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# GAIN Report

Global Agricultural Information Network

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## Uruguay

### Oilseeds and Products Annual

#### Lower soybean production in 2019/20 follows rebound in 2018/19

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**Report Highlights:**

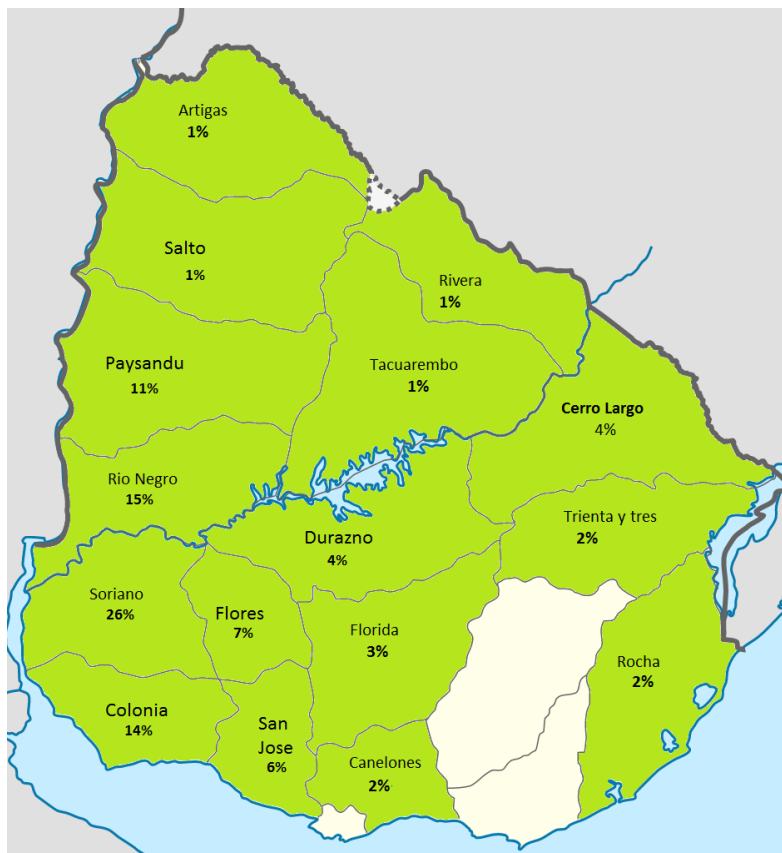
Post forecasts 2019/20 soybean production to fall by 11 percent to 2.4 million tons based on a reduced planting area and average yields. Excellent conditions during the past few months are expected to deliver above-average yields for the 2018/19 crop resulting in production at 2.7 million tons.

**Production:**

2019/2020

Post forecasts planting area for soybeans to fall by 5 percent to 1.0 million hectares as the current price scenario does not support sowings in less productive and marginal areas. Producers continue to consolidate planting area to the southwest corner of Uruguay (the departments of Rio Negro, Colonia, Soriano, and Paysandú) as they find increasing difficulties to operate in other regions due to lower average yields and higher freight costs. At its peak, Uruguay had a planting area of over 1.3 million hectares (2013/14) due to the boom in global commodity prices. However, since then, crop area has dropped significantly due to falling soybean prices and higher production costs (exacerbated by diminishing soil quality and greater weed resistance). As a result of the bumper crop expected for the current 2018/19 season, producers will enter next season with resources to invest in better quality inputs to increase yields and capture greater returns. Based on these developments, Post estimates average yields at 2.4 per hectare, resulting in a production forecast at 2.4 million tons.

**Map 1: Uruguay Soybean Planted Area by Department – Percent of Total Area**



Source: Ministry of Agriculture of Livestock – Agricultural Statistics Division (MGAP-DIEA)<sup>1</sup>

Several industry analysts share that next season could be an inflection point for Uruguay's soybean sector based on accumulating agronomic difficulties (lower soil quality and greater weed resistance), growing debts, and the current price forecast. Sectorial consolidation has been ongoing for some years

<sup>1</sup> Remaining area equals 9 percent of area. Map generated FAS Buenos Aires using SVG file from [https://commons.wikimedia.org/wiki/File:Uruguay\\_location\\_map.svg](https://commons.wikimedia.org/wiki/File:Uruguay_location_map.svg)

as certain producers leave the sector due to financial difficulty with the planting area left behind utilized by other producers. However, analysts believe that planting area could fall further if farm-gate prices do not recover. These analysts relate that if farm-gate prices fall below \$300 per ton (currently at \$310 as of March 11), area could fall to as low as 900,000 hectares. On the other hand, if prices were to rise to \$320-\$340 per ton, area should remain stable. Finally, prices above \$350 per ton would incentivize a rise in planting area close to 1.1 million hectares. One analyst explained this situation by claiming that farmers have “no margin for error,” i.e. minor reduction in yields could endanger the ability to make a profit for many producers. Compounding this situation are rising costs – dependent on larger macroeconomic and global factors – that could also contribute to rising consolidation. If this trend were to occur, production will concentrate in the departments of Paysandú, Soriano, Rio Negro, and Colonia. Previously, various market factors, particularly the rally of commodity prices of a few years ago, encouraged the expansion of soybean area towards the northern and eastern parts of the country – the departments of Salto, Florida, San Jose, and Durazno (see Oilseed and Productions Annual Uruguay 2016<sup>2</sup> for an extended discussion on this trend).

While most producers are expecting adequate returns for 2018/19 season, these returns along with the current price scenario, will not encourage noteworthy investments in new capital expenditures, such as land or machinery purchases, in the upcoming season. Instead, producers will take the opportunity to increase savings and lessen debts..

**Table 1: Distribution of Uruguay Soybean Production by Farm Size**

Farm Size (ha)	Area Planted (thousand ha)	Production (thousand tons)	Yields (tons per ha)
Total	1,089	3,204	2.943
Less than 50	11	31	2,943
51 - 100	39	119	2,818
101 - 200	57	153	3,025
201 - 300	30	95	2,692
301 - 500	107	310	3,115
501 - 1,000	188	553	2,891
More than 1,000	656	1,944	2,935

Source: Annual Agriculture Statistics Report 2018 – Ministry of Agriculture and Livestock<sup>3</sup>

About one- third of producers, specifically those who are larger and more productive, tend to self-finance their production costs and represent about 45 percent of area. Another one third (which represent 35 percent of production area) are mid to large sized producers who finance 50-75 percent of their costs via agreements with input companies/exporters or, in more limited cases, loans from banks. A final third of producers, comprised of small to mid producers, will finance all of their production costs through the above-mentioned mechanisms. This segment is made up primarily of producers who rent area to produce with higher risk and costs. Producers who finance via input companies/exporters enter barter-like arrangements where these companies supply inputs to producers in exchange for a negotiated volume of soybeans or its monetary equivalent based on a pre-negotiated price. Until 2015, banks

<sup>2</sup> [https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Oilseeds%20and%20Products%20Annual/Buenos%20Aires\\_Uruguay\\_5-2-2016.pdf](https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Oilseeds%20and%20Products%20Annual/Buenos%20Aires_Uruguay_5-2-2016.pdf)

<sup>3</sup> [https://descargas.mgap.gub.uy/DIEA/Anuarios/Anuario2018/Anuario\\_2018.pdf](https://descargas.mgap.gub.uy/DIEA/Anuarios/Anuario2018/Anuario_2018.pdf)

financed production directly through loans to individual producers, however as prices fell and more precarious producer finances, banks chose to finance production through loans to local input suppliers/exporters who were better equipped to filter producers who had creditworthiness. The sector will be entering next season with ample credit availability with interest rates around 6 percent (in dollar terms). Moreover, banks and input companies are not expected to stall access to financing due to their stake in farmer recovery, however, firms are increasingly more selective in the disbursement of credit to producers with limited collateral and accumulated debts.

Costs are not expected to rise much next season as producers expect input prices to remain relatively stable. However, those producers with greater weed resistance and soil quality issues will have higher costs as they will be forced to spend more on inputs in an effort to increase yields and control weeds. Increasingly, producers must apply more potassium and nitrogen to the soil as the natural levels of the minerals have declined. Weed resistance has risen quickly in the past decade with average weed control costs at \$60 per hectare, compared to \$30 per hectare just 3-4 years ago. Producers are having an especially difficult time combating the Yuyo Colorado (*Amaranthus quitensis*) and Rama Negra (*Conyza bonariensis*) weeds in their operations. As such, producers are increasing their degree of crop rotation to rebuild soil health, however this is less common for producers who are growing on rented area. Contacts indicate producers are incorporating pastures (such as alfalfa), corn, and/or wheat on 10-15 percent of planting area every year to maintain proper crop rotation.

Rental rates are also expected to remain stable as land demand continues to be robust but soybean prices are not strong enough to encourage land owners to charge higher rents. Previously, during peak commodity prices, rental rates were settled in cash up front. As commodity prices have fallen, rentals are paid with a set volume of soybeans or its monetary equivalent. Depending upon soil quality, current rental rates range from 0.5 to 0.9 tons of soybeans per hectare. Over the past few years, more multi-year (2-4 seasons) rental contracts are emerging to ensure proper crop rotation and to mitigate downturn years. At present, about 60 percent of soybean production is planted on rented area while landowners plant the rest. However, analysts estimate that this ratio will be 50/50 within a few years as the sectorial consolidation continues.

Contacts estimate production costs at around \$900 per hectare for next season (about \$200 of which represents rent costs). At current farm-gate prices, farmers who produce on rented area must produce 2.9 hectares per ton to break-even, while those who produce on their own area would archive yields around 2.3 tons per hectare. At an individual level, producers will continue to restructure their individual operations by cutting costs, limiting capital expenditures, and selling machinery and other assets, if necessary.

Land values have declined over the past four years by 25 percent and contacts report growing interest from domestic producers and foreign investors to purchase more production area. Contacts reported that lots in the main soybean region (Soriano, Rio Negro, and Colonia departments) valued at \$9,000-\$10,000 per hectare just 3-4 years ago, are now worth \$6,000-\$7,000 per hectare. While strong land demand would imply higher land values, the lack of better soybean prices is keeping these land values low.

Uruguay's soybean varieties are all derived from biotechnology. The rapid and successful adaptation of this technology has contributed to higher yields which have increased on average by 5 percent per annum.

### 2018/2019

The 2018/19 season delivered excellent conditions to the country's soybean crop, especially to those areas that were sowed early. At present, producers are expecting yields of 2.6 tons per hectare, well above historical average yields around 2.1-2.3 tons per hectare. Some analysts estimate that if present conditions remain, average yields could reach 2.7-2.8 tons per hectare. Because of above-average yields and an area of 1.04 million hectares, Post estimates production at 2.7 million tons.

Other contributors to higher yields were new seed purchases and higher fertilizer applications rates. Due to last year's drought, Uruguay had to import soybean seed from Paraguay and Argentina. This seed was significantly more expensive, costing \$1,000 per ton compared to \$700 per ton last season. Overall, costs went up by 5-10 percent (dependent upon each farm operation) driven by higher seed and fertilizer prices along with additional herbicide applications to control weeds. In addition, there were also minor increases in energy and freight costs.

Thanks to this year's bumper crop, producers are expected to be profitable again after a devastating season last year due to a severe drought. Most producers estimate adequate to slim margins as they find prices are still not attractive enough. Analysts are estimating profits around \$100 per hectare for the average producer, while more large-scale and/or efficient producers could end up with margins around \$200 per hectare. For those producers operating on rented area, they are more likely to break-even or more slim profits are current yields and prices are not high enough to ensure better returns.

As a result of current farm gate prices, very little of the crop has been sold as producers are holding off on higher prices at a later time. The current farm gate price for soybeans is \$310 per ton, a decline of 18 percent from the same time last year when the price was \$380 per ton. Usually by mid-March, 60-70 percent of the crop has been sold by producers but contacts report that so far only 5 percent, at most, has been sold. Contacts report that producers may choose to store soybeans if possible and wait to sell until better market condition emerge. Others may deliver their beans to exporters and arrange that a price be set later. Industry observers worry that this could lead to logistical issues during harvest as many producers may decide to sell suddenly leading to delivery delays and congestion.

### 2017/2018

Based on updated information, Post revises down 2017/18 production to 1.34 million tons. Beginning in January 2018, Uruguay suffered a historical reduction in rainfall leading to one of the country's worst droughts. By February 28, 2018, the government declared a national agricultural emergency, activating the Agricultural Emergency Fund to assist affected producers. The fund provides no-interest loans to producers with no more than 500 hectares. Local reports indicate that the drought will result in a loss of \$600 million in overseas soybean sales. More alarmingly, local forecasts project that the La Nina weather phenomenon could extend the drought into the middle of this year. Producers have confirmed that the crop may be subject to additional damage if weather relief does not come soon.

Over 60,000 hectares of soybean planted area has already been lost to drought damage, leading to an estimated harvest area of 1.14 million hectares. However, the significant loss in production is the result of considerably lower yields than area losses. Uruguay's average yield is 2.5 tons per hectare. At present, producers and local market analysts are expecting average yields at 1.5 tons per hectare, a 40 percent reduction from historical levels. Sources relate that yields may be lower depending on the drought's effect on bean pod development and bean weight. Some contacts reported yields as low as 0.3 – 0.5 per hectare for some lots.

Based on updated information, Post revises down 2017/18 production to 1.34 million tons. Beginning in January 2018, Uruguay suffered a historical reduction in rainfall leading to one of the country's worst droughts. This lack of rainfall led to dramatic drop in yields to 1.2 tons per hectare, over 48 percent below average yields levels. Quality was also severely affected by the drought leading to low bean weights. In some cases, the drought damage was so severe that contacts reported yields 0.3-0.5 tons per hectare. In those cases, some producers choose not to harvest or harvest beans for on-farm feed rations. Local reports indicate that the drought resulted in an economic loss for Uruguay of over \$1 billion, equivalent to 1.8 percent of GDP.<sup>4</sup>

### **Crush and Consumption:**

Post forecasts 2019/20 crush to remain stagnant at 75,000 tons. Soybean crush is not expected to grow in any significant way as demand for soybean supplies from the country's primary biodiesel blender, Alcohols of Uruguay (ALUR in Spanish), is relatively stable. ALUR is required to meet the government's biodiesel mix mandate and thus crush will not be altered significantly as the mandate remains the same. More recently, ALUR has begun to diversify its feedstock by sourcing more canola for its operations through contracts with select producers. It is unlikely that crush or its capacity will expand in the long run as processing costs remain high and a steady increase in soybean oil and meal imports over the past few years has also lowered the need for domestic crush to extract these byproducts.

2018/19 crush remains unchanged at 75,000 tons. This estimate represents a 25 percent decline from the previous season as a higher proportion of beans were diverted to crush due to quality issues resulting from the 2018 drought.

The main uses of soybean and byproducts in Uruguay include animal feed, human consumption in the form of edible oil, industrial use, and biodiesel. In 2007, the National Fuel Administration (ANCAP) published a law (Ley N° 18.195) that mandated the blending of diesel with biodiesel. New crush facilities and biodiesel plants 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 some crush plants but the largest crusher, and thus the largest supplier of soybean oil for their operations, is the private firm COUSA.

Based on the crush forecast, Post forecasts 2019/20 soybean oil production at 14,000 tons and soybean meal at 60,000 tons, unchanged from the previous season.

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<sup>4</sup> <https://www.elobservador.com.uy/nota/gremiales-rurales-preven-piso-de-perdidas-por-us-1-000-millones-por-sequia--20185319550>

2019/20 domestic meal consumption is forecast at 230,000 tons, an increase of 2 percent from the previous year on steady growth in the poultry and beef sector. 2018/19 meal consumption is revised slightly down to 220,000 tons based on revised data.

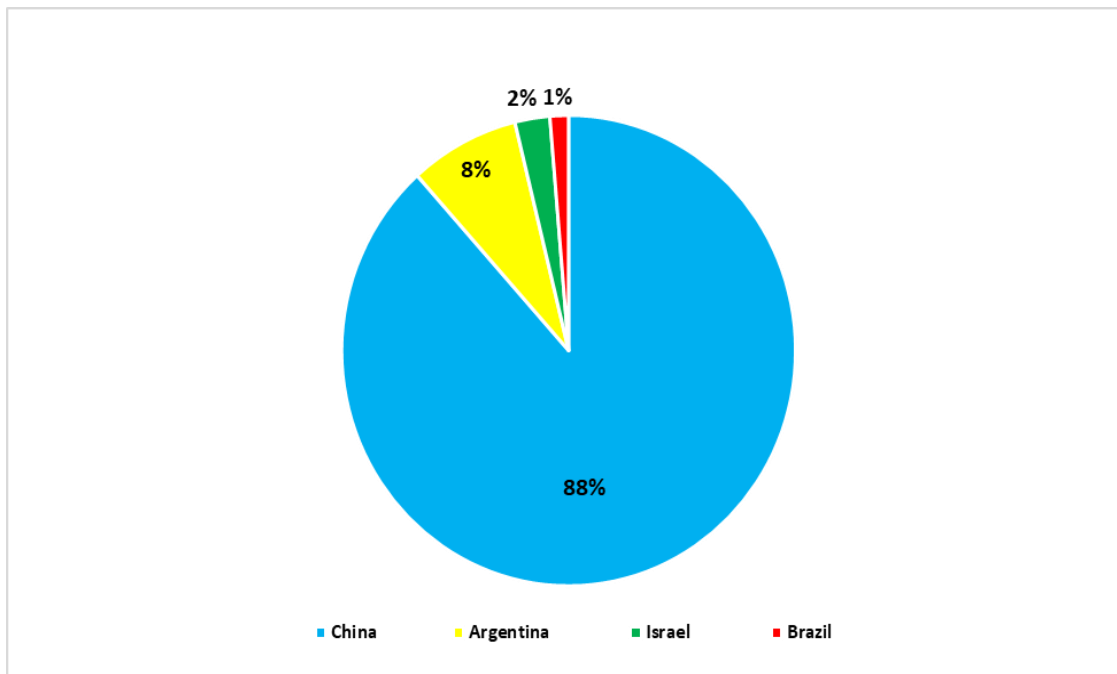
**Trade:**

2019/20 soybean exports are forecast to fall 10 percent to 2.3 million tons. The fall in exports is due to a decline in exportable supplies because of lower production. China will continue to be Uruguay's primary export destination, receiving 80-90 percent of the country's total soybean exports. For Uruguayan exporters, China is the most attractive market due to the higher premiums they provide compared to other markets in Europe or North Africa. Over the past few years, exports to Argentina have risen thanks to the country reopening its market to soybean imports in early 2016. Efforts to lower underutilization of excess crush capacity and recent supply shocks within Argentina led to an increase in Uruguayan soybean shipments to that country. In addition, lower bean quality in 2018 due to the drought resulted in a 20 percent increase in Uruguayan exports at 106,000 tons. These beans did not meet local quality standards for whole bean exports and were instead sent to Argentina to be crushed.

Producers and exporters were originally concerned that exports to China would be interrupted after the signing of a strict phytosanitary protocol with the Chinese government in October 2016 (see Policy section for more detail). However, the flow of exports has not been interrupted, despite the increase in compliance costs (estimated at \$10 per ton). (see Phytosanitary Protocol with China section below)

Due to higher production, 2018/19 exports are expected to recover to 2.6 million tons, after a dramatic fall in exports last season (due to the drought) which resulted in an export volume of 1.4 million tons. In calendar year 2018, China encompassed the majority of Uruguay's export market share at 88 percent. Other major destinations include Argentina (8 percent), Israel (2 percent), Brazil (1 percent), and minor markets in North Africa and Southeast Asia.

**Graph 1: Uruguay Soybean Export Destinations (2018)**



Source: Based on Uruguayan Customs Data – Global Trade Atlas

2017/18 exports are revised up to 1.37 million tons based on updated trade statistics.

About 90-95 percent of Uruguay's soybean supplies are exported as whole beans while the remaining is crushed for animal feed and biodiesel use. Prospects are low that Uruguay will expand the processing of soybeans for domestic use and exports, due to high upstart and operating costs of crush operations.

Since the majority of Uruguay's soybeans are exported, coupled with a relatively small crush sector, locally produced soybean byproducts – oil and meal – are insufficient to fulfill domestic consumption needs. As such, over 70 percent of Uruguay soybean meal supplies are expected to come from imports. In the case of soybean oil, almost half of supplies are expected to be sourced from imports in 2019/20 at 13,000 tons.

2019/20 soybean meal imports are forecast to rise slightly to 168,000 tons, to cover rising consumption while production remains relatively stagnant. Soybean meal is imported for feed use in the livestock, pork and poultry sectors. Based on updated data and a downward revision to domestic meal consumption, 2018/19 and 2019/20 meal imports are revised down to 137,000 and 165,000, respectively.

### **Stocks:**

2019/20 beginning stock are expected to rise to 40,000 tons. Uruguay usually holds relatively little stocks of soybeans or soybean products as the products are primarily crushed, consumed, or exported within the same season. However, in the past few years, there have been certain seasons where stocks climbed all the way up to 150,000 tons due to various market factors. Uruguayan producers do not share the habit of neighboring Argentina who holds stocks for marketing reasons. Nonetheless, local contacts



indicate that the country has a storage capacity of 2 million tons but there is no indication that producers will change their current marketing/storage habits.

## **Policy:**

### Presidential and Parliamentary Elections in November 2019

On November 24, Uruguay will hold an election to select new representatives and President. At present, the sector does not believe this will affect planting decisions for the 2019/20 season, as most producers will have planted by the election. Nonetheless, producers are watching the election closely as the result will have significant implications for the country's fiscal and monetary policies, which will affect their sector beyond this upcoming season.

### Phytosanitary Protocol with China

On October 16, 2016, the Ministry of Agriculture and China's General Administration of Quality Supervision, Inspection and Quarantine agreed to a new protocol regulating the export of Uruguayan soybeans to China (see protocol [here](#)). This protocol details new import standards requiring soybeans exported to China to be free from live pests and not mixed or contaminated with other grain, minerals or soil. Per local press reports, this new protocol was spurred by quality issues found in select shipments that arrived in China.

### Crop Rotation/Natural Resources Conservation Plan

Since the 2014/15 season, producers must 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. The plan must be completed by a qualified agronomist and submitted by each owner that farms more than 100 hectares and every renter of more than 50 hectares. Between owned and rented land, this comprises 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 potential fines/sanctions. In the long run, it is expected to encourage greater crop rotation to balance soybeans with other grain or oilseed crops. Producers' acknowledge the value of this plan in efforts to ensure crop rotation. More recently, agronomic (deteriorating soil health) and economic pressures (more lucrative crop alternatives) have spurred crop rotation in excess of to this legal requirement.

## **Production, Supply and Demand Data Statistics:**

Oilseed, Soybean Market Begin Year Uruguay	2017/2018		2018/2019		2019/2020	
	Apr 2018		Apr 2018		Apr 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1100	1200	1250	1040	0	1000
Area Harvested	1099	1140	990	1040	0	1000
Beginning Stocks	0	154	6	9	0	40
Production	1334	1350	1980	2700	0	2400
MY Imports	3	0	3	0	0	0
Total Supply	1337	1504	1989	2709	0	2440
MY Exports	1250	1370	1900	2569	0	2300
Crush	75	100	75	75	0	75
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	6	25	6	25	0	25
Total Dom. Cons.	81	125	81	100	0	100
Ending Stocks	6	9	8	40	0	40
Total Distribution	1337	1504	1989	2709	0	2440

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

Meal, Soybean Market Begin Year Uruguay	2017/2018		2018/2019		2019/2020	
	Apr 2018		Apr 2018		Apr 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	75	100	75	75	0	75
Extr. Rate, 999.9999	0.8	0.8	0.8	0.8	0	0.8
Beginning Stocks	15	15	20	12	0	12
Production	60	80	60	60	0	60
MY Imports	160	137	170	165	0	168
Total Supply	235	232	250	237	0	240
MY Exports	0	0	6	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.	215	220	230	225	0	230
Total Dom. Cons.	215	220	230	225	0	230
Ending Stocks	20	12	14	12	0	10
Total Distribution	235	232	250	237	0	240

(1000 MT) ,(PERCENT)

Oil, Soybean Market Begin Year Uruguay	2017/2018		2018/2019		2019/2020	
	Apr 2018		Apr 2018		Apr 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	75	100	75	75	0	75
Extr. Rate, 999.9999	0.1867	0.18	0.1867	0.1867	0	0.1867
Beginning Stocks	3	3	0	0	0	0
Production	14	18	14	14	0	14
MY Imports	8	6	11	13	0	13
Total Supply	25	27	25	27	0	27
MY Exports	0	0	0	0	0	0
Industrial Dom. Cons.	5	5	5	5	0	5
Food Use Dom. Cons.	20	22	20	22	0	22
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	25	27	25	27	0	27
Ending Stocks	0	0	0	0	0	0
Total Distribution	25	27	25	27	0	27