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Argentina's Grain Outlook: Challenges for Alfonsin

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A Research Paper

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This paper was prepared by
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US Department of Agriculture.

Comments and queries are welcome and may be
directed to the Chief, Economics Division, OGI,

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Argentina's Grain Outlook: Challenges for Alfonsin

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Summary

Information available as of 8 February 1985 was used in this report.

The year-old government of President Raul Alfonsin is counting on a major expansion in Argentina's grain exports to help it service its $46 billion debt. The new grain program—designed to generate an additional $2-3 billion in annual earnings by the early 1990s—has implications that reach well beyond Argentina's financial health, however. Whether Argentina is successful could well depend on its relationship with the Soviet Union, its largest grain buyer and a key bidder on a number of infrastructure projects.

From a US perspective, a Buenos Aires success in nearly doubling its current grain exports would be a two-edged sword. While attainment of this goal is a necessary condition for setting the Argentine economy back on a long-term growth path, it would also mean keener competition for US grain sellers in markets likely to be glutted for the remainder of the decade. Lost US sales, especially in traditional Latin American markets, would be the result if Buenos Aires were consistently to undercut US prices, as it has promised to do.

To accomplish its grain goal Buenos Aires will have to put in place policies designed to expand planted area and improve yields, and it will have to make sizable investments to modernize and expand grain storage, transportation, and port facilities. The Alfonsin government is already pursuing some new policies and programs to meet these objectives and is likely to be greatly aided in its task by a growing progressive farmer movement.

From an agronomic standpoint we believe that the goal of the program—production of 60 million tons by the early 1990s—is achievable. Consistent annual production between 50 million and 55 million tons appears more realistic, however, given domestic infrastructure constraints and world market demand prospects. Even this outcome would mean a significant advance from current production and export levels.

Among the many hurdles that could derail the program are serious infrastructure shortcomings. Argentina's internal transport, storage, and port facilities are barely adequate to accommodate current production and will need to be expanded considerably to handle the higher production and export volumes that are being planned. A centerpiece project—expansion of the main export terminal for wheat at Bahia Blanca—is a key indicator of the Alfonsin government's commitment to these new grain goals.

Moscow would very much like to engineer this multimillion-dollar project, but, recently, the Alfonsin government has opted to seek World Bank financing for the project. Despite this setback, Moscow continues to push for Argentine purchase of Soviet machinery and technology. In recent weeks, the Soviets have expressed particular interest in the approaching decision on turbine contracts for the Piedra del Aguila hydroelectric scheme. Buenos Aires must tread cautiously in its dealings with Moscow, however, because Soviet grain purchases from Argentina have generated an average of $1.9 billion annually during 1980-83, about half of Argentina's total grain exports in that period. Slowdowns in Soviet grain purchases during the second half of 1984 and protracted negotiations for a long-term grain accord may be an attempt by Moscow to exert leverage on Buenos Aires regarding the purchase of Soviet machinery and technology. Indeed, the USSR-Argentina Long-Term Grain Agreement—guaranteeing Argentina annual grain sales of 4.5 million tons to the Soviet Union—comes up for renewal this year, and we expect Moscow to be an especially hard bargainer. Argentina could ill afford to lose steady grain sales to the USSR and still have hope of meeting its ambitious new grain export goals.

If Buenos Aires's grain program is successful, it would set Argentina on a course toward economic recovery and substantial resolution of its foreign debt obligations. This would improve the financial situation of US banks with large loan portfolios in Argentina and provide an opportunity for expansion of US-manufactured exports to Argentina. On the other hand, increased grain exports by Argentina would add pressure to a world grain market already marked by fierce competition, soft prices, and declining US sales. US-Argentine competition would be particularly intense in the 20-million-ton-per-year Latin American grain market, a market already being targeted by other exporters such as Australia and Canada.

We do not believe Argentina has a good alternative to grains for increasing export earnings by as much as $2-3 billion. While the United States might well benefit from reduced competition from Argentina in Latin American grain markets, it would then have to continue to deal with an Argentina afflicted by lingering economic and political instability. Failure on the grain front would greatly reduce the chances that Argentina could maintain the foundation for the democratic two-party system established by Alfonsin.

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Introduction

The government of President Raul Alfonsin has designated the agricultural sector to be the main engine of growth to help reduce Argentina's foreign debt, pay for imports, and stimulate more intensive development of rural Argentina. The administration's stated goal is to raise annual grain [1] production to 60 million metric tons—about 50 percent above the present level—and channel the bulk of the production increase into export markets.

Whether Argentina fully or only partially meets the goals it has set for grains will have an important bearing on how it resolves its foreign debt obligations. This paper examines the Alfonsin government's commitment—policies and actions—to its grain goals and the major obstacles that have to be overcome. It also evaluates the chances for success and the implications for the United States of potentially greater competition from Argentina in world grain import markets.

Grain—A Key to Export Expansion

Argentina is one of the world's largest grain suppliers (see appendix tables A-5 to A-8), ranking behind only the United States in export sales of corn, sorghum, and soybeans. In the wheat trade, Argentina is the world's fifth-largest exporter and the only one in Latin America. In sunflower seed oil and linseed oil (derived from flaxseed) exports, Argentina is currently leading the world. Grain exports, along with beef, have been for decades Argentina's major source of foreign exchange (table 1). In addition, through export taxes, they provide about one-third of annual government revenues. We believe that the grain economy offers Buenos Aires the best chance for eventually reversing its critical economic situation:

- Argentina has already been successful in significantly increasing grain and oilseed production and exports; sorghum and soybean production have increased by almost 2.2 million tons and 5.5 million

[1] Argentine grain estimates comprise wheat, corn, sorghum, barley, oats, rice, and milled grain as well as the major oilseeds—soybeans, sunflower seed, peanuts, flaxseed, and cottonseed.

Alfonsin and the Grain Sector

An understanding of the evolution of Argentina's farm policies provides a foundation for analyzing the economic and political philosophy of farm programs currently being implemented by the Alfonsin government and provides clues to the grain sector's probable response to current governmental initiatives. Twice during the last 50 years—for periods totaling 15 years—the system was completely government managed and controlled. In the intervening 35 years the system was essentially market oriented, although various aspects were regulated (appendix B). Against this backdrop, the Alfonsin government began its five-year term of office in December 1983 espousing a noninterventionist stance on the grain sector.

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According to press reports, President Alfonsin and his Minister of Economy, Bernardo Grinspun, set three economic goals for the new administration: lower inflation, higher real wages, and faster economic growth. Minister Grinspun has emphasized that exchange rates should be set at levels aimed at boosting exports. Grinspun believes that the Argentine peso was seriously overvalued during the previous regime and that under President Alfonsin the rate should be set to allow for an annual trade surplus of $3-4 billion. A sharp boost in exports—especially grain—and the reduction in import growth implied by this policy are aimed at redressing Argentina's growth and debt repayment problems.

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Policies are aimed at continuing the growth in the grain sector begun by the military, but without the economic distortions that were created—for example, hyperinflation and indebtedness. According to press reports, Foreign Minister Dante Caputo has insisted that efforts be made to seek new markets for grain exports, to reestablish Argentina's presence in regional trade within Latin America, and to back away from overdependence on the Soviet Union as Argentina's principal trading partner.

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Table 1
Argentina: Export Value of Grains and Oilseeds, 1980-84

Billion US $

	Total Exports	Agricultural Exports	Grains	Oilseeds and Products	Grain and Oilseed Exports as Percent of	
					Total Exports	Agricultural Exports
1980	**8.02**	6.01	1.61	1.44	**38**	51
1981	**9.14**	6.84	2.82	1.27	**45**	60
1982	**7.62**	5.42	1.81	1.21	**40**	56
1983	**7.78**	6.05	2.80	1.26	**52**	67
1984 [a]	**8.24**	6.34	2.30	1.40	**45**	58

[a] Estimate.

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tons, respectively, over the last decade. Sunflower seed production has nearly quadrupled as a result of increased acreage and rising use of new high-yield hybrid seed varieties (see figure 1 and appendix tables A-10 to A-14).

- Grain production can be boosted in a short period, thus providing rapid earnings increases in the critical years ahead. By the early 1990s, assuming current grain prices, added exports of 15-20 million tons could generate additional annual earnings of $2-3 billion.

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Keys to Increased Grain Exports

To accomplish its export goal of 35-40 million tons by the early 1990s, a near doubling of current export volumes, Buenos Aires will have to succeed in three areas: increasing grain production; modernizing and expanding storage, transportation, and port infrastructure to handle greater volumes of grain; and marketing grain aggressively and successfully in an increasingly competitive environment and in both traditional and nontraditional markets.

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Increased Production

Production increases can be achieved by increasing output per unit of land and devoting more land to grain production. In political terms, production increases can be encouraged by development of a general faith in the stability of Argentina's future as a leading world grain exporter. This would foster grassroots investment in productive assets by the traditionally conservative, risk-avoiding farm population. Alfonsin may well be aided in his efforts by the recent emergence of a fairly large and growing population of technologically progressive Argentine grain farmers.

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Argentina's farmland is among the best in the world, with a high potential for increased productivity. Yields, however, particularly for wheat and corn, are relatively low compared to those of the United States and have been slow to increase. Argentine wheat yields over the last 15 years, for example, averaged 1.6 tons per hectare, compared with 2.2 tons per hectare for the comparable period for the United States. The difference in corn yields is even more striking, 2.9 tons per hectare for Argentina and 5.9 tons per hectare for the United States. A lack of high-yield hybrid seed varieties and insufficient use of fertilizers—only one-fifth as much on wheat as in the United States—largely explain these yield differences. For soybeans, sunflower seed, and sorghum—all of which expanded significantly during the 1970s and early 1980s—yields are roughly comparable to those in the United States. In fact, for soybeans, which do not require nitrogen fertilizer, Argentine yields are almost 5 percent higher than those of the United States, primarily because Argentina devotes a higher share of its prime arable land to soybeans.

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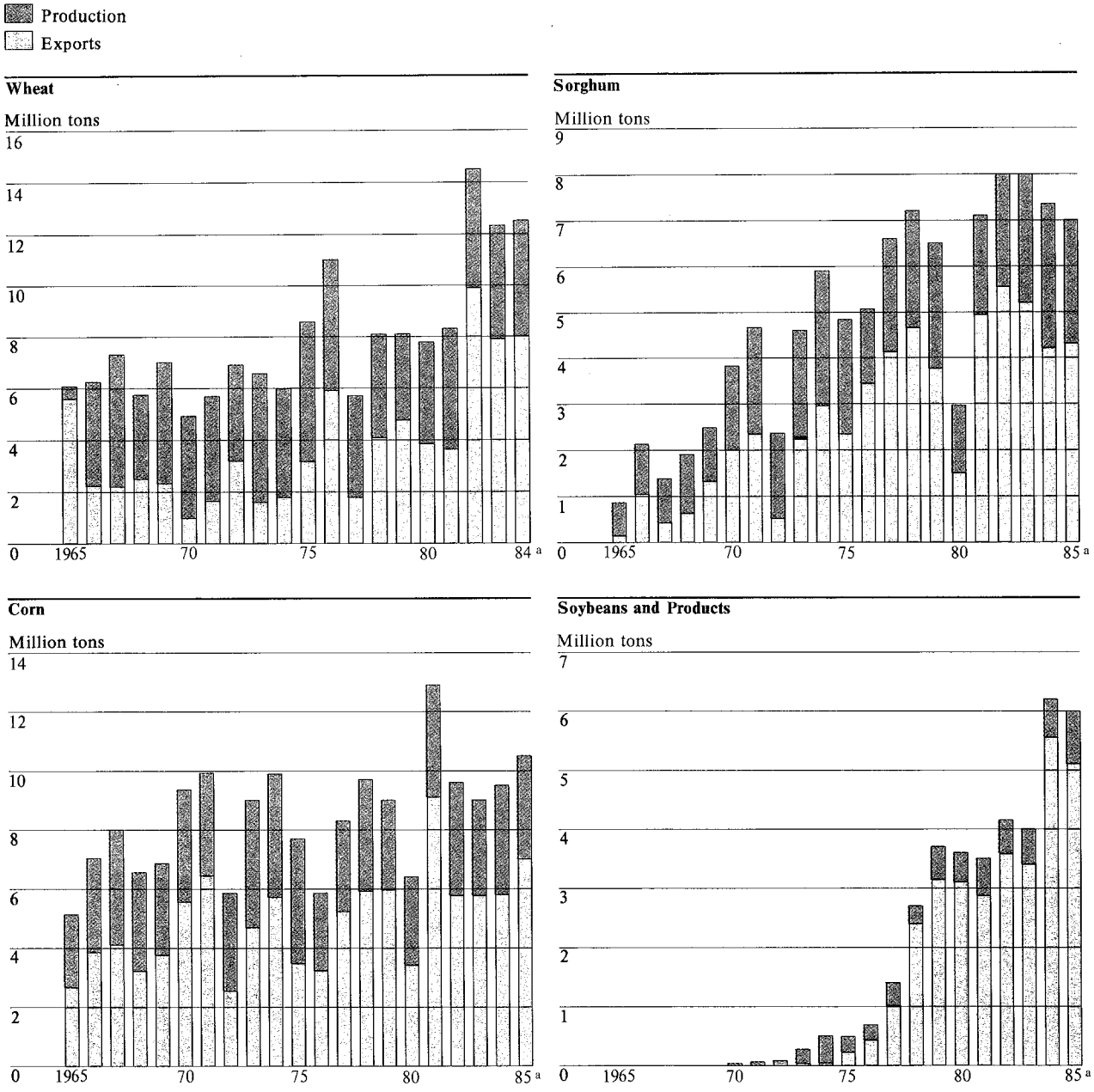
Figure 1
Argentina: Grain Production and Exports, 1965-85



[a] Estimated.

Source: US Department of Agriculture, January 1985.

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Figure 2

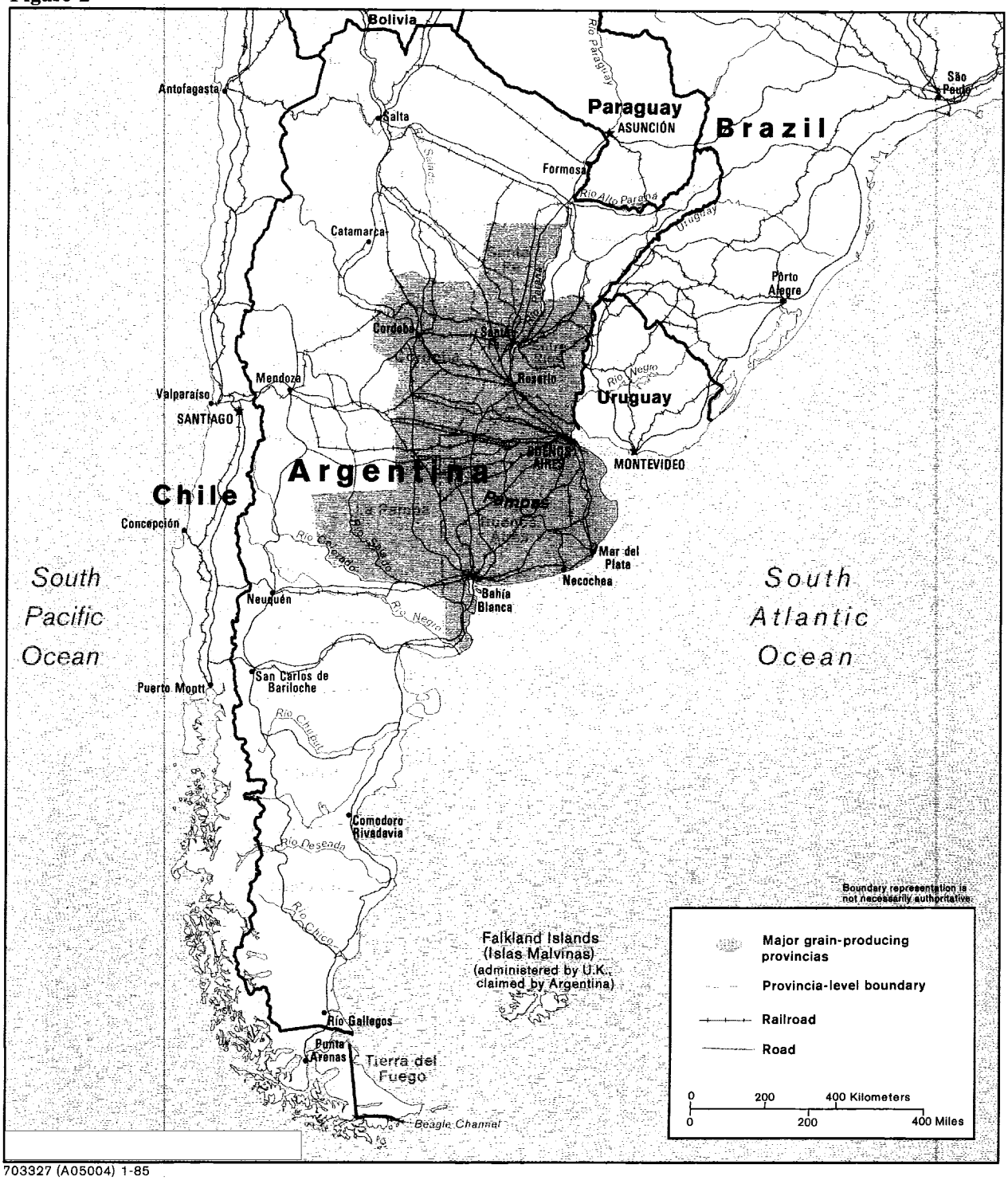

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Table 2
Argentina: Grain Production by Major Producing Province, 1983/84

Million metric tons

Province	Wheat	Corn	Sorghum	Soybeans
Total [a]	**12.3**	**9.5**	**7.4**	**6.2**
Buenos Aires	8.1	4.1	1.4	1.4
Santa Fe	1.8	1.3	1.1	2.5
Cordoba	1.2	2.5	2.4	1.7
La Pampa	0.8	0.3	0.7	NA
Others	0.1	1.3 [b]	1.8 [c]	0.6 [d]

[a] Estimated totals for 1985/86: wheat, 12.5 million tons; corn, 10.5 million tons; sorghum, 7.0 million tons; and soybeans, 6.0 million tons.
[b] Includes 0.6 million tons from San Luis Province.
[c] Includes 0.5 million tons from Entre Rios Province and 0.5 million tons from Santiago del Estero Province.
[d] Includes 0.2 million tons from Tucuman Province.

With respect to potential expansion of cultivated areas, much of the prime agricultural land in Argentina is already under cultivation—most of it in a crop-livestock rotation of some kind. Traditionally, Argentine farmers plant crops for eight years followed by four years in pasture to nourish and rest the soil. This area in rotation amounts to about 30 million hectares, most of it in the humid Pampas of east-central Argentina (see figure 2). The Provinces of Buenos Aires, Santa Fe, Cordoba, La Pampa, and Entre Rios have accounted for approximately 90 percent of annual wheat, corn, sorghum, and soybean production in recent years (see table 2).

Although most of the land area outside the Pampas is marginal for grain crop farming, an additional 6-8 million hectares—about one-third of present grain acreage—potentially could be brought into cultivation:

- Underdeveloped wooded land totaling 3-5 million hectares is available in Tucuman, Salta, and western Santiago del Estero Provinces in northwest Argentina. According to a recent USDA study, this land is suitable for dryland grain production or cattle grazing. Little or no marketing infrastructure, however, is in place to service this area.
- Significant areas of potential farmland are also available in northern Santa Fe Province and part of southern Chaco Province. Poor drainage and high levels of mineral salts in the soil make the region unsuitable for anything other than very extensive cattle grazing, but proper drainage and fertilizer could turn it into good cropland.
- Sizable potential new agricultural land also exists in the Rio Salado basin in east-central Buenos Aires Province. Located in a depression and currently being used for cattle raising, it will continue to be unsuitable for crops until it is properly drained. 25X1

Production Policies

The Alfonsin regime is already pushing several programs designed to boost grain production, according to US Embassy reporting. To reduce farmers' production costs, the Argentine Government has reduced the value-added tax on fertilizer and herbicides from 18 percent to 5 percent, abolished the 25-percent import duty on nitrogen-based fertilizer, established a fertilizer-for-wheat program whereby farmers are entitled to pay for urea with wheat at the rate of 2.5 units of wheat for 1 unit of urea (based on relative prices, Argentine wheat producers are accustomed to paying as much as 10 units of wheat for 1 unit of urea, compared with 3.8 to 1 in the United States), and authorized the National Bank of Argentina to provide short-term production loans to cover grain and oilseed planting expenses. 25X1 25X1

To increase the availability of modern grain production technologies, especially in the areas of seed technology and crop rotation, Buenos Aires also has taken several important steps. It has increased research funds through the National Institute of Agricultural Technology (INTA) to develop and distribute high-yield, fertilizer-responsive, hybrid seeds. Particular attention is being given to development of hybrid corn adaptable to the shorter growing seasons of some of the southern provinces and sorghum varieties suitable for the dryer areas of the western and northwestern provinces. The administration also is trying to improve dissemination of information on agronomic 25X1

techniques such as crop rotations. INTA researchers have found that fertilization programs—coupled with winter-summer rotations such as wheat-soybeans, fallow-soybeans, or fallow-corn—can lead to higher yields over time and improved soil conservation. Finally, programs are being implemented to improve wheat quality and to raise its protein content to make Argentine wheat more attractive—and more valuable—to foreign buyers.

Other recent measures are designed to improve grain farming profitability and thus are likely to have the greatest immediate impact. Some of the most important policy changes recently implemented include:

- Early establishment of the annual wheat support price. For 1984 the announcement was made in April, prior to the May-August planting season. In the past, support prices were not usually announced until shortly before the beginning of the wheat harvest in mid-November. Support prices are adjusted at harvest in line with inflation and international price variations.

- An increased export tax differential between soybeans and soybean products. This move is aimed at improving crushing industry profit margins—thus encouraging exports of products and increasing domestic employment in the expanding oilseed crushing industry.

- Reduction in the export tax on wheat from 25 percent to 19.5 percent. Taxes on the other grains are currently set at 26.5 percent. Moreover, an increased share of export tax revenues from grain and oilseed crops is to be returned to the agricultural sector through capital investment programs, increased funding of applied agricultural research, and increased credit assistance—especially for medium and small farms. Beginning last April, 1.5 percent of all grain export taxes has been earmarked for INTA for expanding agricultural research and extension.

The measures announced to date provide an indication of the Alfonsin government's commitment to increase production within existing fiscal constraints. The channeling of a greater share of export taxes derived from agriculture into that sector departs sharply from policies of the Peronist government, which sought to fund industrialization by decapitalizing the agricultural sector. If followed through, the new agricultural policy initiatives, coupled with policies aimed at solving the hyperinflation problem, should result in a vibrant, growing farm sector. 25X1

Production Prospects and Problems

With consistent year-to-year increases in the use of hybrid seed and fertilizer, we believe Argentina should be able to achieve a substantially higher level of productivity from its grain sector. In addition, the outlook for a continued contraction in Argentine meat exports, as a consequence of reduced import demand in Europe and heightened competition for major Middle East beef markets, appears to favor a shift in land use away from pasture and into grain acreage. 25X1

Recent press reports indicate that such a shift is already under way 25X1
in the Pampas and appears to be accelerating, particularly among progressive young farmers who have formed an organization to help the government's extension service disseminate modern agricultural know-how. With increased use of fertilizer and the adoption of modern crop rotation, Argentine farmers in the productive Pampas could increasingly move away from traditional crop-livestock rotation to greater reliance on grain alone (appendix C). 25X1

Despite these favorable long-term prospects, the Alfonsin government recently has received sharp criticism from the farm sector. According to press reporting, the president of the Rural Confederation of Argentina recently stated that grain producers are disoriented because the government has yet to enact a coherent farm policy. Humberto Volando, president of the Agricultural Federation of Argentina, protests that inflation—now running at about a 700-percent annual rate—is eroding producer profit margins and has complicated capital spending and planting decisions. In early October, Jorge Moronta, vice president of the Rural Confederation of Argentina, noted that farmers will plant less because of the lack of government credit guarantees for seed, fertilizer, agrichemicals, and storage facilities. The government responded to these criticisms with an early announcement of 25X1

minimum prices for several summer crops and by promising to boost the availability of fertilizer and ordering the Central Bank to provide special production credit lines to farmers.

Responding to pressure from the livestock industry, the Alfonsin government ended the 15- to 20-percent export tax on beef exports on 1 October 1984. Pressure from the grain sector for export tax reductions continues, however. We believe it highly unlikely in the short run, because of budget constraints, that the government will increase price support operations or significantly reduce grain export taxes; the focus will remain on lessening production costs and on reducing marketing costs by improvements in infrastructure.

In the longer run, the Alfonsin government is committed to reducing agricultural export taxes in order to stimulate increased production. According to the Alfonsin government's five-year economic plan issued in early January, duties on agricultural exports are to be gradually reduced. To counteract the reduced revenues and to further stimulate production, a new land tax is planned that will place a heavy tax burden on those who hold valuable agricultural land without cultivating it.

In part because of remaining uncertainties in Alfonsin's farm policies, we believe that the production goal of 60 million tons, while achievable agronomically, appears somewhat overoptimistic. A somewhat smaller advance to 50-55 million tons by the early 1990s seems more probable—largely because of more modest farmer response to production expansion incentives. This production growth could be accomplished, for example, with a 20-percent increase in both average yield and harvested area for the major grains, including soybeans and sunflower seeds. USDA analysts estimate that by raising yields to near US levels, Argentine production of wheat and corn would double, sunflower seed output would increase by one-third, and sorghum by one-fifth.

Improved Storage and Transport Systems

The second area where Buenos Aires must make marked improvements is the grain storage and transport system. Of the 35-40 million tons of grain produced annually, about 5 million tons remain on the farms where grain is produced, about 9 million tons are marketed domestically, and some 20-25 million tons are exported. These levels are already straining the limits of existing storage, transport, and port facilities (appendix D). In our opinion, Argentina must undertake an extensive upgrading and expansion program, or it will fail to meet its production and export goals:

- *Grain storage,* both in the countryside and at port terminals, is inadequate, creating major inefficiencies in the overall grain transportation system. Recent government estimates set total bulk grain storage at about 29 million tons; however, industry sources indicate that the quality and state of disrepair of many silos make them unusable, reducing the effective storage to about 20 million tons.

- Costs of *truck transport,* which carries close to 60 percent of grain to market, are high because of the poor condition of many rural roads, according to a recent USDA study. *Rail transportation* of grain—while generally cheaper than trucking—is often slower because of structural and equipment problems: the rail system has three different track gauges, which limit railcar switching; rail lines and yards were built to handle only about 10 million tons; tracks are in generally poor condition, reducing operating speed; and a large part of the boxcar fleet is made up of small, old railcars, which reduces efficiency.

- Aside from physical grain storage capacity limitations at *port terminals* and a general lack of modern grain-handling equipment, World Bank studies have determined that the major problem of ports is the shallow draft of the sea and river channel accesses and the depth of the water alongside loading piers. Heavy rains often cause additional silting, especially along the Parana River, further reducing navigability and limiting the size of grain ships that can load—typically around 35,000 tons, compared with the more efficient 50,000- to 60,000-ton vessels that can be used in other countries' grain trades.

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Closeup on Current Production Prospects

Wheat

Following erratic weather during the May-August planting season and a 14-percent decline in expected harvest area, near-ideal growing conditions in the latter part of the crop cycle along with increased use of fertilizer have pushed up this year's wheat crop estimate to 12.5 million tons, compared with 14.5- and 12.3-million-ton crops produced the previous two seasons. The quality of the crop is rated as good overall, yielding export availabilities of about 8 million tons.

Argentine officials had hoped for a crop comparable to the record crop of 1982/83. However, this mild setback for wheat is expected to be temporary; part of the falloff in this season's plantings is attributable to farmers' expectations that better prices could be achieved by waiting to plant corn or soybeans. Yields from the reduced acreage are currently estimated at a record 2.12 tons per hectare, 7 percent above the previous record of two seasons ago. The new fertilizer program encouraged an estimated doubling in fertilizer use to 1.2 million hectares, 20 percent of the total harvested acreage. Alfonsin has stressed that more fertilizer will be made available to farmers for next season's wheat crop as well as future coarse grain and oilseed crops.

Corn

According to US Embassy reporting, corn production for the crop now being planted is expected to reach 10.5 million tons, up 10 percent from this season's outturn. The bright prospects reflect the positive influence of reduced wheat area, government programs, and price relationships that favor corn. In the heart of the Pampas, for example, recent press reports indicate farmers' profit margins on summer grains such as corn are almost twice as high as on livestock, encouraging the shift from livestock to grain. With a crop of 10.5 million tons, export availabilities from the harvest beginning in March are estimated at 7 million tons, 21 percent above the current-season level.

Sorghum

As a result of low prices relative to corn and sunflower seed, estimates of sorghum sowings have varied more than those for the other grains. Furthermore, rains have delayed plantings. Given current information, production from the harvest beginning in April is expected to reach 7.0 million tons, 5 percent below the current crop. About two-thirds of the upcoming crop, or about 4.3 million tons, will be available for export.

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Soybeans

While rains slowed soybean planting, recent USDA reports indicate a 10-percent increase in acreage devoted to soybeans. The increase reflects favorable prices for soybeans relative to livestock, especially in the humid Pampas. Production forecasts currently range between 6.0 million and 6.6 million tons, compared with this season's record 6.2 million tons. While soybean exports are expected to be down about 1.1 million tons, policies favoring soybean meal and oil exports are expected to push product exports to a record of 3.1 million tons, 6 percent above this season and 1.5 times the product exports two years ago (see appendix tables A-10 to A-13).

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Sunflower seed

Current plantings (September-January), according to USDA, are expected to be up 16 percent to 2.3 million hectares. Assuming normal weather conditions and yields of about 1.2 tons per hectare, the crop to be harvested beginning in March is estimated at 2.7 million tons, compared with 2.2 million tons this season. Argentine sunflower seed oil exports for 1985/86 are anticipated to reach a record 700,000 tons, one-fifth higher than this season, and account for more than one-half of world exports. The continued upward trend in sunflower seed oil production and trade reflects Argentina's increased use of hybrid seed, expanding processing capacity, and the relatively high world price for vegetable oils vis-a-vis protein meals. Sunflower seed contains about 38 percent oil compared with only 18 percent for soybeans (see appendix A, tables A-14 and A-15 for price information).

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Government Policies and Programs

The Alfonsin administration is moving ahead vigorously with programs to remedy Argentina's grain-handling problems. According to US Embassy reporting, the new government has reactivated a World Bank loan for $87 million to finance basic infrastructure improvements. About $20 million of the loan amount will be used to build small (8,000 tons) bulk grain storage facilities, especially in areas of northern Argentina and Buenos Aires Province where serious storage problems emerged during the record 1982/83 grain production year. Another $30 million is earmarked for improvements in the railway grain-handling infrastructure, including the modernization of hopper cars. An additional $20 million will go toward improving private-sector grain facilities. The remainder of the loan will be used to resume dredging at the port of Rosario and to design a comprehensive project to upgrade the port of Bahia Blanca.

Several port construction projects also have been under consideration, including the construction of a new deepwater port at Punta Medanos, north of Mar del Plata; a new port at Belem d Escobar, on the Parana River some 146 km upstream from Buenos Aires; and a $50 million dredging scheme to deepen the access channel to the port of Buenos Aires. The focus of attention, however, has been on an integrated modernization scheme for the port of Bahia Blanca, the primary export terminal for wheat.

Initiated by the military government, this project would significantly upgrade grain-handling facilities to accommodate larger bulk carriers. the general design package currently being bid on by various international companies, as well as by the Soviets, has the following key features and goals:

- A special use, fully automated elevator will be erected so that grain transshipments can continue throughout the construction process. The two existing elevators—one of 1930s vintage and one dating to 1957—will be substantially reworked, allowing for total automation.
- A 760-meter wharf is planned to accommodate as many as four 60,000-dead-weight-ton (dwt) grain carriers simultaneously.
- Two new 750-car rail marshaling yards will be computer controlled for improved efficiency.
- Dredging of approximately 50 km of channel at a depth of 12 meters initially and 13.7 meters at a later date is planned to increase significantly the size of vessels the port can accommodate.

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According to Argentine press reports this project would increase Bahia Blanca's annual grain-handling capability from 4 million tons to 11 million tons and would effectively eliminate the typical situation where as many as 20 ships wait 30 days or more to load grain during the heaviest grain shipping period (March-August).

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The major multinational grain trading companies operating in Argentina, indicate that they also would be willing to invest in grain facilities—but only under a stable political and economic environment (appendix B). they are generally optimistic about the present administration, stating that grain trade is now profitable in Argentina, and that the potential for return on investment in the grain sector is good.

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While international grain traders are optimistic, however, some Argentine farm groups are not. Recently, Jorge Moranta, vice president of the Rural Confederation of Argentina, expressed his skepticism of government followthrough on promises to expand availability of rail service to farmers, improve upriver

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Argentina: A Major Actor in World Grain Trade

In spite of its relatively low grain yields and significant infrastructure problems, Argentina is a major factor in world grain trade. It is the only major Third World exporter of grains and ranks as the top net grain and oilseed exporter in Latin America. According to the most recent USDA estimates for the current season, Argentine wheat, corn, and sorghum exports accounted for 7 percent, 10 percent, and 35 percent of global trade in these commodities (see appendix tables A-5 to A-8). Argentina's presence in the world soybean market has risen from virtually nothing in the early 1970s to its current share of 2.1 million tons, about 8 percent of global soybean exports. With increased processing capacity now on line, coupled with favorable prices—especially for soybean oil—Argentina is expected to export record tonnages this season of both meal and oil. Argentine sunflower seed oil and linseed oil exports are also substantial—accounting for about two-fifths and two-thirds of global exports in these commodities.

In 1983/84 (July/June) Argentina exported a record 9.6 million tons of wheat—up 28 percent from the previous year. The Soviet Union, China, and Iran were the dominant markets, taking 80 percent of the total, but sales to smaller markets in Latin America, the Middle East, North Africa, and Asia also showed considerable growth (see figure 3). Corn exports for 1983/84 (October/September) totaled 5.9 million tons, with Argentina ranking as the world's second-largest supplier after the United States. Major buyers were the USSR, Iran, and several countries in Western Europe and Latin America. In sorghum, Argentina rivals the United States as the leading supplier to the world market. Of the 4.8 million tons exported by Argentina in 1983/84 (October/September), Japan and the Soviet Union were the major markets, taking about 80 percent of total exports. Other markets were Spain, Taiwan, and South Korea. Likewise, Argentina's soybean exports are second only to the United States—with major sales going to Western Europe, the USSR, and Asia. Sunflower seed oil and linseed oil exports during 1983/84 totaled 0.7 and 0.2 million tons, respectively. Western Europe is the major market for both commodities. 25X1

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Argentina's main market goal in the 1980s is to recover and increase its share of the Latin American grain market. For example, Argentina's share of the 4- to 5-million-ton Brazilian wheat import market, the largest in Latin America, fell from more than 40 percent in the late 1970s to about 3 percent in the past three years. Argentina has largely ignored this area in recent years while trying to build premium priced sales to the Soviet Union in the wake of the US grain embargo to the Soviets. Wheat, corn, and sorghum exports to Latin America, for example, averaged only 1.4 million tons for the period 1980-83, compared with more than 2 million tons for the four-year period prior to the growth in Soviet sales. Soviet wheat, corn, and sorghum purchases during the 1980-83 period, in contrast, averaged 10 million tons, compared with 1.6 million tons for the previous four-year period (see figure 3). 25X1

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Another goal is to develop markets for its grains in the Pacific region, which Argentine officials see as the main food growth market in the 1990s. Aside from established markets in Japan for sorghum and the recently expired long-term grain agreement with China, the Alfonsin regime has yet to make major inroads in this market—especially among the newly industrializing countries. 25X1

In addition to recapturing Latin American grain trade and developing nontraditional markets, the Alfonsin regime has often stated its goal of reducing the high level of dependence on Soviet grain purchases. This dependence, 25X1

leaves Argentina vulnerable to increasing Soviet economic and political pressure. 25X1

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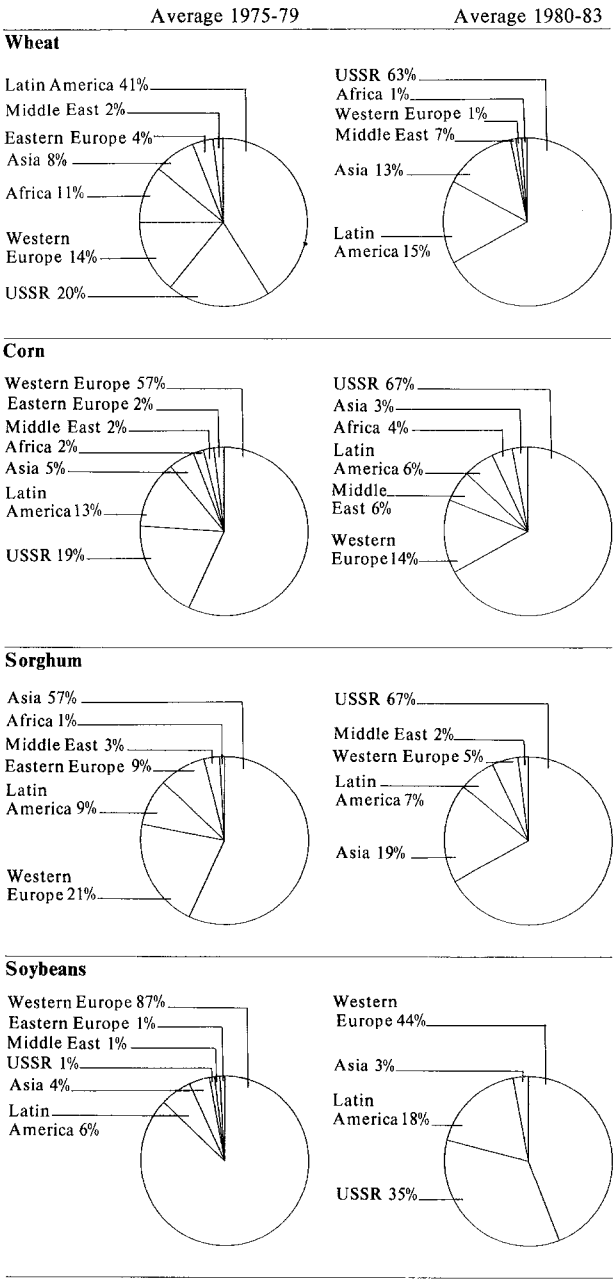
Figure 3
Buyers Shares of Argentine Grain Exports, 1975-83



Source: US Department of Agriculture, January 1985.

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shipping channels, and expand port facilities. In response, the Alfonsin government has recently announced that the state-owned railroads would limit the tariff on grain to 15 percent of the value of a producer's harvest. Furthermore, in early January, Rogue Carranza, Minister of Public Works and Services, informed the US Embassy that the Alfonsin government had decided to proceed with expansion of the Bahia Blanca port with World Bank financing and not accept a longstanding Soviet proposal for the project. According to Embassy reporting, the Argentine Government wants to proceed immediately with the first phase [2] of the project—initial construction is envisaged to begin in the September-December period, when there is reduced grain traffic at the port—with a scheduled completion date by the end of 1986. The full project from engineering to completion will take five years.

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We believe prompt initiation of projects such as Bahia Blanca is essential. This will be a pivotal year for action as the interested parties put increasing pressure on the Alfonsin government to reach decisions and begin an array of infrastructure projects. Foot-dragging in making decisions on major infrastructure projects will certainly delay and may even prevent achievement of Buenos Aires's grain export goals.

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Sharpened Trade Opportunities

The Alfonsin regime's call for a 50-percent increase in grain production to 60 million tons by the early 1990s is chiefly intended to provide significant growth in exports—from the current 20 million tons to a level of 35-40 million tons. Thus, Argentina will be butting

[2] The initial stage of the port project calls for the following: deepening the access channel to the port to 12.2 meters; removal of an old steel pier, which restricts access to the primary grain-loading pier (no. 9); removal of a sunken hull and other obstacles to provide a waiting area near pier 9; deepening the water around pier 9 to 12.2 meters; improvement of pier 9 and its grain-handling facilities; and improvement of rail facilities at the port to speed unloading of grain freight cars. The cost of this phase of the project is $33 million, according to Argentine officials (see figure 5).

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heads with other major grain exporters who also have production expansion programs under way. Much will depend on the growth in world demand, especially for animal protein, over the next several years. Without good demand growth from LDCs and other countries, the major exporters will be forced to compete even more keenly for increasingly small incremental purchases.

New Marketing Policies and Programs

Since taking office the Alfonsin administration has attempted to capitalize on Argentina's developing country status to establish rapport and trade preferences with other Third World countries. The approaches being taken include:

- *Cutrate prices.* In Chile's 1-million-ton wheat market, for example, Argentina has been selling wheat in recent months at US $131 per ton compared with US and Australian wheat at $154 and $162 per ton, f.o.b., respectively. In early December, according to Embassy reporting, Peru purchased 50,000 tons of Argentine wheat for US $117 per ton with 120-day credit at 9.75-percent interest for early January shipment. The closest US offer on the tender was $153, f.o.b. Gulf ports.

- *New long-term agreements (LTAs).* The Alfonsin regime recently signed a new LTA with Mexico for a minimum of 1 million tons of grain annually for five years. Buenos Aires also has standing LTAs for grains with a number of countries, including Algeria and Iran as well as the USSR. The National Grain Board (NGB), for example, recently announced a 1-million-ton wheat sale to Iran under their existing LTA.

- *Larger trade credits.* Argentina, in early 1984, negotiated increased trade credits with Cuba, increasing Havana's line of credits to purchase food products to $105 million, compared with $68 million in 1983. A recent report from the US Mission in Havana indicated that Argentine export credits to Cuba for 1984 total about $200 million. Trade credits are also financing grain sales to Bolivia, Haiti, the Dominican Republic, and Nicaragua.

- *Increased countertrade.* According to a trade report, Argentina's National Congress has passed legislation that directs the government "to foster . . . the expansion of countertrade and other international marketing modalities" as part of its international trade policy. According to US Embassy reporting, the regime has already been active in Eastern Europe, using this method to expand trade with Poland, Yugoslavia, Czechoslovakia, and Romania.

- *Trade missions.* The Alfonsin administration is sending more trade missions abroad and is inviting trade delegations from around the world to visit Argentina—seeking business with Mexico, Iran, Nicaragua, and Poland, among others. In early November, for example, Embassy reporting revealed that officials of the NGB would soon leave on a grain sales mission to the Soviet Union, China, India, and Czechoslovakia. 25X1

We believe Argentina will be able to sell increased volumes of grain successfully on world markets. According to a recent press statement, Nestor Stancanelli, a ranking official with the Ministry of Commerce, stated that Argentina can and will undercut world prices to make market inroads in Latin America. Heightened marketing efforts in Latin America are already bearing fruit; wheat, corn, and sorghum exports for the first eight months of 1984 exceeded average exports to the region during 1980-83 by 1.5 million tons—largely because of renewed large wheat sales to Brazil and Peru. In contrast, while there is also some room for expansion in nontraditional markets, such as the Middle East and Eastern Europe, we believe substantial increases in sales above current levels will be considerably more difficult because of limited demand growth potential in these markets. 25X1 25X1 25X1

Following some initial successes during 1984, however, we foresee Argentina encountering heightened competition from other major grain exporters—the United States, the EC, Canada, and Australia—in the years to come. The competition comes not only in the form of greater credit availability, but also in the freight advantages that these countries have in serving their traditional markets. US advantages in shipping

to most of the Caribbean basin and Mexico, the EC advantages in shipping to the Middle East, and Australian advantages in shipping to the Pacific region will be costly to offset. Moreover, Argentina's unreliability—because of variable crop sizes and quality and its extensive labor and transport problems—will continue to place it at a disadvantage in garnering sales.

Given constrained new market prospects in Latin America, Asia, Europe, and the Middle East, we believe Argentina will continue to look to the Soviet Union as its principal grain market. Although Soviet grain imports are expected to reach record levels in the current marketing year, we estimate that, with a return to trend production, Moscow will need to import an average of only about 25-30 million tons through the end of the century. In addition, LTAs with other grain exporters and Moscow's desire to have diversified sources of grain will further limit Argentina's opportunities to expand grain exports to the USSR. Finally, Soviet dissatisfaction with the large trade deficit with Argentina is likely to hamper trade expansion.

Argentina-USSR: Commercial Ties

Grain represents the centerpiece in commercial dealings between Argentina and the Soviet Union. Moscow became a fairly steady customer for Argentine grain during the 1970s, emerged as Argentina's leading buyer following the US grain embargo of 1980, and in 1981 entered into a long-term agreement to regularize its access to the Argentine grain market. The current LTA, which expires in December 1985, calls for minimum annual purchases of 4 million tons of corn and sorghum and 500,000 tons of soybeans. All wheat sales fall outside the agreement. In each year since the LTA was initiated, Moscow has purchased grain well in excess of the 4.5-million-ton minimum. As a result, grain imports from Argentina have accounted for some 20 to 30 percent of total Soviet grain imports over the last four years. For Argentina, sales to the USSR have accounted for about one-half of its annual grain exports over the last four years.

Table 3
Argentina: Value of Trade With USSR, 1977-83

Million US $

	Exports	Imports	Net Exports
1977	210.7	20.3	190.4
1978	385.5	11.1	374.4
1979	415.3	30.7	384.6
1980	1,614.2	14.6	1,599.6
1981	2,963.2	32.4	2,930.8
1982	1,586.4	33.3	1,553.1
1983	1,604.7	32.7	1,572.0

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1984.

Grain trade, in large part, accounts for Argentina's huge trade surplus with the Soviet Union. Exports averaged $1.9 billion annually for the period 1980-83 while imports averaged only $28 million. According to US Embassy reports, this trade imbalance has become a major focus of economic relations between the two countries. The Soviets for some time have been pressing first the military and more recently the Alfonsin government to increase imports of Soviet machinery, military hardware, hydroelectric equipment, nuclear material, and roadbuilding equipment to correct the imbalance (see table 3). The Soviets have recently placed particular emphasis on the approaching turbine contract for the Piedra del Aquila hydroelectric scheme planned for Patagonia, in southern Argentina.

Recent Strains

In recent months, the Embassy has noted increasing concern in Buenos Aires that the Soviets may not buy the quantities of grain stipulated in the current LTA. This concern has been spurred by heightened Soviet purchases from the United States under terms of the new Soviet-US LTA signed last August (with minimum annual purchases of 9 million tons annually over the next five years) and a slowdown in exports from Argentina. According to press reports, Argentine

grain exports to the USSR for the first nine months of 1984 totaled 6.4 million tons, as compared with more than 9 million tons for all of 1983.

In recent weeks the trade situation has brightened somewhat. According to grain trade analysts, total Soviet purchases of new-crop wheat for delivery during the first quarter of 1985 now stand at 2.8 million tons, roughly in line with purchase levels for the corresponding period last year. In addition, press accounts of the Eighth Soviet-Argentine Mixed Commission meeting held in Buenos Aires in early November indicate that the Argentines are committed to increasing their purchases of Soviet goods in order to reduce the trade surplus.

Soviet and Argentine talks in Buenos Aires in mid-January concerning the current LTA produced no apparent agreement. According to press reports, further discussions on the subject of a new LTA or an extension of the current one will take place in Moscow in June.

Outlook

While short-term issues between the Soviet Union and Argentina are likely to continue to be relatively contentious, prospects for the long term appear to present incentives for both sides to seek accommodation in their economic relations.

Soviet Perspective

Moscow apparently puts a relatively high store on keeping Argentina as a reliable long-term supplier, but grain traders report that the Soviets have grown increasingly impatient with Argentina concerning the large trade imbalance and persistent grain shipping delays. The Soviet Union is now in a better negotiating position because of the current worldwide grain glut, soft grain prices, the new five-year US grain agreement, and the emergence of the EC as an alternative source of wheat supplies (see appendix table A-5). While using this perceived leverage to extract concessions from Argentina, the Soviets will, we expect, renew the LTA when the current one expires in December 1985 because of the economic interdependence that has grown up over the past several years between the two countries and the long-term strategy of the Soviets to maintain diverse sources of grain.

Argentine Perspective

The Argentine economy has benefited greatly from the trade relationship that has evolved since 1980 with the Soviet Union. Both the military and now the Alfonsin government are well aware of the economic significance of the current LTA with the Soviets. Despite a general reluctance to buy Soviet goods, Argentina has attempted to respond to Soviet demands that the trade deficit be reduced. This is reflected in recent agreements to purchase Soviet trolley cars for the city of Mendoza and hydroelectric equipment and in the institution last year of weekly Aeroflot flight service to Buenos Aires.

In spite of these concessions, we believe the Alfonsin government shares the nationalism and deeply rooted anti-Communist views of the military and the Peronists and their suspicions of Moscow's intentions in Argentina and in Latin America in general. As a result, we foresee Alfonsin's continuing his wariness toward Soviet penetration of the economy.

Nevertheless, Alfonsin is likely to be cautiously responsive where possible in order to protect Argentina's share of the Soviet grain import market. This is especially so now, with Soviet grain imports expected by USDA to reach a record 50 million tons during the current grain marketing year, July 1984/June 1985 (see table 4). With current Soviet pressures and heightened competition from other grain exporters, Alfonsin may well become amenable to Soviet commercial proposals in order to satisfy Moscow's demands for increased imports.

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Table 4
USSR: Imports of Wheat and Coarse Grains From Argentina, 1977/78–1984/85 [a]

Million metric tons

	Wheat	Corn Sorghum	Total Argentina	Total Grains, All Sources	Imports From Argentina as Percent of Total
1977/78	1.1	1.6	2.7	18.4	14.7
1978/79	[b]	1.4	1.4	15.1	9.3
1979/80	2.0	3.1	5.1	30.4	16.8
1980/81	3.0	8.2	11.2	34.0	32.9
1981/82	3.1	10.2	13.3	45.0	29.6
1982/83	4.2	5.4	9.6	31.5	30.5
1983/84	3.6	3.3	6.9	32.0	21.6
1984/85 [c]	3.0	5.5	8.5	49.0	17.4

[a] July/June.
[b] Less than 50,000 tons.
[c] Estimate.

Source: USDA, January 1985.

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Outlook and Implications

While we believe that Buenos Aires is likely to achieve a significant expansion in grain production and exports by the early 1990s, the goal of 60 million tons is probably beyond reach. In any case, major infrastructure improvements must be started in 1985 and a consistent set of policies established to provide farmers with incentives to grow more grain and to produce less beef on prime Pampas land. Despite a general sense of optimism within the country, Alfonsin faces several significant economic problems—the huge debt and hyperinflation—as well as potential political problems that could derail his grain program.

We believe the largest stumblingblock could well be the political environment. As a result of the elections in 1983, optimism concerning Argentina's political future appears stronger than at any time in the recent past. According to some political analysts, the majority support given to Alfonsin and the Radical Civic Union Party provides the foundation for a democratic two-party system within which governments could change through orderly elections, thus establishing a more stable political environment. Alfonsin's triumph has created high expectations and generated considerable enthusiasm even among traditional opponents—an aura that is critical to attracting large amounts of investment capital. At the same time, however, he has inherited a legacy of contentious, seemingly intractable problems that make governing Argentina difficult, especially in the near term.

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The recent agreement with the International Monetary Fund (IMF) appears to be a solid step in the right direction because it enables Argentina to get $7 billion in IMF, commercial bank, and government loans to help put its economy on a sounder footing. Nevertheless, the austerity measures implicit in the agreement could cause serious political discord, particularly among urban labor. While urban labor will play a leading role in the ultimate success or failure of the regime, much of Alfonsin's longer term success depends on how well he can inspire farmers to believe in the viability of his goals and the ultimate monetary returns that would flow back to them if they are willing to invest—with the government's help—in grain agriculture. To quote one progressive Argentine

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Table 5 *Million US $*
Argentina: Trade With the United States, 1977-83

	Exports	Imports	Net Exports
1977	396.8	781.5	−384.7
1978	551.1	712.4	−161.3
1979	582.3	1,414.7	−832.4
1980	717.6	2,380.4	−1,662.8
1981	863.5	2,093.7	−1,230.2
1982	1,022.1	1,177.1	−155.0
1983	737.4	940.5	−203.1

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1984.

farmer in the heart of the Pampas, "In five years the animals will be gone—it's our destiny to become a great grain producer."

If Buenos Aires is successful in its grain export drive, it would give Argentina a much better chance of meeting its foreign debt obligations. For the United States, this would ease the precarious financial situation of US banks with large loan portfolios in Argentina. An economically healthier Argentina would also provide an opportunity for an expansion in US as well as non-US manufactured exports to Argentina. Because of its financial situation, Argentina has sharply cut back imports. Imports from the United States in 1983, for example, dipped to under $1 billion for the first time in five years (see table 5).

In world grain markets, on the other hand, successful export expansion by Argentina would add significant pressure to an area already marked by fierce competition and soft prices. We expect Argentine-US competition for grain sales to be most intense in the 20-million-ton Latin American market. US agricultural exports to Latin America, according to Bureau of the Census data, were valued at $5.2 billion in 1983, representing 14 percent of global US agricultural exports. This important market, especially for grains, will be increasingly fought over as Argentina's aggressive marketing tactics in Brazil and Peru have already shown this year. To be successful on a large scale in this market, however, Argentina will have to overcome the advantages the United States has through its grain credit guarantee programs and its reputation as a reliable supplier of high-quality grain.

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We do not believe Argentina has a good alternative to grains for increasing export earnings by as much as $2-3 billion. While the United States might well benefit from reduced competition from Argentina in Latin American grain markets, it would have to continue to deal with an Argentina characterized by lingering economic and political instability. Failure on the grain front would greatly reduce the chances that Argentina could maintain the foundation for the democratic two-party system established by Alfonsin.

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Appendix A

Grain Production, Trade, and Price Tables

Table A-1
World Wheat Production,
1980/81–1984/85 [a]

Million metric tons

	1980/81	1981/82	1982/83	1983/84	1984/85 [b]
World total	**442.7**	**448.6**	**478.6**	**489.4**	**509.5**
Argentina	**7.8**	**8.3**	**14.5**	**12.3**	**12.5**
Australia	10.9	16.4	8.9	21.9	17.5
Canada	19.2	24.8	26.8	26.6	21.2
China	55.2	59.6	68.4	81.4	85.5
Eastern Europe	34.6	30.6	34.7	35.4	39.8
EC Ten	55.1	54.4	59.8	59.3	75.7
India	31.8	36.3	37.5	42.8	45.1
USSR	98.2	80.0	86.0	78.0	75.0
United States	64.8	75.8	75.3	65.9	70.6
Others	65.1	62.4	66.7	65.8	66.6

[a] July/June.
[b] Estimate.

Source: USDA, January 1985.

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Table A-2
World Corn Production,
1980/81–1984/85 [a]

Million metric tons

	1980/81	1981/82	1982/83	1983/84	1984/85 [b]
World total	**406.8**	**438.9**	**437.6**	**349.8**	**440.3**
Argentina	**12.9**	**9.6**	**9.0**	**9.5**	**10.5**
Brazil	22.6	22.9	19.5	21.0	21.5
China	62.6	59.2	60.3	68.2	72.5
Eastern Europe	29.7	32.2	36.3	33.7	32.7
EC Ten	17.5	18.4	19.8	19.6	19.4
Mexico	10.4	12.5	7.0	9.3	9.5
South Africa	14.6	8.4	4.1	4.4	7.5
Thailand	3.2	4.3	3.4	4.0	4.5
USSR	9.5	8.0	13.5	16.5	12.1
United States	168.6	206.2	209.2	105.8	191.2
Others	55.2	57.2	55.5	57.8	58.9

[a] October/September.
[b] Estimate.

Source: USDA, January 1985.

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Table A-3
World Sorghum Production, 1980/81–1984/85 a

Million metric tons

	1980/81	1981/82	1982/83	1983/84	1984/85 b
World total	**59.8**	**69.6**	**65.0**	**57.7**	**65.8**
Argentina	**7.1**	**8.0**	**8.0**	**7.2**	**7.0**
Australia	1.2	1.3	1.0	1.8	1.8
Mexico	3.8	4.0	2.8	4.0	3.8
India	10.4	12.1	10.8	11.9	11.3
China	6.8	6.6	7.0	7.6	7.5
Nigeria	4.3	3.2	4.1	2.7	3.7
United States	14.7	22.2	21.2	12.2	20.7
Others	11.5	12.2	10.1	10.3	10.0

[a] October/September.
[b] Estimate.

Source: USDA, January 1985.

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Table A-4
World Soybean Production, 1980/81–1984/85 a

Million metric tons

	1980/81	1981/82	1982/83	1983/84	1984/85 b
World total	**80.9**	**86.0**	**93.3**	**81.9**	**90.2**
Argentina	**3.5**	**4.2**	**4.0**	**6.2**	**6.0**
Brazil	15.2	12.8	14.8	15.4	15.7
China	7.9	9.3	9.0	9.8	10.0
Paraguay	0.6	0.6	0.5	0.6	0.7
United States	48.9	54.1	59.6	44.5	51.8
Others	4.8	5.0	5.4	5.4	6.0

[a] October/September.
[b] Estimate.

Source: USDA, January 1984.

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Table A-5
World Trade in Wheat, 1980/81–1984/85 [a]

Million metric tons

	1980/81	1981/82	1982/83	1983/84	1984/85 [b]
World total exports	**94.1**	**101.3**	**98.6**	**103.2**	**107.3**
Argentina	**3.9**	**4.3**	**7.5**	**9.6**	**7.5**
Australia	10.6	11.0	8.1	11.6	15.0
Canada	17.0	17.6	21.4	21.8	17.2
EC Ten	4.7	15.5	15.6	16.0	18.5
United States	41.9	48.8	39.9	38.9	41.5
Others	6.0	4.0	6.1	5.3	7.6
World total imports	**94.1**	**101.3**	**98.5**	**103.2**	**107.3**
China	13.8	13.2	13.0	9.6	10.0
Eastern Europe	5.9	6.3	4.6	4.1	3.2
EC Ten	4.5	4.7	4.0	3.6	2.7
Japan	5.8	5.6	5.8	5.9	5.7
USSR	16.0	19.5	20.2	20.5	26.0
Others	48.1	52.0	51.0	59.6	59.7

[a] July/June.
[b] Estimate.

Source: USDA, January 1985.

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Table A-6
World Trade in Corn, 1980/81–1984/85 [a]

Million metric tons

	1980/81	1981/82	1982/83	1983/84	1984/85 [b]
World total exports	**78.5**	**67.9**	**64.2**	**59.9**	**66.8**
Argentina	**9.0**	**4.9**	**6.4**	**5.9**	**7.0**
South Africa	3.9	4.7	2.3	0.1	0.1
Thailand	2.1	3.3	2.2	3.0	3.1
United States	59.8	50.0	47.5	47.4	51.4
Others	3.7	5.0	5.8	3.5	5.2
World total imports	**78.5**	**67.9**	**64.2**	**59.9**	**66.8**
China	0.8	1.2	2.4	0.1	0.3
Eastern Europe	7.6	4.8	3.3	1.6	3.0
EC Ten	10.3	7.6	5.2	4.7	4.0
Japan	13.9	13.3	14.5	14.5	14.4
Korea, Republic	2.3	2.8	3.9	3.4	3.2
Mexico	3.8	0.6	4.0	2.8	2.6
Portugal	2.9	2.2	2.2	2.1	2.1
Spain	5.1	5.6	4.0	2.9	2.5
Taiwan	2.6	2.6	3.2	3.1	3.2
USSR	15.1	13.4	6.5	9.5	16.9
Others	14.1	13.9	14.9	15.2	14.6

[a] October/September.
[b] Estimate.

Source: USDA, January 1985.

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Table A-7
World Trade in Grain Sorghum, 1980/81–1984/85 [a]

Million metric tons

	1980/81	1981/82	1982/83	1983/84	1984/85 [b]
World total exports	**14.1**	**13.6**	**11.6**	**13.1**	**12.7**
Argentina	**4.9**	**5.2**	**4.9**	**4.8**	**4.5**
Australia	0.5	1.1	0.2	1.4	1.3
United States	7.6	6.3	5.4	6.2	6.4
Others	1.1	1.0	1.1	0.7	0.5
World total imports	**14.1**	**13.6**	**11.6**	**13.1**	**12.7**
USSR	4.0	2.9	2.3	1.9	3.0
Japan	3.0	3.0	2.7	4.2	4.7
Mexico	3.2	0.9	3.2	3.3	2.4
Venezuela	0.5	0.9	0.4	0.2	0.3
Taiwan	0.7	0.8	0.6	0.6	0.5
Korea, Republic	0.0	0.4	0.2	0.3	0.2
Spain	0.3	1.5	0.3	0.9	0.3
Others	2.4	3.2	1.9	1.7	1.3

[a] October/September.
[b] Estimate.

Source: USDA, January 1985.

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Table A-8
World Trade in Soybeans, 1980/81–1984/85 [a]

Million metric tons

	1980/81	1981/82	1982/83	1983/84	1984/85 [b]
World total exports	**25.3**	**29.3**	**28.6**	**26.1**	**25.9**
Argentina	**2.7**	**1.9**	**1.4**	**3.0**	**2.1**
Brazil	1.8	0.9	1.3	1.6	1.7
EC Ten	0.2	0.2	0.2	0.1	0.1
Paraguay	0.6	0.8	0.6	0.4	0.5
United States	19.7	25.3	24.6	20.1	20.5
Others	0.3	0.2	0.5	0.9	1.0
World total imports	**26.4**	**29.2**	**28.2**	**24.9**	**25.9**
Eastern Europe	0.5	0.5	0.7	0.7	0.6
EC Ten	10.2	12.4	11.8	9.1	9.6
Japan	4.2	4.5	4.9	4.7	4.6
Mexico	1.4	0.6	1.1	1.4	1.5
Spain	2.8	3.2	3.0	2.7	2.7
Taiwan	1.1	1.2	1.3	1.3	1.4
USSR	1.5	1.5	1.1	1.0	1.3
Others	4.7	5.3	4.3	4.0	4.2

[a] October/September.
[b] Estimate.

Source: USDA, January 1985.

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Table A-9
Latin American Imports of Major Grains, 1981-83

Thousand metric tons

Commodity by Country	Imports		
	1981	1982	1983
Total	**23,270**	**18,052**	**24,294**
Wheat (including flour in wheat equivalent)	**11,120**	**10,231**	**10,541**
Mexico	1,128	398	423
Cuba	1,250	1,270	1,300
Dominican Republic	175	160	200
Haiti	173	155	158
Jamaica	190	175	180
Trinidad and Tobago	125	105	110
Costa Rica	87	100	115
El Salvador	126	100	119
Guatemala	110	104	125
Honduras	78	81	70
Nicaragua	63	57	50
Panama	62	59	62
Brazil	4,360	4,170	4,100
Colombia	334	564	531
Chile	1,041	992	1,158
Peru	927	968	972
Venezuela	891	773	868
Corn	**6,023**	**2,988**	**8,068**
Mexico	3,065	233	4,687
Cuba	525	410	405
Dominican Republic	180	165	255
Jamaica	175	150	170
Trinidad and Tobago	115	120	125
Brazil	570	0	500
Chile	315	397	144
Peru	344	480	402
Venezuela	734	1,033	1,380

Commodity by Country	Imports		
	1981	1982	1983
Sorghum	**2,789**	**1,478**	**3,304**
Mexico	2,789	1,478	3,304
Soybeans	**2,190**	**2,054**	**1,142**
Mexico	1,110	518	894
Dominican Republic	32	23	30
Haiti	23	70	50
Jamaica	65	62	72
Brazil	900	1,300	33
Peru	10	2	8
Venezuela	50	79	55
Soybean meal	**757**	**774**	**840**
Mexico	118	39	142
Cuba	85	90	85
Dominican Republic	50	55	58
Chile	43	43	50
Peru	47	47	30
Venezuela	414	500	475
Soybean oil	**391**	**527**	**399**
Mexico	3	104	0
Dominican Republic	30	34	35
Bolivia	27	0	0
Chile	76	75	85
Colombia	98	126	90
Ecuador	40	40	48
Peru	61	69	86
Venezuela	56	79	55

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Table A-10
Argentina: Wheat Trends, 1970/71–1984/85 [a]

	Area Harvested *(million hectares)*	Yield *(million metric tons per hectare)*	Production *(million metric tons)*	Exports *(million metric tons)*	Exports as Percent of Production
1970/71	3.70	1.33	4.92	0.97	20
1971/72	4.32	1.32	5.68	1.63	29
1972/73	4.97	1.39	6.90	3.19	46
1973/74	3.96	1.66	6.56	1.58	24
1974/75	4.23	1.41	5.97	1.78	30
1975/76	5.27	1.63	8.57	3.16	37
1976/77	6.43	1.71	11.00	5.90	54
1977/78	3.91	1.46	5.70	1.78	31
1978/79	4.69	1.73	8.10	4.08	50
1979/80	4.79	1.69	8.10	4.76	59
1980/81	5.02	1.55	7.78	3.85	49
1981/82	5.93	1.40	8.30	3.63	44
1982/83	7.32	1.98	14.50	9.90	68
1983/84	6.88	1.79	12.30	7.90	64
1984/85 [b]	5.90	2.12	12.50	8.00	64

[a] December/November.
[b] Estimate.

Source: USDA, January 1985.

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Table A-11
Argentina: Corn Trends, 1971/72–1985/86 [a]

	Area Harvested *(million hectares)*	Yield *(million metric tons per hectare)*	Production *(million metric tons)*	Exports *(million metric tons)*	Exports as Percent of Production
1971/72	4.07	2.44	9.93	6.44	65
1972/73	3.15	1.86	5.86	2.54	43
1973/74	3.57	2.52	9.00	4.70	52
1974/75	3.49	2.84	9.90	5.72	58
1975/76	3.07	2.51	7.70	3.49	45
1976/77	2.77	2.12	5.86	3.24	55
1977/78	2.53	3.28	8.30	5.23	63
1978/79	2.66	3.65	9.70	5.92	61
1979/80	2.90	3.10	9.00	5.97	66
1980/81	2.49	2.57	6.40	3.42	53
1981/82	3.39	3.80	12.90	9.10	71
1982/83	3.17	3.03	9.60	5.77	60
1983/84	2.97	3.03	9.00	6.06	67
1984/85	3.03	3.14	9.50	5.80	61
1985/86 [b]	3.20	3.28	10.50	7.00	67

[a] March/February.
[b] Estimate.

Source: USDA, January 1985.

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Table A-12
Argentina: Grain Sorghum Trends, 1970/71–1985/86 [a]

	Area Harvested *(million hectares)*	Yield *(million metric tons per hectare)*	Production *(million metric tons)*	Exports *(million metric tons)*	Exports as Percent of Production
1970/71	1.87	2.04	3.82	1.99	52
1971/72	2.24	2.09	4.66	2.34	50
1972/73	1.42	1.66	2.36	0.51	22
1973/74	2.13	2.16	4.60	2.28	50
1974/75	2.32	2.54	5.90	2.95	50
1975/76	1.94	2.49	4.83	2.34	48
1976/77	1.83	2.76	5.06	3.43	68
1977/78	2.38	2.78	6.60	4.12	62
1978/79	2.25	3.19	7.20	4.65	65
1979/80	2.12	3.07	6.50	3.76	58
1980/81	1.28	2.31	2.96	1.49	50
1981/82	2.10	3.38	7.10	4.94	70
1982/83	2.51	3.19	8.00	5.54	69
1983/84	2.52	3.18	8.00	5.20	65
1984/85	2.37	3.10	7.35	4.20	57
1985/86 [b]	2.20	3.18	7.00	4.30	61

[a] March/February.
[b] Estimate.

Source: USDA, January 1985.

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Table A-13
Argentina: Soybeans and Products Trends, 1970/71–1985/86 [a]

	Area Harvested *(million hectares)*	Yield *(million metric tons per hectare)*	Soybean Production *(million metric tons*	Soybean Crush *(million metric tons)*	Exports		
					Soybeans *(million metric tons)*	Soybean Meal *(million metric tons)*	Soybean Oil *(million metric tons)*
1970/71	0.03	1.04	0.03	[b]			
1971/72	0.04	1.64	0.06	[b]			
1972/73	0.07	1.15	0.08	[b]			
1973/74	0.16	1.73	0.27	0.20		0.01	0.02
1974/75	0.34	1.44	0.50	0.28		0.01	0.03
1975/76	0.36	1.36	0.49	0.53		0.20	0.02
1976/77	0.43	1.60	0.69	0.50	0.11	0.25	0.07
1977/78	0.66	2.12	1.40	0.59	0.62	0.33	0.06
1978/79	1.25	2.16	2.70	0.69	1.97	0.37	0.06
1979/80	1.60	2.31	3.70	0.64	2.78	0.26	0.10
1980/81	2.03	1.77	3.60	0.72	2.73	0.28	0.09
1981/82	1.74	2.01	3.50	1.08	2.19	0.59	0.08
1982/83	1.99	2.09	4.15	1.91	2.15	1.21	0.22
1983/84	2.28	1.75	4.00	2.37	1.35	1.75	0.30
1984/85	2.68	2.31	6.20	3.00	3.10	2.05	0.41
1985/86 [c]	2.95	2.03	6.00	3.70	2.00	2.56	0.53

[a] April/March.
[b] Less than 50,000 tons.
[c] Estimate.

Source: USDA, January 1985.

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Table A-14
Argentina: Sunflower Seed Trends, 1973/74–1985/86 [a]

	Area Harvested	Yield (*million metric tons per hectare*)	Sunflower Seed Production (*million metric tons*)	Sunflower Seed Crush (*million metric tons*)	Exports		
					Sunflower Seed (*million metric tons*)	Sunflower Seed Meal (*million metric tons*)	Sunflower Seed Oil (*million metric tons*)
1973/74	1.34	0.66	0.88	0.97		0.29	0.01
1974/75	1.19	0.82	0.97	0.97		0.22	[b]
1975/76	1.00	0.73	0.73	0.60		0.21	[b]
1976/77	1.26	0.86	1.09	0.94		0.30	[b]
1977/78	1.23	0.73	0.90	1.09		0.41	0.13
1978/79	2.00	0.80	1.60	1.19	0.20	0.48	0.16
1979/80	1.56	0.92	1.43	1.48	[b]	0.56	0.24
1980/81	1.86	0.89	1.65	1.65	[b]	0.59	0.30
1981/82	1.28	0.98	1.26	1.201	0.03	0.47	0.21
1982/83	1.67	1.19	1.98	1.839	0.02	0.47	0.44
1983/84	1.90	1.21	2.30	2.304	[b]	0.97	0.66
1984/85	1.99	1.11	2.20	2.050	0.15	0.85	0.57
1985/86 [c]	2.30	1.17	2.70	2.400	0.25	0.99	0.69

[a] March/February.
[b] Less than 50,000 tons.
[c] Estimate.

Source: USDA, January 1985

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Table A-15
Representative Grain and Oilseed Prices, 1970-84

Current US $ per metric ton

	Wheat [a]	Corn [b]	Sorghum [c]	Soybeans [d]	Soybean Meal [e]	Soybean Oil [f]	Sunflower Seed [g]
1970	57	58	52	117	103	291	330
1971	62	58	56	126	102	304	374
1972	69	56	56	140	129	241	326
1973	137	98	93	290	302	436	481
1974	178	132	121	277	184	832	969
1975	138	119	112	220	155	563	739
1976	123	112	105	231	198	438	581
1977	99	95	88	280	230	575	639
1978	125	101	94	268	213	607	664
1979	156	116	108	297	243	663	762
1980	168	126	129	296	259	598	633
1981	155	131	126	288	253	507	639
1982	133	108	109	244	218	447	529
1983	137	136	129	282	238	527	547
1984	140	136	118	282	201	724	766
1985 [h]	142	125	113	257	191	627	659

[a] Wheat, US No. 1 Soft Red Winter, f.o.b. Gulf ports.
[b] Corn, US No. 2 Yellow, f.o.b. Gulf ports.
[c] Sorghum, US No. 2 Yellow, f.o.b. Gulf ports.
[d] Soybeans, US c.i.f., Rotterdam.
[e] Soybean meal, 44 percent, US c.i.f. Rotterdam.
[f] Soybean oil, crude, Dutch, f.o.b. Ex-Mill.
[g] Sunflower seed oil, any origin, Ex-Tank Rotterdam.
[h] Chase forecast as of 24 January 1984.

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Appendix B

Government Role in the Grain Sector [3]

Throughout the 19th century the Argentine grain economy evolved with relatively little government control. Landed oligarchies supplied increasing grain surpluses—more than 8 million tons of wheat and corn annually during the mid-1930s—which were channeled through an export-oriented marketing system created by private multinational and national grain firms. By the mid-1930s Argentina was the world's largest grain-exporting country, accounting for 23 percent and 61 percent of global wheat and corn exports, respectively, for the period 1934-38.

The *laissez faire* policies toward the grain sector began to change in the 1930s as the depression brought about the establishment of the National Grain Board (NGB). The NGB was given some control over export sales and had the authority to fix minimum prices for wheat and corn. A price support system was developed at that time, but, because supports were set at relatively low levels, only occasional intervention by the Board was required through 1940. During World War II the NGB became more predominant, purchasing a high proportion of all grain crops, although private exporters could still acquire grain either on the domestic market or from the NGB.

First Peron Government (1946-55)

Upon taking power in 1946, the government of Juan Peron sought to shift the economy away from a lopsided emphasis on agricultural exports by fostering industrialization. Peron sought to finance the industrialization of Argentina with proceeds from agricultural exports, and this meant getting control of the grain trade.

[3] This review was developed from the following books and articles: "Argentina and Democracy" by Edward Schumacher, *Foreign Affairs*, Summer 1984; *Argentina Agriculture: Trends in Production and World Competition* by John N. Smith, US Department of Agriculture, 1968; *Grain Production and Marketing in Argentina*, US Department of Agriculture, FAS-M222, 1970; *Merchants of Grain* by Dan Morgan, Viking Press, 1979; *Latin America—A Concise Interpretive History* by E. Bradford Burns, Prentice Hall Press, 2nd Edition, 1977; *Argentine Agricultural Policies in the Grain and Oilseed Sectors* by Myles Miekle, US Department of Agriculture, ERS-206, 1984.

By 1947 Peron had tightened the government's grip on grain exports by establishing the Argentine Institute of Promotion and Trade (IAPI). The IAPI formalized the government's monopoly over the grain trade with the express purpose of raising money for industrialization. During the life of the Peron regime, most of the nation's storage, railroad, and port facilities were nationalized. The private sector—grain merchants, brokers, and farmer cooperatives—acted primarily as commissioned agents for the IAPI. Farms, however, were left in private hands, and land use and production decisions continued to be made by grain producers. 25X1 25X1

Peron's domestic grain price policies—which sought to maintain low food prices in order to appease his urban labor power base—ultimately discouraged farm output. In the face of unattractive prices, farmers spread their risk by allocating their land to a mix of grain, oilseeds, and livestock. They kept costs down by minimizing the use of inputs such as fertilizer and the modern agronomic methods that were being developed in North America and elsewhere. The result was a significant drop in grain production and exports. For the period 1951-55, annual wheat and corn exports dropped to 2.3 million tons and 916,000 tons, respectively. Argentina's share of world grain exports fell dramatically to 10 percent for wheat and 19 percent for corn. 25X1 25X1

Post-Peron Period (1955-73)

This 18-year period was characterized by a relaxation of government regulation of the grain sector. Nevertheless, ownership of most of the port facilities and the railroads remained under government control, as they do today. Despite higher purchase prices, grain production did not really begin to expand again until about 1959, reflecting lingering political instability during this period. The major government policy initiative during the period was the setting of minimum support prices for each grain. In contrast to the Peron era, the NGB was obligated to purchase grain only at the support price. 25X1 25X1

Second Peron Government (1973-76)

As the Peronists sought to reestablish their former control over the economy, the country witnessed one of its worst political and economic crises—with a rise in terrorism, recordbreaking inflation of 335 percent in 1975, a large trade deficit, a slide in the commercial exchange rate, and, because of the rise in oil prices, a large trade deficit. By March 1976, inflation had hit an annual rate of 1,000 percent, and, with the government clearly out of control, the military stepped in.

During the 1973-76 period, private traders were again reduced to mere agents of the NGB—which offered weekly tenders to international grain traders to handle grain for export. Producers were required to sell their grain to the NGB at fixed prices, and brokers received commissions of 1.25 percent for handling the movement of grains from country elevators to processors and port terminals. Heightened foreign demand and good world grain prices, coupled with generally good weather, however, fostered a certain degree of stability in grain production and exports. Nevertheless, farmers, like their urban countrymen, were devastated by the hyperinflation.

Military Regimes (1976-83)

The military took over from the faltering Peronist government with a mandate to end terrorism and right the economy by reinstating the free enterprise system. In the grain sector trading was returned to a free market orientation. While the NGB still retained the power to buy and sell grain, it competed with national and international traders, who were permitted to operate freely within the economy. As an incentive to farmers to expand grain production, export taxes were slashed. In April 1976 the export tax on soybeans was reduced from 42 percent to 10 percent. In August of the same year the export tax on wheat was reduced from 40 percent to 10 percent. Later in 1976 the export tax was removed on wheat and lowered from 50 percent to 10 percent on corn and sorghum. In addition, producer price supports were raised, and credit for expanding and improving grain storage was provided. In 1979 the government began to sell grain elevators to the private sector, giving first choice to private Argentine cooperatives.

By 1981 the government began to encourage private grain companies to invest in their own grain elevators and port-handling facilities. Also during 1981 the peso underwent massive devaluations, making Argentine agricultural exports more competitive while at the same time limiting the attractiveness of imports. The government also negotiated several long-term agreements (LTAs) for grains, guaranteeing a customer base for expanded production. The grain sector responded to Buenos Aires's initiatives by an explosion in productivity. Wheat, corn, sorghum, and soybean exports, for example, jumped by almost three-fourths from 13.0 million tons in 1976/77 to 22.6 million tons in 1983/84 (see tables, appendix A).

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While the expansion in grain output and exports represents perhaps the brightest economic success of the eight-year military rule, it also introduced crippling distortions into the economy. For example, the initial policies of lowering or removing import duties, coupled with a strongly overvalued exchange rate, allowed farmers to buy increasing quantities of imported farm equipment and consumer goods at drastically reduced prices. While the overvalued exchange rate prior to 1981 created a boom, imports became so cheap that local industry began to collapse. Concomitantly, while agriculture productively expanded with the increased use of yield-improving inputs, farmers, tempted by cheap money, went deeply into debt. Increasing debt also characterized other segments of the economy.

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The military government had gambled that it could solve inflation largely through monetary policies. However, these policies were not matched by fiscal restraint, and the economy plunged into recession, with skyrocketing inflation and unemployment. The government bought out much of the private debt through exchange guarantees financed largely by foreign loans. Moreover, the government itself needed a higher level of loans in part because of the huge loss of revenues from the reduction and elimination of export taxes. By the end of 1982, the public and private external debt stood at $42 billion, compared with $6.5 billion when the military took over in 1976. Given this serious economic situation, compounded by the Falklands war, considerable pressures were built up to return the government to civilian control—under either Peronist or democratic rule.

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Appendix C

Land Use in the Pampas—Livestock Versus Grain

Half of Argentina's land is natural grassland, largely devoted to extensive cattle operations. According to a recent World Bank study, natural grassland accounts for roughly 140 million hectares, or about six times the land devoted to grains and oilseeds (see table C-1). Within the major crop zones of the Pampas (the large treeless grassland in east-central Argentina), cattle production historically has been extremely important. USDA analysts estimate that, of Argentina's 59 million head of cattle in the late 1970s, about one-half were still being raised on the Pampas. The scale of cattle production on the Pampas is a reflection of the historic importance of beef for the Argentine economy as well as a manifestation of Argentina's history of political instability and high inflation. Farmers have responded to these uncertainties by adopting cultivation practices that spread risks over alternative possibilities—including growing cattle on some of the world's richest agricultural land.

Table C-1
Argentina: Land Area by Principal Use, 1960/61-1981/82

Million hectares

Land Use	1960/61	Increase 1981/82	Percent
Total continental land area	**279.2**	**279.2**	
Natural grassland	155.5	146.1	−6
Forest and bushlands	45.3	45.0	−1
Unusable land for agriculture	49.5	50.0	1
Improved permanent pastures	9.8	15.0	53
Annual and permanent crops			
Grain crops	14.3	16.7 [a]	16
Oilseed crops	2.6	4.8 [a]	85
Other crops	2.2	1.6	−27

[a] Area planted to grain and oilseed crops in the current season are estimated at 15.5 million and 6.9 million hectares, respectively.

Source: Adapted from World Bank and Argentina's National Rural Economic and Sociological Service (SNESR) data.

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The traditional mixed-farming system on the Pampas has been undergoing gradual change, which may accelerate in years to come. The World Bank has identified increases in the use of land for grazing in fringe areas adjacent to the Pampas. These areas are either too dry or too wet for crop farming. Traditionally, cattle have been brought to marketable weight in Argentina by allowing them to graze on planted forage crops—for example, alfalfa and white clover. Increasingly now, however, cattle are being fattened on improved permanent pastures—grasslands seeded with nitrogen-fixing legumes—on the extensive natural grasslands on the periphery of the Pampas.[4] According to the World Bank study, forage crop acreage has dropped from 6.2 million hectares in 1970 to only 3.6 million hectares in 1981. Grazing of fallow and stubble lands on the Pampas, which traditionally has played an important role in the Argentine livestock economy, is also shrinking. This trend has developed mainly as a byproduct of intensified crop production—expansion of double cropping—85 percent of soybean land is now double cropped with wheat. World Bank analysts indicate that this is contributing to an exodus of cattle from the main crop areas of the Pampas to areas less suitable for cropping.

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The trend away from cattle grazing on the Pampas and toward greater intensification of grain cropping is likely to accelerate with better incentives to grow grain and the declining foreign markets for Argentine beef exports. Argentina's beef exports for 1984 are

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[4] Feed-lot techniques, such as those used in the United States, are not economical in Argentina. According to World Bank and USDA studies, feedlots are feasible only when grain prices are low relative to beef prices—in the range of 1:10 to 1:12. In Argentina, where both beef and feedgrains are exported, price ratios rarely exceed 1:6. Since grain-to-beef conversion ratios are normally 6:1 or higher, there is no economic gain from feeding grain to cattle. Argentine farmers, then, have been better off selling grain to the market and seeking optimal grazing regimes. This situation is not likely to change in the near future.

estimated at only 270,000 tons, the lowest level since 1975. The downturn largely reflects loss of competitiveness of Argentine meatpackers in export markets vis-a-vis the European Community—formerly a large import market—and Brazil. In addition, because of protectionist measures against hoof-and-mouth disease, Argentina has lost fresh beef markets in many developed countries and has had to turn increasingly to processed meat exports. Processed meat production is a high-cost endeavor for Argentina, but can utilize lower quality beef. This trend, along with the fact that residual markets in developing countries are largely based on price markets, point to increasing emphasis on lower quality beef production. This outlook would appear to reinforce the trend away from producing high-quality beef, fattened on rich Pampa lands, and toward increased production of lower quality beef on the fringes of the Pampas. The extent of the transition and its rapidity will, of course, depend on relative prices and on a perception by Pampas farmers that the risks of switching from mixed farming to grain as the principal form of land use have been greatly reduced.

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Appendix D

Condition of the Infrastructure

Argentine farmers typically deliver their production to country elevators by truck for grading and sale. Limited on-farm bulk storage—currently estimated by USDA at about 5 million tons—and a desire on the part of farmers to acquire ready cash have generally resulted in a rapid flow of grain to country elevators and into the main grain ports at harvest-time. Wheat is the first to arrive (December), then corn and sunflower seed (March), and sorghum and soybeans (April). Wheat and other winter grains usually do not require drying; therefore, most of the bulk storage facilities on farms are used for these crops. About 70 to 80 percent of the summer crops—mainly corn, sorghum, and soybeans—require some drying, which is usually done at off-farm facilities.

The Storage Problem

According to a recent USDA study, 80 to 90 percent of the grain marketed in Argentina is handled by registered merchants and cooperatives that operate country elevators. Annually, these internal marketing facilities handle about 20 million tons of grain—providing grading, cleaning, drying, and fumigating services. As with grain production, the bulk of country elevators are concentrated on the Pampas (see figure 4). According to USDA, country elevator storage capacity increased 15 percent from the mid-1970s to about 11.6 million tons in the early 1980s. Ownership of these facilities is mainly in private hands—10.5 million tons versus 1.1 million tons owned by the National Grain Board (NGB). Typically, the NGB leases its facilities to private merchants.

According to the NGB, there is currently only 4 million tons of bulk grain storage capacity at port facilities around the country, most of it operated by various government departments. There are 23 major port grain elevators, but they average only 47,000 tons each, compared with an average of 133,000 tons in the United States. The shortage of port storage capacity hampers the efficient receipt of grain at ports and the transfer of grain from elevators to ships. Rail-cars entering port terminals are often used for residual storage, resulting in further backups and inefficiencies in the overall grain transportation system. 25X1

Aside from the physical storage capacity restrictions, the volume of grain handled is limited by the short workweek at port elevators—only 114 hours, compared with the rail system, which funnels grain into the port 24 hours per day, seven days a week. 25X1

Internal Transport Problems

From country elevators, grain moves to port terminals via truck, rail, and barge. According to the NGB, trucks and rail accounted for 58 percent and 40 percent, respectively, of the total grain transported to ports in the late 1970s. Since about two-thirds of exportable grain surpluses are produced within 240 km of ports, the trucking industry has evolved as a major component of the marketing system for grains. Nevertheless, trucks in Argentina operate at a high cost, in part reflecting the expensive maintenance necessitated by the poor condition of many rural roads. In addition, costs are high because of the limited use of each truck. According to a recent USDA study, trucks in Argentina used mainly for hauling grain average less than 100,000 km annually, compared with more than 250,000 km for trucks in the United States. 25X1 25X1

Argentina's rail network—totaling 32,200 km—annually transports about 10-12 million tons of grain (see figure 4). Although rail transportation is generally cheaper than trucking, it is often slower because of structural and equipment problems of the rail system. Railways in Argentina were built specifically for the movement of commodities from the farmer and country elevator to the nearest port, but their operational efficiency is reduced by the fact that three different 25X1

Figure 4
Major Grain Ports and Transportation Network

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gauges of track exist in the system. This limits switching of railcars and prevents easy transfer of grain from one system to another. In addition, the condition of tracks is generally poor, and this has resulted in average operating speed of about 10 km per hour as well as frequent derailments. Efficiency is further reduced by the average boxcar capacity of only 45 to 50 tons, compared with 75 tons in the United States.

A shortage of usable railcars also has been a perennial problem. According to a recent USDA study, the total fleet consists of about 12,200 cars, of which 85 percent can be used only on broad-gauge track (1.67 meters), 11 percent on standard gauge track (1.43 meters), and the remainder on 1-meter gauge lines (see figure 4). Only the standard gauge system has a high percentage of modern cars equipped for efficient grain handling. During harvest, country grain elevators often encounter shortages of cars to move grain to port. the shortages are not necessarily due to insufficient numbers of railcars, but more often because the cars are used for storage at ports during peak shipment periods.

On top of the structural problems, the organization of the rail system results in perennial coordination problems. Although the Government of Argentina nationalized the railway system in 1946, the system consists of six different lines—Roca, Sarmiento, Mitre, San Martin, Urquiza, and Belgrano Railway Companies. The government has attempted to make the railroads more competitive with trucking through seasonal rate adjustments and discounts. Furthermore, demurrage is not charged for unloading delays since all railcars and most port elevators are owned by the government. Trucks, on the other hand, do incur demurrage charges and are given unloading preferences at terminals. This procedure results in considerable lengthening of turnaround time for the rolling stock.

The third component of Argentina's internal grain transportation system is the barge fleet. The main inland waterway is the Parana River, which leads from northern Argentina to the port of Rosario and other ports on the Rio de la Plata Estuary. While the Parana River is navigable for barges over much of its length, they have remained uncompetitive for grain transportation. According to USDA analysts, a government regulation requiring a minimum number of laborers on board has tended to make barges more costly than they would otherwise be. Moreover, the fact that only a small volume of exportable grain is produced annually in areas not accessible to oceangoing vessels limits barge use. Should grain production expand northward, barges could become a more important mode of grain transport. 25X1

25X1

The Port System

Because of Argentina's historic orientation as an export economy, most of its major truck routes and rail lines converge at the major ports (see figure 4). Argentina has several major grain-exporting ports: Bahia Blanca, on the Atlantic Ocean; Buenos Aires, at the mouth of the Rio de la Plata Estuary; and Rosario, upstream from Buenos Aires on the Parana River—as well as a number of minor ports (Quequen, Mar del Plata, San Pedro, Ramallo, San Nicolas de los Arroyos, and Villa Constitucion). 25X1 25X1 25X1

In addition to the shortage of grain-handling facilities, Argentina's grain export potential is limited by the physical conditions of its major ports. According to a World Bank study, the major problem is the shallow depth of the sea and river channel accesses to the ports and the water alongside loading piers. At Buenos Aires the depth alongside loading piers ranges between 9.4 and 10.7 meters, at Rosario between 7.9 and 9.1 meters, and at Bahia Blanca between 8 and 9 meters (see figure 5). Grain ships loading at Buenos Aires are restricted to 34,000 dwt, compared with the ships of 50,000 to 60,000 dwt with 12-meter drafts used in many countries' grain trade. Even the smaller ships must follow the slow process of loading 10,000 to 18,000 tons upriver at Rosario and then topping off at Buenos Aires or Bahia Blanca. Heavy rains often cause additional silting in the Parana River, further reducing navigability. due to silting and lack of maintenance dredging, the important manmade Mitre Channel in the Parana River currently is only 7.5 meters deep, compared with its design capacity of 8.5 meters. 25X1 25X1 25X1 25X1 25X1

These conditions, coupled with the seasonal peaks of grain flowing to port, invariably result in port congestion and extended shipping delays. Delays can be exacerbated by the frequent strikes that plague Argentina, such as the Stevedores Federation strike during July 1983 and the tugboat crew strike in May 1984. Grain traders and shipping brokers have reported shipping delays of 20 to 30 days and sometimes longer in recent years, reflecting the above-mentioned problems. The Soviets have been particularly vocal in their complaints about port congestion and resulting demurrage costs. Repeatedly over the last three years, the Soviets have sent missions to Argentina to investigate the delays. According to US Embassy reporting, Eugene Shcherbakov, Soviet Minister of the Maritime Fleet, on a visit to Argentina during 1984 expressed renewed concern over delays that affected grain shipments to the Soviet Union last season. Shcherbakov's publicly offered solution was a proposal to redesign the port of Bahia Blanca so that ships of up to 100,000 dwt could operate there within two years.

25X1

Table D-1
The Major

Port	Location and Background	Access	Capacity	Port Characteristics	Operational Problems
Rosario **Aires**	This natural river port is located at the mouth of the Rio de La Plata Estuary and services the central part of the grain and oilseed production region. Mix of grains handled in recent years (in percentage terms): corn, 54; sorghum, 17; soybeans, 14; and wheat, 8. Due to its orientation toward summer crops, port activity is heaviest during the middle part of the calendar year (April-September).	Served by excellent road system, which provides convenient access to southwest Buenos Aires Province and producing areas in the northwest and along the Rio de La Plata Estuary. Served by all six railway lines including the standard-gauge Urquiza line. Of the 2.38 million tons of grain entering the port in 1979, 62 percent entered by rail, 36 percent by truck, and 1 percent by barge.	Truck receiving capacity: two old hoist units, 1,000 tons per hour, and two new platform scales, 600 tons per hour. Rail receiving equipment: 16 hoppers and four conveyors, 500 tons per hour each. One large concrete grain elevator with a total storage capacity of 170,000 tons. Ship loadout capacity: four old conveyors with 450-tons-per-hour capacity each, two new conveyors with 1,200-tons-per-hour capacity each. Total ship loadout capacity 4.2 million tons per year.	Depth alongside loading piers—9.4 to 10.7 meters. Channel depth 7.9 to 9.1 meters. Grain-handling facilities include six 3-ton cranes, one tube with a 400-tons-per-hour loading rate. Height of grain-loading spouts; 19.6 meters. Shipping gallery berths three to five ships at a time.	Road system leading into port good, although traffic jams tend to be a problem. Grain coming into the port area on the standard-gauge Urquiza line must be transferred to other gauge railcars before entering port terminal area. Grain arrivals at port sometimes exceed storage capacity (for example, grain cars often remain unloaded for a week or longer). Delays in part reflect incongruity of the work hours for port elevators versus railroads. Port congestion increased by need for ships carrying grain from Rosario and other ports along the Parana River to be topped off at Buenos Aires.

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