



# International Agricultural Trade Report

December 20, 2001

## Argentine Wheat Sales Soar Despite Quality and Economic Worries

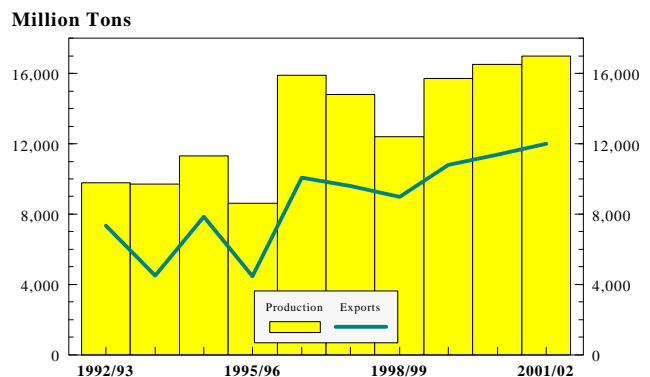
### Summary

Argentina continues to expand sales and intensify competition in the export markets despite quality and economic concerns.

### Record Crops Allow for Record Exports

As a low-cost producer with limited storage capacity, Argentina is forecast to export a record amount of wheat this year because of its largest crop ever, presently estimated at 17 million tons. This year's exportable surplus of 12 million tons is six percent greater than the record amount of last year. However, there has been some concern regarding quality as it has been wet for much of the harvest to date and sales could be canceled if buyers are unhappy with the quality.

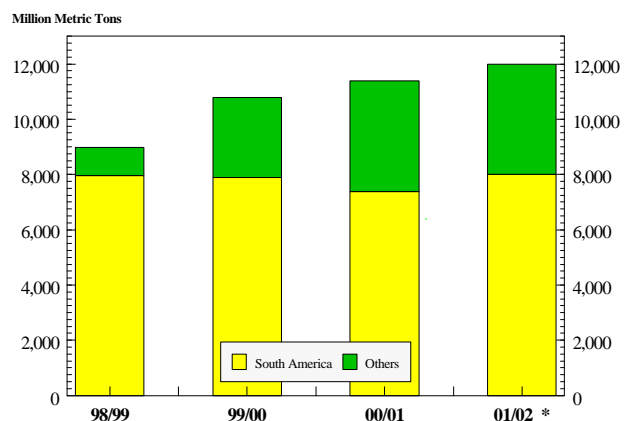
Argentine Wheat Production and Exports



### With Markets No Longer Constrained to S. America

Exports have nearly doubled over the past 5 years with much of the growth focused on South American markets (mainly Brazil) because of preferential tariffs and a freight advantage. Additionally, sales to buyers outside of South America have risen, from just over 1 million tons in 1998 to more than 3 million tons this year and last.

Argentine Wheat Markets



\* Estimate based on sales to date

### Intensifying Competition with Competing Suppliers

This year Argentine exports to Iran, Iraq, and other Middle Eastern and North African markets will intensify competition for exporters and likely help fill the void left by lower EU exportable supplies. Meanwhile,

Argentine sales are rising in Indonesia, Egypt, and Sri Lanka (where the U.S. presence is much stronger) and already more than triple those of last year. Of particular interest is the recent sale to Sri Lanka, as Argentina had been out of this market the last two years while the U.S. share has grown to 60%.

### **With No Relief in Sight**

Argentina's prominence in the global wheat market is not likely to fade despite its financial crisis. In fact, the crisis could actually aid the wheat industry in the long run. Many financial analysts believe that the government could opt to devalue the peso, which would make Argentine wheat more competitive on the world market. Another option is to dollarize the economy. While making exports somewhat less competitive this would decrease exchange rate risk leading to lower interest rates. Farmers, presumably, could then increase input use and production. Though the crisis is complicated and several scenarios could play out that would affect export competitiveness, commodity analysts note that past financial crises in Argentina and other South American nations have had little impact on grain production.

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