

The removal of differential export taxes partially discourages soybean value chain in Argentina

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Between August and October 2018, the Argentine National Government took a number of policy measures such as the reduction of export refunds for several sectors, the increase in export duties and the withdrawal of the differential export taxes system for soybean industrial complex. Although it is understandable, the Government's need to reduce fiscal deficit, in an increasingly protectionist international scenario, it is possible that the aforementioned measures have negative effects on exporting industries. The following table presents the export duties and refunds that would apply to selected grains and by-products on May 2019, when coarse grains harvest takes place. As the table shows, export duties for the main products of the soybean complex –soybeans, soybean pellets and oil- would be around 27% due to the removal of the differential export taxes.

Export duties and refunds (May 2019)

Product	Previous system			Current system			Increase
	Export tax Rate	Refund Rate	Net Result	Effective Export tax Rate	Refund Rate	Net Result	
Wheat	0%		0,0%	8,8%		8,8%	8,8%
Corn	0%		0,0%	8,8%		8,8%	8,8%
Soybean	21,5%		21,5%	26,8%		26,8%	5,3%
Soybean oil	18,5%		18,5%	26,8%		26,8%	8,3%
Soybean pellets	18,5%		18,5%	26,8%		26,8%	8,3%
Differential			3,0%			0,0%	
Sunflower	0,0%		0,0%	8,8%		8,8%	8,8%
Sunflower oil	0,0%	2,5%	-2,5%	6,6%	0,5%	6,1%	8,6%
Sunflower expeller	0,0%	2,5%	-2,5%	6,6%	0,5%	6,1%	8,6%
Differential			2,5%			2,7%	

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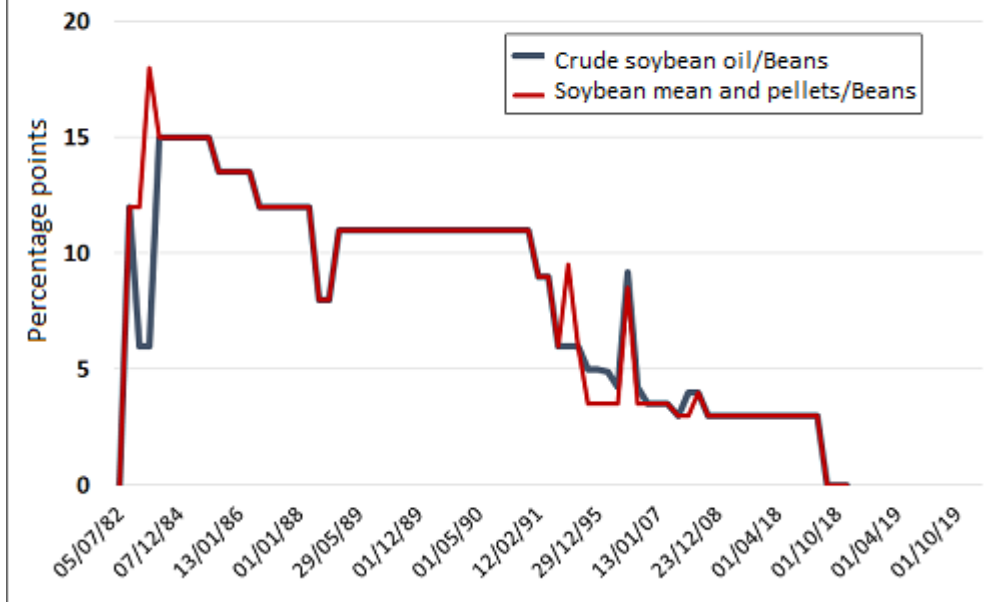
Differential export taxes along oilseed value chain have been a constant in Argentine agro-industrial policy throughout several administrations. Moreover, there is no doubt that export duties discourage production. At the end of 2015, when the Government removed export duties cereals production increased significantly. Taxes differentiation consists on levying relatively higher export duties on raw materials –soybeans in this case- and relatively lower export taxes on industrialized by-products. This measured was designed to "favor Argentine crushing industry's products over soybeans exports" i. In line with this assertion, which arises from a work that involved public organizations, the authors add that "this is one of the essential elements for the development of the oil industry and the exports of oilseed oils and meals". The remarkable success achieved by the Argentine oilseed complex since 1990 proves the importance of a differential export taxes in its development. Argentine oilseed crushing capacity back then was 48,800 tons/day, while in 2017 it reached 200,000 t/day. Therefore, the country's crushing capacity grew by 310% in twenty-seven years and current capacity is four times the existing capacity in 1990, a milestone in the history of Argentine industry (see table attached).



In Argentina, the differential export taxes have been decreasing over time. The graph below shows the historical evolution of export duties for soybean complex's products.

Evolution of differential export taxes on soybean complex

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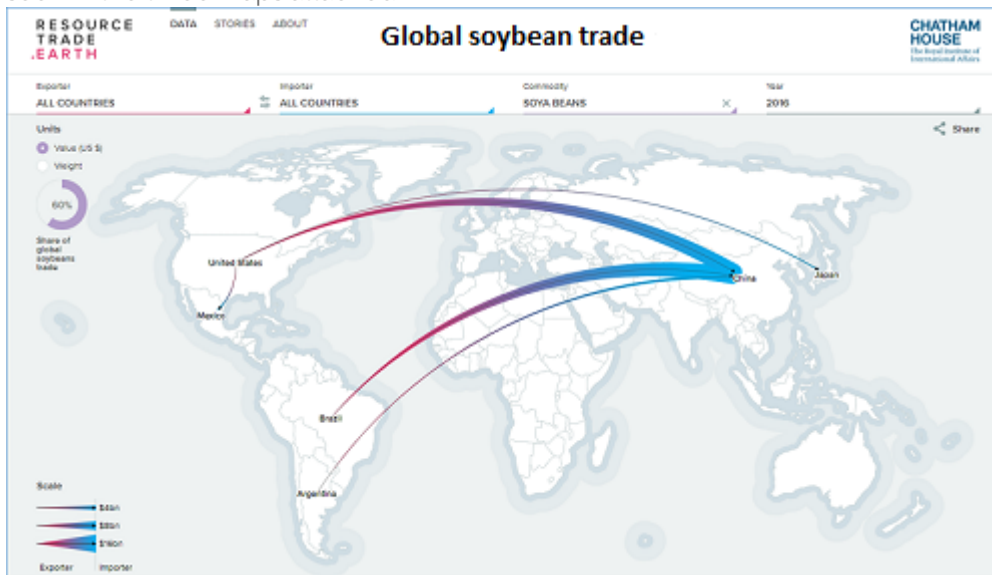
By August 1, 2018, soybean export tax rate was 26%, while soybean oil and meal export tax rate was 23%. Therefore, the differential export tax within the soybean complex was 3%. One of the main reasons behind the differential export taxes along the oilseeds value chain in Argentina is that it boost the industry's competitiveness in international markets. Differential export taxes help counteract the protectionist measures existing in importing countries that promote their local industrialization. Precisely, differential export taxes in countries that export industrialized products serve to counteract import duties in importing countries. Establishing higher import taxes for those products with greater degree of industrialization is a common commercial practice. The only way to reduce these duties is through the World Trade Organization (WTO) or through free trade agreements. However, MERCOSUR (Southern Common Market) is only resuming the negotiation agenda and it is estimated that it will require no less than five years to obtain any result. Based on the present analysis, the elimination of the differential export taxes along the soybean value chain is a measure that does not encourage the industrialization of agricultural products nor increases farmers' income. Below we present eight reasons that support the previous assertion. 1) Both Argentina's direct competitors in the international market and the destination countries of national exports protect the added value in their territory. They prioritize their oilseed industrial complex and prefer, in the case of buyers, to import unprocessed soybeans. Differential export taxes for the Argentine soybean complex helps to neutralize or minimize the protectionist policies of the importing and competing countries. In an attempt to boost value added, most of the countries importing Argentine oilseed complex products establish relatively higher import duties to meal and oil purchases than to beans imports. The table below shows the differential import taxes existing in different countries that Argentine crushing industry must face when exporting its production.

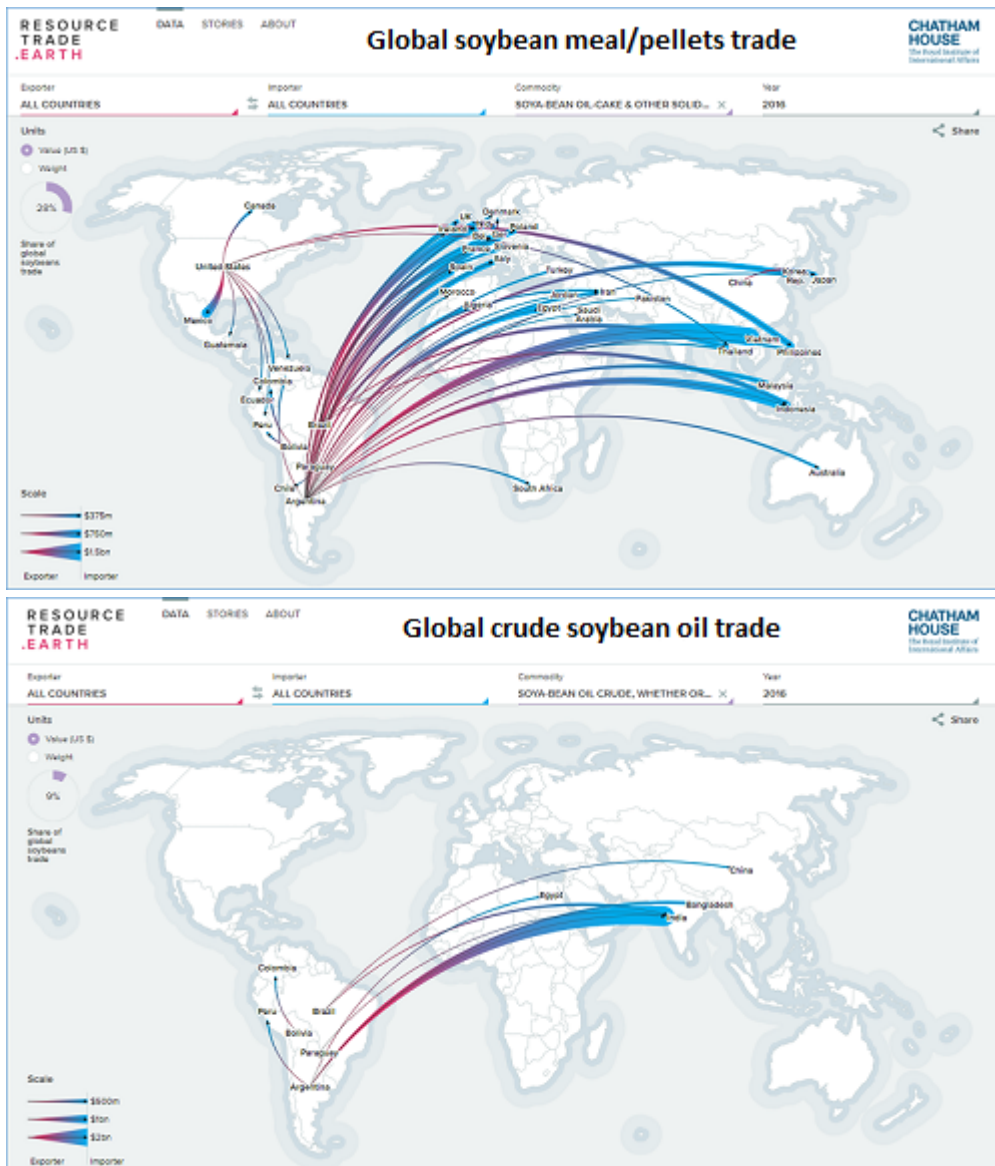


Some of the main features to be considered are: China applies differential import tariffs: 3% for soybeans and 9% for soybean meal and oil. In addition, China has been reducing soybean oil imports as part of a substitution policy to take advantage of its own processing industry. This is particularly relevant as 89% of Argentine soybeans exports is destined to China. Argentine soybean meal is not yet authorized in China. The European Union (EU) applies import tariffs between 3.2% and 9.6%. The differential taxes depend on the use of soybean oil and whether it is raw or refined. In the case of



soybean meal, although the import tariff is zero, the European crushing industry is indirectly favored by the import taxes on oil. Moreover, the EU has established maximum limits on the pesticides existence in both beans and oils, which hinders oil entry. As the concentration of residue is grater in crude oil, this problem is eliminated with refining. Vietnam and Indonesia, that are crucial markets for Argentine soybean meal exports, also have higher import tariffs on industrial products than those applied to soybeans imports. Egypt and Iran, which are critical markets for the country's soybean oil exports, have higher import tariffs for at least one of the two by-products of soybean than those taxes applied to the beans. Thus, in times when protectionist policies spread over the world, it does not seem opportune for Argentina to take measures that weaken added value exports competitiveness, since this has a negative impact on domestic level of employment and economic activity. 2) Argentine soybean meal's export destinations are wider than unprocessed beans' destinations, which reduces the risks of not being able to place our production. Moreover, a larger number of importers provides greater stability to national exports, especially considering that soybean meal is the most important product in the Argentine trade balance, as its exports represent US\$ 10,000 million. Although the differential export taxes caused some disagreements between the productive sector and the oil industry, it boosted soybean complex development and allowed national production to expand worldwide. The development of the crushing industry helped getting further international consumers and reduced Argentine exports -and trade balance- vulnerability. This is particularly true in the case of soybean meal and pellets, whose destinations are much more numerous than those of oil or beans, as can be seen in the three maps attached.





Over the past years, Argentina has managed to diversify its soybean complex's exports destinations and this accomplishment would be lost by the elimination of the differential export taxes system. If the country exports soybeans, there will be a great dependence on the Chinese market. If the country continues to export soybean meal, on the other hand, there would be many possible markets. The dependence on China might cause vulnerability on Argentina's trade balance and economy. 3) Argentina has been losing share in global soybean crushing. The restoration of the differential export taxes system would help to increase industrialization. Countries around the world tend to encourage local crushing, affecting Argentina's interests. Although the country is the primary soybean by-products supplier worldwide, its share in the past years has been falling.



The elimination of the differential export taxes system does not help Argentina to keep its markets and improve its relative position in global crushing. 4) US – China trade war will boost demand for Argentine soybeans at the expense of



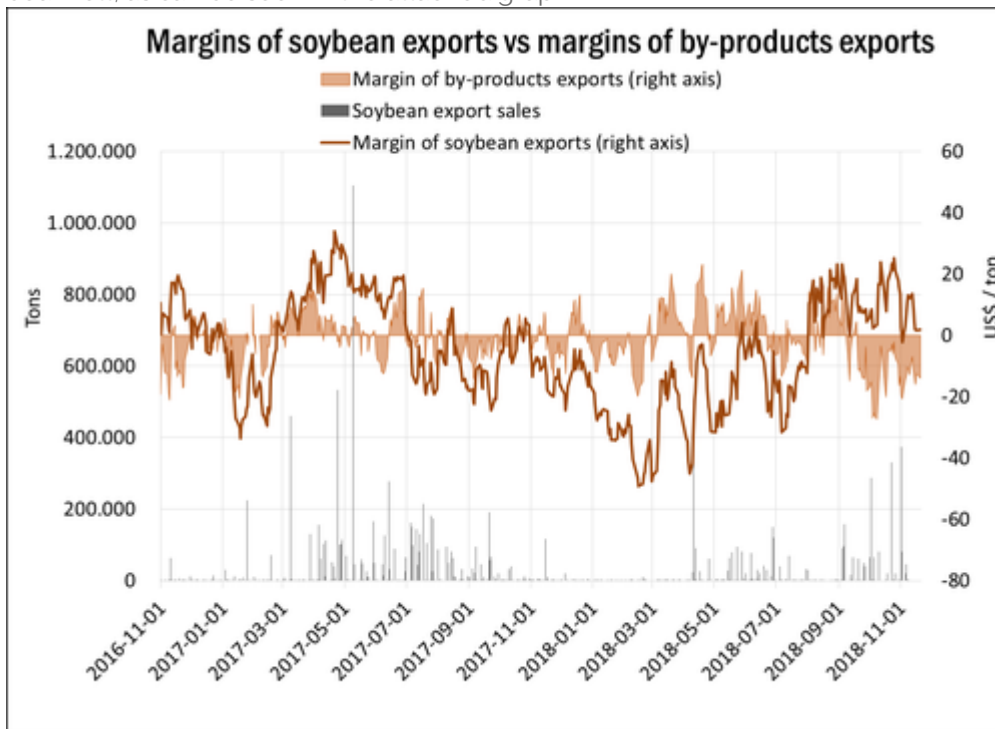
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byproducts. Furthermore, crushing has shown significant growth in the US and in Argentina's regular soy meal and soy oil buyers. The absence of differential export taxes makes it worst. Since the end of March, when the trade dispute between the United States and China became public, the price of soybeans in the CBOT fell by 16%, or almost US \$ 60 / t. As a consequence, many soybean meal regular importers found more profitable to purchase US soybean and crush it by themselves, especially those countries with idle installed capacity, such as those belonging to the European Union, Eastern Europe or several regions of Asia. Chicago's meal price, meanwhile, drop 20% since March, whereas oil fell 12%. The larger gap between soybeans and byproducts improved the US gross processing margin, resulting in a historical US soybean crushing (in the second and third quarters of the year it amounted to 26.4 MMT, a historical record for this six-month period). The greater supply of US soy meal and oil threatened the prospects of Argentine exports, negatively affecting the possibilities of placing the main Argentine exporting complex. Simultaneously, by decreasing US soybean purchases, China boosted its demand of South American beans. Specifically, in the September-November quarter, Argentina would ship more than 2 MMT of soybeans to China, half a million more than last year at the same period, despite de huge fall in production. As a result, the price of soybeans improved in Argentina, while the greater competition of other countries negatively affects the outlook for by-products exports. The consequence has been an improvement in the gross export margin of soybeans, while the gap between payment capacity and the price that exporters effectively pay of the bean fell, as can be seen in the attached graph.



5) The equal export taxes for soybeans and its by-products punishes value added, since, in absolute terms, industrialized products pay more than the unprocessed bean. By analyzing official FOB prices during September and October for soybeans, soy meal and soy oil for the next commercial year (April-August 2019), and also market prices for soy hull pellets (considering an industrial yield of 19,5% for oil, 71,5% for meal and 6% for hull pellets), it can be observed that: With current export taxes structure, which is equal for soybeans and by-products (18%; plus 12% with a cap of AR\$ 4 / US\$, established by Decree 793/18), soybean exports must pay, on average, 90 US\$ / t. At the same time, if the same ton is crushed and exported, the tax rises to US\$ 100/t. In other words, industrialized products must pay 3% more than the soybean, or a US\$ 10 plus per ton. If, on the other hand, all products derived from soybean crushing would pay an



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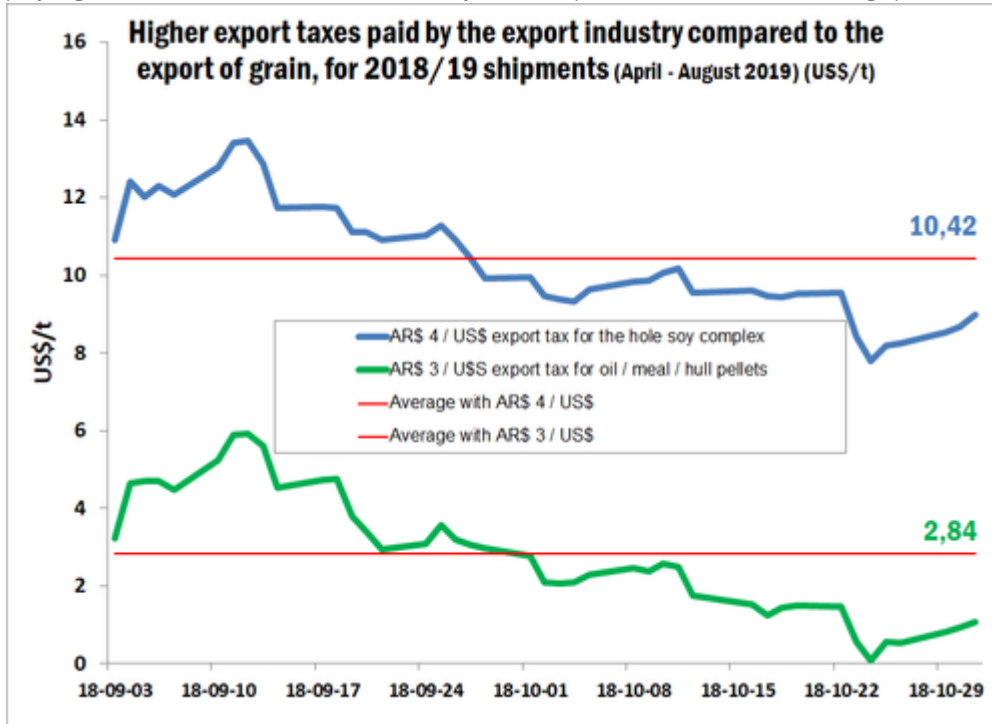
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additional export duty of 12% with a cap of AR\$ 3 / US\$ (instead of AR\$ 4 / US\$), by-products exporters would still be paying almost US \$ 3 / t more than soybean exporters but, at least, the gap would be smaller.



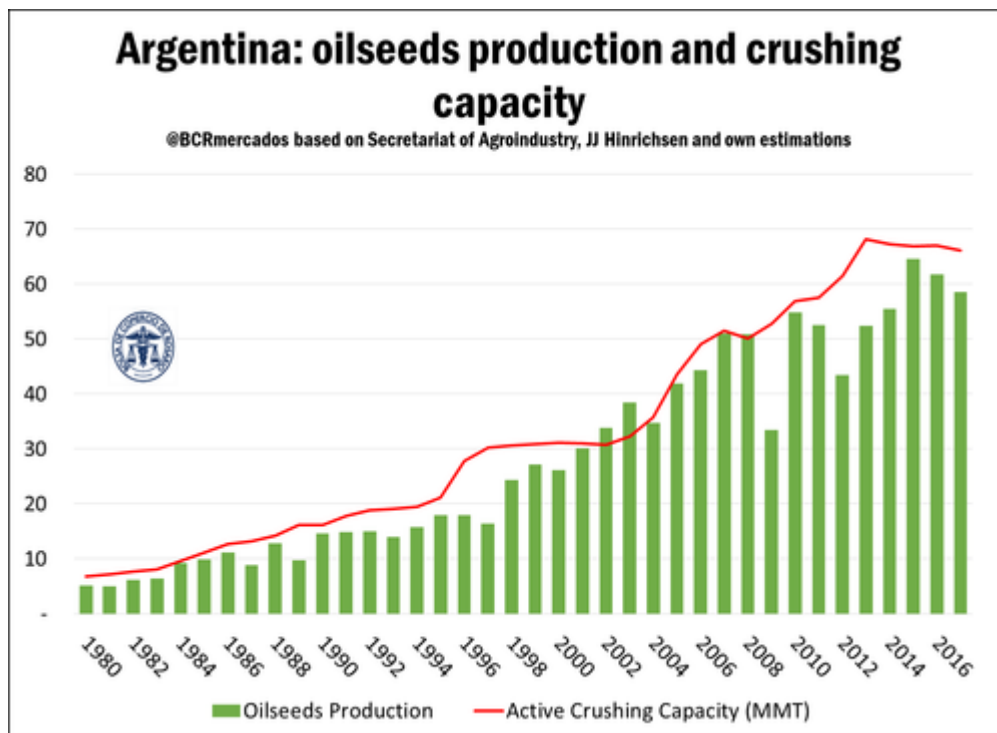
Thus, by having the same percentage export tax among soybeans and its by-products, the second ones end up paying more export taxes in absolute terms. 6) The growth of the soy industry stimulates the production of soybeans. The disappearance of the differential export taxes may discourage -to some extent- the planting of soy in our country as the crushing activity, the main source of demand, loses dynamism. The development of soy industry in Argentina in the last 40 years has undoubtedly favored the development of oilseeds production. This can be seen in the following graph with official annual data.



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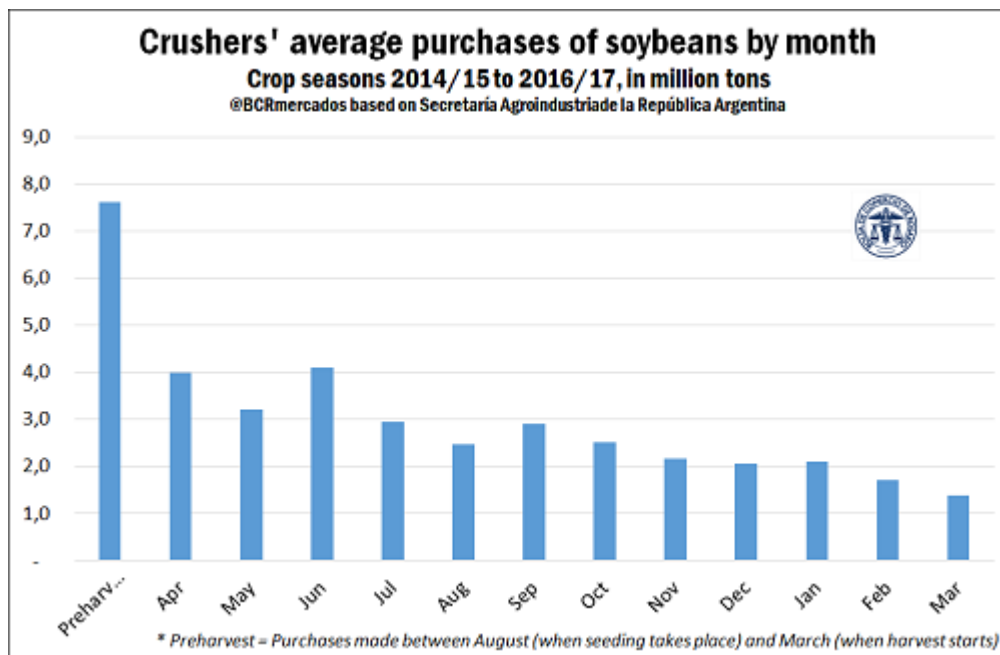
The disappearance of the differential export taxes may discourage - to some extent - the cultivation of soy in our country as the industrial activity, the main source of demand, loses momentum. 7) Crushing industry allows softening the seasonality of domestic commerce and exportations throughout the year. Exports of soymeal and soybean oil result in a more stable exchange market, by providing a less volatile influx of foreign currency to the country. Crusher's regular demand of soybean throughout the year (see graph below) allows farmers to receive better prices and broader options for selling the grain at lower logistics costs, as freight shipping and trucking tend rise at harvest. Softening the seasonality of sales will lower freights average costs, increasing average farm prices for producers. At the same time, this result in better incomes for carriers as demand for their services stay more stable in every marketing year.



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On the other hand, crushing allows for a more stable export flow of soymeal and soy oil throughout the year, when compared to exports of the bean. This is shown in the graphs below. In general, at least 200,000 tons of soybean oil and 1.5 million tons of soymeal are exported every month. This is beneficial as it prevents logistical collapses and lowers costs associated with freights, increasing prices received by farmers. At the same time, a more stable export flow allows a more stable influx of foreign currency, helping to moderate volatility in the exchange market. Without domestic crushing, sellers would be forced to trade in a narrowed period, when harvest in Argentina takes place and before it starts in North America, thus exacerbating seasonal pressure on prices. This issue is significant for Argentina's exchange policy and its macroeconomic equilibrium. Soybean exports concentration around harvest time is detrimental for the country, from an economical point of view. It exacerbates inefficiency on the use of infrastructure by combining long periods of idleness with others of great demand, deepening seasonality on carrier tariffs.

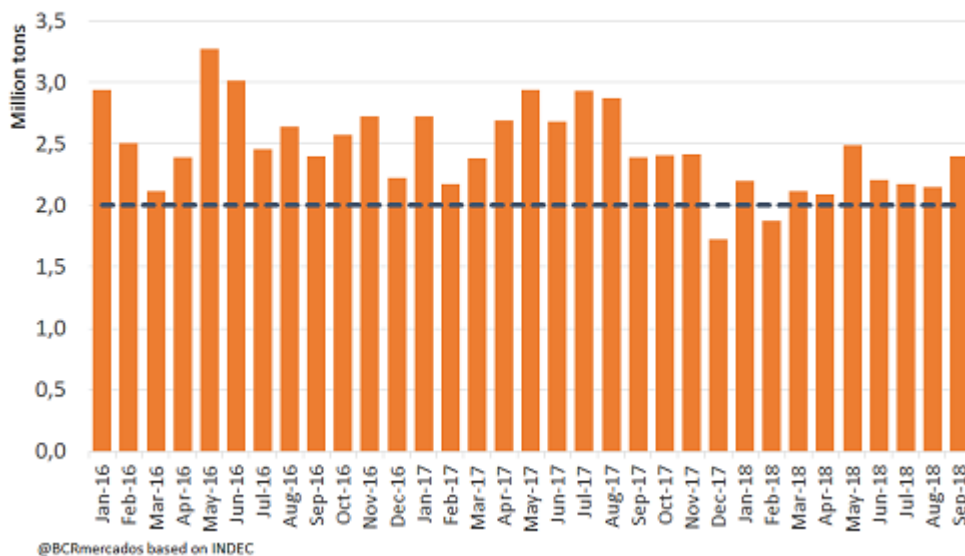


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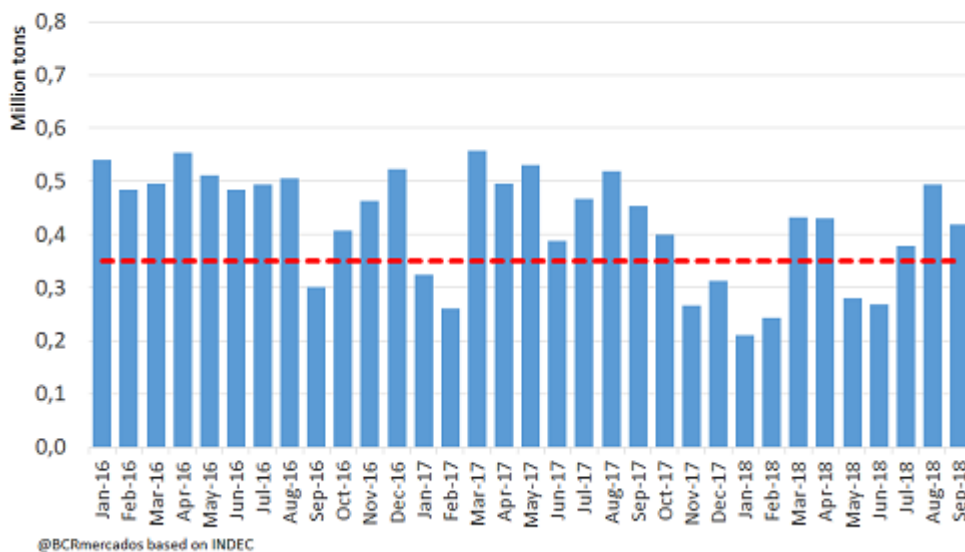
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**Argentina's monthly exports of soymeal
2016 to 2018**



**Argentina's monthly exports of soybean oil
2016 to 2018**



8) When weather affects the quality of the bean, crushing allows farmers to sell at better prices. To induce more exports at the expense of industrialization of the beans will make it more difficult for farmers to sell their damaged grain in the future, or they will have to cope with significant discounts on prices. The last couple of years, whether for excessive rain or for the lack of them, beans' quality was affected. If the main demand comes from exporters, the possibilities of selling that sprouted or damaged grain lowers. That means that farmer will either accumulate large volumes of stocks or have to accept much lower prices for their production. From that point of view, producers have a strategic alliance with crushers where both sides wins, and that could be negatively affected by eroding the differential in export taxes. It is deeply



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important to boost domestic consumption and thus, industrialization, of soybeans in Argentina. Conclusions In a world that is turning again towards protectionism, changes in export taxes differential along the oilseeds value chain narrows Argentina's competitive advantages for the cluster that contributes the most to external balance. Our country needs to return to the path of boosting added value for its exports, contributing to economic activity, employment and, ultimately, development.



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