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Oilseeds and Products Annual

For 2015/16 Production, Better Yields will Offset Marginal Production Area Decline. New Terminal to Allow Top-Offs.

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Report Highlights:
In a time of tight margins due to lower commodity prices, only soybeans make financial sense. Post forecasts 2015/16 soybean production area at 1.3 million hectares, a four percent decrease from 2014/15 production area. Crop rotation requirements and the exit of some production pools are responsible for the decline. Yields have been on the rise, as farmers improve their know-how and avail better seed genetics, leading to a 2015/16 production forecast of 3.65 million metric tons (mmt). Exports are forecast at a record 3.385 mmt. A new terminal in Montevideo will lead to top off export opportunities for Uruguay, displacing some exports from the southern ports of Buenos Aires province.

Commodities:

Oilseed, Soybean

Oil, Soybean

Meal, Soybean

Production:

For upcoming marketing year 2015/16, Post forecasts a slight decrease in Uruguay's area planted to soybean at 1.3 million hectares. Two factors are behind the decrease in soybean production area: the projected exit of some Argentine pool investor farm groups and the national government's natural resource management plan. Despite the diminution in planted area, Post forecasts production at 3.65 million metric tons (mmt), a marginal increase from 2014/15, on higher yields resulting from producers' expanding experience with soybean production.

Post's forecast reduction in 2015/16 area planted to soybeans is based on recent developments and is not necessarily indicative of a long-term trend of area reduction. Industry contacts have noted that many foreign, particularly Argentine, investor pools have exited soybean production in 2014/15 and anticipate a larger exodus in 2015/16. Low entry costs made soybean production in Uruguay an attractive option for foreigners looking to invest. However, in the face of high production costs and relatively lower commodity prices, foreign pools are taking advantage of the similarly low exit costs to leave the country. The losses to total production area will be real but marginal. In addition to the area loss from foreign investment pools exiting the country, analysts project a small area decrease due to the increased implementation of the natural resources management plan for soil erosion management and water conservation. (See more in the Policy Section on program specifics.) With the laudable objection of increasing overall soil health and water retention levels, the law calls for specific crop rotation patterns which envision corn supplanting soybeans, leading to marginal area loss. The loss will be merely marginal because of the continued economic dominance of soybean production. From an agronomic and marketing perspective, farmers have many crops options to plant; from an economic perspective, farmers have no choice, as soybeans are the only crop that can balance the ledgers or even lead to slim profit margins. The 2015/16 soybean area decrease of 50,000 ha, then, is forecast on these two factors. Ultimately, future commodity prices will dictate whether the decrease in production area is limited to 2015/16 or whether this is the beginning of a downward trend.

In fact, Uruguay does have area for increased soybean production. Uruguay's soybean crop production is largely concentrated in the departments geographically located along the coasts, particularly the western coast. Farmers have gradually made inroads to the production land in the middle of the country, which typically does not boast the same soil qualities or infrastructure for movement to ports. With regards to additional area that farmers can open for soybean production, private sector analysts provided a consensus of 500,000 hectares, with ranges between 250,000 and 1 million hectares.

Terrains in Uruguay have demonstrated themselves rather easy to convert to soybean production but also have notably heterogeneous topographies and soils. For this reason, Uruguay is forecast to be a key market for precision agriculture technologies and advanced seed genetics. Such technologies can boost yields and decrease input costs based on more tailored applications. Farmers demonstrate openness to

progressive production methods and enjoy low levels of indebtedness in contrast to neighboring producer countries.

Irrigation for soybean production in Uruguay is less than ten percent, and there are few prospects of a change. Weather variability is an enormous factor for Uruguayan soybean production, not unlike soybean production in Paraguay and southern Brazil. Uneven precipitation patterns have led to catastrophic losses in the past; future forecasts on both area and production are obviously subject to this intense weather variability. Soils are plagued by regular stress in moisture levels, as the water tables are very shallow and water retention is low. Drought-resistant soybeans would be a boon for the Uruguayan market, enabling producers to weather longer dry spells.

Currently, 60 percent of soybean production area belongs to landowners, and 40 percent of the production area is rented. The ownership/rental ratio is forecast to continue for 2015/16. Land rents, however, are forecast to decrease markedly for 2015/16. More and more farmers moved from fixed-price land-rent contracts to variable contracts tied to kg of soybeans per hectare. 2014/15 contracts were primarily negotiated in April, before commodity prices began their downward slide. For that reason, most farmers renegotiated rent contracts mid-season, explaining the hard economic reality of 2014/15 soybean production to landowners who live in cities and are separated from farming. Industry contacts indicate that land rents will decrease further for 2015/16, reflecting macroeconomic fundamentals.

For current crop 2014/15, Post estimates production area at 1.35 million hectares. Lack of rain during the planting season for late soybeans (termed *soja de segunda*) reduced overall area planted. Following the 2013/14 trend, 2014/15 soybean production bucked the conventional wisdom of planting half of the area to early soybeans (termed *soja de primera*) and half to late soybeans. Instead, analysts estimate that early soybeans will account for 75 to 80 percent of soybean area. Two factors explain this trend:

1. Winter crops, namely wheat and barley, are becoming less attractive planting options, thereby rendering late soybean production less a necessity. If farmers choose to plant winter crops, they would follow on the winter crops with late soybeans. Farmers can opt to produce a winter crop followed by late soybeans, or exclusively early soybeans. Traditionally, soybean productions margins could offset any potential winter crop losses. With relatively lower commodity prices, however, farmers have less incentive to plant winter crops. Soybeans are lucky to offset their own costs for 2014/15 let alone a winter crop that is unable to break even. Early soybeans also offer higher yields than late soybeans: this is yet another reason to forego winter crop planting and opt for early soybean production.
2. Uruguay experienced a harsh winter climate for 2014/15. Many farmers kept putting off winter crop planting up until the point that they realized that it was too late to plant.

Virtually 100 percent of Uruguay's soybeans are derived from modern biotechnology (at least round-up ready) and the country's patent protection and royalty collection regimes are robust and function well. Almost all seed is certified. In past years, Uruguayan producers were accustomed to planting seeds bred for other regions. Recently, seed breeders have been able to adapt seed genetics for the country which is leading to higher yields. In addition to better seed genetics, farmer expertise in soybean production has grown over the past few years and is also a contributing factor for yields. Producers observed that Uruguay's pest pressure is not as intense as some of its neighbors. For that reason, new pest-resistant (Bt) varieties have not taken off in the market. Furthermore, new varieties that offered yield boosts

have apparently not performed in the field, as promised. For more detailed information on biotechnology, please see the Uruguay Annual Biotechnology reports in the GAIN system.

2014/15 production area is estimated at 1.35 million hectares. Production is estimated at 3.5 mmt, with average yields at 2.5 to 2.6 mt/hectare. Post adjusts 2013/14 production area and production to 1.4 million hectares and 3.4 mmt, respectively, based on the close out of the season and final estimates. 2013/14 average yields are estimated at 2.1 mt/hectares. Despite a very promising start to the season, intense rains in March 2014 significantly pulled down 2013/14 yields.

Consumption:

Uruguay imports soybean oil for human consumption and soybean meal for animal feed in the livestock and dairy sectors. Historically, the crushing industry in Uruguay has been marginal as the majority of Uruguay's production is exported as whole beans. This scenario is slightly changing, as new crushing facilities and biodiesel plants have been constructed to help meet the national biodiesel mandate. The National Fuel Administration (ANCAP) published a law in 2007 (Ley N^{o} 18.195) that mandates diesel be mixed with five percent biodiesel beginning in 2012 (for more information on biodiesel, see Uruguay Biofuels report in the Global Agricultural Information Network (GAIN) system). This year, contacts in the industry concur that the mandate is currently being met.

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. In October 2014, Uruguayan oilseed crusher COUSA built a new biodiesel plant on the outskirts of Montevideo. COUSA has a contract to sell all of its biodiesel to ALUR. Biodiesel production, from both COUSA and ALUR, employs as production feedstock soybeans, sunflower, and rapeseed. Overall, ALUR is estimating that it will source 250,000 mt of oilseeds to meet the biodiesel mandate. A US$50 million investment, the new COUSA plant has a crushing capacity of 1,450 mt/day, with space to double that crushing capacity. While the bulk of Uruguay's soybean crushing goes to ALUR, micro-crushers pepper the rural countryside to meet local rural demand.

Based on the new crushing plant capacity of COUSA, Post forecasts 2015/16 soybean crush at 250,000 mt, a 25 percent increase from the 2014/15 soybean crush estimate at 200,000 mt. While this represents a sizeable increase in percentage terms, in practical terms crushing in the near and foreseeable medium term makes up a very small sliver of soybean production, less than three percent. There are three factors why Uruguay will not augment crush and will continue to export 95 plus percent of its soybeans as whole beans and not soybean derivatives:

1. **Scale**: In contrast to neighbors from the Common Southern Market (Mercosur), Uruguay will have difficulty sourcing enough soybeans to provide economies of scale for economical crushing at the national level.
2. **Energy price**s: in contrast to its Mercosur neighbors, industry sources indicate that energy prices are much higher.
3. **Differential export taxes in Argentina**: Argentina taxes its soybean oil and meal exports (at 32 percent) at a rate three percent lower than its whole bean soybean exports (at 35 percent). Industry sources believe that the export tax difference provides crushers an edge, and subsequently this edge renders Uruguayan crushers less competitive.

Based on the crush forecast, Post forecasts 2015/16 soybean oil production at 50,000 mt and soybean meal at 200,000 mt.

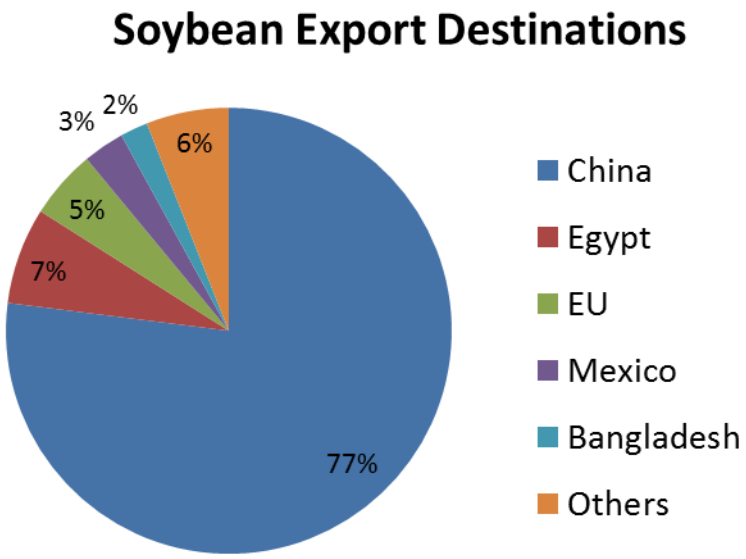
Post is maintaining the official USDA and Post estimates for both 2013/14 and 2014/15 for soybean crushing, at 150,000 mt and 200,000 mt, respectively.

Since oil for biodiesel can come from any raw product, Post 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. Furthermore, biodiesel in Uruguay has approximately forty percent derived from animal fat, by far the cheapest substitute for oilseeds.

Soybean meal is seen as a residual product from the crush process and all meal produced will go exclusively to animal feed. Demand for feed in the dairy, livestock, pork and poultry sectors is strong. In the livestock industry, pasture and other grains such as sorghum and corn are often used in place of soybean meal however. Despite a higher crush forecast for 2015/16, Post is forecasting flat soybean meal demand for the livestock sector, as the additional soybean meal produced domestically is projected to offset a reduction in soybean meal imports. The poultry and pork sectors continue to be strong and demand for soybean meal in feed use is stable. For more information see Uruguay Livestock and Products Annual reports in the GAIN system.

Trade:

Nearly 95 percent of Uruguayan soybeans are exported as whole beans. China dominates the market share with three-quarters of all exports being shipped annually. Other countries that import from Uruguay, albeit in smaller quantities, include Egypt, the European Union, Mexico, and Bangladesh, among others.



Source: Ministry of Livestock, Agriculture and Fisheries Annual Report (Anuario OPYPA 2014)

Post is forecasting 2015/16 soybean exports at 3.385 mmt. The export forecast would be a record for Uruguay, but it is only marginally higher than prior years. Uruguay has historically exported 75 percent of its soybeans out of the western port of Nueva Palmira. Nueva Palmira is geographically well-positioned: it is relatively close to the nucleus production region of Uruguay, and by sitting on the Uruguay River it can receive barges from Paraguay and Argentina. The public port in Montevideo has traditionally shipped the remaining 25 percent of the soybean exports.

Growing Trend in Container Shipping: Approximately 10 percent of Uruguay's whole bean soybean exports are shipped via container out of Montevideo. Containers have proven themselves viable for two reasons: (1) many Southeast Asian markets do not have a need for larger, bulk shipments of soybeans, and (2) exporters can take advantage of lower haul back costs. Asian goods arrive to Uruguay in many of these shipping containers. Instead of sending containers to Asia empty (as has been done in the past), soybean exporters are able to avail this export opportunity. Exporters believe this will be a growing trend for Uruguayan soybeans.

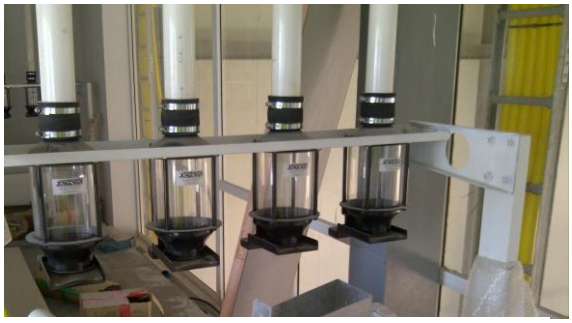
New Grain Terminal in Montevideo Doubles Port Capacity to 2mmt: Post visited the Obrinel Grain Terminal in Montevideo in March 2015. Construction is nearly complete and the new terminal will begin to receive the first shipments of grain in April and to export in June/July. Prior to the construction of this bulk grain terminal, grain shippers had to use the public port terminal, which was not set up for continual grain exports. In addition to grains, Obrinel will also export wood chips (eucalyptus, primarily) to Asia. The terminal has required some dredging and now boasts a depth of 41 feet (13.5 meters). This is critical as it will enable the terminal to top off ships from shallow-water ports Rosario and Nueva Palmira on their way to Asia. These ships typically resort to top-off stops at the ports of Necochea or Bahia Blanca (both in southern Buenos Aires province) to depart with the desired 60,000 mt. Obrinel should reduce both shipping times and costs, and reduce demurrage rates at Montevideo. Some in the industry expressed concern that Obrinel's costs may be too high, but the mentioned savings appear to offset the costs. The new port is not poised to significantly alter Uruguay's grain export landscape in the near term, as Nueva Palmira is still the port nearest to traditional production areas. However, for the new areas in the center of the country that are may be opened to production, and definitely for top off from shallow-water ports, the new port in Montevideo will be an attractive option.

Silos and Internal Conveyor System

Entrance Weighing Station

Conveyor System to Ship

Silos



Internal Lab for Sampling and Analysis

For 2014/15, Post estimates exports at 3.28 mmt. Exports from Uruguay will tend to be a rather simple equation: production less crush. After factoring crush, it appears that exports will experience an uptick from the increased production, based on boosted yields. 2013/14 exports are estimated at 3.24 mmt.

Because most Uruguayan soybeans are exported as whole beans, Uruguay has traditionally imported oil for human consumption for sale at the retail level. Imported oil is not used for biodiesel production since the biodiesel mandate requires the use of domestic oil. More than two thirds of oil imports come from neighboring Argentina, followed by other MERCOSUR members, Paraguay and Brazil. Post forecasts 2015/16 soybean oil imports at 20,000 mt, a 15 decrease from the 2014/15 estimate of 23,000 mt, based on increased 2015/16 crush. 2013/14 soybean oil imports are estimated at 20,000 mt.

Soybean meal is imported for feed use in the dairy, livestock, and poultry sectors. As previously mentioned, demand for soybean meal for feed use is expected to remain constant especially for the poultry and pork sectors. Although demand for feed use is strong, imports of soybean meal are expected to decrease over the years as domestically produced meal will supplement overall feed consumption.

Post forecasts soybean meal imports at 100,000 tons for 2015/16. For 2014/15 and 2013/14, imports are estimated at 140,000 tons and 150,000 tons, respectively. Imports are forecast to contract based on increased domestic crush and a greater availability of domestic meal for the feed sector.

Stocks:

Uruguay holds literally no stocks of soybeans or soybean products.

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.

As a result of this requirement, there has been a reduction in wheat and barley area and a boost in soybean area this year. As previously mentioned, many contacts indicate that soybean area will drop in 2015/16 and more winter crops, including oats, will be planted in order to comply with rotation requirements under the plan. 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	2013/2014		2014/2015		2015/2016	
Market Begin Year	Apr 2013		Apr 2014		Apr 2015	
Uruguay	USDA Official	New post	USDA Official	New post	USDA Official	New post
Area Planted	1,450	1,400	1,250	1,350	0	1,300
Area Harvested	1,450	1,400	1,250	1,350	0	1,300
Beginning Stocks	26	26	16	16	0	16
Production	3,500	3,400	3,400	3,500	0	3,650
MY Imports	0	0	0	0	0	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	3,526	3,426	3,416	3,516	0	3,666
MY Exports	3,340	3,240	3,180	3,280	0	3,385
MY Exp. to EU	180	200	200	200	0	220
Crush	150	150	200	200	0	250
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	20	20	20	20	0	20
Total Dom. Cons.	170	170	220	220	0	270
Ending Stocks	16	16	16	16	0	11
Total Distribution	3,526	3,426	3,416	3,516	0	3,666
1000 HA, 1000 MT						

Oil, Soybean	2013/2014		2014/2015		2015/2016	
Market Begin Year	Apr 2013		Apr 2014		Apr 2015	
Uruguay	USDA Official	New post	USDA Official	New post	USDA Official	New post
Crush	150	150	200	200	0	250
Extr. Rate, 999.9999					0	
Beginning Stocks	1	1	2	2	0	4
Production	30	30	40	40	0	50
MY Imports	20	20	23	23	0	20
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	51	51	65	65	0	74
MY Exports	0	0	0	0	0	0
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	23	23	33	33	0	43
Food Use Dom. Cons.	26	26	28	28	0	28
Feed Waste Dom. Cons.	0	0	0	0	0	0
-	0	0	0	0	0	0
Total Dom. Cons.	49	49	61	61	0	71
Ending Stocks	2	2	4	4	0	3
Total Distribution	51	51	65	65	0	74
1000 MT, PERCENT						

Meal, Soybean	2013/2014		2014/2015		2015/2016	
Market Begin Year	Apr 2013		Apr 2014		Apr 2015	
Uruguay	USDA Official	New post	USDA Official	New post	USDA Official	New post
Crush	150	150	200	200	0	250
Extr. Rate, 999.9999	1	1	1	1	0	1
Beginning Stocks	0	0	0	0	0	0
Production	120	120	160	160	0	200
MY Imports	150	150	140	140	0	100
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	270	270	300	300	0	300
MY Exports	0	0	0	0	0	0
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.	270	270	300	300	0	300
Total Dom. Cons.	270	270	300	300	0	300
Ending Stocks	0	0	0	0	0	0
Total Distribution	270	270	300	300	0	300
1000 MT, PERCENT						