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Oilseeds and Products Annual

2016/17 Forecast: Production is Forecast Up as a Return to Historical Yield Levels Offsets Production Area Decline. Soybeans continue to be Best Option for Producers.

Approved By:
David Mergen, Agricultural Counselor

Prepared By:
Lazaro Sandoval, Agricultural Attaché

Report Highlights:
Post forecasts 2016/17 production area at 1.1 million hectares, a decrease of 8 percent from Post's area estimate of 15/16. Despite the area loss, production is forecast to rise to 2.49 million tons as yields are expected to return to historical levels. The recent policy changes and positive outlook in Argentina have accelerated the exit of Argentine investor groups. 2016/2017 exports are forecast to rise to 2.18 million tons as a result of steady foreign demand and expanded top-off opportunities through the Obrinel Grain Terminal in Montevideo.

Commodities:

Oilseed, Soybean

Oil, Soybean

Meal, Soybean

Production:

2016/2017

For the 2016/17 season, Post forecasts a decrease in Uruguay's area planted to soybean at 1.1 million hectares, a decrease of 8 percent compared to Post's estimate for 2015/2016. Driving this decline is the exit of foreign production pool investor groups and a complicated financial situation for producers. Yields are expected to return to historical averages at 2.3 tons per hectare which will fuel an increase of production compared to the previous season despite less area. Post forecasts production at 2.48 million tons on higher yields as soybeans remains to be the best option for Uruguayan producers.

The decline in production area is indicative of a recent trend of area reduction. Originally, various political and market factors fueled area expansion in Uruguay for over the past decade (see *Production Area in Uruguay* section), particularly to the departments of Salto, Paysandú, Florida, and Durazno. However, the weakening of global soybean prices, the rise of costs, and positive policy developments for the grain and soybean sector in Argentina (see Oilseeds and Products Annual_Buenos Aires_Argentina_4-4-2016**)** are discouraging soybean production in these areas, which are historically livestock areas. Today, crop production appears to be reorienting itself back to the departments of Rio Negro, Soriano, and Colonia, a region known historically for crop production. This does not mean crop production will leave these departments nor does it mean that they will return to livestock. Local contacts indicate that a transition back to livestock would be very expensive with potential returns not achieved for at least two years. For this reason, although soybean production is not as profitable as used to be, it still the best option for producers as the alternatives – livestock or grains– are not as viable. Local producers indicate that due to that dynamic, they can't see soybean area ever falling below 1 million hectares. They feel these million hectares are the "base" for soybean area.

Uruguayan producers are subject to a mandatory crop rotation/conservation management program (see Policy section). The plan outlines particular agronomic and conservation practices for the short and long term. Yet, producers do not see it as limiting factor and continue to comply with the program's requirements.

Map of Uruguay by Departments

An estimated of 80 percent of production financing comes from input providers at 8-10 percent interest, according to local sources. Local banks and cooperatives also play a role in financing inputs including fertilizers, pest and fungicides applications, along with machinery. The terms of these arrangements are not expected to change significantly in 2016/2017.

Producers are expecting to experience some cost relief in 16/17 for inputs, such as chemical applications, but freight and rent will still remain elevated. Because area is expected to diminish, producers are foreseeing overcapacity in farm machinery and labor, and as such many have begun to expect lower harvesting costs for next season. These cost savings in addition to yield and price expectations are expected to deliver higher net returns for next season. Private analysis estimates net returns over $50 per hectare for producers who rent land.

Many producers and observers have speculated that planting intentions for 2016/2017 may be altered by price movements in the Chicago futures market. The recent rally in soybean prices over the past few weeks prompted some observers to speculate that if prices remain around current levels, it would encourage an expansion in soybean planting area and not a contraction. Moreover, one analyst claimed a $330-350 per ton price for soybeans is a significant threshold for Uruguayan producers. Anything above this general price area would encourage an expansion and a price below it would encourage a contraction. Due to the higher volatile nature of this market, it is important to note that Post's forecast is based on long-standing factors involving costs, crop rotation patterns and producer sentiments not on price speculation.

All of Uruguay's soybean varieties are derived from biotechnology. The rapid and successful adaptation of this technology has contributed to higher yields. The country's patent protection and royalty collection regimes supported by government and industry resources are robust and exemplary.

Post's 2015/2016 production area is estimated at 1.2 million hectares based on local sources. The soybean crop was hit with extremely variable weather throughout the season. Earlier the in season, crop lands received insufficient levels of water during the month of January. At the beginning of April, massive rains hit the entire country. Local producers indicate that between April 1st and the 20th it rained between 16-18 inches. This is a massive amount of rain as the country usually accumulates about 39 inches of rain per year. This downpour was historic and lead to flooding around the country including key production areas in the southeast. Most producers claim they have not experienced such weather in decades.

Uruguay: Before and After Flooding Satellite Images

June 1, 2015 April 22, 2016

Source: Uruguay Ministry of Agriculture and Livestock[1]

The weather is expected to lead to relatively minor area losses, putting Post's estimate of harvested area at 1.17 million hectares. While weather reports and the recent flooding would suggest much more dramatic losses, producers state that the production's area diverse topography allows it to endure heavy rains without dramatic area losses. Post was surprised to hear from local producers that these rains will not affect harvesting significantly. Producers claim that because of the varied topography, producers can harvest just a few days after rainfall even with 20 percent humidity in soil. On the other hand, yields will suffer because of the heavy rainfall. Some producers are expecting yields as low as 1.8 tons per hectare in some areas. Nationally, Post estimates yield at 2.05 tons per hectare, much below recent seasonal averages. As a result, 2015/2016 production is revised down compared to USDA's official estimate to 2.4 million tons.

At present, 30 percent of soybean production area belongs to landowners, and 70 percent of the production area is done on rented land. Most expect that landowners who produce themselves will

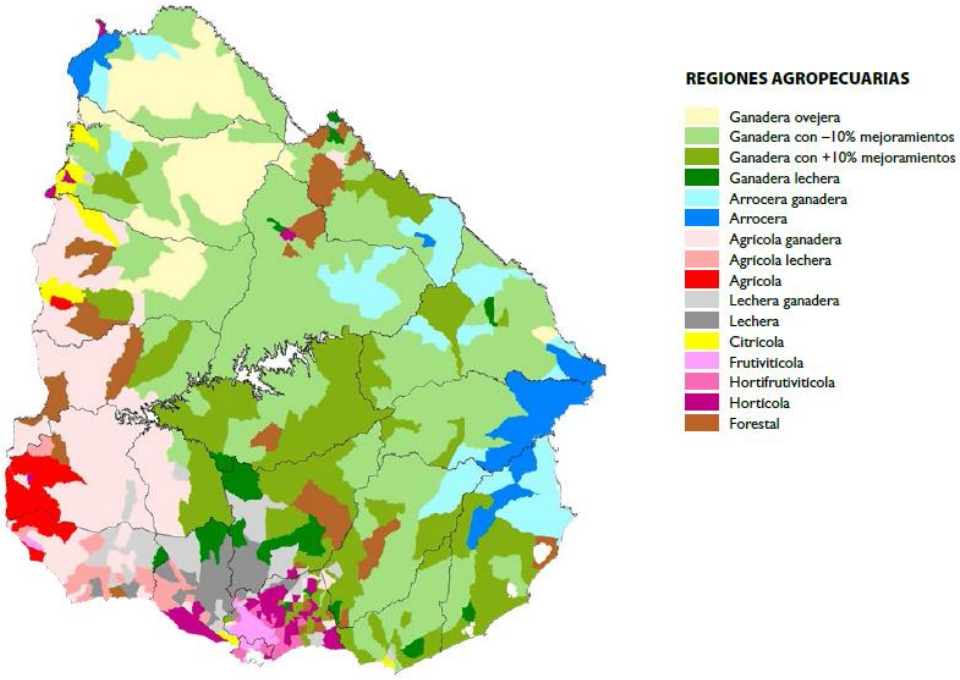
[1] http://www.elobservador.com.uy/uruguay-antes-y-despues-las-inundaciones-n903272

conclude the season with reasonable net returns. On the other hand, producers who rent area will find themselves in a more complicated situation. Competition for highly productive area has maintained rent rates around 0.8 – 1 tons of soybeans per hectare (their equivalent monetary value). In addition, inflationary pressures have pushed labor, gas, and freight cost up significantly. As a result of this cost hike, most producers feel the benefits of the devaluation of Uruguayan peso around September 2015 have eroded. Private net returns analysis reveals that producers who rent land will break-even or receive minor returns. In the worst of cases, returns may be negative depending upon their individual cost structures. These results exacerbate the financial position of these producers who have accumulated debts over the past few years due to various reasons including capital expenditures and lackluster returns from certain seasons.

Production Area in Uruguay

Historically, Uruguay focused its agricultural activities to livestock and dairy with minor crop production. As evident by the Uruguayan Ministry of Agriculture and Livestock's (MGAP) map of agricultural use for the year 2000, most of Uruguay's land mass was dedicated to livestock (green and lighter green areas) with only a portion of the country dedicated solely to crop production (bright red and lighter red areas). According to USDA statistics, area harvested for soybeans was only 12,000 tons for the 2000/2001 season.

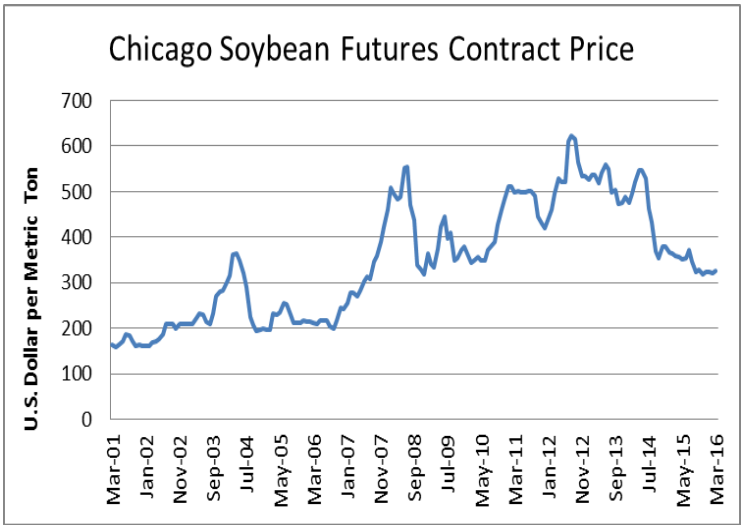
Uruguay – Agricultural Area Use (2000)



Source: MGAP-DIEA based on Agricultural Census 2000

That situation changed when global soybean prices rose and encouraged dramatic soybean area expansion. In March 2001, global soybean prices (based on Chicago Soybean Futures Contracts) were $164 per metric ton. In 2014 (March), the peak year of soybean area in Uruguay, the soybean price stood at $522 per ton, an increase of over 218 percent over this period. In addition to market factors,

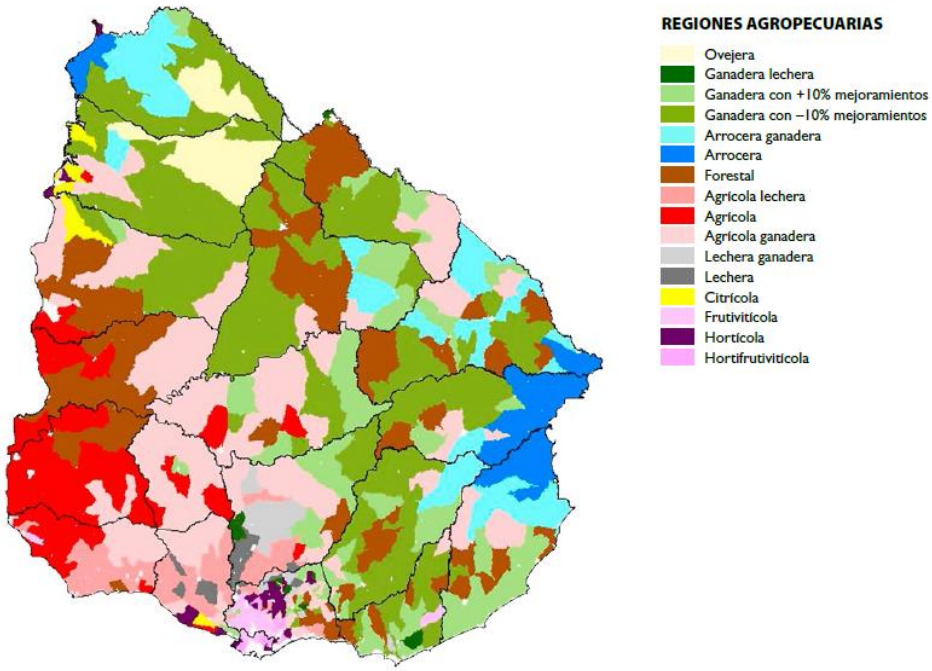
policy changes in neighboring Argentina also encouraged production increases in Uruguay. In Argentina, the increase in export taxes on soybeans and byproducts along with the imposition of export permits led Argentine capital and production pools to move to Uruguay.



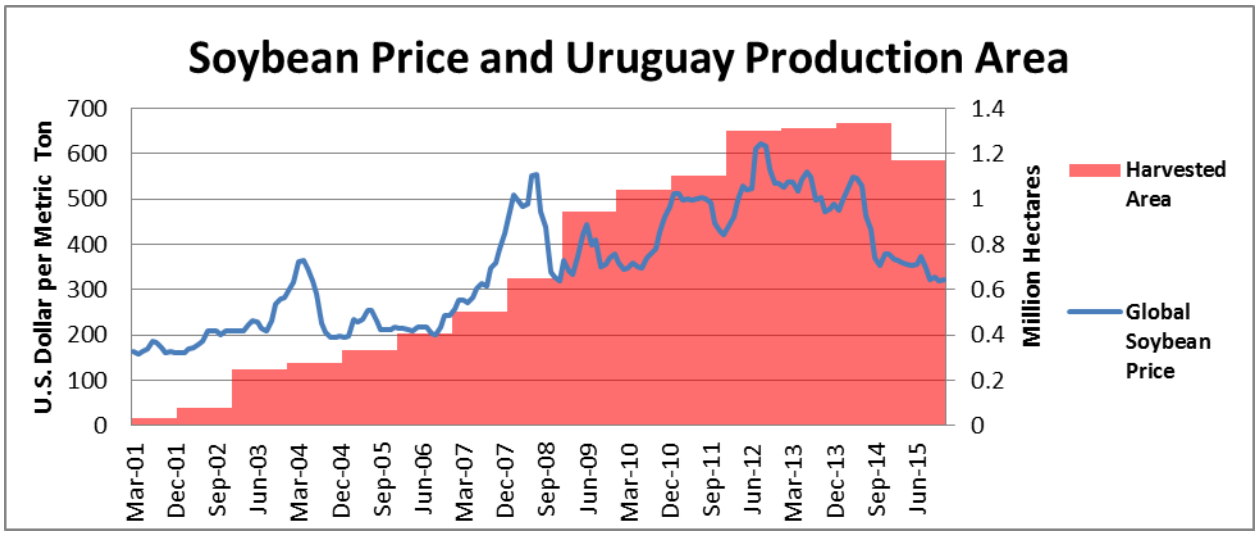
Source: World Bank - Soybeans, U.S. soybeans, Chicago Soybean futures contract (first contract forward) No. 2 yellow and par, US Dollars per Metric Ton

As evident by the MGAP's area use map below, crop production area has widened greatly in the southwest portion of the country – considered to be the main and prime crop production region – and expanded towards northern and central parts of the country. Most producers consider the departments of Rio Negro, Soriano, and Colonia as the main and prime crop production zone of Uruguay. The mentioned expansion led to significantly greater and new production of soybeans in the department of Florida and Durazno in the center of the country and Paysandú and Salto in the north. Producers' openness to new and innovative production technologies have allowed to relatively easily convert heterogeneous topographies and soil to soybean production. The expanded areas of the center and north of the country have become very productive over the years despite not having the same soil qualities nor transportation infrastructure that facilitates movement to ports as compared to the southwest.

Uruguay – Agricultural Area Use (2011)



Source: MGAP-DIEA based on Agricultural Census 2011



As production costs remain elevated in the face of relatively lower commodity prices, it appears that the recent trend of declining area will continue. In just two seasons, area is expected to fall by 17 percent (233,000 hectares) to 1.1 million hectares in 2016/2017, compared to 1.33 million hectares in 2014/2015. Producers state that if market and cost conditions change this trend could be reversed. Producers have also indicated that there remains much potential in additional area, with most analysts estimating about 500,000 more hectares available for production.

Crush and Consumption:

Post forecasts 2016/2017 crush at 250,000 tons, an increase of 11 percent compared to the previous year. This can be attributed to the country's primary crusher, COUSA, intention to use its excess capacity and wider ongoing efforts to diversify and expand value-added operations for soybeans. 2015/2016 crush is revised down to 225,000, based on updated information from the crush sector.

The main uses of soybean and byproducts in Uruguay include animal feed, human consumption in the form of oil, industrial use, and biodiesel. In 2007, the National Fuel Administration (ANCAP) published a law (Ley N^{o} 18.195) that mandates the blending of diesel with biodiesel. At present, the mandate requires diesel be mixed with 5 percent biodiesel. New crushing facilities and biodiesel plants have emerged in the past years to meet this national biodiesel mandate. Public firm Alcohols of Uruguay (ALUR) is largely responsible for supplying ANCAP with the biodiesel necessary to meet the five percent mandate. ALUR has a couple of crushing plants of its own but the largest crusher is the private firm of COUSA. Local reports from ALUR state that it will source 25,000 tons of soybeans for biodiesel for the 2015/16 season[2].

Based on the crush forecast, Post forecasts 2016/17 soybean oil production at 47,000 and soybean meal at 198,000 tons. 2015/2016 soybean oil and meal production is revised to 42,000 and 178,000 tons, respectively.

It is important to note that oil for biodiesel can come from most oilseeds, as such, contacts indicate that there can be fluctuations in the percentages of oil used from soybeans, sunflower and rapeseed, depending on supply and prices, and this number could change. Moreover, about 40 percent of Uruguayan biodiesel is derived from animal fat, by far the cheapest substitute for oilseeds. 2016/2017 soybean oil consumption is forecast at 57,000 tons.

Strong demand in the poultry and pork sectors continue to drive domestic consumption of soybean meal. Post estimates 2016/2017 domestic meal consumption at 459,000 tons, an increase of 5 percent from the previous year. 2015/2016 meal consumption is revised to 438,000 tons.

Trade:

2016/2017 soybean exports are forecast at 2.18 million tons, up by almost 3 percent compared to the previous year. This is the result of a higher level of exportable supplies. Almost 90 of Uruguay's produced soybeans are exported as whole beans. As the case with other neighboring soybean producers, China encompasses the majority of Uruguay's export market share, over 80 percent. Other markets include the European Union, Egypt, Bangladesh, Turkey, Malaysia, Vietnam, Thailand, and Indonesia. Next season's forecasted exports are much lower than the peak exports of 2012/2013, indicative of the ongoing decline of soybean area as commodities prices continue a downward trajectory relative to just a few years ago in 2012 and 2013.

Post forecasts 2015/2016 exports at 2.11 million tons, due to lower available supplies – a result of lower yields and area. Based on updated trade data, 2014/2015 exports are revised to 3.03 million tons.

Destination of Uruguayan Soybean Exports (March-Oct 2015)

[2] http://www.alur.com.uy/articulos/2016/Revista%20Agricultura%20de%20la%20Asociaci%C3%B3n%20Rural%20del%20Uruguay.pdf

Destination	Volume Exported	% of Total
China	2,487,772	82.0%
Germany	303,387	10.0%
Egypt	91,016	3.0%
Bangladesh	29,212	1.0%
Turkey	28,874	1.0%
Malaysia	20,807	0.7%
Spain	19,029	0.6%
Italy	15,613	0.5%
Tunisia	10,394	0.3%
Vietnam	8,592	0.3%
Other Countries	19,172	0.6%
Total Exported	3,033,868	100%

Source: Ministry of Livestock, Agriculture and Fisheries Annual Report (Anuario OPYPA 2015)[3]

Due to the fact that the majority of Uruguay's soybeans are exported coupled with a relatively small crush sector, locally sourced soybean products – oil and meal – are not enough to fulfill domestic consumption needs. As such, more than half of Uruguay soybean meal supplies come from imports. In the case of soybean oil, more than a quarter of supplies come from imports.

2016/2017 soybean meal imports are forecast at 285,000 tons, an increase of almost 2 percent from last year. Soybean meal is imported for feed use in the dairy, livestock, and poultry sectors. According to local contacts, poultry has experienced particularly strong growth in the last few years, which will result in meal consumption growth in the next few years. 2014/15 and 2015/16 meal imports are forecast at 271,000 and 280,000, respectively. Interestingly, beginning in 2014/2015, there has been an acceleration of meal exports to Angola and Asian markets – Myanmar, Bangladesh, Oman and Kuwait among others. Post estimates 2016/17 meal exports at 24,000 tons. 2014/15 and 2015/16 meal exports are forecast at 18,000 and 20,000, respectively.

2016/17 soybean oil imports are forecast at 10,000 tons, a slight increase from the previous year. Traditionally, Uruguay imported oil for human consumption as most domestically produced oil was used for biodiesel production to fulfil the biodiesel mandate, which required use of domestic oil. This is beginning to change as domestic oil production accelerates. 2014/15 and 2015/16 oil imports are forecast at 14,000 and 11,000, respectively. There are no soybean oil exports, although local contacts have indicated that some crushers are interested in exporting soybean oil. These crushers feel that the Obrinel Grain Terminal and recent upgrades to the Montevideo port could facilitate such intention.

Stocks:

[3] http://www.mgap.gub.uy/portal/page.aspx?2,opypa,opypa-anuario-2015,O,es,0,

Uruguay holds very little stocks of soybeans or soybean products as the virtual entirely of the products are crushed, consumed or exported. Uruguayan producers and exporters do not share the habit of the neighboring Argentina who holds stocks for marketing reasons. 2016/2017 beginning stocks are forecast at 37,000 tons.

Policy:

Beginning in 2014/15, producers in Uruguay have been required to submit a mandatory natural resources management and soil use plan to the Ministry of Agriculture. This requirement corresponds to a 30-year old national conservation policy (Decreto 405/2008) and mandates that plans include information on soil use, irrigation, crop rotation, maps on field drainage, fertility, drought risk, and erosion risk. It must be completed by a qualified agronomist and every owner that farms more than 100 hectares is required to turn one in. Furthermore, if the land is rented, the requirement drops to 50 hectares of land. Between owned and rented land, this will make up more than 90 percent of the total production area. Ultimately, it is the owner's responsibility to ensure a soil management plan is submitted or face subsequent fines/sanctions. In the long run, it is expected to balance soybeans with rotational crops and for the most part, industry contacts support the plan and foresee producers complying with it.

Production, Supply and Demand Data Statistics:

Oilseed, Soybean	2014/2015		2015/2016		2016/2017	
Market Begin Year	Apr 2015		Apr 2016		Apr 2017	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1350	1350	1150	1200	0	1100
Area Harvested	1333	1333	1120	1170	0	1080
Beginning Stocks	8	8	7	6	0	6
Production	3109	3294	3110	2400	0	2490
MY Imports	10	5	15	5	0	5
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	3127	3307	3132	2411	0	2501
MY Exports	2850	3031	2850	2108	0	2176
MY Exp. to EU	150	150	150	150	0	150
Crush	200	200	200	225	0	250
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	70	70	75	72	0	75
Total Dom. Cons.	270	270	275	297	0	325
Ending Stocks	7	6	7	6	0	0
Total Distribution	3127	3307	3132	2411	0	2501
(1000 HA) ,(1000 MT)						

Meal, Soybean	2014/2015		2015/2016		2016/2017	
Market Begin Year	Apr 2015		Apr 2016		Apr 2017	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	200	200	200	225	0	250
Extr. Rate, 999.9999	0.785	0.79	0.785	0.7911	0	0.792
Beginning Stocks	0	0	0	0	0	0
Production	157	158	157	178	0	198
MY Imports	275	271	285	280	0	285
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	432	429	442	458	0	483
MY Exports	16	18	18	20	0	24
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	416	411	424	438	0	459
Total Dom. Cons.	416	411	424	438	0	459
Ending Stocks	0	0	0	0	0	0
Total Distribution	432	429	442	458	0	483
(1000 MT) ,(PERCENT)						

Oil, Soybean	2014/2015		2015/2016		2016/2017	
Market Begin Year	Apr 2015		Apr 2016		Apr 2017	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	200	200	200	225	0	250
Extr. Rate, 999.9999	0.185	0.19	0.185	0.1867	0	0.188
Beginning Stocks	7	7	9	6	0	4
Production	37	38	37	42	0	47
MY Imports	16	14	18	11	0	10
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	60	59	64	59	0	61
MY Exports	0	0	0	0	0	0
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	28	30	30	28	0	27
Food Use Dom. Cons.	23	23	25	27	0	30
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	51	53	55	55	0	57
Ending Stocks	9	6	9	4	0	4
Total Distribution	60	59	64	59	0	61
(1000 MT) ,(PERCENT)						