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GAIN Report

Global Agricultural Information Network

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Uruguay

Oilseeds and Products Annual

Severe drought diminishes 2017/18 production to 1.7 million tons. Production in 2018/19 forecast to recover to 3 million tons with a resumption of normal conditions.

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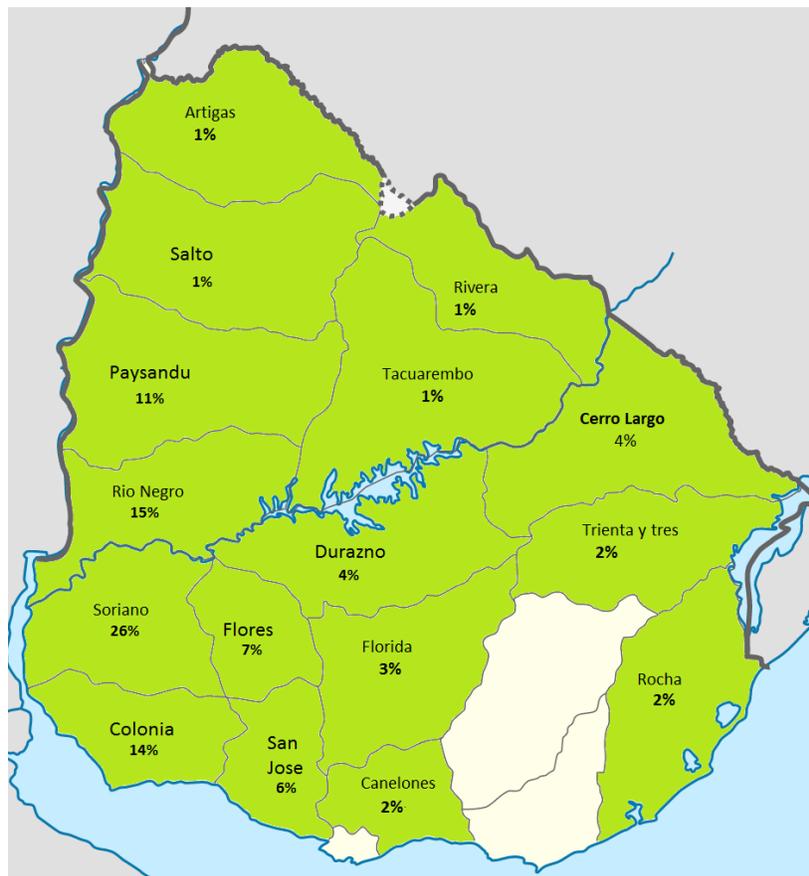
Report Highlights:

Post forecasts 2018/19 soybean area stable at 1.2 million hectares with yields averaging 2.5 tons per hectare expected to produce 3 million tons. Severe drought conditions in the 2017/18 season diminished yields and resulted in a 40% reduction in Post's original estimate down to 1.7 million tons.

Production:

2018/2019

Post forecasts planting area for soybeans to remain stable at 1.2 million hectares similar to the 2017/2018 season. Producers are eager for a return to normal weather conditions after a devastating drought during the 17/18 season. The soybean sector hopes the 2018/19 crop will help producers and input providers recover from the financial losses this year's drought delivered. Producers are looking forward utilizing improvements in seed and other inputs to continue to increase yields and capture greater economic gains. Indeed, despite the gloom and doom experienced this season, producers are eager at looking at the future and have made investments in irrigation equipment, insurance, and other tools in preparation for potential heat stress. Based on these developments, Post estimates average yields at 2.5 per hectare, resulting in a production forecast at 3 million tons.



Uruguay Soybean Planted Area by Department – Percent of Total Area¹

Source: Ministry of Agriculture of Livestock – Agricultural Statistics Division (MGAP-DIEA)

Mid-to-large producers tend to self-finance a third of their production costs with some production costs financed via agreements with input companies or loans from banks. Many producers enter barter-like arrangement where input companies supply inputs to producers in exchange for a negotiated volume of soybeans or its monetary equivalent based on a pre-negotiated price. An estimated \$5 billion of debt is

¹ Remaining area equals 9 percent of areaMap generated FAS Buenos Aires using SVG file from https://commons.wikimedia.org/wiki/File:Uruguay_location_map.svg

circulating in the agriculture sector including producer debts and debt held by input providers and private banks.

Access to financing will be crucial next season as diminished revenues following last year's drought compounds difficulties in debt servicing. The sector is closely monitoring the Central Bank of Uruguay's monetary policy in hopes that it may be willing to provide flexibility via extended loan repayment terms and greater credit availability. Banks and input companies are not expected to stall access to financing due to their vested interest in farmer recovery, however, firms may be more selective in the disbursement of credit to producers with limited collateral and accumulated debts.

Traditionally, 60-70 percent of soybean production is planted on rented area while landowners plant the rest. Sectorial consolidation will accelerate next season as a number of producers will leave the sector due to the drought's negative financial effects while others will rent out more of the area to other producers. This presents an opportunity for mid to large producers who seek to expand their operations and planting area. Contacts estimate that ratio will be 50/50 within a few years as the trend continues.

Rental rates will not change significantly but contractual terms will change due to present economic realities. Previously, during peak commodity prices, rental rates were settled in cash upfront. As commodity prices have fallen, rentals were 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.

However, more landowners are renting their land in return for a set percentage of harvested crop. This trend is expected to accelerate especially after this year's drought where a number of producers will not harvest enough to cover their rental expense. As a result, landowners are beginning to provide more flexibility to renters and share part of the risk. Contacts indicate that landowners are charging rental rates of 25-30 percent of harvested crop. In addition, more multi-year (3-4 seasons) rental contracts are emerging to ensure proper crop rotation and to mitigate downturn years.

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.

Distribution of Uruguay Soybean Production by Farm Size		
Farm Size (ha)	Area Planted (ha)	Production (thousand tons)
Total	1,140	2,208
Less than 50	11	18
51 - 100	36	66
101 - 200	72	151
201 - 300	33	68
301 - 500	78	158
501 - 1,000	149	290
More than 1,000	759	1456

Note: Based on 2015/16 production estimated by Ministry of Agriculture and Livestock

Source: Annual Agriculture Statistics Report 2017 – Ministry of Agriculture and Livestock²

Although some fixed costs next year are not expected to increase significantly, with energy costs anticipated to rise slightly as normal and rental rates forecast to decline as part of the ongoing trend, declining soil conditions and growing weed tolerance are costly aspects that may raise costs for some producers. Increasingly, producers must apply more potassium and nitrogen into the soil as the natural levels of the minerals have declined. Weed resistance has risen quickly in the past decade with some producers reporting costs of \$100 per hectare to control Yuyo Colorado (*Amaranthus quitensis*) alone. A growing number of producers are realizing the need to implement more crop rotation to rebuild soil health. Reports indicate that producers are incorporating pastures (such as alfalfa) on 10-15 percent of their planting area every year to maintain proper crop rotation.

Producers estimate a break-even yield of 1.6-1.7 tons per hectare (not including rent) for next season, with an expected yield of 2.5 tons per hectare, producers should be able to secure ample margins. At an individual level, producers will continue to restructure their individual operations by cutting back on costs, limiting capital expenditures, and selling off machinery and other assets, if necessary.

Production area will continue to concentrate in the departments of Rio Negro, Soriano, and Colonia, which account for over 80 percent of soybean area combined. 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, Paysandú, Florida, and Durazno (see Oilseed and Productions Annual Uruguay 2016 for an extended discussion on this trend). The reverse trend is now occurring as global commodity prices are below that needed to justify production into areas with lower yields and cumbersome planting conditions.

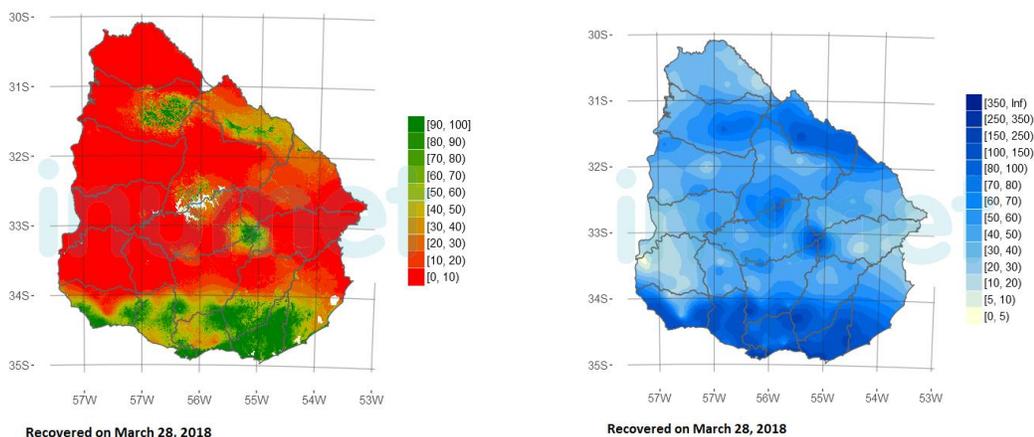
While most producers are expecting to achieve adequate profits for the 2017/18 season they won't be reinvesting in new capital expenditures. Instead, producers will take the opportunity to refinance their debts and improve their financial position. Contacts report that interest rates are averaging around 6 percent.

² www.mgap.gub.uy/sites/default/files/diea-anuario2017web01a.pdf

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. In December 2017, the Uruguayan government approved thirteen biotech events to promote greater innovation in the sector. The country's patent protection and royalty collection regimes supported by government and industry resources are robust and exemplary.

2017/2018

Severe Drought Hits Uruguay



Percentage of Available Water

Accumulated Precipitations

Source: Uruguay Institute of Meteorology³

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 national 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 have already been lost to drought damage, leading to an estimated harvest area of 1.14 million hectares. However, the significant loss in production is primarily 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.

³ <https://www.inumet.gub.uy/clima/agricultura>

As of March 23, only 2-3 percent of the crop had been harvested. Based on this information, Post estimates 2017/18 soybean production at 1.7 million tons. The revised production estimate represents a reduction of 43 percent from Post's original estimate of 3 million tons.

Overall, producers will suffer noteworthy losses due to lower yields. Land-owning producers may break-even or achieve minimal returns (depending upon their own yields) without the additional rent expense, but based on information from local contacts, producers on rented area may lose at least \$205 dollars per hectare. If producers have their own harvesting equipment, they might still harvest lots with excessively low yields. Those producers will either deliver beans to a local elevator or use the beans for feed for local livestock operations.

Average Income Statement for 2017/18 Season*

Costs per Hectare

Production (inputs, structural)	\$500	
Rent	\$275	
 Total:	 \$775	Revenue per hectare: \$570
		Costs per hectare: \$775

Revenue per Hectare

Soybean price per ton	\$380	
Yield	1.5 tons	Total loss per hectare: \$205
 Total:	 \$570	

*Income estimate based on aggregation of data from multiple sources. Soybean price based local price on March 26, 2018 - <http://www.insumosygranos.com.uy/mercado.php>

Crush and Consumption:

Post forecasts 2018/2019 crush to recover to 80,000 tons, a return to pre-drought historical levels. Soybean crush is not expected to grow in any significant way as the country's primary biodiesel blender, Alcohols of Uruguay (ALUR in Spanish), plans to utilize more canola as a feedstock for its operations. ALUR recently announced plans to increase its canola demand by providing attractive price contracts to local producers. Local contacts report that canola area planted is around 30,000-40,000 hectares.

2017/2018 crush is revised down to 60,000 tons due to lower soybean supplies. This estimate represents a 20 percent decline from 2016/17. Despite lower soybean supplies, ALUR still needs to meet the government's biodiesel mix mandate and thus crush will not fall significantly. This decrease is part of a going decline in biodiesel production, the result of adjustments made to the local mandate, which is expected to keep production flat. 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. Uruguay is generally a net importer of soybean meal and oil. Contacts report that more soybean processing operations have not emerged due to high costs.

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° 18.195) that mandates 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. Other feed stocks, like sunflower oil and canola, are also used for biodiesel production.

Based on the crush forecast, Post forecasts 2018/19 soybean oil production at 15,000 tons and soybean meal at 64,000 tons. 2017/2018 soybean oil and meal production is revised to 11,000 and 48,000 tons, respectively.

2018/2019 domestic meal consumption is forecast at 240,000 tons, an increase of 2 percent from the previous year on steady growth in poultry and pork sectors. 2017/2018 meal consumption is amended to 235,000 tons based on revised data.

Trade:

2018/19 soybean exports are forecast at 2.9 million tons, an increase of 44 percent from the previous season. An expected rise in exportable supplies due to higher production will fuel the increase in exports. Over 90 percent of Uruguay's soybean suppliers are exported as whole beans. 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.

Destinations of Uruguayan Soybean Exports (March-November 2017)

Destination	Volume Exported	% of Total
China	2,666,101	82.7%
Egypt	88,674	2.8%
Tunisia	82,575	2.6%
Argentina	77,815	2.4%
Holland	58,373	1.8%
Germany	58,843	1.8%
Bangladesh	54,773	1.7%
Lebanon	40,599	1.3%
Italy	31,733	1.0%
United States	21,781	0.7%
Other Countries	34,180	1.3%
Total Exported	3,222,929	100%

Source: Ministry of Livestock, Agriculture and Fisheries Annual Report (Anuario OPYPA 2017 based on Uruguayan Customs Data)⁴

Producers and exporters were originally concerned that exports to China would be interrupted after the signing of a phytosanitary protocol with the Chinese government in October 2016. However, the flow of 2016/17 exports revealed that, despite the increase in compliance costs (estimated at \$5 per tons),

⁴ www.mgap.gub.uy/sites/default/files/diea-anuario2017web01a.pdf

exports to China continued to increase. In fact, the share of Uruguayan soybean exports to China increased by 8 percent in 2016/17.

Due to lower production, 2017/18 exports are revised down 1.63 million tons, a decline of 50 percent from the previous season. As is the case with other neighboring soybean producers, China encompasses the majority of Uruguay's export market share with over 82 percent. Other major destinations include the European Union (5 percent) and markets in North Africa and Southeast Asia. Argentina has become a significant importer of Uruguayan soybeans after the Argentine government permitted the importation of soybeans for crush in Argentine facilities and ports, mostly in Rosario. These additional soybean supplies help Argentine processors lower underutilization of their excess crush capacity.

Since the majority of Uruguay's soybeans are exported coupled with a relatively small crush sector, locally produced soybean byproducts – oil and meal – are not enough to fulfill domestic consumption needs. As such, over 75 percent of Uruguay soybean meal supplies are expected to come from imports for 2018/19. In the case of soybean oil, almost half of the supplies are sourced from imports.

2018/19 soybean meal imports are forecast to remain flat at 180,000 tons, as increased domestic meal production will cover rising consumption. 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, 2017/18 and 2016/17 meal imports are revised down to 180,000 and 160,000, respectively.

Stocks:

Uruguay holds very little stocks of soybeans or soybean products as the products are primarily crushed, consumed, or exported. Uruguayan producers and exporters do not share the habit of neighboring Argentina who holds stocks for marketing reasons.

Policy:

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 are 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. The plan must

be completed by a qualified agronomist and submitted by every owner that farms more than 100 hectares and every renter of more than 50 hectares. 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 potential fines/sanctions. In the long run, it is expected 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 addition to this legal requirement.

Production, Supply and Demand Data Statistics:

Oilseed, Soybean Market Begin Year Uruguay	2016/2017		2017/2018		2018/2019	
	Apr 2017		Apr 2018		Apr 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1100	1150	1160	1200	0	1200
Area Harvested	1089	1100	1000	1140	0	1200
Beginning Stocks	3	3	5	10	0	5
Production	3214	3342	2200	1700	0	3000
MY Imports	3	15	3	0	0	0
Total Supply	3220	3360	2208	1710	0	3005
MY Exports	3125	3260	2100	1630	0	2900
Crush	75	75	75	60	0	80
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	15	15	15	15	0	15
Total Dom. Cons.	90	90	90	75	0	95
Ending Stocks	5	10	18	5	0	10
Total Distribution	3220	3360	2208	1710	0	3005
(1000 HA) ,(1000 MT) ,(MT/HA)						

Meal, Soybean Market Begin Year Uruguay	2016/2017		2017/2018		2018/2019	
	Apr 2017		Apr 2018		Apr 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	75	75	75	60	0	80
Extr. Rate, 999.9999	0.8	0.8	0.8	0.8	0	0.8
Beginning Stocks	35	35	12	13	0	2
Production	60	60	60	48	0	64
MY Imports	160	160	180	180	0	182
Total Supply	255	255	252	241	0	248

MY Exports	18	12	18	4	0	7
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	225	230	230	235	0	240
Total Dom. Cons.	225	230	230	235	0	240
Ending Stocks	12	13	4	2	0	1
Total Distribution	255	255	252	241	0	248
(1000 MT) ,(PERCENT)						

Oil, Soybean Market Begin Year	2016/2017		2017/2018		2018/2019	
	Apr 2017		Apr 2018		Apr 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Uruguay						
Crush	75	75	75	60	0	80
Extr. Rate, 999.9999	0.1867	0.1867	0.1867	0.1833	0	0.1875
Beginning Stocks	5	5	3	3	0	1
Production	14	14	14	11	0	15
MY Imports	10	10	11	13	0	12
Total Supply	29	29	28	27	0	28
MY Exports	0	0	0	0	0	0
Industrial Dom. Cons.	5	4	5	4	0	5
Food Use Dom. Cons.	21	22	20	22	0	22
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	26	26	25	26	0	27
Ending Stocks	3	3	3	1	0	1
Total Distribution	29	29	28	27	0	28
(1000 MT) ,(PERCENT)						