

Prunes: business in danger

Members of the prune industry report that financing the processing of the expected 180,000-ton crop [*metric, fresh*] will be very difficult. In addition, due to heaviness of the international market, exports from Mendoza might not overpass 25,000 to 30,000 tons. There are surpluses from the 2009/2010 campaign. Costs continue increasing and the lack of competitiveness is worsening.

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This year the “blessing” of a large crop will reveal competitiveness problems that the prune industry is facing in Mendoza.

The production estimate of 180,000 tons, according to the IDR, (a normal one, could we say, after losses by climatic accidents on the previous campaign) will renew the industry concerns on some central issues that have been already a matter of preoccupation at other times: where the money necessary to process the production can be found; whom can the production be sold to; who will be able to assume the cost of the surplus (because it appears that about half of that crop would not be sold); what field price will be contracted.

Adding to that the costs of harvest, drying, preparation and export (without even considering the raw material price), in what state will the accounts be at the end of the season?

The scene seems not to be very attractive. In this campaign even less than in the previous ones: indeed we cannot expect any substantial improvements in commercial prices, at least at the levels that would be necessary to compensate the constant costs growth and the lack of fiscal and currency competitiveness; all that in front of other country exporters who are struggling for an international market which never finishes reacting.

Remember that the almost exclusive markets for Mendoza dried plums are foreign markets. The domestic market can barely absorb 5% of the production. On the other hand, Argentina (that is to say Mendoza, because this is the only producing province) has a very little relative participation in the world-wide business, and therefore it is not influent on prices.

So that, if the floor (costs) is raising and the ceiling (field prices) does not move, the margin is decreasing and, according to the exporters say, “it becomes more and more difficult to breathe”.

In fact, the president of the Mendoza Prune Exporters Committee (CECIM) Rubén Cano, predicts that “this is going to be a very difficult year because we cannot expect any lower

costs (in dollars) or price improvements on the international market”. In a statement published in the last release of “Campo Andino & Agroindustria” (a local review) the industrialist notices that Argentina is losing competitiveness in this business.

With numbers in hand

Cano’s concerns were illustrated in the last weeks by a cost survey which is circulating among industry entrepreneurs and to what FINCAS got access.

The study, elaborated on a hypothesis of 180,000 tons crop (metric, fresh), concludes that only harvesting the 2010/2011 plum production, taking it to the dryer and processing it will cost more than 160 million pesos, an amount of money that must be available between February 15 and March 15. Then the question is: “Who can fund those 40 million dollars?” Furthermore, this amount does not include the fruit production cost (field price) the preparation and export costs, the financial cost and amortizations, and neither the cost implied by carrying half of the production.

On this last point an additional thought appears. The study estimates that the exports outlook for this year might reach around 30,000 tons (out of a crop of almost 60,000 tons, if the 180,000 tons of fresh plums were picked up and processed): therefore almost 30,000 tons would have no commercial destination. This will imply to immobilize around 80 million pesos which are going to increase the “perennial stack” (the name industry members use to give to their merchandise in stock). Moreover, about 10,000 tons of carry-over stocks from the 2009 and 2010 campaigns should be added to that.

Painful competitiveness

Thus, the data shown in the study allows concluding, as Rubén Cano said, that the situation is giving cause of high concern.

Therefore it seems difficult to give an answer to two questions: how to deal with that strong financial requirement the sector will have in a very short time and, mainly, what market will the production go to, facing the persistent slowness of the market and the strong competition of other producing countries (particularly Chile and California).

In this sense, the president of the CECIM aimed, in the mentioned publication, that “we will have to compete hard, mainly with Chile”, not only because of its advantages on fiscal treatment and its policy of foreign trade, but also for productive reasons.

“We, Cano said, hardly get average yields slightly over 10 tons/hectare, whereas Chile is close to 30”. He indicated that, among others reasons, “here the production is very sensitive to climatic contingencies”.

A good part of the producers is conscious of the competitiveness problems of the sector. Anyway, it would be interesting to see what the Mendoza exporters could do with an even bigger production than the one expected this year. But according to Rubén Cano, Argentina loses competitiveness on the “high quality” markets due to undersupply, result of the lack of production (of good quality merchandise). This is true also on “price markets” because Argentina’s costs are much higher.

Labor cost

One of the components that are increasingly affecting the industry lack of competitiveness in front of its strongest competitors of the world prune market, is the sharp increase of labor costs. This is systematically underlined by organizations of different sectors of the agricultural and agro-industrial production, and the prune case is not an exception.

We consulted a chart detailing the costs of harvesting, transportation to dryer, drying (without considering raw material price nor other expenses) and we had access to another one which breaks down the labor cost components.

This work was released in May of 2010 and talks about the real cost of a prune skilled salaried worker. It is an attempt to quantify the real cost, although there are many hidden costs. This report could really be considered as a “relative detail” in order to reach an approximation of the Argentine labor cost in Food industry. Beyond knowing if payroll wages are high or low, it is very complicated to determine what the real cost for the Argentinean businesses is, since the major part of dismissals are ending up in Court.

An interesting fact is that, besides which is commonly considered being the cost of a worker for his employer, over the net payroll amount the study takes into account some components which are not usually considered in the effective wage cost calculation.

Indeed, to determine the cost of the really worked hour, the author puts in his equation the unproductive paid time, such as sickness days, holidays and vacations.

Thus, these calculations show that the real cost for the employer of a really worked hour by a skilled salaried worker is over the double of the collective agreement value. Indeed, while the wage of the work hour according to the agreement of the Union of Workers of Food industry was (in May of 2010) of 20,50 pesos, the one that comes out from the calculation (which takes into account the non-effective annual hours, paid and not worked) is of 43,76 pesos.

It is interesting to see that, when people minimize the labor cost and don't consider the real one, they transfer the difference to a benefit or a selling discount. This goes together with the fact that often the hidden labor liabilities are higher than the value of the company assets.

Industry members report that “this could explain why historical agro-industrial companies did not close down when the business was held up and why most of those companies finally fell bankruptcy”.

URL <http://www.losandes.com.ar/notas/2011/1/29/ciruela-desecada-negocio-riesgo-547317.asp>