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Hope in new reforms

Policies to tackle Argentina's strangled economy and soaring inflation promised by new President Javier Milei could help the country's oils and fats sector

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The Argentine oils, fats and oilseeds industry is optimistic about the sector's growth potential and hopes that reforms announced by the new libertarian government will help to achieve much-needed macroeconomic stabilisation and boost exports.

Gustavo Idígoras, president of the Argentine Edible Oil Association and the Center for Cereal Exporters (Cámara de la Industria Aceitera de Argentina y del Centro de Exportadores de Cereales – CIARA/CEC) wants change.

"Last year's [soyabean] production was the worst in 60 years," he tells OFI.

Three years of drought had led to the country losing 30M tonnes of soyabean production last year, significantly impacting export levels for the crop and their derivatives, says Ramiro Costa, deputy executive director at the Buenos Aires Grain Exchange (Bolsa de Cereales

de Buenos Aires). This occurred despite Argentine crushers seeking soyabean supplies from abroad – in 2022/23, there were record levels of soyabean imports, especially from Paraguay and Brazil.

However, thanks to better weather this year, "projections for the 2023/24 season indicate a significant recovery in production" to 52.5M tonnes, says Costa.

For the current season, "Argentina is positioned as the fifth largest exporter of soyabeans worldwide, while it dominates the global market as the main exporter of soyabean oil and is in second place in terms of soyabean meal exports," he adds.

Idígoras expects total Argentine oilseeds exports to reach a value of US\$34.4bn this year, more than last year's US\$19.9bn.

As well as being a leader in soyabeans, Argentina is also strong in other oilseeds and oils. In 2022, it was the world's fifth largest exporter of sunflower oil and the top exporter of peanuts, with export revenues of US\$1.89bn for all sunflower products including oils, and US\$1.039bn for the peanut sector, according to Fundación Fada, an agricultural foundation for the development of Argentina.

In 2023, even though more sunflower and derivatives were exported, export earnings fell by 25% compared to 2022 to US\$1.413bn; peanuts and derivate exports decreased by volume, but receipts rose in this case by 2.1% to US\$1.061bn.

New government policies

Apart from climate issues, Argentina has been navigating macroeconomic storms which led the right-wing libertarian outsider Javier Milei to be elected president in November 2023, on a platform of drastic economic reforms to tackle a strangled economy and a triple-digit inflation, which rose to 254% in January compared to the same period in 2023.

Milei promised the elimination of export taxes, currency devaluation and even dollarisation – although urgent and temporary measures to stabilise the economy after his inauguration went in the opposite direction. This included temporarily increasing export taxes on some products, notably soyabeans, ahead of their longer-term reduction and abolition to help reduce the fiscal deficit, and a December devaluation of the Argentine Peso (ARS) by more than 50% to ARS800/US\$1 to boost formal export sales. Another aim of devaluation was to narrow the gap between the official exchange rate of ARS366.50/US\$1 and several parallel black market rates, some as high as ARS1,000/US\$1, including a so-called 'soya dollar' used in soya trades.

Other fiscal measures have been included in a proposed 'omnibus law', designed to reduce the role of the state in the economy, which include initial higher taxes on main exports, such as soyabean

► derivatives – from 31% to 33%, bringing them to the level charged on soyabeans.

The package has prompted street demonstrations, delaying discussions on tax reforms, which have not helped the soyabean sector.

“[There was] a paralysis in the grain trade because no one knew what the export tax was and when it was going to be applied,” says Idigoras, adding that equalising taxes for soyabeans and processed products would discourage soyabean processing. This would be a backward step as Argentina has been investing more in its processing capacity than its competitors – the USA and Brazil – which sell more soyabeans than processed by-product, he says.

Idigoras also points out that continuing high rates of export taxes on soyabeans and their derivatives, compared with other products that have half or lower rates, will discourage investments.

Dr Héctor Autino, editorial director of A&G (*Aceites y Grasas*), the magazine of the Argentine Association of Fats and Oils (Asociación Argentina de Grasas y Aceites – ASAGA), agrees. He says if exports taxes are finally reduced, Argentine soyabean production “could exceed historical limits” and exports grow to 75M tonnes/year. “Sunflowerseed production would grow by 50%” and there would be more production of other oilseeds such as rapeseed and camelina”, he adds.

However, for the time being, emergency measures are still in place. The Milei administration wants to temporarily increase export tariffs on a wide range of products to 15%, hiking them for some oilseeds and derivatives such as sunflowerseed and derivatives, but the measure has not yet been approved, leaving export taxes at 5% for sunflower oil and 7% for sunflowerseed.

Idigoras notes that another anticipated reform is to introduce a ‘special dollar’ peso rate for certain trades, including soyabean, but it is unclear when this will be applied. He says the government agrees that having different exchange rates “generates price distortions” and extra costs, leading firms to postpone planning and impacting Argentina’s competitiveness, but they are needed for now.

Milei was also elected promising the dollarisation of the Argentine economy, scrapping the peso and abolishing the Central Bank of the Argentine Republic, but it is unclear when and if this radical measure will be applied. To Idigoras, although dollarisation would generate a “more fluid grain trade”, the country would have to improve its productivity to offer better costs than the USA because “the



Photo: Grupo Los Grobo

Grupo Los Grobo CEO Enrique Flaiban says Argentina needs macroeconomic, political and tax conditions to attract more investment

value of the dollar currency is managed by the US Federal Reserve, not the Central Bank of Argentina”.

On the other hand, thanks to the devaluation of the Argentine peso in recent years, even before Milei’s rate cut, “many importers took the chance to exchange their capital goods and machinery”, Idigoras says. Initially, the new government imposed a tax for imported consumer and intermediate products of 17.5% (up from 7.5%) but, in early January, it cut duties for merchandise used to manufacture products to stimulate the growth of productive export activity.

Idigoras praises the new government for “working very well in terms of deregulation and eliminating procedures in exports and in production”. For instance, President Milei has announced an amendment of the customs code to facilitate international trade, simplifying code classifications and making them more flexible for use by exporters.

Global & domestic factors

International factors are still impacting Argentine exports, at least in the short term. Houthi attacks on commercial ships in the Red Sea due to the Israel-Hamas conflict since November 2023 are having an effect on Argentine shipments.

The Russia-Ukraine war has also generated market distortions and uncertainty, creating irregular export flows from the Black Sea countries, says Idigoras. Experts from the Rosario Stock Exchange add that the war has increased energy and fertiliser prices.

However, new opportunities are

also arising, Idigoras says. “Argentina is developing a strategy to increase exports” of sunflower oil especially to India, where its consumption is increasing. He sees “a favourable outlook” given the global market, which France-based market researcher ReportLinker says is projected to reach 12M tonnes by 2026, up from 11.4M tonnes in 2021.

In addition, Idigoras is optimistic about the growth of the local peanut and derivatives industry, with producers exploring sales beyond traditional markets in Europe and the USA. “Some products are being developed, such as peanut paste.”

Furthermore, he foresees “an interesting future market for oils and fats for aviation biofuels” since trials are being carried out in Argentina to make them from several products, such as tallow and camelina.

The ‘Omnibus law’ also “opens the gate to price and quantity competition” in the Argentine biofuel market, which until now has suffered from extreme government intervention, according to independent Argentina grains and oilseeds analyst Santiago Sanchez.

“Argentina has state-of-the-art [biodiesel and bioethanol] production plants,” Dr Autino from A&G explains. However, instead of reaching blend rates of 10-20%, the proportion of biodiesel in fossil fuels in some cases is only 5%, leading to the closure of some production plants or low capacity utilisation rates.

Dr Autino notes that Argentina “has the largest crushing plants installed in the world with facilities capable of processing up to 20,000-30,000 tonnes/day and equipped with a very high degree of automation”, adding that most of them are located in the central Santa Fé province, near the ports of Gran Rosario, which reduces production and shipping costs.

The country also has “excellent conditions in terms of climate and soil” and hence the potential to increase oil crop production, says Enrique Flaiban, CEO at Grupo Los Grobo, a major Argentine soyabean producer known for developing direct sowing, a cultivation technique without ploughing to avoid soil erosion.

With more government support for the oils and fats sector, Argentina also has “relevant ... biotechnological developments ... to generate yield increases and to develop crops resistant to drought, weeds and insects, Dr Autino says.

However, for the agricultural sector to keep developing, “it is necessary to establish macroeconomic, political and tax conditions in line with what is needed to attract more investments,” Flaiban says. ●
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