



Argentina

## **DID QUANTITATIVE RESTRICTIONS ON WHEAT EXPORTS PROTECT ARGENTINE CONSUMERS AGAINST THE INCREASE IN INTERNATIONAL PRICES?**

### CONTEXT

During the last decade, the Argentine government implemented a series of policy interventions in the wheat value chain. In February 2002, as a reaction to the macroeconomic crisis in 2001–2002, it introduced export duties on cereals and oil seeds. In 2006, to counter the effects of both domestic and international factors, it further introduced wheat export quotas and temporal export prohibitions. Finally, a broad set of complementary measures, including minimum and maximum prices and subsidies to producers and wheat millers, was put in place in 2007. The result was a complex system of measures affecting all actors involved in the wheat value chain – producers, exporters, millers and consumers.

These policies generated an intense debate between those in favour of the policies and those against them. Supporters argued that export restrictions limited the increase in domestic prices of grain by shielding them from high international prices. Wheat-based products, such as bakery products and pasta, are an important component of the basic food basket of the typical Argentine household. These policies therefore explicitly aimed to limit price increases in a setting of high inflation rates in Argentina and high international commodity prices. Moreover, faced with growing international demand and weather-induced national shortages, the policies intended to keep an adequate supply of grain in the internal market.

Opponents of these policies argued that grain only plays a small role in price formation of final goods compared with other components such as wages, utilities, taxes, freights, etc. Controls on wheat prices would therefore not be sufficient to limit price increases of final products derived from wheat. Additionally, restrictions in the cereals

market could potentially affect producer incentives, diverting land to more profitable crops and reducing the supply of grain in the domestic market. Some indications seem to point in this direction. For instance, data from the World Bank and the Buenos Aires Futures Exchange Market show that domestic wheat prices were 50 per cent higher than international prices in September 2013. Also, according to the Ministry of Agriculture of Argentina, wheat-sown areas decreased by 44.3 per cent between 2006 and 2012.

In this context, our analysis aims to gauge whether quantitative restrictions and other complementary measures reached their goals in terms of containing prices and supplying wheat to the domestic market. In particular, we assess the welfare effects of interventions in the wheat value chain on urban consumers in Argentina during 2006–2011 (the household group and the period for which relevant data are available). It is hoped that the results of this analysis could contribute to the ongoing debate and serve as input for policymakers in the design of future trade policies.

## METHODOLOGY AND DATA

We use data from the latest available National Survey of Household Expenditures, carried out in 2004–2005, to assess the welfare changes for urban households in the City of Buenos Aires and other main provinces (Buenos Aires Metropolitan Area, Santa Fe, Córdoba and Mendoza). The analysis is conducted as follows:

First, we measure the importance of wheat-based products on the household's total expenditure. The results show that the poorest households spend a large share of total expenditure in wheat-based products compared to rich households, and therefore changes in prices would have a greater impact on the poorest households.

Next, using data from the World Bank, Rosario's Exchange Market and the Buenos Aires Futures Exchange Market, we estimate the degree of transmission of international prices to domestic

prices (adjusted by export duties) before and after the implementation of export restrictions and subsidies. We then build a counterfactual scenario estimating what would be the domestic price level without any policy intervention, be it export restrictions or export restrictions combined with subsidies.

The third step consists in estimating the impact of changes in wheat prices on prices of wheat-based products. Price data for this part of the analysis come from the National Institute of Statistics and Census of Argentina and the Statistics Institute of Santa Fe.

Finally, we compare the actual increase in prices of wheat-based products with the counterfactual increase in these prices to assess the welfare effect of these policies on urban consumers.

## Did quantitative restrictions on wheat exports protect Argentine consumers against the increase in international prices?

### FINDINGS

Results suggest that export restrictions were successful in disconnecting domestic prices from international prices of wheat and thus kept domestic prices below the level of international prices. This was however achieved at a cost of a large financial burden for the government in terms of subsidies. Moreover, the effect of export restrictions on prices of wheat-based products, and hence consumers, was marginal as wheat represents only a small share (about 8 per cent) of the costs of these products.

In the counterfactual scenario, i.e. in the absence of interventions, domestic prices of wheat-based products and subsequently inflation would be

higher. If export restrictions were not in place, prices of wheat-based products would be 1 per cent higher than in the actual situation. If both export restrictions and subsidies were removed, prices of wheat-based products would be 6.4 per cent higher.

The poorest households, which spend a higher share of their budget on wheat-based products, would be the most affected by the removal of both these policy measures. However, the welfare effects from their removal would be very limited – close to zero for most households and never exceeding 1.5 per cent. Only the poorest 25 per cent of households would experience welfare losses higher than 0.5 per cent.

### POLICY RECOMMENDATIONS

The main challenge in the Argentine wheat market is to increase incentives for the production of wheat. Figures documenting the reduction of wheat-sown areas suggest that export restrictions negatively affected producer incentives to produce wheat. This in turn reduced the supply of wheat in the domestic market, with production levels falling by 41.5 per cent between 2007 and 2013. Export restrictions, while limiting the increase in domestic prices of wheat, thus proved to be ineffective in ensuring an adequate supply of grain in the domestic market. The removal of the restrictions may therefore slightly increase the price and motivate producers to return to the production of wheat, without leading to significant welfare losses for consumers.

The success in avoiding welfare losses for consumers during 2007–2011 implied a considerable cost for the government in the form of subsidies. Dequino (2010) estimated that between the second quarter of 2007 and the first quarter of 2010, subsidies to wheat millers and producers amounted to 3.34 billion pesos (approximately \$1 billion), which is equivalent to 15.5 per cent of Argentine exports of wheat between 2007 and 2010. Despite this significant cost, the effect of subsidies on household welfare was very limited. The question therefore is whether direct subsidies to consumers would not have a larger positive impact at a lower cost for the government. Such a programme may allow authorities to target more precisely households that are most in need of support, thus avoiding the diffusion of the welfare effect throughout the economy.

## ABOUT THE AUTHOR

Paula Andrea Calvo is a Teaching and Research Assistant at Universidad de San Andrés in Argentina.

This brief draws on a study titled “Welfare impact of wheat export restrictions in Argentina: Non-parametric analysis on urban households” prepared by the author for the UNCTAD Virtual Institute book titled “Trade policies, household welfare and poverty alleviation: Case studies from the Virtual Institute academic network” available at: <http://vi.unctad.org/tap>. The views expressed in this brief are those of the author and do not necessarily reflect the views of the United Nations Secretariat.

## REFERENCES

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**Contact**  
Ms. Vlasta Macku, Chief  
Virtual Institute  
Division on Globalization and  
Development Strategies  
[vlasta.macku@unctad.org](mailto:vlasta.macku@unctad.org)  
<http://vi.unctad.org>



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