing international demand for these types of products (Source: *Situacion de la Produccion Organica en la Republica Argentina 2019 - National Service of Agricultural and Food Health and Quality – SENASA*, in Spanish). 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 are transforming orchards into higher-returning vineyards while other areas are turning to substitutes such as alfalfa and corn. In Rio Negro and Neuquen Provinces, they are converting agricultural land into urban development uses. The oil and gas industry has also leased land formerly in fruit production for exploration and extraction purposes.

For MY 2019/20, planted area for apples is forecast to remain unchanged at 19,400 hectares, in line with official estimates, with no change expected for MY 2020/21. MY 2018/19 planted area for apples totaled 19,300 hectares in line with USDA estimates.

MY 2020/21 and MY 2019/20 planted area for pears is estimated unchanged at 22,000 hectares from official estimates. MY 2018/19 planted area for pears totaled 21,900 hectares, in line with USDA estimates.

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 is needed to fund technological improvements, 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.

Consumption

For MY 2020/21, domestic consumption of fresh deciduous fruit is forecast at 460,800 MT for apples and 290,000 MT for pears, up 2.2 percent and 7.4 percent, respectively, from the previous marketing year, primarily due to the reduction in exports.

For MY 2019/20, domestic consumption of fresh deciduous fruit is forecast at 450,800 MT for apples and 300,000 MT for pears. Despite the ongoing economic recession which has tracked with a slide in deciduous fruit consumption, both apples and pears rebounded in MY2019/20, stimulating prices to record high levels, primarily for apples. Consumption of fresh apples and pears during 2019/20 actually exceeded that in the figure above due to higher than normal industry stocks in 2018/19 which were consumed in MY2019/20.

For MY 2018/19, domestic consumption remained stable at 438,102 MT for apples, and 290,112 MT for pears, in line with USDA estimates. As noted above, some consumption recorded from 2018/19 crop actually occurred in 2019/20.

Organic Consumption

Contrasting with the general decline in fruit 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. 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.

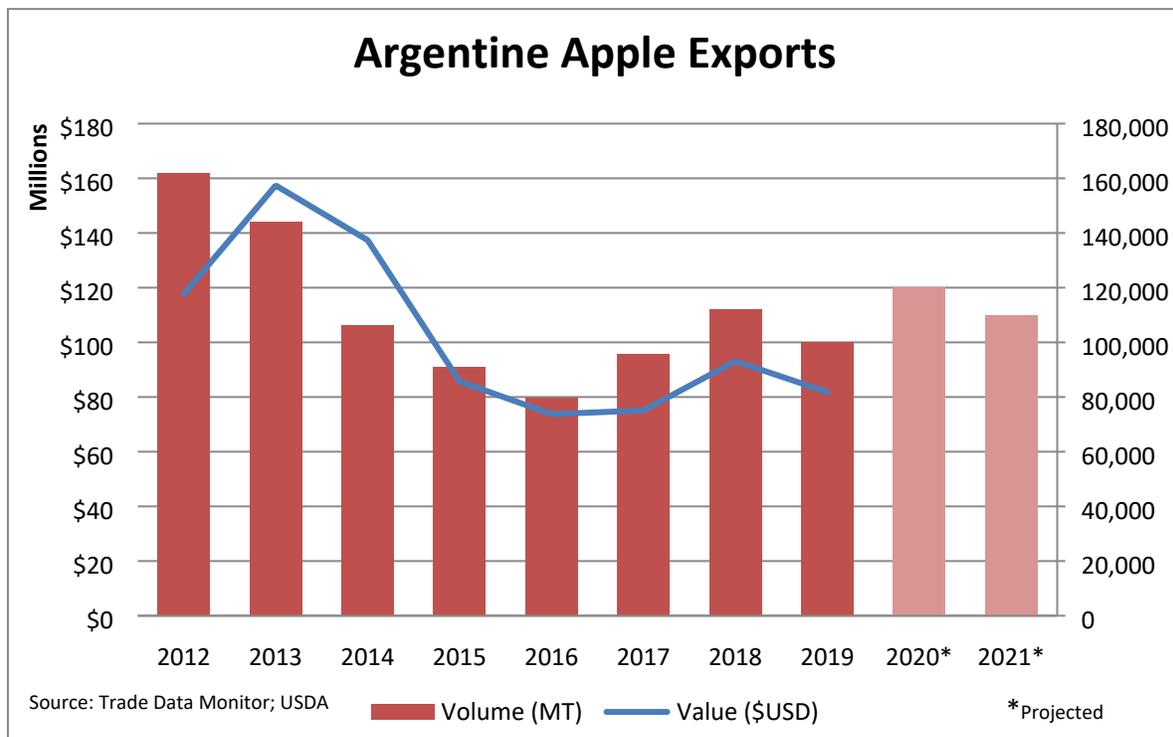
In CY 2019, 3,400 MT of certified organic products of vegetable origin were devoted to the domestic market, of which pears accounted for 33 percent, and apples, 12 percent (Source: *Situacion de la Produccion Organica en la Republica Argentina 2019 - SENASA*, in Spanish).

Trade

Exports

MY 2019/2020 sales reflect a brisk pace reflecting unfilled demand due to insufficient supplies in the northern hemisphere countries. Although during January-August 2020 apple and pears exports increased in volume by 8 percent for both fruits, apple exports decreased in value by 6 percent, and pear exports increased by 4 percent. A gradual trend toward orienting apple and pear exports to markets which do not demand high-quality fruits, such as Russia, Brazil, Paraguay, Peru, and Bolivia, and export volumes to those destinations have increased significantly during MY 2019/20.

During the first part of the marketing year, Argentine apple and pear exports are primarily destined to overseas markets in the Northern Hemisphere (mainly Russia, the EU, and the U.S.) while later in 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 products.

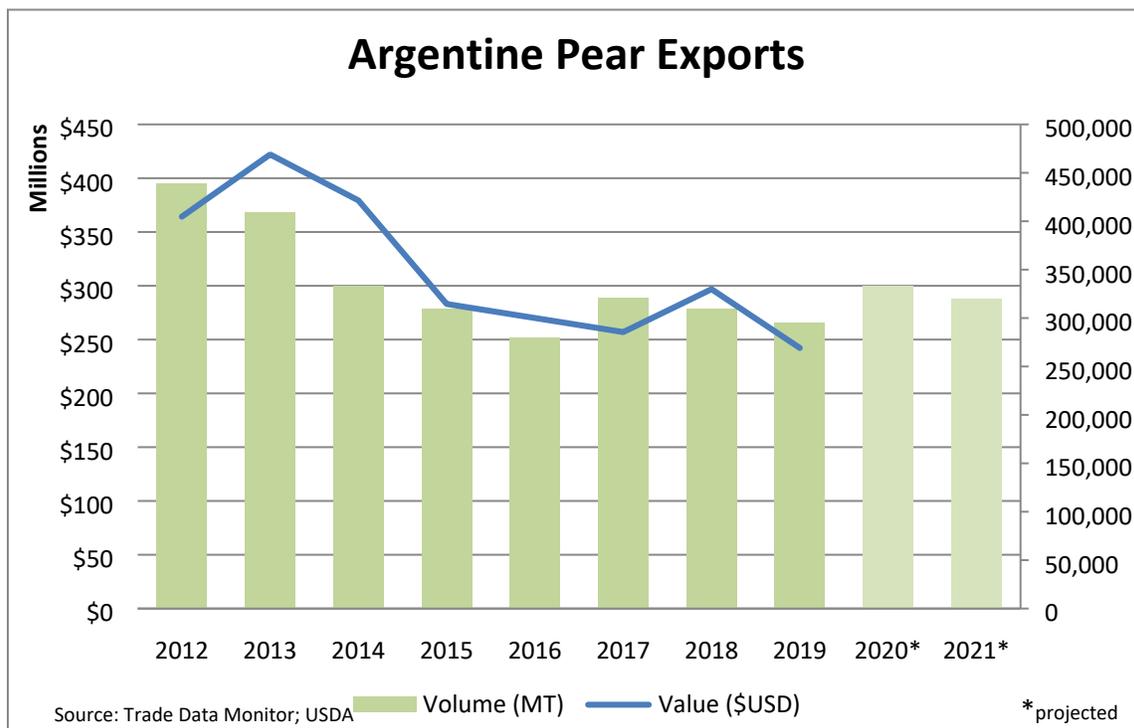


For MY 2020/21, fresh deciduous fruit exports are forecast to decrease to 110,000 MT for apples and 320,000 MT for pears, down 10,000 MT for both fruits, from the previous marketing year, due to a decrease in local production and larger fruit supply estimates in the northern hemisphere fruit-producing countries.

For MY 2019/20, Post projects exports at 120,000 MT for fresh apples, 20,000 MT higher than current USDA estimates. For fresh pears, Post estimates exports at 330,000 MT, 30,000 MT higher than current USDA estimates. Despite the steep currency devaluations in Argentina's primary export markets (the real in Brazil and the ruble in Russia), larger local production than initially expected and lower fruit supply in northern hemisphere countries have benefitted Argentine fruit exports to most primary export destinations. However, exporters continue to be affected by lack of competitiveness in international

markets, compared to Southern Hemisphere competitors, as a result of domestic economic and financial conditions which affect their profitability. 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.

For MY 2018/19, exports remained unchanged at 112,000 MT for apples and 310,000 MT for pears from previous official estimates.



Brazil has traditionally been the largest market for Argentine fresh deciduous fruit, primarily for pears. During January-August 2020, apple exports to Brazil increased by 128 percent compared to the same period of CY 2019 sourced from fresh apple stocks from the previous marketing year.

After regaining market access to Brazil in CY 2015 pursuant to a strict phytosanitary protocol to mitigate *Cydia pomonella* (Carpocapsa), shipments resumed slowly in CY 2016 and regained normal levels in CY 2017 marketing season. At the end of CY 2018, 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 CY 2019, Brazil imported 98,420 MT of pears and 28,058 MT of apples from Argentina).

The second largest market for Argentine fresh deciduous fruit industry is Russia which historically has paid relatively low prices for second-quality fruit.

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 among European consumers.

Although the Chinese market was opened in CY 2014, shipments have not been significant due to stringent import requirements. In CY 2019, 784 MT of pears were imported by China (Source: Trade Data Monitor, LLC).

Despite gaining access to the Indian market in 2016, exports of apples and pears remain negligible due to high import tariffs. During CY 2019, 1,993 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. The U.S. has been the main destination for Argentina's organic apples. In CY 2019, 18,500 MT of organic apples were exported to global markets, an increase of 9 percent from CY 2018, due to 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 2019, organic pear exports totaled 26,700 MT, down 5 percent from 2018 (Source: *Situacion de la Produccion Organica en la Republica Argentina 2019 - SENASA*, in Spanish).

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 2019/20, fresh apple and pear imports are forecast at 100 MT, down from the official estimate of 500 MT for both fruits, due to the economic slowdown resulting from the COVID pandemic. In MY 2018/19, apple imports were decreased to 102 MT for apples and 112 MT for pears as a result of an estimate revision.

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 under the 2017 Agricultural Emergency Law by providing among other benefits, tax deferrals to struggling producers. In April 2020, senators from fruit producing provinces requested a one-year extension of the law due to the critical and still unsolved situation for fruit producers in the country.

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. 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. Despite adjustments to the export tax scheme in December and March made by the new Fernandez Administration, apples and pears were unaffected. 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 (%)	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

(*) All export rebates apply equally within and outside Mercosur

Marketing

FOB Prices

In CY 2019, average FOB prices for Argentine apples and pears remained lower than in CY 2018 and did not experience as pronounced of a seasonal rise during the peak of the marketing season due to higher stocks in the Northern Hemisphere. During January-September 2020, FOB prices for apples were lower than the same period of 2019, and FOB prices for pears were relatively higher.

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

FOB Prices (USD/MT) Fresh Apples			
Month	2018	2019	2020
Jan	667	646	567
Feb	945	643	624
Mar	1,040	754	679
Apr	1,125	822	783
May	1,107	860	750
Jun	1,078	836	675
Jul	709	798	632
Aug	666	737	633
Sep	625	622	564
Oct	607	559	n/a
Nov	636	579	n/a
Dec	677	578	n/a
Average	824	703	n/a

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

Note: Exchange rate: Argentine Pesos 83.85/US\$1

Date of Quote: 10/23/2020

FOB Prices (USD/MT) Fresh Pears			
Month	2018	2019	2020
Jan	992	800	829
Feb	991	798	783
Mar	982	788	817
Apr	944	769	779
May	912	780	717
Jun	850	768	671
Jul	838	815	664
Aug	815	766	660
Sep	775	702	671
Oct	766	711	n/a
Nov	767	818	n/a
Dec	770	841	n/a
Average	867	780	n/a

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

Note: Exchange rate: Argentine Pesos 83.85/US\$1

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Retail Prices (US\$/kg)		
	Variety	Price (US\$/kg)
Pears	Packham (Premium)	1.00
	Packham (Standard)	0.83
	Red Bartlett	0.94
	D'Anjou	0.83
	Beurre Bosc	1.43
	Apples	Red Delicious (Premium)
	Red Delicious (Standard)	1.79
	Granny Smith (Premium)	1.85
	Cripps Pink	2.02

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>

Apples, Fresh Market Year Begins Argentina	2018/2019		2019/2020		2020/2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (HA)	19300	19300	19400	19400	0	19400
Area Harvested (HA)	12200	12200	12250	12250	0	12250
Bearing Trees (1000 TREES)	14900	14900	15000	15000	0	15000
Non-Bearing Trees (1000 TREES)	2430	2430	2450	2450	0	2450
Total Trees (1000 TREES)	17330	17330	17450	17450	0	17450
Commercial Production (MT)	550000	550000	480000	570000	0	570000
Non-Comm. Production (MT)	0	0	0	0	0	0
Production (MT)	550000	550000	480000	570000	0	570000
Imports (MT)	200	102	100	800	0	800
Total Supply (MT)	550200	550102	480100	570800	0	570800
Domestic Consumption (MT)	438200	438102	380100	450800	0	460800
Exports (MT)	112000	112000	100000	120000	0	110000
Withdrawal From Market (MT)	0	0	0	0	0	0
Total Distribution (MT)	550200	550102	480100	570800	0	570800
(HA) ,(1000 TREES) ,(MT)						

Pears, Fresh Market Year Begins Argentina	2018/2019		2019/2020		2020/2021	
	Jan 2019		Jan 2020		Jan 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (HA)	21900	21900	22000	22000	0	22000
Area Harvested (HA)	16200	16200	16300	16300	0	16300
Bearing Trees (1000 TREES)	14470	14470	14500	14500	0	14500
Non-Bearing Trees (1000 TREES)	2570	2570	2600	2600	0	2600
Total Trees (1000 TREES)	17040	17040	17100	17100	0	17100
Commercial Production (MT)	600000	600000	550000	600000	0	610000
Non-Comm. Production (MT)	0	0	0	0	0	0
Production (MT)	600000	600000	550000	600000	0	610000
Imports (MT)	900	112	100	0	0	0
Total Supply (MT)	600900	600112	550100	600000	0	610000
Domestic Consumption (MT)	290900	290112	255100	270000	0	290000
Exports (MT)	310000	310000	295000	330000	0	320000
Withdrawal From Market (MT)	0	0	0	0	0	0
Total Distribution (MT)	600900	600112	550100	600000	0	610000
(HA) ,(1000 TREES) ,(MT)						

Attachments:

No Attachments