

Integration, protectionism and competitiveness of the Argentinean oilseed industry

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Abstract

This paper studies the performance of the Argentinean oilseed industrial complex in an international context during the decade of the convertibility (1991-2001). It focuses on macroeconomic aspects of the competitiveness in an international context, and in the framework of the Uruguay Round Agreement. Therefore it analyses different protective policies implemented by the main competitors countries and its effects on our export structure. Furthermore, this paper studies the characteristics of two special markets: European Union and Brazil.

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Keywords: oilseeds markets, protectionism, policies and instruments.

I. Introduction

The main objective of this paper is to analyze the performance of the Argentinean oilseed industrial complex in an international context during the decade of the convertibility (1991-2001). Fundamentally, the purpose is to study the performance of a group of related facts that ended up determining, toward ends of the 2001, a situation of weakening of this industry competitiveness and harming the future growth of this sector.

This paper focuses on macroeconomic aspects of the competitiveness. The intention is to evaluate the international context of the nineties, analyzing the development of the protective policies and their effects on our export competitiveness, in a general framework of agreements reached at the Ronda Uruguay of the GATT.

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II. World outlook of the Oilseed Market

The oilseeds world production reached in 2001 to 315 million tn. The soya is the most important oilseed; its world production represents the 55% of the global output. Likewise, the world production of groundnuts and sunflower seeds are well positioned with a 10.3% and a 7.3% of the global output, respectively. The commercialization of fats and oils presents a continuous growth that goes together with the increase of the production. In 2001, 45% of the oil world production have been traded.

The world supply of the soya complex is concentrated on three countries: USA, Brazil and Argentina. USA is the most important soybean exporter of the world. On the other hand, Brazil and Argentina are the main world suppliers of flours and oils of soya and sunflower.

-CHART 1

Oilseeds and Products: Global supplies and Trade
(million tonnes)

	1999/ 2000	2000/01 estimate	2001/02 forecast
Oilseeds			
Production	306	315	326
Oils and Fats			
Production	116	118	119
Trade	52	55	56
Oilmeals and cakes			
Production	78	81	84
Trade	41	44	46

Source:FAO

Argentina is the third producer and exporter of soya of the world. In 2001 there was a record production of 26 million tons in response to the simultaneous expansion of the acreage and the yields, and lower production costs. This trend is expected to continue in 2002. Additionally, Argentina produces 3.3 million tons of sunflower and also other oilseeds like groundnuts and corn.

In regard to the export support policies, Argentina doesn't grant subsidies to the exporters neither to the producers, on account of which prices are settled on the international markets conditions.

III. Institutional background

The positive and negative outstanding facts that have influenced the Argentinean oilseed industry situation up to the end of the 2001 were the following ones:

a. The modernization process introduced by the Convertibility Law through its Economic Program. The general context of liberalisation economic policies,

transformation of the traditional productive structure as well as the State reforms, encouraged some firms to carry out significant investments so as to enlarge their productive capacity and their level of efficiency in the crushing activities and commercialization. Although, as important was the effort made by the grains producers through the introduction of technological innovations to improve the inputs yields and production.

b. The international price fluctuation of both bulk and processed oilseeds products brought about negative effects on demand and on sales composition of our industries.

c. The world tendency towards a growing protectionism, that was originated in countries that compete with the Argentinean oil industry.

d. The internal difficulties, such as tax policies, crop opportunities, demand conditions, and others; have operated as exogenous factors to the oilseed complex, determining unwanted losses of its competitiveness.

IV. Growing protectionism and diminishing competitiveness: to almost ten years of the Ronda Uruguay of the GATT

IV.1. Antecedents

During the eighties, conflicts in the agricultural trade have greatly increased. This phenomenon have motivated, among the countries members of the GATT, the idea of carrying out a global negotiation with the objective of achieving a broader liberalisation for the agricultural trade. The beginning of the Uruguay Round was the “Punta del Este Declaration” in September of 1986. At the Geneva Meeting (April 1989) the main objective agreed was to reduce progressively international markets distortions (support and protection to producers and exporters) and remove the barriers that disturb their operation.

The Uruguay Round mission tends towards the trade liberalization, by the elimination of the structural distortions that obstacle commercial flows among countries. These countries agrees to reduce agricultural support and protection substantially by establishing disciplines and rules on market access, export competition and trade distorting domestic policies.

In addition to the three “pillars”, a new Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) was signed. This provides for countries to take measures to protect human, animal, and plant health; while at the same time establishing rules to prevent countries from using arbitrary and unjustified health and environmental regulations as disguised barriers to trade.

IV.2. Current scene after the Uruguay's Round resolutions

The current agricultural world market have moved away from the objectives yearned for the URAA due to the government intervention that distorts international prices. The main policy instruments handled to achieve this effects, without allowing the international price to adjust to market fluctuations, were:

- the subsidies to the production and/or industrialization of agrarian row material
- the direct payments to the producers
- the tariff structures designed to favor the internal industrialization of grains and to block up imports of manufactured products
- the fiscal and financial mechanisms that obstruct free trade

These measures caused negative effects to the Argentinean oilseed industry in the last few years. Firms of this sector must face a distorted international market due to the monopolic and protective policies of the European Union and the United States. However, this situation got worse when some emergent countries (mainly China, India, countries of the east of Europe and some of the Andean Community) began to imitate those actions against free trade.

V. Outstanding facts and the promotion of the protection instruments

In addition to the analysis of the defensive strategies carried out by each country in an international context, there's a set of exogenous facts that have impinged on and weakened the Argentinean oilseed industry.

As a result of the drop of the grains and by-products international prices, due to the economic and financial crisis of the emergent countries of the Asian Southeast, our oilseed industry must face new artificial competitors besides the traditional rivals of the international trade. This meant that a group of government measures, derived from some specific countries, have injured the growth dynamics of the sector, weakening the naturally competitive position of the Argentinean oil industry. These actions were carried out by way of several instruments and with a common objective: to stop the entrance of oleaginous manufactures from outside. An enumeration of the most important instruments is presented:

- staggered tariff structure; this means, the establishment of progressive tariffs as the products gets more added value.
- subsidies to the production and/or industrialization of row materials.
- establishment of preferential import quotas.
- new import tariffs
- support prices
- credit and fiscal facilities
- high discriminatory tariffs of the products with more added value
- export duties on grains
- distorsive, overlapped and non tariff barriers

These measures have acted unfavorably for free world trade.

V.1. Staggered tariff structure

The staggered tariff structure mixed with raw material export duties has granted a huge protection against the external competition, to many oil industrial countries. This staggered tariff policies implies that countries settle very low or null percentages on grains without processing, and high tariffs on oil and flour (excepting Rumania and China –extra quota-)

The analysis of the tariff structure evolution between the 2000 and the present time shows dissimilar behaviors, with respect to the protection level among different countries and oilseeds products. (Charts 2 and 3).

a. Grains without processing

Countries belonging to NAFTA and EU kept the rights on soybeans and sunflower seeds at the level of 0%, with the exception of Mexico, that settled a 15% for soybeans. Furthermore, this country has a right of 198% on grains of corn and none on peanuts. In these two last cases, EU doesn't set tariffs while USA imposes 6,6 cents of dollar for each imported kilogram.

Among Latin American countries, the protection was, in general, decreasing. Chile went down, from 9% to 7%, the rights on soybeans, sunflower seeds and corn. On the other hand, Venezuela kept on the 15% on these three grains since 2000; and Peru reduced its tariff from 15% to 4% on soybeans, and from 15% to 12% on sunflower seeds.

In the Asian commercial block the main importer country -China (extra-quota)–maintained its tariffs on soybeans (114%) and sunflower seeds (70%). In Africa and Middle East, the only country that stands out is Morocco, where the protection on soybeans and sunflower seeds increased, despite the fact that the other countries didn't show changes (Israel, Egypt and Algeria).

b. Raw and refined oil

In regards of import rights, the oil sector showed a stable scene during the period 2000-2002 in relation to NAFTA and UE. Chart 3 shows this fact; however, it must not be left aside the tariff adjustment of Canada on soya raw oil. At the same time, the EU maintained its tariffs applied in 2000: 6,4% on soya, sunflower, peanut, and corn raw oils; and 9,6% on these same oilseeds refined oils.

In reference to the Latin American countries, Chile and Peru reduced their protection considerably: in the case of Chile from a 70% to 7% and Peru from 33% on general oils to 4% on raw oils and 12% on refined ones. This situation contrasts with the Asian block's one. In China –extra-quota- the protectionism is very strong with a tariff level of 121,6% on soya and of 91,2% on sunflower raw oil. In the case of refined oils, the same situation can be found. This fact proves the emphatic support from the Chinese government in aid of the development of the internal crushing industry, inclusive with the introduction of North American investments.

As for Oriental Europe and Russia, the protection levels diminished sensibly in Hungary, Rumania, Ukraine and Turkey. Russia only went up 5% the import

tariff on soya raw oil, although it didn't change its external policy on sunflower raw oil.

CHART 2

Import rights on seeds. Average tariff of the most favored nation (%)
Years 2000 and 2002

Area	Soybeans 2000	Soybeans 2002	Sunflower seeds 2000	Sunflower seeds 2002
NAFTA				
EEUU	0,0%	0,0%	0,0%	0,0%
Canada	0,0%	0,0%	0,0%	0,0%
Mexico	0,0%	0/15%	0,0%	0,0%
EUROPEAN UNION				
LATIN AMERICA				
Venezuela	15,0%	15,0%	15,0%	15,0%
Peru	15,0%	4,0%	15,0%	12,0%
Ecuador	10,0%	15,0%	10,0%	15,0%
Chile*	9,0%	7,0%	9,0%	7,0%
ASIA				
China (extra-quota)	114,0%	114,0%	70,0%	15,0%
Philippines	3,0%	n/i	10,0%	n/i
Pakistan	10,5%	5,0%	10,0%	5,0%
Bangladesh	10,5%	n/i	n/i	n/i
Singapore	0,0%	n/i	0,0%	n/i
AFRICA and MEADDL E EAST				
Egypt	0,0%	1,0%	0,0%	1,0%
Algeria	3,0%	n/i	7,0%	n/i
Morocco	15,0%	52,5%	15,0%	81,0%
Israel	0,0%	0,0%	0,0%	0,0%
EUROPA ORIENTAL Y RUSIA				
Hungary	0,0%	0,0%	0,0%	0,0%
Rumania	45,0%	0,0%	46,0%	30,0%
Turkey	0,0%	0,0%	3,0%	0,0%
Russia**	5,0%	5,0%	7,0%	10,0%
Ukraine***	0,0%	0,0%	0,0%	0,0%
Australia	0,0%	0,0%	0,0%	0,0%

n/i: no information

* Nominal rate plus specific rights on price bands

** Apply 10% of exports right on sunflowerseed

*** Apply 23% of exports right on sunflowerseed

Source: Own elaboration based on C. Melconian and R. Santangelo for the year 2000 and based on INAI information for the year 2002

V.2. The effective protection

The effective protection indicator takes into account the difference between the tariff settled on the final product and the one settled on the inputs, adjusted by the share of the input in the final product. According to Corden, the effective protection coefficient for soya, as a compound good (industrial soya integrated by 18% of oil and 82% by flours) is calculated in the following way:

$$PE(si) = AN(si) + [PI. [AN(si) - AN(sp) / (1 - PI)]$$

Where, PE represents the effective protection of the industrial soya; AN(si) is the nominal tariff of the industrial soya and AN(sp) the nominal tariff on the soybean, while PI is the share of the soya input in the total cost of the industrial soya.

If the percentage of effective protection PE for Argentina were growing in time, it means that the internal oilseed industry is being more and more preserved from the external industrial competition in that sector. On the other hand, the PE

CHART 3

Import rights on raw and refined oil. Average tariff of the most favored nation. (%)
Years 2000 and 2002

Area	Raw Oil Year 2000		Raw Oil Year 2002		Refined Oil Year 2000		Refined Oil Year 2002	
	Soya	Sunflowe	Soya	sunflowe	Soya	Sunflowe	Soya	Sunflowe
NAFTA								
USA	19,7%	1,8 c/kg+3,5%	19,1%	3,4%+1,7 cent/kg	19,7%	1,8 c/kg+3,5%	19,1%	3,4%+1,7 cent/kg
Canada	7,0%	n/i	5,5%	5,5%	n/i	n/i	11,0%	11,0%
Mexico	10,0%	10,0%	10,0%	10,0%	20,0%	20,0%	20,0%	20,0%
EUROPEAN UNION								
	6,5%	6,4%	6,4%	6,4%	9,6%	9,6%	9,6%	9,6%
LATIN AMERICA								
Venezuela	40,0%	40,0%	20,0%	20,0%	40,0%	40,0%	20,0%	20,0%
Peru	33,0%	33,0%	4,0%	4,0%	33,0%	33,0%	12,0%	12,0%
Ecuador	15,0%	15,0%	20,0%	n/i	20,0%	20,0%	20,0%	20,0%
Chile	70,0%	70,0%	7,0%	7,0%	70,0%	70,0%	7,0%	7,0%
ASIA								
China (extra-quota)	122,0%	91,2%	121,6%	91,2%	122,0%	91,2%	121,6%	91,2%
China (intra-quota)	16,0%	40,0%	13,0%	40,0%	16,0%	40,0%	13,0%	40,0%
Philippines	10,0%	10,0%	7,0%	3,0%	10,0%	10,0%	7,0%	10,0%
Pakistan	57,0%	45,0%	Rs 9050/Ton	Rs 9050/Ton	70,0%	45,0%	Rs 9050/Ton	Rs 9050/Ton
India	27,5%	27,5%	45,0%	75,0%	44,0%	44,0%	45,0%	85,0%
Bangladesh	20,5%	60,0%	Btwn 22,5 - 30	Btwn 22,5 - 30	60,0%	60,0%	Btwn 22,5 - 30	Btwn 22,5 - 30
Singapore	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Japan	12,93 y/kg	11,33 y/kg	10,9 Yen/Kg	s/d	15,7 y/kg	13,83 y/kg	13,2 Yen/Kg	10,4 Yen/Kg
AFRICA and MIDDLE EAST								
Egypt	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%	20,0%
Algeria	15,0%	15,0%	n/i	n/i	25,0%	25,0%	n/i	n/i
Morocco	40,0%	40,0%	96,0%	70,0%	55,0%	55,0%	98,0%	76,5%
Israel	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
EASTERN EUROPE and RUSSIA								
Hungary	35,0%	25,0%	25,0%	s/d	25,0%	40,0%	39,1%	s/d
Rumania	192,0%	196,0%	25,0%	40,0%	192,0%	196,0%	25,0%	3500,0%
Turkey	60 U\$S/Tn	60 U\$S/Tn	6,4%	6,4%	60 U\$S/Tn	60 U\$S/Tn	s/d	s/d
Russia	10,0%	18,0%	15,0%	15%+0,09 Euro/kg	15,0%	18,0%	15,0%	15%+0,09Eur o/kg
Ukraine	100,0%	100,0%	0,3 Euro/kg	10,0%	100,0%	100,0%	0,3 Euro/kg	0,8 Euro/kg
Australia	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%

n/i: no information

Source: Own elaboration based on C. Melconian and R. Santangelo for the year 2000 and based on INAI information for the year 2002

coefficient for any rival country shows the degree of artificial barriers that should face the Argentinean oilseed industry when it must place the production in some external markets. The staggered tariff structure is a strongly distorting measure, but if the subsidies and the direct payments were computed, the protection levels would be even bigger.

The estimation of the effective protection for industrial soya and sunflower shows that Argentina (excepting from Canada and the EU) is the less protective country of the world, with a coefficient of 0,40 (Chart 4). In contrast, China has an operative protection of 5. This country applies differential tariff intra and extra-quota. In fact, tariffs applied on seeds are high enough to make the whole imports

enter with the intra-quota tariff; otherwise, the tariff applied on processed soya and sunflower is relatively lower. This behavior illustrates that China has an operative protection that mixes intra-quota tariffs on seeds and extra-quota tariffs on oils.

A look at Chart 4 gives an idea of the effective protection in different countries. In the case of Chile, the effective protection has been calculated adding to the nominal tariff the specific right of the bands of prices. In the cases of Ukraine, Russia and Argentina, the effective protection of the industrialized sunflower was evaluated considering the export rights on seeds, effective in those countries, that reaches to 23%, 10% and 3,5%, respectively. In Mexico, the level of effective protection is not high; however, Argentina faces serious entrance restrictions because is not able to access to export licenses at the established quotas.

CHART 4

Coefficient of Effective Protection according to Corden Year 2000

Industrial Soya			
China (operative protection)	5,00	USA	1,00
Venezuela	2,68	Algeria	0,76
Chile	2,58	Turkey	0,57
Pakistan	2,32	Argentina	0,40
Mexico	1,31	Canada	0,29
Japan	1,16	European Union	0,16
Egypt	1,12		
Bangladesh	1,12		
Industrial sunflower			
Ukraine	25,22	Mexico	1,08
Rumania	13,43	Algeria	0,76
China (operative protection)	7,24	Turkey	0,75
Chile	5,37	USA	0,70
Pakistan	3,20	Argentina	0,57
Venezuela	2,68	European Union	0,55
Hungary	2,16		
Russia	1,90		
Japan	1,82		
Egypt	1,80		

Source: Melconian y Santangelo (2000)

V.3. Mixed instruments and the intensification of the protectionism

Not only the staggered structures –ad valorem tariff- have limited the competitiveness of the Argentinean oilseed industry. Those distorting instruments were designed for pressing on when prices are depressed. The existence of specific duties –fixed and variables-, combined with bands of prices have been harmful for our exports. How does this mechanism work? This instrument tends to stabilize the consumption through the action of specific duties that fluctuate with the CIF price of products and they are added to nominal duties. When the prices are high, the specific rights assume minimum values, whereas when the prices are low they make the opposite.

Afterwards the Asia Southeast economic crisis in 1997, there was a drop of the grains prices, that reached the oilseed group too. The economic situation in emergent countries went on very difficult, so much in Latin America as in Oriental Europe and Asia. In this situation, instead of the necessary fall of international supply of grains to face the downturn of the demand and, in this way, to make the prices steady, three negative facts interfered with the operation of the price system.

A. The governmental policies carried out by the industrialized countries brought about an increase in subsidy payments and, therefore an increase of production surpluses. In the OECD countries, the cost of help programs grew from 5.900 million dollars in 1997, to approximately 9.000 millions in 2000.

In the **European Union**, the Common Agricultural Policy (PAC) has acted as restrictions to this market access, as well as has affected their import possibilities and their competitive activity. This policy has generated a rise in the share of food sales from the UE to the world, from 8% to 13% of the whole world between 1970 and 2000. Likewise, the share of the European Community purchases has decreased among the food items from 24% to 15% in the same period.

However, a mixture of protection instruments expressed the public intervention in the EU: minimum price, tariff and not tariff barriers, exports subsidies and subsidies for the crushing industry, financed by the European Fund of Orientation and Agricultural Guarantees. All these instruments, in addition to the action of the staggered tariff structures favored grains purchases without processing by blocking the entrance of products with added value. As a result, this behavior damaged the export growth of countries that have natural advantages – comparatives – as what had happened in Argentina.

The statistics show the effect of these policies on Argentina. In 1970, 11% of the Argentinean exports toward UE was oils, and less than 1% belonged to oleaginous grains. At the present time those percentages reach to 2,5% and 6%, respectively.

In the **United States**, farmers receive direct payments and coverings since the Agrarian Law approved in 1996 (Federal Agricultural and Improvement Reform

Act)³. These law bases on the fact that producers help doesn't stimulate the production, therefore, it doesn't distort markets operations; besides, it is inspired by the internal security principal. This mechanism start operating since the price downturn originated in the Asian crisis of 1997. Regarding to this, the United States Congress approved emergency expenses of 7.000 million dollars for the 1998-1999 exercises so as to compensate farmer losses.

The Loan Deficiency Payments (LDP) centered its help on the soya, as a strategic product for North American agriculture. This mechanism brought about a more efficient instrument that stimulates farmers sowing in contrast to the old support price method. These payments operate as follows: when the market price is lower than the reference price, producers must decide whether to receive this price differential. In 1999, these payments reached to 7.000 million dollars.

Nonetheless, under this device (LDP) producers don't decide regarding market prices. This distortion causes production surplus and record crops, as has been experienced during the last years. Hence, these internal subsidies, together with the marketing loan payments, led up to a decrease of 7% in the soya market price in 2000.

The relative price structure has influenced in the great expansion of the soybean complex, in contrast to the corn complex behavior. The positive difference between the guaranteed price of soya and corn (loan rate), when these are higher than the market price, produces better profits for soya farmers.

The direct payments to producers have not been objected in the Uruguay Round agreement of the GATT. A new help was approved in June 2000 by means of the protection law for agricultural risk, on account of which reforms in the insure crop programs and emergency help for those producers that entered until August 2000, was authorized. This law also gave financial help to carry out researches, to generate renewable fuels and new products. In short, the United States has a security net that protects farmers when business goes wrong.

In May 2002 the United States Congress approved the new Farm Bill that enlarged the help with regard to the number of products, the subsidies increase and the introduction of prices against the cycle to benefit producers. The effect of this new law -that will operate for the 2002-2007 period- will be to depress even more the international prices and to generate more surpluses of cereals and soya. Definitely, this means an additional market loss for Argentina, in the presence of the North American export policy aggressiveness.

This new law will give extra earnings to the producers from three different sources:

1. Through the "Loan rate", used to access to the Marketing Loan Program (MLP) or the Loan Deficiency Payment (LDP), that denote a supported price.

³ This law made flexible the previous benefits given to the producers, avoiding the compensated payments and the support price; as well as keeping the subsidies instruments unchanged in such a way that in the period 1996-1998, the North American government pays out more in subsidies as a comparison to the same period before the new law.

2. Via an additional payment for those producers the Congress may want to protect. This is similar to the Production Flexibility Contract.
3. By means of the “against the cycle payment”, that activates when prices fall under a price fixed by the law, entitled as “target price”

Actually the new law will have the following effects in campaign 2002/2003, specifically for the oilseed sector: The supported price will be increased for sunflowers from 205 to 212 US\$/tn, will decrease for soya from 193 to 184 US\$/tn, and will maintain for cotton in 146 US\$/tn. By the 2004/2007 campaign, the increments of these percentages will slow down, stimulating cereal and sunflower crops, and discouraging the soya crops.

Furthermore, another incentive related on payments that don't depend on the production volume, the yields or the type of crops, has grown with respect to 2001. Finally, stabilisation payments strengthen the security net for producer's incomes and operate as a minimum income.

The other complementary programs instituted in the current North American agrarian politics, are dedicated to expand the exports through direct subsidies (EEP), credit guarantees (GSM) and alimentary help (PL).

B. The relative shutting of some economies in response to the Asian crisis is a phenomenon that must be studied, as well. These countries had to enlarge their oil tariffs, to intensify their barriers and their non-tariffs measures. This practice in Latin America applied by Colombia, Chile and Venezuela, according to CIARA's studies (Cámara de Industriales de Aceites de la República Argentina), determined an effective protection rate of 150% on packed oils and of 70% on raw oils. In consequence, Argentinean exports toward those countries descended considerably during 1999. In general, there was a fall on the oilseeds by-products demand from Latin America countries that were Argentinean customers. In regard of the Andean Community countries, Argentina faced particularly difficulties due to the commercial preferences negotiated in the ALADI agreements, which are only applied on ad valorem tariffs. In Venezuela, to the problem of bands of prices was added, at the beginning of 2000, the fixation of imports quotas for all type of oils and from any origin. The same thing happened in the case of Chile, when consolidating vegetable oil imports safeguards at the beginning of 2000. These are equivalent to the difference from the ad valorem tariff resultant from the application of bands of prices. Finally, in the Oriental Europe and Russia areas, there was a greater opening of Rumania for the soya and sunflower, while Russia, Turkey and Ukraine didn't show considerable changes in their protection levels between the 2000 and the present time.

C. The agricultural expansion in China

For the period of several decades, the governmental policy carried out by China, promoted the grains production and protected the crushing industries

through the grant of subsidies and administrative mechanisms that led to an increase of the achieved volume. Mainly, there was a notably growth on cereals – wheat, corn and rice-. In 2000 the accumulated stock was equivalent to ten months of internal consumption of grains. However, this system discriminated against the production of oilseeds and in favor of other grains. In spite of the blooming in their production –it reached to 40 million tons in 2000-, the governmental policy encouraged imports, that arrived at 13,4 million tons that year, while, in the previous year they were 8,2 million tons. These greater revenues from grains without processing –mainly soya and rape- were attained at the expense of smaller purchases of oils and flour to the world. The China's policy for import substitution was based on: i) maintenance of a 3% tariff on imported soybeans; ii) a restrictive treatment of imports licenses; iii) the impossibility of getting the raw oil import quota on the part of the foreign firms situated in China; iv) high tariffs for oil imports and slants in the assignment of shares to palm oils, stimulating the internal crushing for the soya; and v) discriminatory taxation to the 13% added value on imported soya flour.

CHART 5

Consolidated tariffs of EU, USA and Japan on oilseeds

	EU		USA		Japan	
	Before the UR	After the UR	Before the UR	After the UR	Before the UR	After the UR
Oilseeds	0	0	0	0	<1	<1
Vegetable Oil	17	12	9	5	2	<1

Source: N. Hag Elamin, "Acuerdo Sobre Agricultura"

This new pattern of the Chinese oilseed complex transformed the international setting of this sector, in which the Argentinean industry was especially damaged. Other countries that were traditional Argentina's customers emulated the Chinese experience. This was the case of Pakistan, India, Thailand, Iran, Egypt, Israel, Turkey and Malaysia.

The great agricultural expansion of China generated high economic, administrative and environmental costs. Starting from 2000, the Chinese government applied measures to limit the volume of grains cultivated under the system of quotas, to reduce the price of the quota and the protective price. These dispositions consisted of: i) more rigorous qualitative requirements on the purchase of grains inside the limits of the system of quotas ii) to exclude the low-quality grains, as wheat and corn of the south of China and sunflower of the northeast, from the list of products covered by the quota and the system of protection prices.

However, to encourage the use of excluded varieties, the government promoted the creation of agroindustrial companies: mills, animal fattening and production of pharmaceutical products. These new firms made part of the grains purchase, after being approved by the Administration of Trade and Industry offices, and of the Grains Administration.

Some results of the protective policy carried out by China may be proved with the statistical data exam.

CHART 6

	1998	1999	2000
Production of soybean (millions of tm.)	15,2	14,0	15,0
Production of soya flours (millions of tm.)	10,0	11,8	12,5
Imports of soybean (millions of tm.)	3,8	10,1	7,5
Production of soya oils (millions of tm.)	2,0	2,6	2,7

Source: Gain Report (2001).

VI. The Structural Alteration of the Markets of Argentina

The world growing protectionism, the appearance of substitute products for the Argentinean oilseed complex and the formation and consolidation of economics blocks has considerably changed the structure of the international trade. On account of this, in the last 15 years the destiny of our oilseeds and oilseeds product exports suffered important changes.

VI.1. Grains without processing

Related to grains exports, the period 1996-2000 points out a substantial change in the destiny of the primary production of oilseeds. While in the decade 1986-95, between 80% and 90% of our production was placed in the European Union, Oriental Europe and the rest of Europe, for the five-year period 1996-2000 those same areas only absorbed 47% of the total exported. On the other hand China and Asian Southeast purchases grew until reaching a participation of 43% in this last five-year period (Chart 7). Even though with very small percentages of significance, the exports of Argentina toward NAFTA, MERCOSUR and Chile, and Africa had a less important relative participation for all the oilseeds. Chart 7 also makes possible the weighting of Argentinean exports by five-year blocks, from 1986 to the 2000.

VI.2. Oils

The protective effects of Oriental Europe and Russia, rest of Europe, European Union, NAFTA and rest of America, are even more remarkable for the oil market. These areas, which participated with 42% of our sales in the period 1986-90, had descended around 15% in their participation during the five-year period 1996-2000 (Chart 8). The NAFTA block shows a particular case in regard of our oil market loss. In the last years, our oil products were shifted from the Mexican market by the North American products. Due to the free trade agreements, in the NAFTA framework, the North American oilseeds by-products were allowed to access with privileged conditions. Nevertheless, in the ALADI framework, Mexico had committed to Argentina in granting a 50% preferential treatment in a 100.000 tn/year quota for sunflower raw oil until the end of 2001. Actually, this system resulted to be ineffective and, as a consequence, the quota couldn't be used in detriment of our exporter industry.

Another situation, that was already commented, is that of the Andean Community countries, whose purchases lost participation from 15% to 10% between the first and second half of the 90's.

The market areas that maintained their relative shares in the three five-year period, that goes from 1986 to 2000, were Africa and the European Union, with 16,5% and 1,5% respectively. The most remarkable growth in that period corresponds to the Asian area. In the second five-year period of the last decade this area represented more than 50% of the total exported oil. The area of MERCOSUR and Chile reduced its participation from 10% to 6% between the first and second half of the 90's decade.

VI.3. The growth of the substitute oils

The palm oil, whose main producers are Indonesia and Malaysia, has received important protection based on production subsidies and staggered tariffs, since the 70's. Those countries have assumed a severe protective attitude for the crushing industry, encouraging its growth with high export rights and with prefinancing mechanisms for oil exports.

The palm oil competes against the Argentinean soya and sunflower oils, and it has been able to penetrate in the European Union, China and Pakistan. In the European Union it represents near 70% of their imports of oil. On the other hand, this new oilseed support is growing in such a way that contributes to depress even more the international prices of vegetable oils.

The Argentinean oil industry entrepreneurs are worried because they could be removed from some current markets by the palm oil. Moreover, since this has been proved in the Chinese market. In 1996-97, the Chinese imports of soya oil were higher to those of palm oil in a 20%; in 2000 the purchases of this last one had already overcome in 65% to those of the soya oil. China has granted preferential import quotas to palm oil, and it has elevated the tariffs of 9% to 16% for the soya oil.

CHART 7

ARGENTINEAN SEED EXPORTS EVOLUTION BY DESTINY
(Thousand of Tons)

Destiny	1986-1990	1991-1995	1996-2000	Total Acumulated	Percentage of the total
Africa	59,8 4,6%	775,0 59,1%	476,4 36,3%	1311,2 100,0%	2,9%
NAFTA	609,6 26,9%	1079,4 47,7%	574,1 25,4%	2263,2 100,0%	5,0%
Andean Community	12,5 3,9%	121,5 37,6%	189,3 58,6%	323,3 100,0%	0,7%
MERCOSUR + Chile	38,1 4,5%	583,7 69,1%	223,4 26,4%	845,2 100,0%	1,9%
Rest of America	30,5 20,8%	21,5 14,7%	94,3 64,5%	146,3 100,0%	0,3%
Asian South East	535,1 18,4%	989,8 34,0%	1386,7 47,6%	2911,7 100,0%	6,4%
Rest of Asia	192,5 3,0%	924,5 14,2%	5389,5 82,8%	6506,4 100,0%	14,3%
European Union	4367,8 28,8%	6992,4 46,1%	3823,6 25,2%	15183,7 100,0%	33,4%
Oriental Europe + Rusia	983,9 63,8%	313,2 20,3%	245,9 15,9%	1543,0 100,0%	3,4%
Rest of Europe	4536,6 31,4%	6539,2 45,2%	3394,1 23,5%	14469,9 100,0%	31,8%
Oceania	2,2 12,5%	12,1 69,0%	3,2 18,5%	17,5 100,0%	0,0%
Total	11368,5	18352,4	15800,6	45521,5	100,0%
<i>percentage evolution</i>	25,0%	40,3%	34,7%	100,0%	

SEED EXPORTS STRUCTURE BY DESTINY

Destiny	1986-1990	1991-1995	1996-2000
Africa	0,53%	4,22%	3,02%
NAFTA	5,36%	5,88%	3,63%
Andean Community	0,11%	0,66%	1,20%
MERCOSUR + Chile	0,33%	3,18%	1,41%
Rest of America	0,27%	0,12%	0,60%
Asian South East	4,71%	5,39%	8,78%
Rest of Asia	1,69%	5,04%	34,11%
European Union	38,42%	38,10%	24,20%
Oriental Europe + Rusia	8,65%	1,71%	1,56%
Rest of Europe	39,91%	35,63%	21,48%
Oceania	0,02%	0,07%	0,02%
Total	100,00%	100,00%	100,00%

Source: Based on INDEC information

CHART 8

ARGENTINEAN OIL EXPORTS EVOLUTION BY DESTINY
(Thousand of Tons)

Destiny	1986-1990	1991-1995	1996-2000	Total acumulated	Percentage of the total
AFRICA	1502,6 21,6%	2105,3 30,3%	3338,4 48,1%	6946,3 100,0%	16,6%
NAFTA	963,4 43,4%	877,8 39,5%	380,7 17,1%	2222,0 100,0%	5,3%
Andean Community	905,2 18,7%	1983,4 41,1%	1942,1 40,2%	4830,7 100,0%	11,6%
MERCOSUR + Chile	526,3 17,2%	1251,7 41,0%	1278,2 41,8%	3056,2 100,0%	7,3%
Rest of America	666,0 31,4%	569,5 26,8%	885,8 41,8%	2121,3 100,0%	5,1%
Asian South East	163,8 12,1%	621,6 46,0%	566,2 41,9%	1351,5 100,0%	3,2%
Rest of Asia	1983,8 13,0%	3568,6 23,4%	9684,4 63,6%	15236,8 100,0%	36,5%
European Union	133,6 21,7%	218,8 35,6%	262,2 42,7%	614,6 100,0%	1,5%
Oriental Europe + Rusia	1353,5 49,9%	683,2 25,2%	675,4 24,9%	2712,1 100,0%	6,5%
Rest of Europa	751,4 34,6%	729,8 33,6%	689,0 31,7%	2170,2 100,0%	5,2%
Oceania	166,7 31,5%	227,6 43,1%	134,1 25,4%	528,4 100,0%	1,3%
Total	9116,3	12837,3	19836,6	41790,2	100,0%
<i>Percentage evolution</i>	21,8%	30,7%	47,5%	100,0%	

OILS EXPORTS STRUCTURE BY DESTINY

Destiny	1986-1990	1991-1995	1996-2000
Africa	16,5%	16,4%	16,8%
NAFTA	10,6%	6,8%	1,9%
Andean Community	9,9%	15,5%	9,8%
MERCOSUR + Chile	5,8%	9,8%	6,4%
Rest of America	7,3%	4,4%	4,5%
Asian South East	1,8%	4,8%	2,9%
Rest of Asia	21,8%	27,8%	48,8%
European Union	1,5%	1,7%	1,3%
Oriental Europe + Rusia	14,9%	5,3%	3,4%
Rest of Europe	8,2%	5,7%	3,5%
Oceania	1,8%	1,8%	0,7%
Total	100,0%	100,0%	100,0%

Source: Based on INDEC information

VII. The EU policies on oilseeds

From the beginning of the EEC, this has been supporting the agricultural sector through subsidies, variable exaction and directs payments, which have taken different forms and intensity.

In 1966 the EEC began with the organization of an oilseed common market. This policy was similar to the one established on cereals. In this initial stage was determined an annual indicative price and an intervention price, first for the sunflower and rape and, then, for the soya. The intervention price guaranteed a minimum price for the producer, which had to be respected by the storage centers. However, oilseeds, unlike cereals, could enter into the Community without paying the custom duties. To prevent the oil and flour industry from processing cheaper imported seeds, they were given a direct payment or subsidy per ton of seed originated inside the Community.

By the middle of the 70's, USA set a seizure over soya exports. This made the Community to strengthen its oilseed policy, stimulating its production. In this regard, the indicated and intervention prices were rose, and therefore, the sown area and the production grew up to 12,2 million tons in 1987. In only 8 years the seed produced volume increased 300%.

In 1986 the EEC reached high levels of expenditures in the agricultural budget, aiming to subside the farmers. In order to lessen these payments there were settled limits on production through an instrument denominated "maximum guaranteed quantities". If producers didn't respect these limits, their inputs fell down with the decrease of the indicated and intervention prices. However, the expansion of the area sown with oilseeds continued, the physical efficiency reached a top and the budgetary expenditure set aside for the help kept on growing.

Around 1990, USA presented several complaints to the GATT against the PAC for oilseeds products. In 1991 a general reform of the PAC was done, known as the "The Mc Sharry Reform", where the oilseeds subsidies were cut down. The intervention mechanism was removed⁴ since the 1992/1993 campaign and, in the same way, the indicated and intervention prices were left aside. In this way, and without import tariffs, a convergence between internal and international prices was expected; on account of which the help on oil and flour industries was also derogated. Nevertheless, to maintain the producer's incomes, an amount of direct payments per hectare was approved, according to different regions and the historic profit average; as well this help was adjustable with the international price level. In June 1992, the oilseeds crops were integrated to the herbaceous market organization⁵. The basic aims of the intervention policies haven't change (neither tariffs nor supported prices), even though the direct payments were established to be larger on oilseeds than on cereals.

⁴ ECC Regulation n° 3766/91, 12/12/91

⁵ ECC Regulation n° 1765/92

For the 1994/95 campaign, after negotiating with USA, a new instrument was created, in the EU: the maximum guaranteed area for oilseeds. If a country exceeded its area quota, the direct payments decreased proportionally to the limit excess.

In the Agenda 2000, was agreed to put on the same level, in stages, the direct payments on oilseeds crops and cereal crops. Likewise the maximum guaranteed area was removed.

VIII. The Brazilian Market

The agro-industrial policy in Brazil is sustained in the free commerce, with a strong support to the agro-industrial economic activities, in views of growth and the improvement of the competitiveness. In the last 30 years the oilseed complex experienced an appreciable growth, including the production, industrialization and commerce of raw materials, products and by-products. Between the 70 and the 80, the sector was supported by specific governmental policies and the granting of subsidies that later had a gradual reduction.

At the present time, Brazil is the second grain producer of soybean in the world, and the first flour exporter. In 2001 soybean grain production reached to 37 million tons, from which 12 million were exported and the rest went to industrialization (cakes and oils). The complex as a whole, contributes around 6 billion dollars in annual currencies, while the total value of the production represents 25 million.

The evolution of this complex was very dynamic in the 90; in that decade the commercial opening and the deregulation of the economy created favorable conditions for the agro-industrial development in diverse sectors. In the new pro-competitive scene the companies had to reorient their strategies to gain new markets and to also become more efficient, not only in the production but in the processes of management of businesses too.

VIII.1. Main instruments

The present agricultural policy is centered in the system of credits, in which industrial companies, traders and cooperatives play a preponderant role. This reinforced with preferential interest rates for the development of the productive process and the plans of investment.

Brazil applies, in addition, minimum prices for raw materials at competitive levels with those of the international market. As member of the Cairns group, it advocates for the liberalization of the international trade of agricultural products. As a member of the Mercosur, for the oilseed complex, Brazil has established a common internal tariff that varies between 0% and 12.5% for each oily crop, while in the scope of the region the transactions are free of tariffs.

CHART 9

Brazil: Tariffs on oilseed products

	Sunflower	Soya	Groundnut
Seeds			
...for sowing	0	0	0
...others	10.5	10.5	0
Oils			
...crude	12.5	12.5	12.5
...the others	0	0	14.5
Cakes and solid residues	0	0	8.5

Source : *Agrocadenas*

With some countries that are members of ALADI there is a system of preferences, but it neither imposes quotas nor licenses for oilseed products.

VIII. 2. Practice of incentive to exports

Although Brazil does not grant subsidies to the exports of grains and flours, it grants subsidies on crude oil of soya and groundnut, to the olive oil and other oils. The tendency, nevertheless, shows a declination in the amount of the subsidies costs.

CHART 10

Subsidies on exported oils (millions of U\$S/año)

1995	1996	1997	1998	1999	2000	2001
5.7	5.5	5.4	5.3	5.1	5.0	4.8

Sources: OMC

VIII.3. Policies of support

The agricultural policy of Brazil emphasizes the modernization of the sector, the promotion of the investments and the growth of exports in competitive headings. In 2001/2002 campaign, the federal government destined 6,000 million U\$S, from which 4,700 million corresponded to preferential loans to the agriculturists to an annual rate of 3.75%. The destination of the loans is the renovation of the machinery, ground recovery, sowing of prairies and extension of the infrastructure.

The tributary incentives consist on the exemption of the contributions to social security (2% on the exported value), and from 1996, the diminution of 13% that burdened the interstate transactions to the transit of raw materials, 8.5% for flours

and 11% for oils. Also credit incentives are granted to accelerate pro exports withdrawals and for the financing of exports.

IX. Conclusions

- There's a very distorted world demand, caused by the very negative external shocks.
- The fall of the international prices at levels that locate oils and flours in the lowest values in the last two decades.
- The intensification of the protections mechanisms that have been affecting more and more the competitiveness of the countries naturally advantageous for the by-products of oilseeds raw material production.
- The non-fulfillment of the formal commitments in the framework of the Uruguay Round agreements (Marrakech, 1994), to which new forms of protectionism have been added, like the guaranteed prices policy in the United States. These last ones have caused a world oversupply of industrialized by-products; and they have pressed even more the prices drop and losses of profitability of the industry in the countries without protectionist policies.
- The world diffusion of the active artificial competition has represented, for the Argentinean oilseed industry, a demand loss of 3 million tones per year, which means 700 million dollars. Nowadays from the total world production, a 25% from the soya oil and a 30% from the sunflower oil belongs to countries with strong protectionist policies, in particular China and India (in soya) and Turkey, India and Europe (in sunflower). To this negative panorama, must be added the increasing subsidized palm oil support.
- The loss of the Argentinean markets: as a consequence of the price fall, there have arisen countries not traditionally dedicated to the oilseeds industry. This should be joined with the imports substitution policy, like the one carried out by China and India; and the fields rerouting, as for the cases of the north of Europe countries (United Kingdom, Low Countries, Denmark, Belgium). As well, Argentina has lost some other markets like Mexico, Venezuela, Chile, Colombia and part of Middle East and north of Africa.
- The policies of discount prices, which have been appealed by the Argentinean signatures for not losing their sales and opportunities of business, have increased the situation of low of prices.
- The modernization of the Argentinean oil industry happened in the 90's, has been a factor of distortion and artificial competition, but also, it has constituted

a serious answer in front of the non-fulfillment of the commitments assumed in the international forums in pro of the free trade.

The proposals:

- To call for the elimination of the barriers imposed on our oils and flours access, according to the agreements and commercial pacts signed in the different international conventions (GATT, ALADI, OMC, Beats and Preparatory Meetings).
- To delineate offensive strategies starting from the Mercosur; in particular, the signature of new agreements impelled from the Cairns group should point to strengthen the countries that don't subsidize the agriculture.
- To look for the achievement of first order economies of design (Williamson), this is, reduction of the transaction costs by means of an effective design in the chain of systematic transactions, or in the business nets and clusters.
- To establish a defense policy of the Argentinean markets that should be carried out with a firm attitude in the negotiations, with the support of juridical instruments that regulate the international agricultural trade.
- To look for internal instruments that compensate the levies on current exports, so as not to aggravate the economic situation of the national industry caused by the protectionism.

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