

@fik3/4 /
2t) 1/3/4
43/fikž



Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY
BRAND PROMOTION AGENCY



2018

Executive Summary

- **Uruguayan exports of goods, including those from free trade zones, recorded a slight increase of 0.4% in 2018, totaling US\$ 9,088 million.** The poor soybean harvest as a result of the drought largely explains the stagnation of exports in 2018. In fact, if soybeans are excluded, exports of goods would have grown close to 9%.
- Exports of cellulose, wood, beef, dairy products, and vehicles had the largest positive impact on growth in 2018, while sales of soybeans and rice recorded reductions that had the largest negative impacts of the year.
- **China was the main trading partner in 2018**, representing 26% of exports with exported amounts of US\$ 2,328 million. It was followed by the European Union (18%), Brazil (12%), the United States (7%), Argentina (5%), and Mexico (4%).
- **According to projections prepared by Uruguay XXI, in 2019 Uruguayan exports of goods would grow at levels close to 4%.** This growth will be based on the recovery of agro-industrial exports, especially those of agricultural products, which fell the most in 2018.
- Imports of goods -without considering oil and derivatives- reached US\$ 7,635 million, which represented an increase of 3% in 2018. The main imported products were vehicles, clothing, plastics, telephones and chemicals.

	2017	2018	Var. %
With Free Zones	9,048	9,088	0.4%
Without Free Zones	7,784	7,492	-3.8%

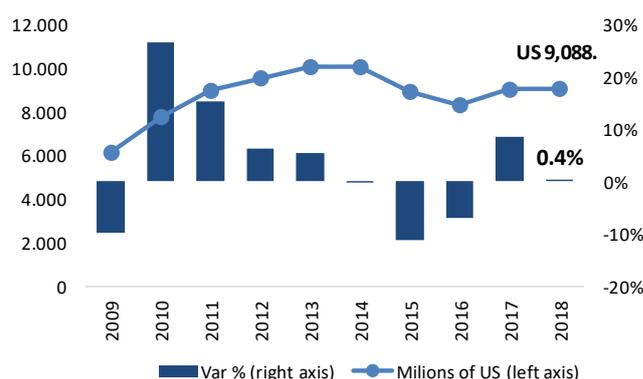
Slight increase in Uruguayan exports of goods in 2018

Uruguayan exports of goods, including those from free trade zones, **totaled US\$ 9,088¹ million in 2018, a slight increase of 0.4% over 2017**. The poor soybean harvest (the worst since there are records) resulting from the drought is what largely explains the stagnation of exports in 2018.

The performance of Uruguayan export sector takes place in a complex international and regional context. According to estimations by the World Trade Organization (WTO), the international exchange of goods would have grown in volume 3.9% in 2018, below the 4.6% of 2017 and less than expected at the beginning of the year. The main cause of this deterioration is the trade tensions between the United States and China.

For Latin America and the Caribbean, ECLAC estimates export growth of 10% in 2018, albeit with differences by region. The countries exporting hydrocarbons and mining products will have the greatest growth, as a result of the strong increase in the prices of these commodities. On the other hand, the agro-exporting countries had a more moderate rise in the prices of their products and also suffered a decrease in the volume exported due to the drought that affected their crops².

Graph N°1 - Exports of goods from Uruguay



Source: Uruguay XXI based on the Dirección Nacional de Aduanas, Nuevo Sistema de Nueva Palmira and Montes del Plata.

The lack of dynamism of Uruguayan exports of goods in 2018 is mainly explained by the decrease in volumes exported. The physical volume index of exports produced by the Uruguayan Central Bank experienced an interannual decrease of 12% in the period from January to October 2018, while the price index experienced an increase of 8%³.

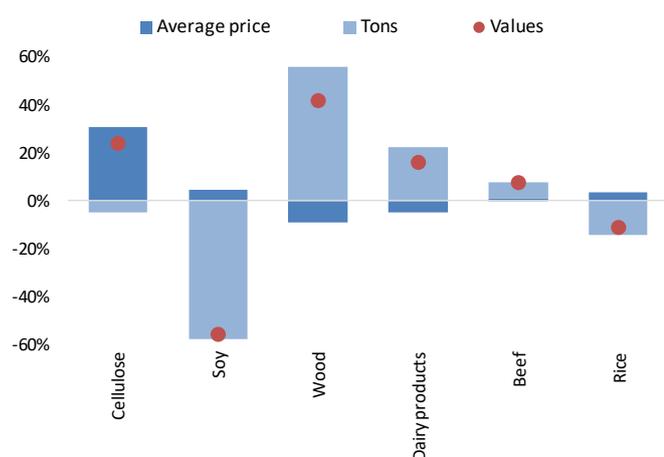
Graph N°2 shows the main products exported by Uruguay (together they explain almost 60% of goods exports), disaggregating the value, price and volumes exported. It can be seen that soybeans and rice are the ones that experience decrease in volumes. On the other hand, in most of the products the price increased moderately with the exception of the cellulose that presented an important increase and the dairy products and wood that decreased slightly.

¹Exports from Free Trade Zones totalized US\$ 2,216 million, an increase of 14%. Meanwhile, exports from non-franc territory totalized US\$ 7,491 million, 3.8% less than in 2017. Sales of Concentrated beverages from ZF Colonia, cellulose from ZF Fray Bentos and Punta Pereira and pharmaceutical products from Zonamerica and Parque de las Ciencias are taken into account.

² Source: [Preliminary Overview of the Economies of Latin America and the Caribbean 2018](#), ECLAC

³Source: [Central Bank](#)

Graph N°2 - Main Export Products (Variation %, 2018)



Source: Uruguay XXI based on DNA and Montes del Plata.

Ranking of exported products

Exports of cellulose, wood, vehicles, dairy products, beef and plastics had the greatest positive impact on growth in 2018, while sales of soybeans and rice recorded reductions that had the largest negative impacts in the year.

In 2018 for the first time cellulose was the main exported product of the country, surpassing meat and soybean, with sales that reached US\$ 1,660 million, which implied an increase of 25% compared to 2017. This increase was explained by an increase in the average export price of 30%, as the volume exported decreased 5%. Among the main destinations, the European Union countries stands out with a participation of almost 50% on the exported amount, followed by China and the United States with 35% and 9% respectively.

Bovine meat exports reached **US\$ 1,629 million** in 2018, registering a growth of 8% compared to the previous year. This was explained by an increase in exported volumes (7%) and by a slight increase in price (1%). China continues to be the main destination of the product (45%), followed by the European Union (22%).

Sales of **dairy products** reached US\$ 682 million in 2018, an 16% increase compared to 2017. Within this sector, powdered milk is by far the most exported

product with a total of 68% of total sales in the sector. For its part, the largest growth in the sector was experienced by butter (36%), followed by milk 23%. Within the destinations, Algeria recorded a significant increase in purchases of dairy products in our country (79% compared to 2017), ranking as the main destination (31%) followed by Brazil with 20%.

Soybean exports totalled **US\$ 526 million**, a decrease of 56% compared to 2017 as a result of the droughts that implied the worst harvest since records exist. It is important to highlight the importance of this product as a driver of the country's exports, since there is a strong correlation between the behavior of exports and soybean sales. If soybeans had been exported as the average of the last 3 years, total exports would have grown 6%. Likewise, in 2018 exports would have grown 9%, without taking soybean into account.

Beverage concentrate exports were 5% lower than in 2017. This was mainly explained by a decrease in export prices (5%) as volumes remained stable.

With amounts of **US\$ 398 million**, **rice exports** decreased 11% compared to 2017 mainly explained by a decrease of 14% in the exported volumes. For its part, the average export price grew 3.5% but failed to compensate the drop in exported volume. Iraq was the main destination, with a share of 26%, doubling the value in relation to the previous year. In second place is Peru with 24% followed by Mexico and Brazil with 10% and 9% respectively.

Exports of **meat by-products** grew 12% compared to 2017, with export values of US\$ 280 million. This growth is mainly explained by the increase in the average export price (7%). China is the main export destination with 41% of total sales, followed by the United States and Hong Kong.

Table N°1 - Exports of goods from Uruguay

		Share.% 2018	Mill US	Var.%
1	Cellulose	18%	1,660	25%
2	Beef	18%	1,629	8%
3	Dairy products	8%	682	16%
4	Soy	6%	526	-56%
5	Bev. concentrate	5%	472	-5%
6	Wood	5%	468	42%
7	Rice	4%	398	-11%
8	Meat by products	3%	280	12%
9	Livestock	3%	271	23%
10	Wool and fabrics	3%	246	17%
11	Plastic	3%	233	19%
12	Pharm. Products	3%	227	-5%
13	Leather	2%	223	-9%
14	Malt	2%	203	10%
15	Auto parts	2%	203	1%

Source: Uruguay XXI based on data from DNA and Montes del Plata.

Details of the impact of each product on monthly exports are available in the [annex](#).

Ranking of export destinations

As it has been the case for six years now, **China** continues to be the main export destination in 2018, accounting for **26% of total exports (US\$ 2,328 million)**. Exports to the Asian country fell 8% compared to 2017. The sharp decline in soybean exports (53%), were partly offset by the increase in placements of beef, wood, cellulose and dairy. Beef was the main exported product with a share of 31% in the total. Cellulose and soybean were the second and third exported products, with a share of 25% and 20% respectively.

The European Union was the second export destination in 2018, **with a share of 18%. Total exports were US\$ 1.676 billion, 16% higher than in 2017**. This increase is mainly explained by the growth of cellulose exports (49%), and complemented by higher sales of wood and wool. Cellulose was the main exported product, while beef - despite a 2% retraction in sales - and wood and by-products, were the second and third exported product, respectively. At the country level, the main destinations were the Netherlands, Italy and Germany, which are in turn the main destinations of pulp with European destination. It should be noted that the Netherlands operate as an entry point for much of Uruguayan exports that are then redistributed within the European block.

Amounts exported to **Brazil** decreased 6% compared to 2017 with sales of **US\$ 1,132 million**. Among the most sold products are **plastics** (15% of the total), **malt** (13%) and **dairy** (12%). The latter lost participation with respect to 2017, with an exported amount 39% lower. Rice sales also suffered a significant drop (57% measured in dollars). On the other hand, vehicle exports increased considerably (68%).

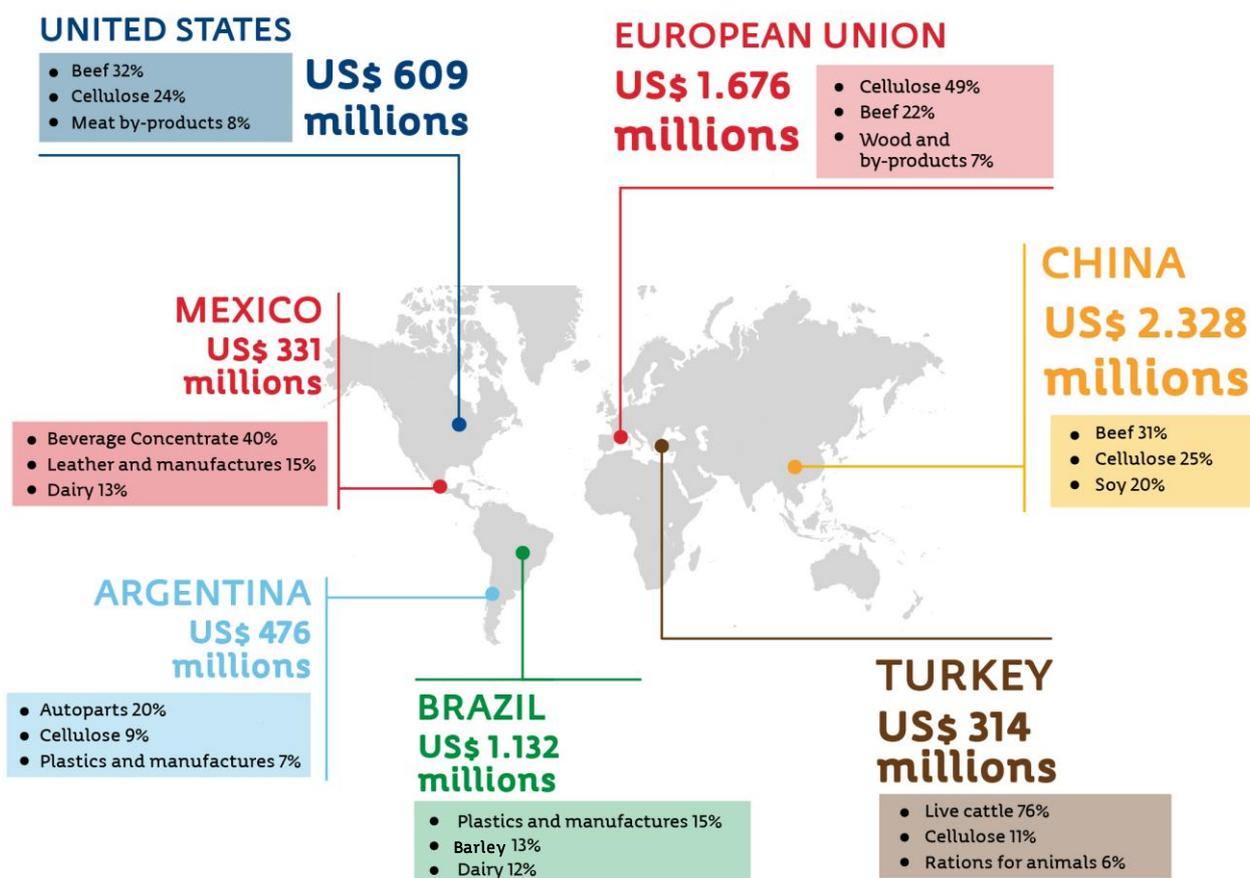
The United States ranked fourth as a destination for Uruguayan exports in 2018. The total amount was **US\$ 609 million**, an increase of 14% over 2017. This growth is explained by a strong growth in cellulose sales, which doubled their amounts compared to the previous year, and accompanied by more moderate growth in meat and wood by-products. The dynamism of these products managed to offset the decline in sales of some products such as honey, leather or citrus, sectors for which the United States remains a very relevant destination.

Argentina ranked fifth, exporting **US\$ 476 million** in 2018, a drop of 7%. Auto parts were again the main exported product, with US\$ 97 million, followed by cellulose (US\$ 43 million) and plastic products (US\$ 33 million). Sales of vehicles and pharmaceutical products had the greatest positive impact on exports to this country. It should also be noted that pulp sales had the greatest negative impact on total exports to Argentina.

Exports to **Mexico** grew slightly in 2018. The increase was 1%, with US\$ 331 million exported. Beverage concentrate was again the main product in the Aztec market, which highlights the dynamism experienced by dairy, mainly powdered milk, which increased the exported amount by 40%. Also, auto parts, wood and plastics were other sectors with growing exports in the year-on-year comparison.

Other relevant destinations in 2018 for Uruguayan exports were: Iraq - Uruguayan rice's main destination where total sales more than doubled the previous year's; Turkey - live cattle sales increased 18% in 2018; Algeria was the main destination for Uruguayan dairy products in the year, and total sales to this market grew 58% in the year-on-year comparison; Russia - meat sales tripled, and total sales to this country grew almost 50%.

Figure N°1 - Main destinations of Uruguayan goods exports (2018)



Highlights of 2018

- After 14 years of negotiations, Uruguayan beef obtained the sanitary authorization to enter the Japanese market, one of the strictest sanitarily in the world. The most recent initiatives, including the purchase of the B&P beef processing plant by the Japanese group NH Foods, finally materialized and the sanitary authorization was achieved that will allow the entry of boneless and matured bovine cuts to an interesting market for the prices it offers. Also, the qualification itself is an important step that reinforces the high levels of safety and quality achieved by the national meat production.
- The production of vehicles had a marked growth in 2018, a phenomenon that was reflected in exports. While production grew about 50% compared to 2017, external sales grew 84% in value in the same period. These were driven by sales of utility vehicles exported by EASA/Nordex and KMU Corporation (Kia Motors). If we only analyze sales of these companies, the year-on-year growth was 177%.

The forestry sector - cellulose, wood and by-products, paper and cardboard - experienced in 2018 a remarkable growth in exports, which stood at 28% in the year-on-year comparison. In terms of products, cellulose was the main product exported in the year, with US\$ 1,660 million, 25% higher than in 2017. Raw wood was the most dynamic forest product in the year. This export flow was consolidated in 2018 and is presented as an alternative for producers due to the abundance of the product and the lack of internal industrial processing. In particular, sales of crude pine increased 68%, and were mostly directed to China. Meanwhile, for raw eucalyptus the growth was 40% year-on-year and the main destination was Vietnam.

- Despite the slowdown in industrial activity at the national level, the dairy sector increased its exports in 2018 by 16% compared to the previous year. This was mainly due to an increase in the volume exported, taking into account that in most products the development of prices was downward. In particular, external sales of powdered milk grew 23% in amount and 35% in volume; Algeria became the first destination of this product with 46% of the amount exported, and managed to absorb the fall in exports to Brazil. Meanwhile, butter sales to Russia doubled in the year-on-year comparison, which boosted export growth in that period.
- In 2018, the second phase of UPM's investment project was completed, which includes, inter alia, the application for authorization for the plant. According to the project schedule, the second phase, prior to the final decision, would be completed in March 2019⁴. If the project is completed, cellulose pulp will be consolidated as the country's main export product, and if the current market is maintained, Uruguay will become the world's second largest supplier of short-fiber pulp.
- In line with the above, in 2018 the construction company responsible for the Central Railway project was awarded. Grupo Vía Central is composed by of Uruguayan, Spanish and French capitals, and its representative in Uruguay is the company Saceem. The project involves 273 kilometers of railroad, between the port of Montevideo and Paso de los Toros (Tacuarembó), and construction will take 36 months, with construction expected to begin in early 2019. This is one of the country's main infrastructure projects that is expected to meet, among others, the transportation needs of the country's agro-industrial sectors.
- During 2018, Uruguay held the pro tempore presidency of Mercosur. **During this period,**

⁴ Source: UPM - [Growth Project](#)

the country promoted trade agreements with four blocks or countries:

→ **Canada:** negotiations began in March in Asunción on a Comprehensive and Inclusive Trade Agreement between Canada and Mercosur. In the first three quarters of 2018, Canada was the 12th destination for the external sales of the bloc, with US\$ 3.02 billion. Particularly for Uruguay, Canada was the 32nd destination in 2018, with sales exceeding US\$ 38 million. Beef is the main product exported to Canada, and in 2018 represented 77% of Uruguayan placements in that market.

→ **Eurasian Economic Union (EEU):** A memorandum of understanding was signed with the Eurasian Economic Commission in December 2018. This is a conglomerate of countries that accounts for 6.5% of world Gross Domestic Product. Total Uruguayan exports to this block reached US\$ 176 million in 2018.

→ **South Korea:** In May 2018, Mercosur foreign ministers and their counterparts from the Republic of Korea met to reach an agreement that promotes trade, investment, employment and sustainable development. Korea is an interesting market as it has a complementary exportable offer. Through this agreement, Uruguay will seek to generate opportunities for a better insertion in global value chains and to obtain preferences for access to the Korean market. By way of example, the Ministry of Foreign Affairs points out that Uruguay is currently the only regional supplier of frozen beef to Korea and that it faces a 40% tariff.

→ **Singapore:** in July 2018, within the framework of the 13th Summit of the Pacific Alliance, dialogues on the possibility of signing a free trade agreement were initiated; the negotiation with Singapore is the first experience of the regional block negotiating with a South-East Asian

country - and with a member of Asean. Today, Singapore is the third most open economy in the world with a per capita GDP of US\$ 57,714, and its imports stood at US\$ 272,460 billion in the first three quarters of 2018⁵.

→ Negotiations continued on trade agreements with the European Union and EFTA.

- 2018 marked the 30th anniversary of diplomatic relations between China and Uruguay. Within this framework, several activities were carried out, including the Uruguay Week in China, in the cities of Beijing, Chongqing and Guangzhou with business, gastronomic and cultural events and the opening of the Consulate General of Uruguay in Guangzhou. Uruguay was also present at COIFAIR (China Overseas Investment Fair), the main foreign investment event in that territory, and at the China International Import Expo, a strategic instance to contact buyers from the Asian giant. In addition, Uruguay also participated in China-LAC 2018, in the city of Zhuhái. Finally, it should be noted that Uruguay joined this year the One Belt, One Road initiative, which will increase cooperation with China. The Asian country was the main destination for the country's exports, with US\$ 2.328 million exported, representing a 26% share of the country's total exports.
- Likewise, and also within the framework of the celebration of 30 years of diplomatic relations, Uruguay and China signed five sanitary and phytosanitary protocols to export meat, corn and sorghum, with which they seek to further boost bilateral trade through the streamlining of procedures⁶.
- In June 2018, the 5th Trade Policy Review of Uruguay was carried out by the World Trade Organization. It highlighted the economic

⁵ Source: TradeMap

⁶ Source: Presidency ["Uruguay and China reaffirm bilateral relations and conclude trade agreements"](#).

growth sustained by Uruguay -valuing that it was accompanied by inclusive social policies- and the degree of economic openness of the country. Regarding trade, the ratification by Uruguay of the Agreement on Trade Facilitation and the actions developed for its implementation were positively highlighted; in particular, the Single Window for Foreign Trade (VUCE), the electronic payment of taxes, the automated control of ports and the incorporation of the Qualified Economic Operator program⁷.

- **TUexportación** – At the end of 2018, a plan was launched to promote and facilitate micro-exports for small and medium-sized enterprises. Within this framework, a special regime was designed that substantially reduces the costs of foreign trade operations, promoting a business model through electronic commerce, managed through VUCE. In December 2018, the regulatory proposal was sent to Parliament, so the system is expected to start operating in 2019⁸.

Uruguayan imports in 2018

Imports of goods without considering oil and derivatives⁹, reached **US\$ 7,635 million**, which represented an increase of **3% in the inter-annual comparison**.

Vehicles were the country's main import, reaching **US\$ 571 million**, a decrease of 19% compared to 2017. 62% of the amount imported corresponded to automobiles, 30% to vehicles for the transport of goods and 8% to tractors.

Purchases of **clothing and footwear** remained stable and ranked second in the ranking with an amount of

US\$ 463 million. China is the main supplier with 56% of the imported amounts, followed by Brazil with 12%.

Imports from the **plastic** sector exceeded **US\$ 388 million** in 2018, an increase of 3% compared to 2017. These had a strong regional origin, reaching a 49% share of purchases from Brazil, Argentina and Chile. China and the United States also had important contributions of 13% and 11% respectively.

Cell phones were the fourth imported product in 2018 with an amount of **US\$ 305 million** and had China and the United States as main suppliers. **Chemicals and pharmaceuticals** ranked fifth and sixth in 2018 imports with amounts of **US\$ 279 million and US\$ 271 million** respectively.

Auto parts reached **US\$ 241 million**, an increase of 15% over 2017. This expansion is related to the incorporation of new car assembly production lines by companies in the automotive sector whose main export destinations are Brazil and Argentina.

Table 2 - Imports of goods from Uruguay

		Share.%	Mill US	Var.%
1	Vehicles	7%	571	-19%
2	Clothing and shoes	6%	463	0%
3	Plastics	5%	388	3%
4	Telephones	4%	305	-3%
5	Chemical substances	4%	279	6%
6	Pharmaceuticals	4%	271	-1%
7	Autoparts	3%	241	15%
8	Paper and cardboard	2%	186	4%
9	Paints, varnishes, other	2%	180	31%
10	Corn	2%	121	131%

Source: Uruguay XXI based on DNA.

The analysis by origin shows that **China** had a 22% share of the total, and purchases from that origin decreased by 1% compared to 2017. Purchases of clothing, telephones, chemical substances, computers, plastics and their manufactures, auto parts and vehicles stood out in this origin.

Brazil was the second source of imports, with a share of 21%. Vehicle purchases showed the greatest

⁷ Source: WTO – [Trade Policy Review - Uruguay](#)

⁸ Source: Transforma Uruguay – [Internacionalización / Régimen especial de exportaciones para Micro y Pequeñas empresas](#)

⁹ Headings 2709, 2710, 2711, 2713 and 2714 of the Mercosur Common Nomenclature (NCM) are excluded because purchases made by ANCAP are not recorded at the time of importation. Foreign trade statistics produced by the Central Bank of Uruguay correct these discrepancies based on information provided by ANCAP.

positive impact, with amounts reaching US\$ 292 million, representing 18% of imports from that origin.

Argentina ranked third with a 14% share. Purchases from the neighboring country experienced a rise of 4%.

Meanwhile, the **United States** ranked fourth with a 7% share. The amount imported from this origin decreased by 4%.

Germany ranked as the fifth origin of Uruguayan imports surpassing Mexico, India, Spain and Italy. Purchases from Mexico did not experience great variations but the same does not happen with the other three countries. The amount imported from India increased by 25% due to the significant incidence of inputs for the construction of the UTE high voltage line between Melo and Tacuarembó. The amount imported from Italy also increased but somewhat less (13%). On the other hand, the amount imported from Spain decreased 16%. This decrease is related to a general decrease of products imported from that country, especially inputs for the production of wind and solar energy.

In the tenth place of the top 10 is **France**, a country that ranked 12 the previous year, observing an increase of 43% in the amount imported from that country. This is due to the large increase in imports of motor vehicle parts and accessories, which tripled.

Expected recovery of goods exports in 2019

After the slight growth of exports in 2018, moderate growth is expected for this year.

According to **Uruguay XXI's projections, Uruguayan exports of goods would grow nearly 4% in 2019¹⁰**.

This growth will be based on the recovery of agro-industrial exports, especially those of agricultural products that fell in 2018. According to recent estimates by the Ministry of Livestock, Agriculture and Fisheries (MGAP)¹¹, exports from this sector would grow 5%.

The good harvest expected for soybeans and wheat, together with the positive evolution of cellulose prices are the factors that most influence this increase. The decrease in the amount of meat exported and the smaller shipments of live cattle will have negative implications.

On the other hand, the rest of the exports will probably have a negative impact under the effect of the poor economic performance of the region. Non-agricultural exports are more focused on neighbouring countries, Brazil and Argentina. The plastics, chemicals, vehicles and auto parts and food sectors will be affected by lower demand and less attractive relative prices.

It should be made clear that global and regional uncertainties impose greater caution than in previous years. **China**, Uruguay's main trading partner, is in the middle of a trade dispute with the United States and the evolution of the international price of commodities depends on its resolution. According to the latest projections of the World Bank, the prices of food raw materials would grow 1.6% in 2019.

The other front of uncertainty originates in neighbouring countries. While **Brazil** is emerging from one of its largest economic recessions, growth is not yet vigorous. For its part, there are no clear signs as to how the new administration of President Bolsonaro will direct its trade policy.

In **Argentina**, the exchange rate crisis in 2018 resulted in the current economic recession. The neighboring country would have closed 2018 with a drop in GDP of 2.4% and by 2019 an economic retraction of the order of 1.2% is also expected. The level of activity would only begin to recover in mid-2019, but depending on how the external financing problems faced by the country are solved, the situation may improve sooner or worsen.

All of the above shows that 2019 will be a challenging year for Uruguay, a slight increase in exports of goods is expected based primarily on the recovery of agricultural exports in 2018.

¹⁰ The forthcoming International Trade Outlook Report presents a further analysis of the projected exports of Uruguayan goods.

¹¹ See [OPYPA 2018 Yearbook \(MGAP\)](#)