

Required Report: Required - Public Distribution

Date: March 30, 2021

Report Number: UY2021-0002

Report Name: Oilseeds and Products Annual

Country: Uruguay

Post: Buenos Aires

Report Category: Oilseeds and Products

Prepared By: Benjamin Boroughs

Approved By: Melinda Meador

Report Highlights:

Post reduces estimated 2020/2021 soybean production to 2.125 million tons on dry conditions in February and early March, resulting in reduced exports of 1.97 million tons. Post projects 2021/2022 soybean production at 3.125 million tons on increased acreage returning to production thanks to higher prices and a return to trend for yield, resulting in exports of 2.9 million tons. The government of Uruguay is considering eliminating its 5% biodiesel blend mandate, but this measure requires congressional approval and is unlikely to affect domestic demand in 2020/2021.

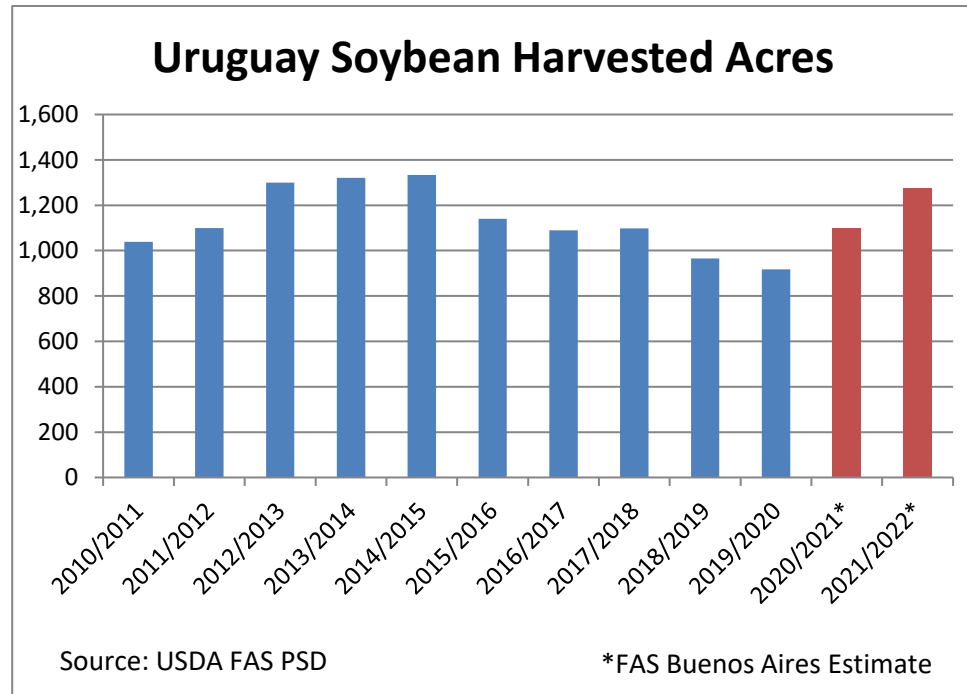
Overview

In 2020/2021, soybeans continued to be the largest crop by acreage in Uruguay. Rising prices in the second half of 2020 encouraged increased plantings and even more acres will come back into production in 2021/2022, reversing a downward trend since 2014/15. Due to topography and soil type, much of Uruguay's arable land is better suited to beef and dairy cattle production rather than crop cultivation and much of Uruguayan grain and oilseed production (with the exception of rice) is centered in the western third of the country. While this more dedicated cropland region has been more or less

constantly cultivated with strong competition for acres between commodities over the last 10 years, during the last five years, lower crop prices have tended to encourage farmers to put more land back into pasture. Current higher prices, if maintained (or even if prices drop by 10-15%) will change those

incentives. The result should be an increase in land under cultivation and production, but with an overall decrease in yield and more annual variability thanks to the lower quality of land coming into production.

While the vast majority of Uruguay's soybeans are exported, domestic demand could be affected in the coming years by discussions led by the current government to eliminate its 5% blending requirement for biodiesel. The government has argued that this would help to lower fuel costs making Uruguayan farmers more competitive internationally, outweighing the reduction in demand. The government also hopes to reduce expenditures since both the national oil company ANCAP and the national biofuels company ALUR are state-owned enterprises. Uruguay's congress would have to agree to amend the 2007 biofuels law which currently dictates blending rates. This proposal, if passed, would unlikely to be affect consumption in 2020/2021.



Production

2021/2022

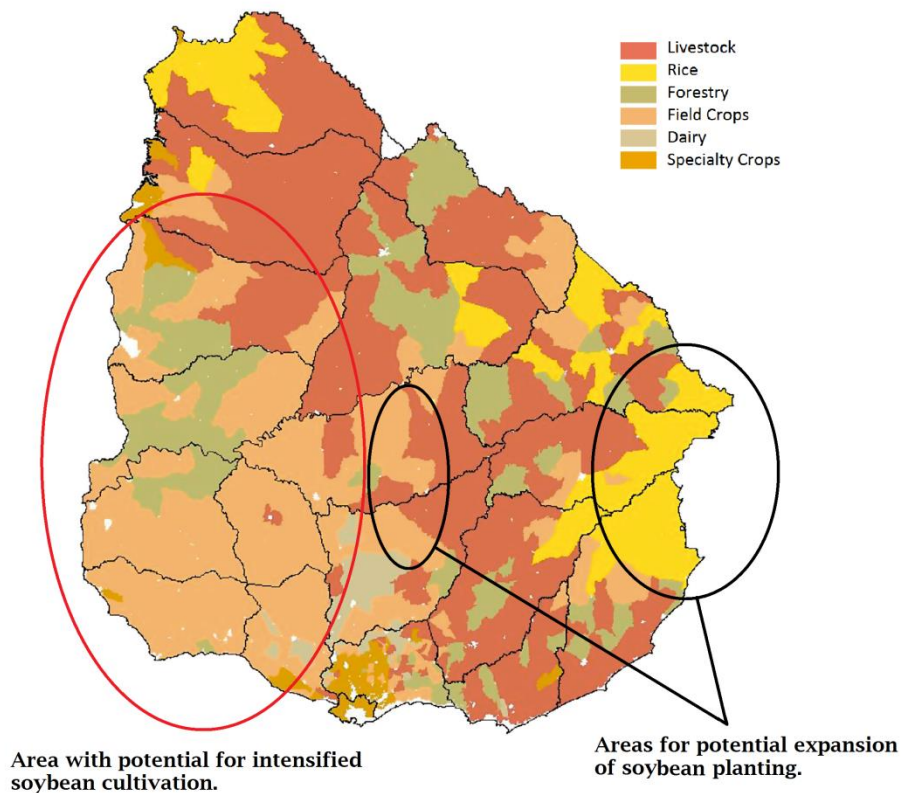
Post projects planted acreage at 1,250,000 hectares (HA) an increase of 150,000 HA or 13.6% over revised estimates of 2020/2021 planted acres on higher international prices for soybeans. With a return to trend for yield, total production is projected at 3.125 million metric tons (MMT) an increase of 1.0 MMT, or 47%. This higher level of production is projected to occur if soybean prices remain higher than \$400/MT. If prices drop below that level, more marginal land would remain in pasture. About 75,000 of the new hectares will be double-crop soybeans on land newly planted to wheat, barley, and rapeseed. Even higher prices are unlikely to bring more than 200,000 hectares into production because producers have learned which areas can be profitably farmed during the last period of high prices. During that period some areas which were speculatively planted were later found to be unproductive. Higher

expected prices for beef and dairy products may also allow livestock producers to compete for marginal acres. Post anticipates an intensification of crop cultivation in western Uruguay and some expansion in the central and northeastern parts of the country.

Additionally, rental terms have strengthened in favor of landlords relative to the major expansion a decade ago. During that time, landlords used to renting land for

grazing sometimes underpriced land for soybean production. Thus at that time, larger operations seeking to farm at scale on rented land were able to secure more land than could be done as easily in the same manner now. Additionally, despite some high profile moves by wealthy Argentines immigrating to Uruguay following elections over the last year in both countries, there has not been a widespread movement of Argentine farmers or capital to Uruguay as was seen during the last boom. On the other hand, investments made in infrastructure, storage, and machinery during the last cycle will

Uruguay Agriculture by Land Use Type



Source: DIEA Annual Agricultural Statistics 2019, MGAP

help facilitate land conversion. Another potential complication is assuring sufficient seeds for the coming crop year. Disappointing yields during the 2020/21 crop year may force some producers on rented ground to choose between selling their current crop to cover their costs versus saving seed for next year. This may be a localized problem in some areas, but producers should be able to import sufficient seed from Argentina to allay this concern, and farmer saved-seed is a less common in Uruguay than in neighboring countries. Herbicide resistant weeds continue to challenge Uruguayan producers, with the most common resistant species being fleabane, amaranth, and rye grass. Crop rotation is seen as a key strategy for controlling weeds and especially on producer owned land, and a desire to avoid breaking crop rotations helps to limit sudden changes in planted acreage.

2020/2021

Post estimates planted acreage at 1,100,000 HA, or 100,000 HA over USDA official. As soy prices rose in the second half of 2020, farmers moved about 30,000 HA intended for corn into soybeans. Additionally some smaller scale producers and producers farming on rented land have been undercounted in recent official surveys. Despite the rise in planted area, dry conditions in February and early March have lowered Post's production estimate to 2.125 MMT, 3.4% below 2019/2020 and 75,000 tons lower than USDA official. Due to high prevailing prices, Post does not anticipate any abandonment of acres despite drought damage in some fields.

Drought conditions prevailed throughout the southern hemisphere winter months, but in early October 2020, rains arrived in Uruguay that provided farmers with sufficient soil moisture to begin planting. December was dryer than average, but this didn't greatly affect crop development and in January, higher than average rainfall allowed for excellent growing conditions which raised expectations for yields. However, drought conditions returned in February and Post estimates that over the course of late February and early March, potential production fell from around 2.7 MMT to 2.125 MMT, resulting in an estimated average yield of 1.93 T/HA. While this is about 25% lower than the average of the last two seasons, it's still substantially higher than the 1.22 T/HA observed during the drought year of 2017/18. Rains occurring the week of March 15 should prevent any additional yield loss. There was some incidence of red spider mites and thrips, but these pests were controllable with existing pesticide chemistries and producers were generally willing to spray given higher prices and expected returns.

Consumption

The soybean crushing industry is limited in Uruguay because the country developed as a major soybean producer later than its larger neighbors, Argentina and Brazil. By far the largest soybean crushing facility is owned by COUSA and is located near Montevideo. The plant was built partially in response to Uruguay's 2007 biofuels law which dictated that 5% of all diesel fuel in Uruguay be biodiesel derived from Uruguayan grown feedstock. The company has a contract with ALUR, the state-owned bio-based fuel and chemical company, to provide oil for the production of biodiesel. The facility has an annual crush capacity of 250,000 tons, but the facility also processes sunflower and rapeseed. In recent years, it has proactively sought to source these commodities and their crush volumes relative to soybeans have grown in recent years. There are a number of small-scale soy crushing facilities around the country that

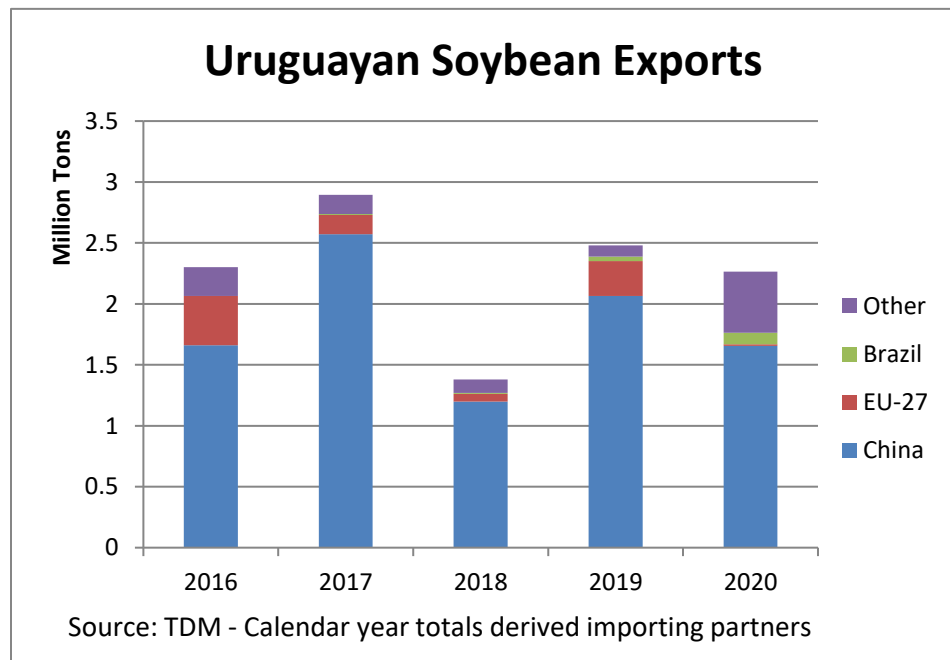
produce meal and oil for local consumption. Soybean meal is consumed by the local dairy, poultry, and pork industries. No major expansion is planned in the coming year in these sectors. Soybean oil is used in cooking and for biodiesel production.

In December 2020, a [report written by a panel of experts](#) and promoted by the government was released that called for changes in Uruguayan biofuels policy as part of a broader overhaul of Uruguayan energy policy. The report called for a three-year long multi-step liberalization policy to be implemented by the state petroleum monopoly ANCAP. The report also cited both the direct and indirect costs of biodiesel production as justification for eliminating the 5% mandate for biodiesel blending. In addition to the savings the government could achieve by no longer operating the ALUR biodiesel refinery, it argued that farmers would become more competitive by having lower diesel costs, which are some of the highest in the region. The government has not yet formally introduced legislation to eliminate the biodiesel mandate. Besides political barriers to passing an amendment to the biofuels law, the government still has a contract with COUSA through 2026. The government has also acknowledged it would need to find ways to replace the biodiesel consumption that it had previously planned to count against its Paris Accord greenhouse gas reduction commitments.

Ending stocks are extremely limited in Uruguay and are held primarily by exporters and some larger farmers with on farm storage.

Trade

For MY 2021/2022, Post projects Uruguayan soybean exports at 2.93 MMT, up 49% over revised 2020/21 projected exports. The increase is due entirely to a larger expected production. MY 2020/21 exports are revised downward to 1.96 MMT on lower than expected production due to drought.



The vast majority of Uruguayan soybeans are exported as whole beans. The principle market for these beans has been and continues to be China. However in 2019/20 unusual market conditions resulted in China's share of Uruguay's soybean exports falling to 73% from the prior three-year average of 86% and Uruguay exporting more soybeans to the Middle East and Brazil and less to the European Union.

Industry contacts associate some of the changes seen in CY 2020 to global adjustments in trading patterns as the US began exporting more soybeans to China again as part of the Phase 1 trade agreements between the two countries. Regarding, intraregional trade, due in part to the devaluation of the Brazilian real, Brazilian producers were incentivized to sell their soybeans to exporters leaving domestic users scrambling for supply. For logistical reasons and because shipments could enter duty free, importers looked to neighboring Mercosur countries to fill the gap. Though Paraguay provided the majority of Brazil's import needs, Uruguay also shipped 95,000 tons in CY 2020. While Paraguayan traders expect continued strong demand from Brazil in CY 2021, Uruguayan exporters are less optimistic about a repeat of last year's dynamics, and anticipate a return to a more China-focused export pattern.

While China is the primary export market, Uruguayan industry sources report that Uruguayan soybeans face tighter phytosanitary restrictions in shipments to China than many of their competitors. A longstanding phytosanitary agreement that has been repeatedly renewed by both countries requires Uruguayan exporters to prevent certain weed seeds from being found in shipments or risk rejection of the cargoes. In February 2021, the Ministry of Livestock, Agriculture, and Fisheries [published a short best practices](#) guide to help farmers avoid allowing seeds from 9 banned weeds from entering into commerce.

Domestic production of meal and oil are insufficient to meet demand and Uruguay import soybean meal primarily from Argentina and Paraguay and oil from Brazil. However both meal and oil imports have declined since the COUSA crushing facility opened in 2014.

Oilseed, Soybean Market Year Begins Uruguay	2019/2020		2020/2021		2021/2022	
	Apr 2019		Apr 2020		Apr 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (1000 HA)	920	1000	1050	1100	0	1250
Area Harvested (1000 HA)	917	970	1000	1100	0	1250
Beginning Stocks (1000 MT)	20	20	12	48	0	43
Production (1000 MT)	1990	2100	2200	2125	0	3125
MY Imports (1000 MT)	3	3	3	10	0	3
Total Supply (1000 MT)	2013	2123	2215	2183	0	3171
MY Exports (1000 MT)	1920	1920	2125	1965	0	2930
Crush (1000 MT)	75	100	75	120	0	120
Food Use Dom. Cons. (1000 MT)	0	0	0	0	0	0
Feed Waste Dom. Cons. (1000 MT)	6	55	5	55	0	60
Total Dom. Cons. (1000 MT)	81	155	80	175	0	180
Ending Stocks (1000 MT)	12	48	10	43	0	61
Total Distribution (1000 MT)	2013	2123	2215	2183	0	3171
Yield (MT/HA)	2.1701	2.1649	2.2	1.9318	0	2.5

(1000 HA) ,(1000 MT) ,(MT/HA)

Meal, Soybean Market Year Begins Uruguay	2019/2020		2020/2021		2021/2022	
	Apr 2019		Apr 2020		Apr 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush (1000 MT)	75	100	75	120	0	120
Extr. Rate, 999.9999 (PERCENT)	0.8	0.77	0.8	0.775	0	0.775
Beginning Stocks (1000 MT)	10	10	10	10	0	10
Production (1000 MT)	60	77	60	93	0	93
MY Imports (1000 MT)	115	115	115	115	0	115
Total Supply (1000 MT)	185	202	185	218	0	218
MY Exports (1000 MT)	5	8	5	5	0	5
Industrial Dom. Cons. (1000 MT)	0	0	0	0	0	0
Food Use Dom. Cons. (1000 MT)	0	0	0	0	0	0
Feed Waste Dom. Cons. (1000 MT)	170	184	170	203	0	203
Total Dom. Cons. (1000 MT)	170	184	170	203	0	203
Ending Stocks (1000 MT)	10	10	10	10	0	10
Total Distribution (1000 MT)	185	202	185	218	0	218
(1000 MT) ,(PERCENT)						

Oil, Soybean Market Year Begins Uruguay	2019/2020		2020/2021		2021/2022	
	Apr 2019		Apr 2020		Apr 2021	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush (1000 MT)	75	100	75	120	0	120
Extr. Rate, 999.9999 (PERCENT)	0.1867	0.19	0.1867	0.1833	0	0.1833
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	14	19	14	22	0	22
MY Imports (1000 MT)	7	7	7	7	0	6
Total Supply (1000 MT)	21	26	21	29	0	28
MY Exports (1000 MT)	0	1	0	1	0	1
Industrial Dom. Cons. (1000 MT)	1	4	1	4	0	5
Food Use Dom. Cons. (1000 MT)	20	21	20	24	0	22
Feed Waste Dom. Cons. (1000 MT)	0	0	0	0	0	0
Total Dom. Cons. (1000 MT)	21	25	21	28	0	27
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	21	26	21	29	0	28
(1000 MT) ,(PERCENT)						

Attachments:

No Attachments