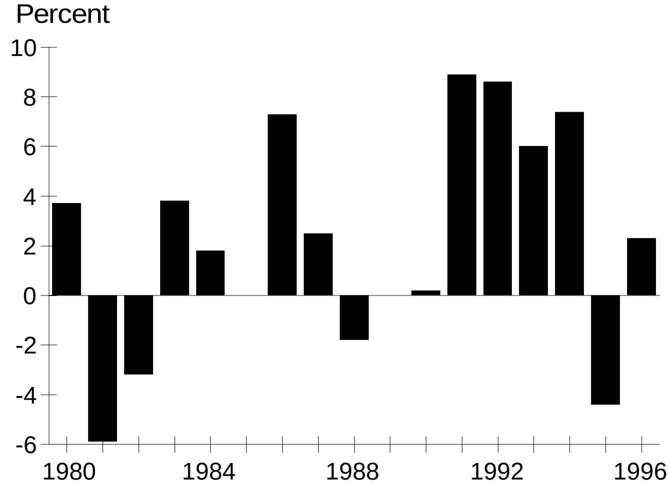
Argentina[5]

The Argentine Market for Processed Food

Argentina has the highest per capita income in South America, and Argentines spend more than 30 percent of their incomes on food. The country's largest city and capital, Buenos Aires, has a population of 11.8 million. Other major cities include Cordoba with 1.2 million and Rosario with 1 million. After nearly a decade of economic adversity due to inflation, Argentina began to open its economy and exercise fiscal and monetary discipline in 1989. The economy entered a new era of economic growth, low inflation, surging production, booming exports, and rising investments in the early 1990's. Annual GDP growth exceeded 7 percent from 1991 to 1994, mostly because inflation slowed dramatically, from 4,924 percent in 1989 to 3.9 percent in 1994 (fig. 17).

Figure 17
Argentina: Growth in real GDP



Source: Economic Research Service compiled from World Bank, Economic Indicators STARS program data.

Other changes include the removal of many taxes and an improved tax collection system, privatization of most state-owned enterprises, and deregulation of various sectors of the economy. The economy slowed in 1995, mostly because of the shocks of the Mexican peso crisis felt throughout Latin America.

Frozen dinners are still a rarity in supermarket freezers, and many Argentines prefer to buy prepared meals on their way home from work. Supermarkets and the food distribution system are just beginning to improve. Argentine businesses are beginning to improve refrigeration facilities, and retailers are beginning to carry large inventories of frozen and chilled products. Freezers and microwaves are now more common in middle-income homes.

Food retailing in Buenos Aires has undergone considerable change since 1990. A number of large shopping centers were built around the city, particularly in the middle- and high-income areas. Modern supermarkets and self-service stores (associated with gas stations) account for about half of total food sales; the rest is sold through traditional corner grocery stores. The number of supermarkets has grown threefold since 1975, and their share of sales has grown from 39 percent to 60 percent. Leading supermarkets include Carrefour, Norte, Coto, Disco, and Tia Express. Other store chains are Sumo, Americanos, Jumbo, and Metro. Wal-Mart has entered the Argentine market in a joint venture with Sumo by building several supercenters.

Fast foods are entrenched, but are at a low concentration relative to the population. McDonald's (54 stores), Burger King (12 stores), Pumper Nic (a local hamburger chain with 60 stores), Pizza Hut (11 stores and home delivery), and Dunkin' Donuts are all represented in Argentina. There has been a significant increase in institutional consumption for many products, such as vegetable oil, that is driven by the fast-food industry.

Argentina's Processed Food Industry

The Argentine food industry, with $24 billion in sales (1993), employs 28 percent of the manufacturing workforce in its 22,000 establishments. While most establishments employ 2-5 people, 863 establishments employ 50 people or more (table 29).

Argentina's largest food processing companies include Cargill, Molinos Rio de la Plata, and Sancor Coopérativas Unidas (table 30). About 40 percent of the sales of the Argentine food, beverage, and tobacco industries originate in Argentine affiliates of foreign firms (Agosin, 1995). For many years, Argentina's problems with extreme inflation slowed development of Argentina's food processing industry, with the major exception of the beef and oilseed processing industries. The domestic food processing industry was impeded by a low level of capitalization

[5]The material in this section is synthesized from a variety of sources, including FAS Online Food Market Overview, Fundacion Invertir, *Tendencias Economicas y Financieres (Business Trends)*, Smith Barney, *Wall Street Journal*, and *Journal of Commerce*. Complete citations are given in the References.

and high production costs. Years of economic uncertainty discouraged investment. Consolidation of the food industry is now underway, and many of the most important local brands have recently been acquired by multinational concerns. Moreover, the Argentine food industry is being viewed as an important part of the regional MERCOSUR market.

Leading Sectors

Cattle slaughter, dairy products, grain milling and baking, and vegetable oils account for 75 percent of product sales in Argentina's food industry. Sugar refining and fruit and vegetable processing have lesser roles (table 29). Beef and oilseeds are highly oriented toward foreign trade, while sugar and dairy are oriented toward domestic use.

Beef. The beef processing industry is Argentina's largest food processing industry and is internationally known in both beef packing and canned meat. Nearly 90 percent of the sales are from large processing firms. While Argentina has 635 slaughterhouses, only 288 are authorized by the National Animal Health Authority (SENASA)—135 bovine, 62 hog, 37 sheep, and 6 horse—but only 30 are approved for export to the United States. CEPA is the largest beef export packer, selling 18 percent of Argentina's beef (in terms of value). The top three firms of the industry, Frigorífico Rioplatense, Quickfood, and Swift-Armour (a subsidiary of Campbell Soup), register about $200 million in annual sales each. Most are located in the Greater Buenos Aires area. Sixty-five percent of sales are through traditional butcher shops (about 25,000), although supermarkets have a growing share of retail sales.

Poultry. The poultry industry has annual sales of about $2 billion and employs 135,000 people. Argentine companies invested about $200 million in their poultry industry during the early 1990's. The Argentine poultry industry has been dominated by traditional family-owned poultry firms and has only begun to adopt new technology. Argentine poultry imports from Brazil and tight availability of capital for the industry have caused Argentina to lag behind other countries, despite the abundance of feedstuffs. Most of Argentina's commercial poultry industry is located in Entre Rios and Buenos Aires.

Table 29—Argentina's processed food industry by sector, 1993 and 1995

Sector	Establish-ments	1993 sales	1995 sales	Employees 1994
	Number	*Billion dollars*		*Thousands*
Meat	1,056	4.7	10	48
Fats and oils	84	2.9	4	5
Sugar refineries	25	.5	NA	11
Dairy products	1,392	2.8	4	23
Bread baking	14,434	2.8	NA	88
Nonalcoholic beverages	2,560	2.3	2.4	28
Grain milling	436	2.1	NA	15
Wine making	663	1.4	1	13
Diverse food products	450	1.3	NA	10
Canned fruits and vegetables	548	1.2	NA	13
Candies and sweets	167	.8	NA	9
Fishery products	124	.4	NA	7
Liquors and spirits	47	.5	NA	2
Beer and malt	18	.6	.6	3
Total	22,040	24.2	NA	496

Source: Economic Research Service compiled from *Agroindustrias en la Argentina, Cambios Organizativos y Productivos (1970-1990)*, CEPAL, Buenos Aires, supplemented by updated information from U.S. Embassy in Buenos Aires, Argentina.

NA = Not available.

Table 30—Argentina's top 20 food processing companies, according to 1994 sales

Company	Products	Sales
		Million dollars
Cargill	Grain products	960
Molinos Rio de la Plata	Grain products	936
Sancor Cooperativas Unidas	Dairy products	878
Mastellone Hermanos	Dairy products	843
Arcor	Candy, chocolates, and jams	730
Nidera Argentina	Oilseed products and grains	541
La Plata Cereal	Grain products	431
Nestlé Argentina	Dairy products	403
Federacion Argentina de Cooperativas Agrarias (FACA)	Grains and oilseeds	364
Glencore Cereales	Grains and oilseeds	353
Aceitera General Deheza	Oilseed products	350
Associacion de Cooperativas Argentinas Ltda.	Grains and oilseeds	346
Vicentin	Oilseed products	320
Bagley	Cookies	295
Establecimiento Mod. Terrabussi las Marias	Cookies and crackers	290
Dreyfus	Grain products	279
Compañía Continental	Grain products and oilseeds	275

Source: Economic Research Service compiled from material received from Argentine Embassy in Washington, DC.

Oilseeds. Argentina's oilseed industry is oriented to foreign trade, exporting nearly 90 percent of its products. Bunge y Born and Cargill (19 percent each), Vincentin (15 percent), Buyati, Dreyfus, and Moreno (12 percent each), Aceitera General Deheza (9 percent), and Continental (2 percent) are the market leaders. Argentina's 59 oilseed processing plants have a capacity of about 13.5 million metric tons. There are also nine refineries for vegetable oil (capacity of 417 tons/day) and seven factories for hydrogenated products (capacity of 219 tons/day).

In the past, Argentina's crushing industry paralleled the growth in oilseed production, but few new facilities were built until recently. There has been a trend toward consolidation. The number of plants has remained stable, but output capacity has grown by about 70 percent in the last decade. Most of the capacity is concentrated in about 20 of the largest plants. The oilseed industry has about 18 percent participation by multinationals. Cargill and La Plata Cereal have both made new investments in the 1990's, and Ceval (Brazil) acquired Guipeba.

Sugar refining. Sugar production is mostly for domestic use, and the industry is concentrated in a few large refineries. There are 24 sugar plantations in the country, 15 of which are located in Tucumán. At the height of the season, the industry employs 60,000 people that are directly engaged in rural, administrative, and industrial activities.

Wheat milling. The wheat milling industry includes 111 milling firms with a capacity of more than 5.5 million tons a year. Thirteen firms are located in the Greater Buenos Aires area, and 20 each in Córdoba and Santa Fe. The largest mills are Molinos Rio de la Plata, Morixe Hermanos, Andres Lagomarsino, Har Bruning, Cabodi, Molinos Cañuelas, Fenixcor, Molinos Florencia, Molino Adelia Maria, and Concepción. Investments have been made to increase the milling capacity and to renew equipment to raise productivity and meet the stricter demands of large industrial firms that operate in the bread baking industry. Argentina also has well-developed breadbaking, spaghetti, and cracker manufacturing industries. Many foreign companies have invested in the production facilities of cereal-based products.

Cookies and crackers. Cookies and crackers constitute one of the smaller industries, but one of the fastest growing food processing sectors in Argentina. Transnational companies such as Danone (France), with its purchase of Bagley, and Nabisco, with a majority interest in Terabusi, have 60 percent of the Argentine cookie market. The cookie industry employs 13,000 people, but it operates at about 70 percent of capacity.

Dairy industry. The dairy industry is oriented toward domestic consumption, although about 11 percent of the industry is owned by transnational corporations. The industry has experienced considerable transformation, both by strong market concentration and diversity of products offered. Sancor Coopérativas Unidas (a cooperative), Mastellone Hermanos, and Nestlé are the largest firms and have about 40 percent of the sales. Nestlé, which also produces desserts and puddings, plays an important role in Argentina's condensed milk and dried milk industries. Parmalat (Italy), Danone (France), and Loncoleche-La Suipachense (Chile) also process milk in Argentina. At least 10 companies have made considerable investment in expanding production of cheese, desserts and puddings, and yogurt.

Soft drinks. Three bottling companies control 91 percent of the domestic market: FEMSA, Coca-Cola; Buenos Aires Embotelladora, Pepsi; and the licensee of Seven-Up and Crush (the brand name run by Penaflor). Another 107 independent companies are spread throughout the country. All together, they employ some 9,000 people. In 1997, FEMSA, the second largest Coca-Cola franchiser in Latin America, bought 100 percent control of the franchise in Buenos Aires.

Wineries. Argentina has 1,890 wine cellars and 245 wineries employing 13,000 people. Five firms have 70 percent of production: Penaflor, Catena, Reserva, Giol, and Greco. Production is mainly centered in Mendoza and San Juan. Nearly 75 percent of domestic consumption is in Greater Buenos Aires.

Breweries. Brewing is a concentrated activity. Cerveceria y Maltería Quilmes, with its satellite Rio Paraná, is the largest brewery. The number of breweries grew to 13 in 1995 with the incorporation of Brahma, Compañía Cervecerias Unidas (formerly old Santa Fe brewery), and Cervecerias Argentinas SA (Isenbeck). Important foreign firms (Brahma of Brazil, Isenbeck of Germany, and Luksic of Chile) bought Compañía Industrial Cerveceria and are the driving force in the modernization of local breweries Quilmes and Bieckert.

Liquors. The industry includes 20 establishments, and Cusinier has 50 percent of the market after absorbing

Padilla in 1994. Bagley, Bols, Cas Dellaplane, Cattorini, Cointreau Cusinier, and Distilerias Hiram Walker are some of the major Argentine distilleries.

U.S. Investment in Argentina's Processed Food Industry

U.S. direct investment quadrupled from 1985 to 1995 (table 31). There was an abrupt slowdown in direct investment inflows after 1982, coinciding with the regional debt crisis. Direct investment inflows accelerated after 1988, mainly as a result of the government's debt-equity conversion program. The Convertibility Plan (1991) stabilized the economy and succeeded in reining in rampant inflation. U.S. investments have been mainly in cereal and oil processing (including corn oil), breweries, ice cream, cookies and biscuits, and popcorn. Cargill, CPC, Campbell Soup, Kellogg, Kraft, Nabisco, and Quaker Oats all have a presence in Argentina (table 32). Coca-Cola and Philip Morris have the largest sales (over $1 billion), followed by Cargill ($962 million).

Table 31—U.S. direct investment in Argentina: Benchmark statistics

Statistic	Unit	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
U.S. FDI	Million dollars	196	248	275	290	281	319	334	404	466	665	922	1,009	1,013
Sales	Million dollars	654	667	489	758	1,177	NA	1,066	1,547	2,040	NA	2,872	3,093	NA
Employment	1,000	12.4	11.6	10.8	10.6	12.2	NA	11.1	11.9	12.9	NA	16.8	17.1	NA
Employee comp.	Million dollars	88	92	90	91	89	NA	114	184	229	NA	392	452	NA

Source: Economic Research Service compiled from U.S. Department of Commerce, Bureau of Economic Analysis data.

Note: U.S. FDI is defined here as end-of-year stock. NA = not available.

Table 32—U.S. affiliates in Argentina's food processing industry

U.S. company	Address	Economic activity	U.S. affiliate or joint venture (% share)	Address
Archer Daniels Midland	Decatur, IL	Food product and feeds	Fridana Beghin Soya	Buenos Aires
Cargill	Minneapolis, MN	Grains and oilseeds	Minetti y Cia	Buenos Aires
Campbell Soup	Camden, NJ	Canned convenience foods	Swift-Armour S.A. Argentine	Buenos Aires, Rosario
CPC International	Englewood Cliffs, NJ	Corn products	Refinerias de Maiz, Knorr Soups	Buenos Aires
David Oppenheimer Group	Visalia, CA	Farming	Agricom	Buenos Aires
Kellogg Company	Battle Creek, MI	Ready-to-eat cereals	Alimentos Kellogg SA	Buenos Aires
PepsiCo	Purchase, NY	Soft drinks	Buenos Aires Embotelladora SA (BAESA)	Buenos Aires
Philip Morris/Kraft	New York, NY	Cigarettes and food products	Suchard Group, Kraft General Foods	Buenos Aires
			Milka	Santa Fe
			La Montevideana	Rosario
Quaker Oats	Chicago, IL	Cereals	Elaborado de Argentina Cereales	Buenos Aires
R.J. Reynolds Nabisco	Hanover, NJ	Cookies, crackers, specialty foods, cereals, and pet foods	Fleischmann Argentina, Inc., Establecimiento Modelo Terabusi, Mayco, Luis Vizzolini e Hijos, S.A.I.C., Capri	Buenos Aires
Weaver Popcorn	Ulysses, KS	Corn products	Weaver Popcorn	Buenos Aires

Sources: Economic Research Service compiled from *Journal of Commerce*, *Wall Street Journal*, *Feedstuffs*, Fundacion Invertir Argentina, and Smith Barney data.

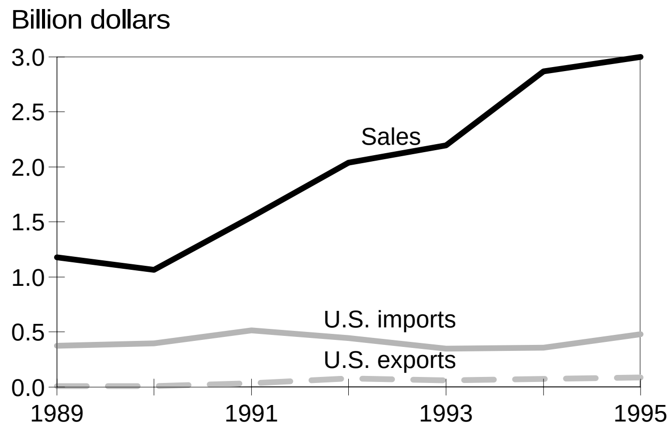
Some companies have a large market share for certain products, for example, CPC has a 35 percent share of Argentina's corn refining capacity. CPC's Knorr brand is their largest business in Argentina, with a 90-percent share of the dried soup market. CPC also has 45 percent of the mayonnaise market. CPC's sales have grown 30 percent per year in Argentina since 1990. Nabisco is ranked second in cookie production in Argentina and is the leader in dessert mix and pasta sales. Philip Morris/Kraft Foods has Tang, the leading drink mix in the region. Suchard, an affiliate of Philip Morris, is second in the chocolate confectionery market, and Philip Morris is second in the Argentine ice cream market.

U.S. direct investment comprises 32 percent of total FDI in Argentina's processed food industry. Many Argentine firms have also sought joint ventures with investors from Canada, Mexico, and Europe: Parmalat (Italy), Danone (France), Bimbo (Mexico), McCain (Canada), and Cadbury (United Kingdom). The sharp increase in the 1990's is mostly explained by special incentives to foreign investors, recent macroeconomic stability, and Argentine membership in MERCOSUR.

U.S. Trade in Comparison to Sales from U.S. Affiliates in Argentina

Sales of affiliates of U.S. companies in Argentina are more than 36 times the level of U.S. processed food exports to Argentina (fig. 18). U.S. exports to Argentina include flavoring extracts and syrups, processed fruits and vegetables, and malted beverages (table 33). Sales from U.S. affiliates are mostly processed beef products, oilseed products, soft drinks, grain products, animal feeds and pet foods, ice cream and cream cheese, and cookies and crackers. Affiliates of other countries sell mostly dairy products. Some processed beef imports are from U.S. companies' affiliates in Argentina, although canned fruits and vegetables are Argentina's major processed food exports to the United States (table 34).

Figure 18
Sales of U.S.-owned affiliates in Argentina vs. U.S. trade in food products



Source: Economic Research Service compiled from USDA, Economic Research Service Processed Foods Trade Data Set and U.S. Department of Commerce, Bureau of Economic Analysis data.

Table 33—U.S. exports of processed foods to Argentina, ranked by 1993-95 avereage value

SIC code	SIC industry description	1990	1991	1992	1993	1994	1995	1993-95 average
					Million dollars			
2087	Flavoring extracts and syrups	5	14	34	62	112	157	110
2099	Miscellaneous food preparations	7	13	26	56	90	78	75
2082	Malted beverages	3	37	98	36	37	72	48
2013	Sausage and prepared meats	46	41	52	70	32	26	43
2096	Potato chips and other snacks	0	5	51	48	38	42	43
2033	Canned fruits and vegetables	1	2	24	15	50	57	41
2086	Bottled and canned soft drinks	0	91	251	53	44	24	40
2068	Salted and roasted nuts	8	49	55	27	54	24	35
2047	Dog and cat food	1	1	6	13	38	52	34
2011	Meat packing	3	5	17	32	41	21	31
2022	Natural and processed cheese	0	0	0	8	24	42	25
2075	Soybean oil	4	5	14	18	25	30	24
2048	Prepared feeds	5	9	16	12	23	30	21
2067	Chewing gum	0	9	8	6	29	20	18
2066	Chocolate and cocoa	2	13	18	18	17	17	17
2046	Wet corn milling	2	3	11	15	17	19	17
2037	Frozen fruits and vegetables	0	3	3	11	10	29	16
2064	Candy and other confectionery	0	2	5	23	8	11	14
2077	Animal and marine fats	14	34	48	36	2	0	13
2034	Dried fruits and vegetables	2	3	5	10	8	17	11
2023	Dry and evaporated milk	5	6	16	12	8	15	11
2043	Cereal breakfast foods	0	0	1	8	8	8	8
2076	Vegetable oil, other	0	1	1	5	13	7	8
2051	Bread and other bakery products	0	3	3	2	16	4	8
2085	Distilled and blended liquors	0	1	4	3	10	7	7
2015	Poultry slaughtering	0	0	0	4	8	6	6
2035	Pickled fruits and vegetables	0	1	2	5	6	4	5
2045	Prepared flour mixes	0	0	0	1	3	10	5
2053	Frozen bakery products	0	0	0	2	6	5	4

Source: USDA/ERS Processed Foods Trade Data Set.

Table 34—U.S. imports of processed foods to Argentina, ranked by 1993-95 avereage value

SIC code	SIC industry description	1990	1991	1992	1993	1994	1995	1993-95 average
					Million dollars			
2011	Meat packing	154	234	148	133	119	156	136
2033	Canned fruits, juices, and vegetables	69	75	95	144	61	59	79
2092	Prepared fresh or frozen fish	54	55	48	47	57	52	60
2099	Miscellaneous foods	20	26	36	33	28	30	28
2062	Cane sugar refining	34	13	34	11	10	27	26
2022	Natural and processed cheese	15	17	12	7	8	12	13
2064	Candy and confectionery	9	8	6	7	7	9	9
2032	Canned specialties	0	0	0	8	9	9	8
2085	Distilled and blended spirits	5	7	7	9	8	6	7
2076	Other vegetable oils	4	8	16	10	4	8	5
2037	Frozen fruits, juices, and vegetables	6	12	8	8	5	3	5
2034	Dried and dehydrated vegetables	3	2	1	5	5	6	4
2084	Wine and brandy	2	2	3	3	3	3	3
2091	Canned and cured fish	5	6	7	4	4	2	3
2075	Soybean oil	0	1	0	1	1	2	2
2066	Chocolate and cocoa products	0	0	0	0	0	3	1
2074	Cottonseed oil	0	0	0	0	0	3	1
2087	Flavoring extracts and syrups	0	1	2	1	1	1	1
2041	Flour and other grain milling products	8	4	5	0	2	0	1

Source: USDA/ERS Processed Foods Trade Data Set.