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FOREIGN NEWS ON WHEAT

METHOD OF MARKETING GRAINS IN ARGENTINA ON A "PRICE TO BE FIXED" BASIS

Argentina has become the world's largest grain exporter, ranking first in the exports of corn and flaxseed and third in wheat. Of the grain moving from exporting countries in recent years Argentina supplied over three-fourths of the flaxseed, two-thirds of the corn, and one-fifth of the wheat. The following table shows the average production and exports of principal grains in Argentina for recent years compared with pre-war.

ARGENTINA: Production and exports of wheat, corn and flaxseed,  
average 1909-1913 and 1923-1927

Seasons beginning	Wheat		Corn		Flaxseed	
	Production	Exports	Production	Exports	Production	Exports
	Million bushels					
1909-1913	147	64 83	192	127	31	27
1923-1927	218	71 147	282	218	65	62
	<u>Per cent</u>					
Increase	48.3	77.1	46.8	71.7	109.7	129.7

The inadequacy of storage and credit facilities in the interior has led to a special method of selling grain in Argentina, according to a report received in the Foreign Service of the Bureau of Agricultural Economics from American Consul General George S. Messersmith at Buenos Aires. This method is known as sales "a fijar precio", that is, "at a price to be fixed" after the delivery of the grain. Under this system the farmer receives between 75 and 80 per cent of the value of the grain on the day of delivery, but reserves the right to finally dispose of the grain on any day he chooses, within a specified period, usually 8 months.

Concentration of grain exportation

The exporting of grains from the Argentine is concentrated in a few large firms which have branches in most of the principal cities at home and abroad. About five of these large exporting firms handle from 80 to 90 per cent of all the cereal grains exported from Argentina and in addition to the

exporting of grain they also engage in other activities, such as the operation of flour mills, oil mills, bag manufacturing, and also do some banking business. The concentration of the exportation of grain in a few large firms is a peculiar characteristic of the Argentine agricultural system and has a considerable bearing on the sales methods used in the country.

#### Inadequate storage facilities in interior

Another feature which is characteristic of the Argentine agricultural situation is the inadequacy of storing facilities for grain in the interior. Due to the mild winters no shelter is provided for cattle and even expensive farm machinery is very often left exposed to the weather. As a general rule farm buildings such as could be used for storing grain are either lacking or are very primitive and are confined to a shelter for farm hands. Because of this lack of farm storage it is necessary for the farmer to move the crop shortly after harvest in order to prevent deterioration in the open.

There is almost a total absence of elevators or other storage facilities in the interior except in a few cases where the railway companies have built covered sheds for temporary storage. Very often the grain is placed in the open near the railroad and is covered by a heavy canvas until it is shipped to one of the ports. The large exporting firms maintain considerable storage space at the ports for the storage of grains which they are not ready to ship. At some of the ports, more particularly at La Plata, the railway companies have built storage sheds. In general it may be said that storage facilities have been greatly improved in recent years but that they are still inadequate.

#### Inadequate banking and credit facilities

The farmer in Argentina, as in most other agricultural countries, needs advances or credit on his crops soon after harvest. Banking and credit facilities are very inadequate and oftentimes are not available in the rural districts. The farmer secures his credit from the local storekeeper who in turn usually buys the grain from the farmer and who usually aims to make a profit on the grain in addition to the profit on the goods which he sells the farmer. Some storekeepers maintain limited storage facilities but as a general rule they in turn must dispose of the grain as soon as they get it. The storekeeper sells the grain in an "acopiador" (or other middleman) who in turn disposes of the grain, sometimes to a broker, or direct to an exporting firm.

#### Description of method

The method of selling at a price to be fixed works as follows: The farmer, having harvested his grain and having no place to store it, disposes of it to the local storekeeper or sometimes to a middleman on the basis of a contract at a price to be fixed. The terms of these contracts differ considerably but in general the storekeeper agrees to buy the wheat and to take delivery at once, advancing to the farmer from 75 to 80 per cent of the value of the wheat on the basis of the market price on the day of the contract. The farmer agrees that within a period not exceeding eight months he will sell the grain at the ruling price of the day on which he decides to sell,

and the storekeeper agrees to pay the farmer the difference between the value of the grain on the day the farmer chooses to sell and the 75 or 80 per cent advanced to the farmer at the time he delivered the grain.

The storekeeper or middleman who so acquires the grain from the farmer on the basis of the price to be fixed, then sells the grain on a similar basis to a middleman, broker or an exporting firm. The net result is that the grain almost immediately after harvest comes under the control of the exporter who is obliged to take delivery, as middlemen and brokers also lack storage facilities.

The terms of the contracts "a fijar precio" differ considerably. They always specify for an advance to the man who disposes of the grain; such advance being from 75 to 80 per cent of the value on the day of delivery but in some cases the middleman actually advances the farmer less. In some cases the contract provides that the seller of the grain shall pay interest on the money so advanced at from 6 to 8 per cent. In general, however, the storekeeper does not charge the farmer interest and the leading grain exporters also state that they do not charge interest on advances which they make on grain which they take at a price to be fixed. The contracts may or may not provide for carrying charges. The storekeeper or middleman can not exact carrying charges from the farmer as the farmer knows that these middlemen have no storage facilities. The exporters, however, in some cases may demand carrying charges of 50 centavos (21 American cents) per month per ton but these carrying charges do not usually apply until two months after the date of contract and delivery of the wheat.

The time limit within which the grain must be sold depends entirely upon the contract. It varies usually from a minimum of three months to a maximum of eight months. When the farmer sells the grain to a storekeeper or middleman he in turn sells the grain to a broker or exporter in order to protect himself from losses due to fluctuations in the market. Some of the middlemen and brokers who feel that the market is favorable and who are inclined to speculate may defer their hedging operations and attempt to make a profit on a prospective advance in prices. On the other hand, the storekeeper or middleman, if he anticipates a decline in price, may sell the grain before the farmer actually sells it. If the farmer finally sells at a lower price, the middleman makes a profit through his speculation, while if the farmer sells at an advanced price, the middleman sustains a loss.

#### Advantages of system to farmers

This system of selling at a price to be fixed has a number of advantages to the farmer, states Consul General Messersmith. Although he does not have storage facilities he is not obliged to sell the grain immediately and he is enabled to get credit advances without selling the grain. Another advantage is that the farmer is relieved of all responsibility for the grain immediately after delivery and does not have to stand any losses through deterioration and does not have to pay storage or other carrying charges as all these risks are passed on to the exporter. Another reason for the popularity of this system, although it may not be considered as an advantage, is that it satisfies the speculative instinct which is very strong among practically all classes in Argentina.

There has, however, according to Mr. Messersmith, been much agitation in the Argentine press of late for the purpose of securing legislation to prevent the selling of grain on a price to be fixed basis. It is claimed that this system works to the disadvantage of the farmers and to the advantage of middlemen and particularly to exporters. It seems, however, that this method has decided advantages to the producers and that it will continue to be practiced until farmers, either individually or through cooperative societies, are able to provide adequate storage facilities and to obtain credit in some other way.

#### Advantages to exporters

This system also has a number of advantages to the exporter for he obtains control of the grain soon after harvest without the necessity of paying for it all at that time. Having the grain in his possession it enables the exporter to make contracts abroad and to be ready to fill such orders at any time. The exporter frequently sells the grain before he has bought it and in this way he has the use of the 20 to 25 per cent of the value of the grain which he does not turn over to the broker or middleman until they sell the grain. In cases where the exporter charges the middleman or broker interest on the 75 or 80 per cent advance on delivery, he is really getting interest on 100 per cent of the value in cases where he has sold the grain before he has bought and fully paid for it. In view of the large volume of transactions handled by the exporting firms, such interest charges are a large source of profit to the exporter. The carrying charge of 50 centavos per ton per month is a very reasonable charge in view of the additional risks taken by the exporter. However, in cases where the exporter has sold the grain before he has bought it, he is receiving payment for carrying charges on grain which he has already disposed of. Representatives of the leading exporters, however, state that most of their contracts do not provide either for interest or carrying charges and that when carrying charges are made they are not effective until two months after delivery.

This same system of selling at a price to be fixed is also being used between the Argentine exporter and the buyer in Europe. The European buyer advances 75 to 80 per cent of the value upon receipt of the grain with the privilege of naming the day, within a specified limit, upon which he wishes to buy the grain from the Argentine exporter. The risk taken by the Argentine exporter, however, would be too great if the European buyer could liquidate his whole contract by the ruling price of a particular day. The contract, therefore, usually provides that the purchaser can not liquidate more than a fixed sum, say 500 tons, on any one day. The purchaser advises the seller in Argentina by cable that he accepts the ruling price of a certain day for a certain quantity and this enables the Argentine seller to protect himself by hedging on the Buenos Aires market, if he considers such protection necessary.

Shipping of Grains "On Order" from Argentina

The shipping of wheat and other cereals "on order" while practiced to a certain extent in other agricultural countries is a particularly characteristic feature of the Argentine grain trade. The term "shipping on order" as used in Argentina may be defined as the forwarding of grain which may be sold or unsold, on documents on order instead of to a fixed destination, with the understanding that the final destination of the grain is to be determined after the cargo has been afloat for some time, according to Mr. Messersmith.

The shipping of grains on order from the Argentine bears a complementary relationship to the selling of grain on a price to be fixed basis. The large exporting firms which come into control of the Argentine grain crops soon after harvest find it advantageous to ship grains on order. The voyage from the Argentine ports to Europe takes about thirty days and during this time fluctuations may take place in the grain markets of the world which could not be foreseen or were not anticipated when the grain was shipped. It is, therefore, an advantage to the exporter to be able to divert shipments which are afloat to any particular point where it may prove of advantage to send it. If the exporter ships grain from the Argentine to meet a particular contract and makes the bill of lading for a particular port, he can not change these documents after the departure of the ship and can only divert the grain with the greatest difficulty. If, on the other hand, he ships the grain on order, he has absolute freedom for a period of from eleven days to three weeks in which to determine where he wishes to send the shipment. Another reason for the practice of shipping on order, although of less importance, is that it enables the exporter to place the grains afloat whenever he is pressed for storage space and, having grains afloat, it enables him more readily to meet the contracts for delivery.

The freedom allowed by this method of selling on order is the principal reason for its popularity and, according to Mr. Messersmith, from 50 to 60 per cent of the wheat and corn exported from Argentina is sent on documents on order.

A great deal of Argentine grain is listed as exported to Spanish and Portuguese possessions as a result of selling on order. The Spanish possession indicated in the Argentine statistics is Las Palmas and the Portuguese possession is St. Vincente. These two island ports are in close proximity to Europe and approximately three weeks by steamer from Argentina. Vessels use these ports as refueling stations on the journey from Argentina to Europe and it is at these ports that orders are received from the Argentine exporter as to where the shipments are to be diverted or applied. Argentine statistics do not show the ultimate destinations of these grains after they are diverted from these two Spanish and Portuguese possessions and the only means of determining the destinations would be from the import figures of the various European countries.