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National Trade Estimate Report on Foreign Trade Barriers: All Other Measures
DATE: October 22, 2013
RE: Comments for Argentina
COMMENTS BY: (1) National Oilseed Processors Association (NOPA)
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Once again, the National Oilseed Processors Association (NOPA), the American Soybean Association (ASA) and the North American Export Grain Association (NAEGA) appreciate the Administration's invitation "to assist it in identifying significant barriers to U.S. exports …."

- The National Oilseed Processors Association represents the U.S. soybean, canola, flaxseed, sunflower seed and safflower seed processing industries. NOPA's 13 member companies crush approximately 95% of all soybeans processed in the United States. NOPA member companies process more than 1.6 billion bushels of oilseeds annually at 63 plants in 19 states located throughout the country.

- The American Soybean Association represents all U.S. soybean farmers on domestic and international issues of importance to the soybean industry. ASA's advocacy efforts are made possible through the voluntary membership in ASA by over 22,500 farmers in 31 states where soybeans are grown.

- NAEGA, established in 1912, is comprised of private and publicly owned companies and farmer-owned cooperatives involved in and providing services to the bulk grain and oilseed exporting industry. NAEGA member companies ship virtually all of the bulk grains and oilseeds exported each year from the United States. Dedicated to engaging the entire value chain, NAEGA focuses on predictable, reliable and expanded international trade of grains, oilseeds and their primary products. NAEGA members, stakeholders and governments around the world are key beneficiaries of NAEGA work to provide leadership, experience and capacity providing for global reach and influence supportive of international trade and investment.

Robust exports of soybean and soybean products are critical to the prosperity and profitability of the entire U.S. soybean value chain (biotech companies, seed companies, transportation industries, soybean farmers, oilseed processors and exporters). Expanded volumes of U.S. soybean exports (especially value-added products such as soybean meal, soy oil and soy biodiesel) translate to an increased number of high-quality U.S. jobs.

US soybean growers and processors are among the most competitive in the world. In 2012, the industry achieved another strong year of soybean and soybean product exports, according to USDA, *e.g.*:

- The value of U.S. soybean exports totaled $24.6 billion, compared to $17.6 billion in 2011.
- The value of U.S. soybean meal exports totaled $4.8 billion, compared to $3.2 billion in 2011.
- The value of U.S. soybean oil exports totaled $1.2 billion, compared to $1.3 billion in 2011.
- The total value of these exports in 2012 equals $30.6 billion.

U.S. exports of soybean products could be significantly higher, capturing a greater global market share, if the U.S. soybean industry did not have to compete with Argentina's differential export taxes (DETs) for soybeans and soybean products.

We note that the 2013 National Trade Estimate (NTE) Report's chapter on Argentina's Export Policies (page 23) does recognize that:

> **"EXPORT POLICIES**
> "…Argentina imposes export taxes on all but a few exports, including significant export taxes on key hydrocarbon and agricultural commodities. In many cases, the export tax for raw materials is set higher than the sale price of the processed product to encourage development of domestic value-added production. Crude hydrocarbon export taxes are indexed to world commodity benchmarks. Total export tax revenue in 2012 was equal to 15.5 percent of the value of all Argentine exports (stable from 15.6 percent in 2011), including goods not subject to export taxes.
>
> "Despite proposals from within and outside the Argentine Congress to reduce or eliminate export taxes, the taxes continue to be actively supported and managed by the government of Argentina, as they are a major source of fiscal revenue and create competitive advantages for downstream processors of the products subject to the tax. The following major agricultural commodities are currently subject to export taxes: soybeans at 35 percent, soybean oil and soybean meal at 32 percent, sunflower seed at 32 percent, sunflower seed meal and sunflower seed oil at 30 percent, wheat at 23 percent, and corn at 20 percent. In August 2012, Argentina increased its export tax on biodiesel to 32 percent from 20 percent and eliminated a 2.5 percent rebate. Biodiesel exports are now affected by a sliding scale tax that is reviewed every 15 days. As of the end of 2012, the effective export tax was 19.11 percent. In August 2012, pursuant to Decree 1513/2012, …"

To better understand the impact of Argentine DETs on the U.S. soybean industry and what that would mean financially to domestic soybean processors and growers, the United States Soybean Export Council (USSEC) on behalf of the domestic soybean industry initiated the most extensive economic analysis to date. The initial study was prepared by LMC International Ltd. in 2008. LMC updated this study in March 2013, expanding upon its earlier work into the impact of Argentine DETs to cover several countries with significant soybean crushing industries. The updated study quantifies the benefit that ending DETs would provide to the US crushing sector as well as crushing industries in other countries, including the European Union, Canada, Colombia, Egypt, Japan, South Korea, Mexico, South Africa, Thailand, Turkey and Brazil.

The US soybean industry (growers, processors and exporters) submit the following analysis and trade estimates to "help USTR conduct comparative analyses of a barrier's effect over a range of industries."

As you will see, LMC International's economic analysis below "conservatively" estimates the potential increase in US soy product exports that would result from removing Argentine DETs at $US428 million, which falls into the upper range of the Trade Estimate Category of "$100 million to $500 million" (*Federal Register* Notice).

LMC INTERNATIONAL LTD ECONOMIC ANALYSIS OF ARGENTINA'S SYSTEM OF DETS

LMC International Ltd was requested by USSEC, representing soybean growers, processors and exporters, to perform the 2008 and 2013 economic analyses of Argentina's system of DETs. These analyses form the basis for the soy industry's response to the Trade Policy Staff Committee (TPSC) request for "interested persons to submit comments to assist it in identifying significant barriers to U.S. exports of goods, services, …"

LMC is an independent international consulting firm, specializing in economic and market analysis of agricultural commodities and agro-industrial products. Since 1980 it has provided specialized expertise in the oilseeds sector to clients in the public and private sectors in the U.S. and around the world.

Overview

"To assist" USTR in preparing the National Trade Estimates Report, NOPA, ASA and NAEGA are submitting information related to the third category of foreign trade barrier listed in the notice:

> "(3) Export subsidies (e.g., export financing on preferential terms and agricultural export subsidies that displace U.S. exports in third country markets);"

with specific reference to Argentina's system of differential rates of export tax within the soy sector (hereinafter referred to as DETs) – with the highest tax rate for raw products (soybeans) and lower rates for processed products, soybean meal and soybean oil, and the lowest rate for the most processed soy product, soy-based biodiesel.

LMC has undertaken a great deal of analysis to determine how, and to what extent the Argentine crushing industry has benefited from the differential element of export taxes (as opposed to the export taxes *per se*), via the subsidy that they provide to the Argentine crushing industry. Although only the world's third largest soybean producer, Argentina has become the dominant exporter of oil and meal, and is rapidly becoming a major exporter – possibly soon the largest exporter – of biodiesel.

Summary of 2013 Study

The following is taken directly from the LMC International Report prepared for the U.S. Soybean Export Council, dated March 2013, entitled *"Assessing the Impact of Argentina DETs," pp. S1-S2, 1-5. (A complete copy of the report is available from NOPA.)*

Measuring the effect of the Differential Export Tax (DET) system

Argentina applies a higher tax rate (35%) on soybean exports than on exports of soy meal and oil (32%). Because most Argentine soybean products are exported, export taxes reduce local prices. From the perspective of an Argentine crusher, a higher soybean tax rate reduces the local cost of soybeans by more than the reduction caused by export taxes in the revenues from the meal and oil. In this manner, DETs raise crushing margins above the level that would exist in their absence, creating an incentive to process soybeans for export. Despite being only the world's third largest soybean producer (behind the U.S. and Brazil), DETs have enabled Argentina to become the world's largest exporter of soybean oil and meal.

Argentine crushers benefit further from lower export taxes on biodiesel and of soy meal-corn combinations. Biodiesel exports are taxed at a net rate of 17.5%, helping soybean crushers integrated with biodiesel processing. Soybean meal-corn combinations are taxed at only 5%.

Since 1995, DETs have increased the crushing margin inside Argentina by an average of $8.4 per metric ton. The value of this DET advantage fluctuates; over the last full year, 2011, DETs provided an advantage of $11.9 per metric ton. The DET advantage has also meant that, on a number of occasions, crushers in Argentina were able to break even in the face of world market crushing margins at which their competitors overseas could not make a profit.

Argentina's DET advantage has changed the global balance of crushing capacity. By enabling Argentina to shift its exports away from soybeans and towards their products, other countries have been forced in the opposite direction. The DETs encouraged investment in Argentine crushing capacity, giving local crushers greater economies of scale than their competitors.

Without a DET advantage, Argentine crushers would be less competitive internationally. The decline in Argentine crushing would allow crushers in other countries to expand and capture some oil, meal and biodiesel sales from Argentina. Brazil illustrates the impact of ending DETs. Until 1996 it applied sales taxes that functioned similarly to the Argentine DETs. After these incentives were removed, exports of processed products from Brazil fell sharply as a share of soybean output, while exports of soybeans in an unprocessed form increased considerably.

This study uses an econometric model to determine the cost that DETs have imposed on crushers in other countries, by enabling Argentina to capture a larger share of global crushing. The model takes account of differences in the costs of transportation and of crushing in the countries covered in the study. The crushing cost estimates reflect economies of scale, as well as local input prices and capacity utilization in these countries.

Crushing supply curves are generated, relating crushing margins in Rotterdam to individual plants' costs and freight rates for soybeans and products. They allow us to quantify the impact of the DETs upon crushers across the world. To ensure consistency in the approach across countries, the analysis is undertaken in terms of crushing margins in Rotterdam, a pivotal point in world trade as a large importer of all soybean products: beans, meal, oil and biodiesel.

Conclusions

Table S.1 summarizes our main findings.

- The benefit from an end to DETs for the U.S. is $428 million, for Brazil $405 million and for our new selection of countries a further $798 million per annum.

- For Mexico and the EU, the two largest markets added to the scope of the analysis, the value of removing DETs is $110 and $318 million, respectively.

- For all but one of the other countries the benefits would lie between $29 and $71 million. Only for Turkey would the benefits be lower, at around $13 million.

- Because the structure of the crushing industry differs between countries the distribution of the benefits will also vary. In Thailand and Korea, with very concentrated crushing industries, the benefit would be $17 and $30 million per plant, respectively.

- The typical benefit per plant in the other countries is roughly $7 million. However, in Turkey, where there are many small crushing plants, the benefit per plant is around $1 million. In Colombia, which currently has no active crushing plants, the $29 million gain created by the removal of DETs is generated by a resumption of crushing.

- A number of the smaller markets are growing quickly through income and population growth. In these countries, the future cost of DETs is set to increase. If DETs remain in their present form, the overall cost to the selected countries listed in Table S.1 is set to increase to $870 million by 2020.

In addition, LMC's calculations indicate that:

- The lower export tax on biodiesel, through crusher-biodiesel integration, has benefited Argentine soybean crushers by $3.6 per metric ton of beans.

- Lower taxes on soymeal-corn combination shipments could provide a benefit of $8.8 per metric ton of beans in meal exports, the equivalent of $310 million a year.

Table S.1: Benefits for selected countries from removing DETs, 2011 and 2020 ($ million)

	Benefit from an end to DETs	Indicative benefit per plant	Cost of DETs in 2020
EU	318	7	312
Canada	32	7	29
Colombia	29	N/A	34
Egypt	66	7	97
Japan	64	7	51
South Korea	60	30	84
Mexico	110	7	113
South Africa	33	7	56
Thailand	71	12	89
Turkey	13	1	6
Total	*798*		*872*
U.S.	428		499
Brazil	405		656
Overall Total	**1,631**		**2,027**

Note: Colombian soybean crushing plants are currently mothballed, but would resume operations in the absence of DETs.

Assessing the Impact of Argentine DETs

Differential Export Taxes (DETs) have transformed Argentina's soybean crushing industry. Despite being only the third largest producer of soybeans, they have enabled Argentina to become the world's largest exporter of soybean oil and meal. A number of reports by LMC have demonstrated how DETs have provided support to the Argentine crushing industry.[1] The earlier LMC studies focused on the competition for crushing capacity between Argentina, Brazil and the US, with the EU included as a representative importer. This study expands our perspective by including nine more countries: South Africa, Canada, Colombia, Egypt, Japan, South Korea, Mexico, Thailand and Turkey. We will refer to this group of countries as the "frontier countries", as important prospective new frontiers for soybean crushing.

Frontier countries

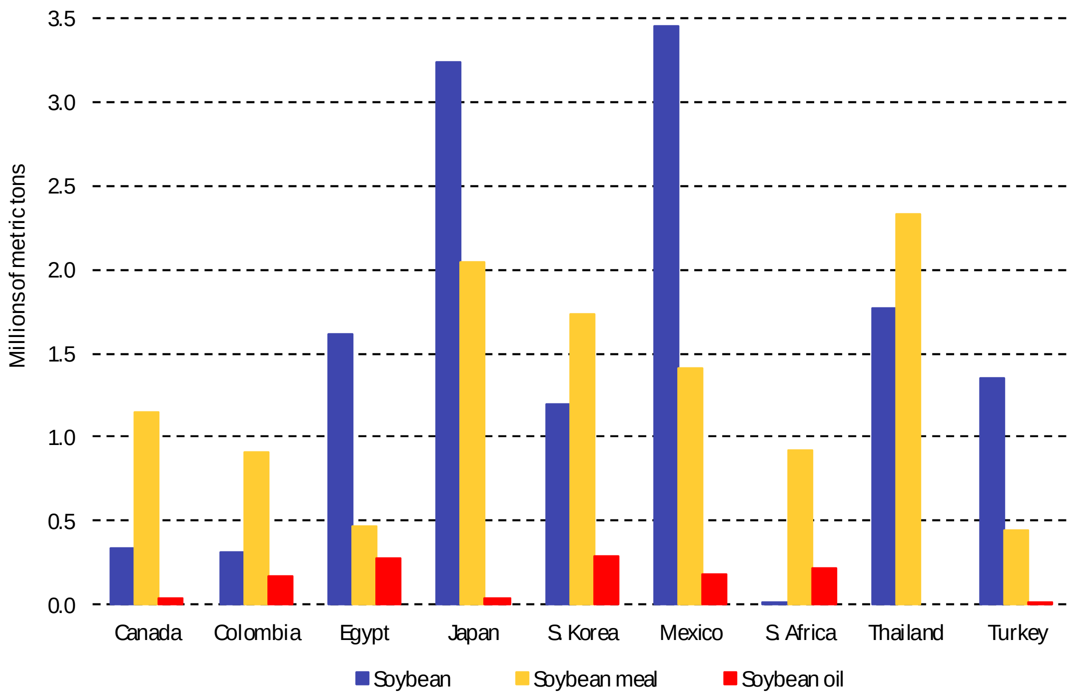
The selection of countries was agreed upon by USSEC in consultation with its stakeholders. All countries, with the exception of South Africa, import more than a million metric tons of soybeans or soybean products. Some are large importers of beans, oil and meal. Diagram 1 depicts the 2009-2011 three year average annual imports of soybeans, meal and oil in these countries.[2]

South Africa has been included for geographical balance rather than by virtue of its bean (as opposed to product) imports. However, South Africa does have a rapidly developing soybean

[1] Most recently *Phase 2: Quantifying the Impact of Argentine DETs upon Crushing Margins and Crushing Volumes in the US* prepared by LMC International for USSEC, January 2009.
[2] Throughout this report we use trade data averaged over three years (2009-2011) to avoid potentially misleading results based on just one year's data.

sector, which is expanding in response to demand for animal feed. Canada is the only country in the group that also exports large amounts of soybeans, primarily to the EU.

Diagram 1: Three year average annual imports of soybean, meal and oil (2009-2011)



Understanding DETs

DETs are Differential Export Taxes. In Argentina, export taxes are levied on beans as well as soybean products; however, they create an incentive to process soybeans in the country for export. This is done by applying different tax rates on soybeans and the products from crushing which decline with the degree of processing, being higher on beans than on products. DETs the government to change the balance of exports between beans and products away from that balance that would exist in a free market, with a knock-on effect on soybean crushers elsewhere in the world.

Soybeans can either be used directly as beans, or can be crushed to produce soybean oil and meal. The **crush margin** is the difference between the cost of the beans and the revenue from the meal and oil. This is determined, in turn, by the relative price of the beans compared to the prices of the meal and oil. If the beans become cheaper in relation to products, crushing becomes more profitable and the crush margin increases.

This "differential" in the DETs arises because, as Table 1 indicates, soybean exports are taxed at the highest rate in Argentina; this is currently set at 35%. A lower export tax rate of 32% is charged on oil and meal. These differences in the rates of taxation increase the profitability of crushing in Argentina, as we explain below. The export tax on biodiesel until very recently was set at a net rate of 17.5% (calculated after deducting a 2.5% tax refund from the nominal export tax of 20%). This provides an incentive to process soybean oil into biodiesel for export.

The key element to understanding how this works is that Argentina's soybeans and products are almost entirely destined for export. Including the oil used in biodiesel, Argentina exported over 90% of its oil as oil or biodiesel in 2009-2011. Less than 5% of meal produced in the country was consumed domestically. As a result, local soybean and product prices are linked to the prices on the international market.

Diagram 2 compares **free on board (f.o.b.) Rosario crushing margins**, calculated by applying the bean, oil and meal prices quoted once Argentine products have passed through Customs and paid their export taxes, with internal **free alongside ship** (**f.a.s.) Rosario margins**, applying prices inside the domestic market.

When export taxes are applied on beans and products, they reduce their internal prices. This is because a seller will require, at a minimum, a price equal to that it could receive by selling to the export market. When a trader sells soybean products to the world market, the net revenue equals the c.i.f. prices in Rotterdam, the pivotal point of reference for import prices in world trade in soybean products, *minus* freight costs from Argentina to Rotterdam (this yields the f.o.b. Argentina price) and *minus* the export tax (to derive the f.a.s. price).

A higher export tax, therefore, reduces the price that Argentine sellers receive from selling soybean products on the export market. As long as Argentina remains a net exporter of a product, the export tax will reduce the price that its producers can command domestically.

By applying higher export taxes on soybeans than on oil and meal, crushing margins are altered. Higher export tax rates on beans thank on products mean, from the perspective of an Argentine crusher, that the cost of the beans is lowered by more than the reduction in the revenue from the meal and oil.

As a result, DETs will reduce the price received by domestic growers and do so by more than the reduction in product prices. In this manner, DETs assist crushers in Argentina.

Table 1: Argentine Differential Export Taxes in 2011

Soybeans	Soy oil	Soymeal	Biodiesel
35.0%	32.0%	32.0%	17.5%

Note: Biodiesel exports actually incurred a 20% export tax, but coupled with a 2.5% tax rebate this yielded an effective tax rate of 17.5%.

The Argentine DET advantage

The extent to which DETs assist Argentine crushers (the **DET advantage**) is calculated as the difference between the crushing margin on an **f.o.b. basis** and the margin on an **f.a.s. basis**, which reflects the impact of the DETs. Diagram 3 compares the two crushing margins.

Diagram 2: Internal (f.a.s. Rosario) and international (f.o.b. Rosario) crushing margins

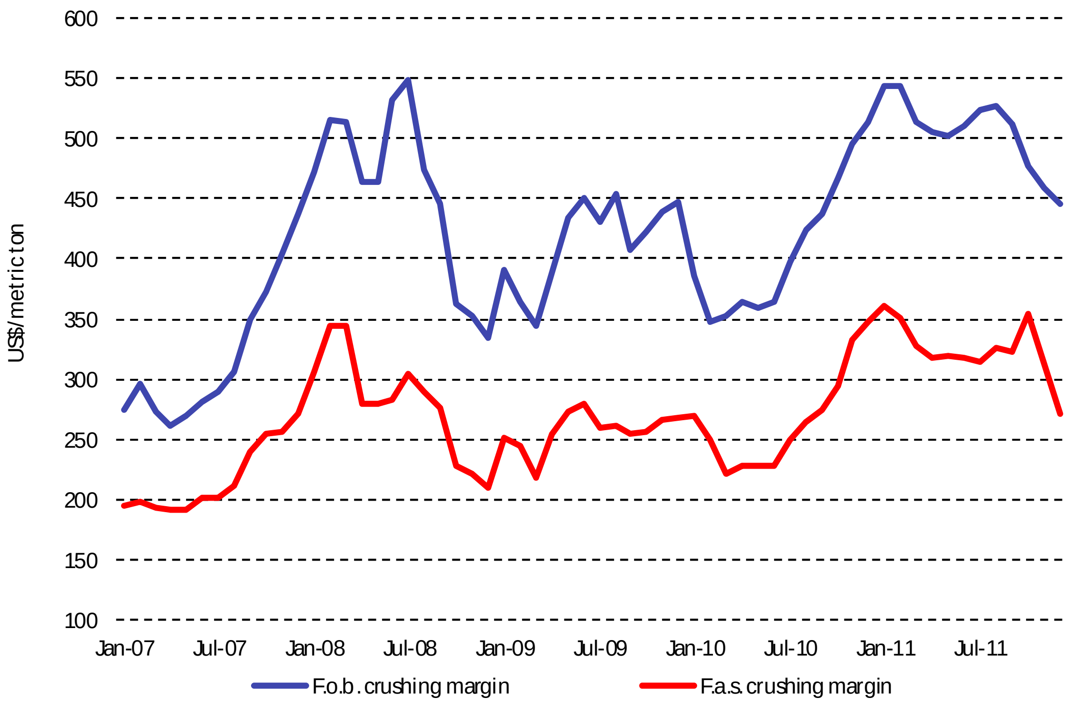
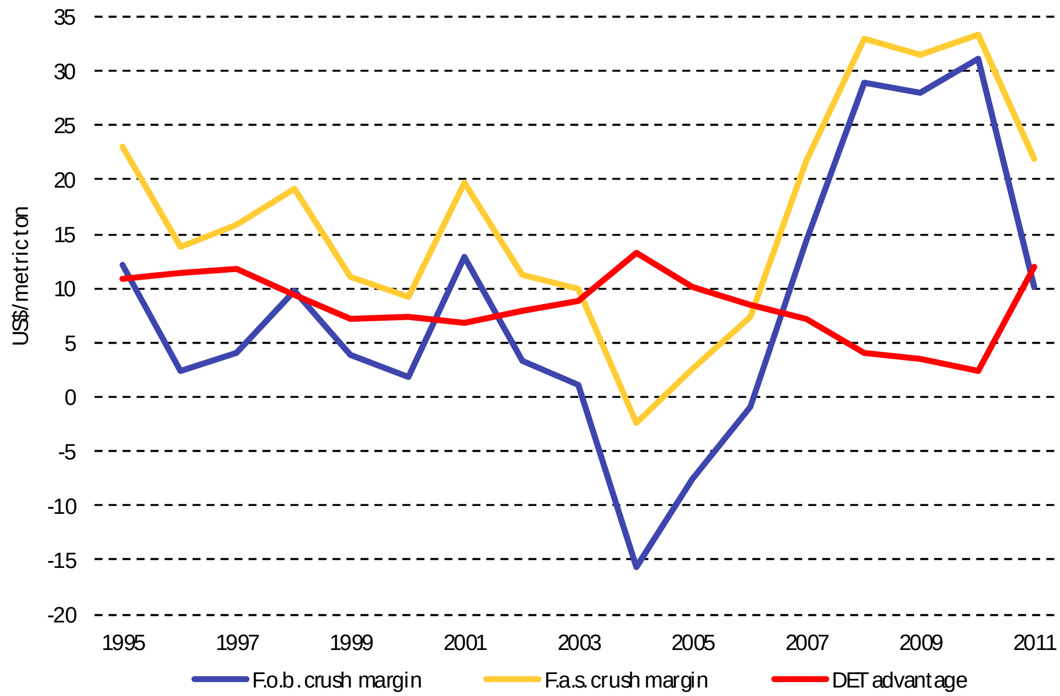


Diagram 3 reveals that the f.o.b. and f.a.s. crush margins have fluctuated greatly since 1995. The assistance from the DET has also varied from around $2.3 to almost $12 per metric ton. On a number of occasions it has meant that Argentine crushers were able to break even, thanks to the assistance from the DETs, when their competitors overseas were not. **On average, DETs increased the crush margin in Argentina by $8.4 per metric ton from 1995 to 2011.**

In 2011, the latest year with full data and one which may be considered representative of current conditions, the DETs increased the crush margin in Argentina by $11.9 per metric ton. This benefited Argentine crushers by approximately $450 million.

The aim of this study is to calculate the impact of the Argentine DETs on crushing margins and on the incentives to soybeans elsewhere in the world. At a very basic level, the boost to crush margins of $8.4 per metric ton quantifies the support given to domestic crushers in Argentina by DETs. (In addition, there is the boost the integrated crushers-biodiesel producers receive from higher biodiesel margins; this boost is discussed later). However, the $8.4 figure does not convey the full worldwide implications of Argentine DETs.

Diagram 3: Comparing crush margins and the annual DET advantage



To understand how these DETs have affected the global balance of crushing capacity, it is crucial to remember that countries can chose to import (or export) either soybeans or their products. As Argentina shifts its exports away from soybeans towards their products, thanks to the DET advantage, importers and other exporters are forced in the opposite direction.

The DETs therefore assist crushers in Argentina to the disadvantage of crushers elsewhere. Over a long period they have encouraged additional investment in crushing capacity in Argentina and have tilted exports from the country away from beans towards their products.

By exporting more meal and oil than it would have done otherwise, Argentina has altered crushing decisions around the world. This has affect Argentina's competitors (primarily Brazil and the U.S.), as well as countries which import soybeans and their products. This is because such governmental incentives distort normal market signals and competition among crushers.

The attraction of DETs

The primary appeal of differential export taxes to a government is that they encourage the growth of domestic processing, which may not be able to survive in a free market.

As with all export taxes, they also provide a source of revenue. It should be noted, however, that the *differential* in this case reduces the amount of revenue, compared to a normal export tax, by levying lower taxes on the processed product.

In order to create these benefits, the differential export tax reduces the internal price of the raw material. This has strong local redistributional implications, favouring the processor over the farmer and at the expense of the farmer.

Within the oilseeds sector DETs have been used as a major instrument of policy in several leading exporting countries to promote their downstream industries. For soybeans, they are applied in Argentina, and were also applied in Brazil in the past. For sunflowerseed they are applied in Ukraine and Russia. For palm oil, they are applied in Indonesia and Malaysia.

With Argentina exporting more products and fewer beans, the U.S. and Brazil have found their crushers under pressure and have to export more beans. At the same time, importing country crushers have found investment in their own capacities less profitable, and tilted their imports towards products rather than beans. If Argentina's DETs no longer existed to benefit local crushers, there would be a number of changes:

- Argentine crushers would no longer benefit from higher margins than those that would prevail under a free market and would become less competitive internationally.
- Argentina would export more soybeans and smaller quantities of processed products.
- As crushing in Argentina declines, soybean product prices would rise in other markets, increasing crush margins outside Argentina. This would allow crushers from other countries to capture some of the markets for oil, meal and biodiesel from Argentina:
- For importers, higher crushing margins would directly boost local crushing activity.
- For exporters, the consequences would be less direct. They compete with Argentina in third country markets. Higher margins in these markets would be transmitted back to exporting countries, notably the U.S. and Brazil, generating a stimulus to increase the crushing of soybeans for the export of higher-value products from these countries.

LMC International Ltd Conclusion

The potential increase in the export value of U.S. soybean sector products as a result of the removal of the Argentine system of differential export tax rates is conservatively estimated at US$428 million annually.

DETs MUST BE ELIMINATED

We greatly appreciate "the Obama Administration's commitment to focus on the most significant foreign trade barriers" and that "USTR will be guided by the existence of active private sector interest in deciding which restrictions to include in the NTE" (*Federal Register* Notice).

We sincerely hope that this estimate will help USTR conduct comparative analyses of a barrier's effect over a range of industries, and conclude that immediate action must be taken to eliminate Argentine's use of DETs on soybeans and soybean products, which we believe are inconsistent with Argentina's WTO obligations. Because differential export taxes have been left unchecked, the use of DETs on oilseeds and other agriculture products continues to spread to countries such as Russia, Ukraine, Malaysia, Indonesia and possibly Uruguay.

Again, thank you for the opportunity to submit these comments.

Sincerely,

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