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Panel discussion on the legislative Election Results in Argentina

Canning House - 3 July 2009

Chairman – **Dr. John Hughes**, Former British Ambassador to Argentina

Panel – **The Embassy of Argentina in the United Kingdom**

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Transcript of Richard Ferguson's speech

I'd like to begin by saying thank you for the invitation to speak today at this Canning House event.

We're here today to discuss the issue of the recent legislative election and its likely impact on the agriculture sector. Now although you are probably looking for an instant impact from this event, if I can, I'd like to look at these results in a slightly different way. Instead of focusing on the immediate, the here and now – let's look at it from a slightly longer-term perspective.

Overall, I think that this election only gave us a small glimpse of what is being painted across a much wider canvas. So please bear with me as we pick up what might seem at first glance quite a wide range of almost unconnected topics because by the end we will tie it into these elections and their relevance to the agriculture sector. Then I hope all this will make some sense.

Let's kick off by looking at how a modern industrial, corporate farm works. They start off with crop rotations designed to maximise the efficiency of the land. In this hemisphere you might find an industrial farmer sows winter wheat, spring barley, then plants a break crop like sunflowers, then perhaps schedules a fallow period in year four. These schedules and rotations are designed to ensure maximise output, replenish nitrogen levels, use resources efficiently and so on.

In Argentina and parts of Brazil you can add double cropping where you can do a short harvest of soybeans in the same season as another crop.

Added to that you will not only want to diversify your crops in this manner to ensure that the ground maximises its potential, you'll also want to diversify so that your crops are uncorrelated in price terms.

In other words, a wheat and, say, barley crop rotation might work for ground repair purposes but prices of the two crops are highly correlated.

Then, to cap it all, you have to consider that everything is dependent upon the vagaries of the weather. In short, the business is not only highly complex, it is highly volatile.

But the key point to note at this stage is this: a corporate farm shouldn't follow price signals rigidly if it wants to maximise its returns over the long-term or reduce its risk to minimum levels.

Consider what happens across the world farming sector. Bear in mind that 85% of the world's agricultural output comes from plots of land that are under 2 ha. In other words, "agricultural supermarkets" – in the absence of a better term - produce 15% of output while "grocery stores" do the rest. And you can be sure that risk management, correlation, aerial mapping of fields, input management, just-in-time capabilities, crop rotations and sequencing are all largely ignored among the small-scale farming community.

Instead the small farmer suffers from his perennial shortage of capital, he is a forced seller at harvests, he is dominated by large-scale traders with better access to information flows than him and above all, he follows price signals rigidly.

Now from a long-run point-of-view this is disadvantageous for obvious reasons: you lose out on maximising yields, what you might gain on the short-term upside could just as easily apply on a catastrophic downside and it doesn't alleviate any of the traditional pressures on farmers ie, a systematic shortage of working capital.

So you can see from that sketch how all the advantages should accrue to the industrial farmer, the large-scale producer to the detriment of the smallholder.

However, this isn't the obvious case in Argentina. Because what we have seen in Argentina since the 1940s is the systematic abuse of the sector by most of the country's governments throughout that era. To the extent that long-range planning in the sector is pretty unusual to say the least.

In 1930 Argentinean yields were higher than the US. However by the 1970s, Argentinean yields had barely doubled while US yields had more than tripled. The agriculture sector in the 1980s should have supported a theoretical output of 60m tons. Instead all it could manage was a meagre 34m tons.

What is the reason for this systematic underperformance? Well, when the government transfers over 60% of Argentinean agricultural GDP to the government or the consumer, incentives and rational investment behaviour tend to be somewhat skewed. The end result of all this government abuse? You

don't take a long-term approach to your business, you don't invest, you become opportunistic and, like the guy who manages a couple of hectares of land, you follow price signals just like him.

Now I'm generalising hugely here but it's not too difficult to detail examples of how behaviour has been altered in recent years in Argentina. Look at how traditional cattle ranching was pushed to the fringes of Argentina as producers took advantage of the soaring price of wheat. Then along comes the government and slaps on an export ban and what happens next? The farmers switch to soybeans.

What happens next? Well, for a start wheat output fell showing the law of unintended consequences at play. Then the government comes back with some pretty harsh taxation measures for the sector – and imposes a 35% tax on soybeans. And the end result? Well, soybean output collapsed this year and this can be attributed to part-drought, part-capital crisis and compounded by the efforts of the government.

Now the fact that the Fernandez Admin managed to unite four somewhat fractious unions into a single political force is some achievement. And it does seem to provide support – if any were needed – for Milton Friedman's aphorism that if you put the government in charge of the Sahara desert within five years there would be a shortage of sand.

So that brings back to these elections and their relevance to the agriculture sector. In summary, it might finally have neutralised the persistent threat from the Fernandez Administration as it became clear that it just wouldn't let it go even after last year's remarkable 36-36 split in the Senate and the casting vote decided by Julio Cobos on the issue of export taxes.

Perhaps one parallel that can be made is with 1995-1997 in the UK when an exhausted and ideologically bereft government did what can only be described as the unremarkable but with remarkable outcomes. That is, it left the economy to its own devices, left investment decisions to the private sector and the economy flourished.

Perhaps we can hope that Argentina, post-election, is on a similar path. After all, don't forget that Argentina is home to some of the some of the most sophisticated private-sector agribusinesses. A more benign political environment might result in some of these firms becoming well-known investment names, something which Argentina, despite the rise to prominence of emerging markets in recent decades, has sadly lacked when compared to its peers.

And, now that my 10 minutes of allotted time is up, I will conclude and say thank you.