U.S. Imports Making Comeback in Argentina

By Kenneth Joseph

Economic recovery and a stable exchange rate have set the stage for more food and beverage imports—about $500 million worth—for Argentina in 2004. Imported ingredients and brand names will again top shopping lists for Argentine consumers who are enjoying more disposable income.

During most of the 1990s, the Argentine economy enjoyed stability and growth. However, economic recession in the late 1990s began a downward spiral that led to devaluation of the Argentine peso in 2002. Consequently, high-value food imports plunged to $350 million that year, down from $1 billion the year before.

The pinch was felt by U.S. exporters when U.S. consumer-oriented exports to Argentina dropped from $61.6 million in fiscal 2001 to $10.8 million in fiscal 2003.

Shopping Patterns Changed

During the economic downturn, thrifty consumers shifted from value-added products to more basic foods and less expensive brand names.

Shoppers who once patronized a favorite store began checking out bargains at several stores. Supermarkets lost market share to small groceries and warehouses. These smaller businesses, competitive in some products, also offered credit and proximity advantages.

With better times at hand in 2004, supermarkets are rebuilding inventories of imported food and beverage products to attract consumers with higher purchasing power.

Market Access Easing?

U.S. suppliers will find more buyers at the same time that Argentina has decreased its average tariff on high-value products from 35 to 19 percent.

Although compliance with overall import regulations and standards is relatively straightforward, the Argentine government occasionally imposes unexpected sanitary and phytosanitary trade barriers.

CAA, the Argentine Food Code, regulates local food production and marketing. But these rules are gradually being replaced by the standards of MERCOSUR, the trade bloc comprised of Argentina, Brazil, Paraguay and Uruguay. MERCOSUR standards are based on the norms of the European Union, the United States and Codex Alimentarius.

Three entities have specific documentation requirements and regulate and register food and beverage imports:

- SENASA, the National Sanitary and Agrifood Quality Service–fresh, chilled or frozen products and by-products of animal, plant or seafood origin; canned products with high percentages of these products
- INAL, the National Food Institute–processed food products, health supplements and all beverages except wines
- INV, the National Wine Institute–wines

Retail Sector Up

At nearly $4.1 billion in 2003, Argentine food and beverage retail sales made up the largest food sector. With strong economic growth projected for 2004, sales are expected to total $4.5 billion.

More than 70 percent of all imported food and beverage products are sold through hypermarkets, superstores and supermarkets. The U.S. share of imported foods and beverages averaged 7 percent yearly from calendar 1997 to 2000. By 2003, it had decreased to 5 percent.

Along with the economy, other factors should help increase the U.S. market share of imports: the increasing influence of U.S. culture, a clear advantage in U.S. sanitary standards in comparison with those of other countries' products and improving competitiveness due to respective currency values.

Supermarkets often handle their own imports. Managers identify desirable products in international food shows and buying missions. They contact the foreign supplier or local agent and import directly. Due to small initial volumes of new products, it is common for them to use large wholesalers or consolidators in the United States.

Keys to Export Success

A successful trade venture in Argentina hinges mainly upon the commitment of the exporter. A long-term view and commitment of resources are needed to build a market. Helpful hints include:

- Appoint a reputable agent or importer.
- Always have a legally binding contract.
- Use Spanish, the official language, on printed materials.
- Provide attractive display samples.
- Contact top representatives in companies—the personal approach is essential.
- Persistence pays off; follow up with frequent visits.
- Assure service and delivery through constant attention.
- Offer flexibility in credit terms and volumes.
- Register trademarks, service marks, etc.

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Large retail chains have saturated Buenos Aires, and they continue to expand slowly to the interior of the country. To accommodate a different population, they are employing a discount format, which offers lower prices, a higher percentage of private labels and second-tier brands and limited service in small stores.

The retail and food ingredients sectors offer the best prospects for marketing U.S. products in the near future.

Best Prospects

Despite recent changes in currency values, the U.S. dollar remains relatively high compared to the Argentine peso. Most demand is for well-known brands and for products not available domestically. These include:

- Chewing gum
- Candy
- Salty snacks
- Confectionery items
- Sauces
- Alcoholic and energy drinks
- Pet foods
- Palm hearts
- Pineapple, canned
- Tuna, canned
- Tomatoes, canned
- Pepper
- Coffee
- Bananas
- Kiwifruit
- Pork and poultry, frozen
- Soup preparations
- Extracts
- Dairy ingredients
- Nuts
- Cocoa—paste, butter and powder
- Coffee products
- Starches

HRI Rebounding

After shrinking somewhat in 2002, the HRI (hotel, restaurant and institutional) sector now accounts for 12 percent ($2.2 billion) of Argentina's total food and beverage sales. The sector bought about 5 percent of Argentina's food and beverage imports in 2003. U.S. imports claim just a 5-percent share ($1.2 million) of these imports. When the market slowed, direct imports dropped significantly.

Argentina considers tourism a key industry for its future. There are estimates that over $3 billion was invested in the Argentine hotel sector during 1991-2001, mainly by well-known Western chains, such as Sheraton, Hilton, Hyatt and Holiday Inn. This sector has begun benefiting from the peso devaluation that makes it more competitive, particularly with other Latin American countries.

Food Processing

Multinationals now own many large food and beverage companies in Argentina. During the recession, demand for domestic processed goods fell by 30 percent, and most companies cut back production and used less expensive local or other MERCOSUR-origin ingredients. Several companies are beginning to flourish again as domestic consumption improves and exports continue to expand, and as the devalued peso makes their products more competitive.

Despite the good reputation of U.S. ingredients, they face strong competition from European, MERCOSUR and Chinese products.

Know Your Urban Consumer

Only 10 percent of Argentina's 37-million population is rural. One-third of the population lives in the Buenos Aires metropolitan area—and accounts for roughly half of the country's total food and beverage sales. Cordoba, Rosario and Mendoza account for another 3 million in population.

Upper income groups make up 5 percent of the population. Middle groups claim 28 percent, and the poorer segment makes up a little over two-thirds.

The average family spends 42 percent of its income on foods and beverages; the richest spend 28 percent. Only about 4 percent of middle and upper class families have microwave ovens, but 75 percent have freezers.

Though 80 percent of shoppers are women and 75 percent are over 36 years old, considerations for children have an important role in food purchases.

Dining out is reserved for social events during weekends and business engagements on weekdays. While fast-food restaurants became popular during the 1990s, food delivery is also desirable.

High-end consumers in Argentina tend to have certain characteristics:

- Older consumers are traditionally conservative and influenced by Europe.
- Younger groups are more open and oriented toward U.S. culture.
- Health foods are rising in importance.
- The majority still adheres to a diet of beef, fried potatoes, salad and pasta. ■

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