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Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY
BRAND PROMOTION AGENCY



Executive Summary

- **Uruguayan exports of goods, including those from free trade zones, recorded an increase of 0.7% in 2019, totaling US\$ 9.146 billion.** In a year marked by trade tensions between the main markets and a relative slowdown in the world economy, the performance of Uruguay's export had a similar rhythm to the region.
- **The growth in soybean exports** -based on volume- **and beef exports** -explained by the price factor- **boosted external sales in 2019** and managed to compensate the drop in exports of live cattle and forest products (cellulose and wood), which were the products with a more negative impact in 2019.
- **Once again China was the main trading partner in 2019**, representing 31% of exports with amounts of US\$ 2,872 million and a significant growth compared to 2018. It is followed by the European Union (17%), Brazil (13%), the United States (7%), Argentina (4%) and Mexico (3%).
- **Imports of goods** - not considering oil and derivatives - **reached US\$ 7.2 billion**, representing a **7% retraction with respect to 2018**. The main products imported were vehicles, clothing, plastics, telephones and chemicals.

Uruguayan Exports of Goods (Million US\$)

	2018	2019	Var. %
With Free Zones	9,080	9,146	0.7%
Without Free Zones	7,475	7,639	2.2%

Uruguayan exports of goods grow slightly in 2019

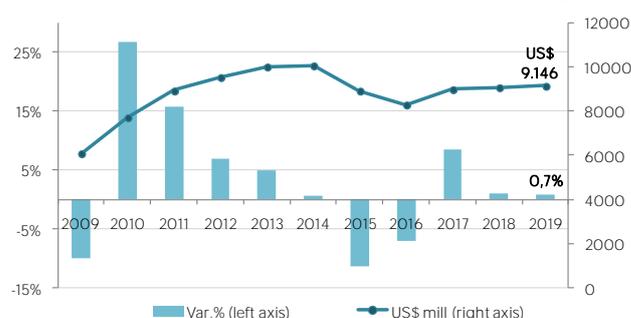
Uruguayan exports of goods, including those from free zones, **totaled US\$ 9.146 billion in 2019¹, an increase of 0.7% over 2018**. Sales of soybeans and beef boosted the year's external sales, while exports of live cattle, cellulose and timber had a negative impact on total exports.

In a year marked by trade tensions between the main markets and a relative slowdown in the world economy, the performance of Uruguay's export sector had a similar rhythm as the one in the region. According to World Trade Organization (WTO) estimates, international merchandise trade is expected to grow by 1.2 per cent in 2019, and exports in South America in particular are expected to grow by 1.3 %.²

International trade in 2019 was affected globally by the trade war between the United States and China. The application of tariff measures to certain products by the two main players in world trade affected the trade dynamics of the rest of the world. In particular, trade in raw wood to China³ and in wool was reduced for Uruguay, as the increase in tariffs in the United States for clothing and footwear of Chinese origin had negative effects, since it favoured a fall in prices combined with lower demand. Similarly, the prospects for soybean exports from Mercosur were decimated by swine fever, which reduced China's pig population.

For Latin America and the Caribbean, ECLAC estimates growth in export volume of 0.6% in 2019, although measured in value terms, regional exports show a drop of 2.3%. The decline in commodity prices mainly affected countries that export hydrocarbons and mining products, while exporters of agro-industrial products recorded smaller falls in prices⁴.

Chart N°1 – Exports of good from Uruguay



Source: Prepared by Uruguay XXI on the basis of National Customs Directorate, Nueva Palmira and Montes del Plata.

According to the physical volume index of exports produced by the Central Bank of Uruguay (BCU), in 2019 Uruguayan exports experienced a 7% increase in the year-on-year comparison for the January-October period, while the price index experienced a 4% decrease⁵.

Chart No. 2 presents the six main products exported by Uruguay (together they account for 64% of exports of goods). The horizontal axis shows the variation in volume, while the vertical axis shows the variation in average export price. The size of the bubbles is proportional to the amount exported by each product. It can be seen from this that most of these products grew relatively well in volume⁶, and that most of them -with the exception of dairy products and beef- had a negative evolution in export prices, especially in the cases of soybeans, cellulose and rice.

¹ Exports from Free Trade Zones totaled US\$ 2,216 million, which implied an increase of 14%. Meanwhile, exports from non-free territory totaled US\$ 7,491 million, 3.8% less than in 2017. This includes sales of beverage concentrate from ZF Colonia, cellulose from ZF Fray Bentos and Punta Pereira and pharmaceutical products from Zonamerica and Parque de las Ciencias.

² Source: WTO - "[The WTO is lowering trade forecasts in the face of tensions that are destabilising the world economy](#)".

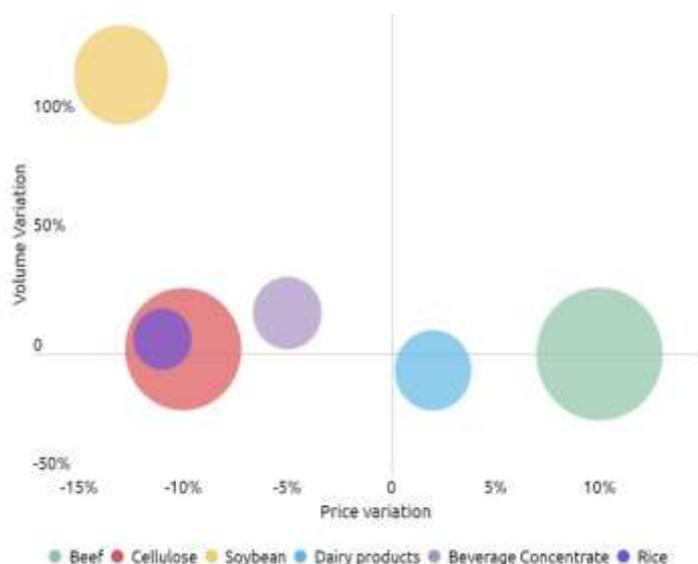
³ Source: El Observador "[Death throes of the comercial war: Uruguay's pine top market stopped buying](#)".

⁴ Source: ECLAC - "[Preliminary Overview of the Economies of Latin America and the Caribbean 2019](#)".

⁵ Source: [Central Bank of Uruguay](#)

⁶ The only exception with negative variation in the volume exported was dairy products, with -7% in the year-on-year comparison.

Chart N°2 → Main export products (Variation %, 2019)



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

Ranking of the main products exported in 2019

Exports of soybeans, beef, beverage concentrate, wheat and meat by-products were those with the greatest positive impact on foreign sales growth in 2019, while the reduction in sales of live cattle and cellulose were those with the greatest negative impact on exports in the year.

Beef was the main export product in 2019, with a total of US\$ 1,798 million. With a limited domestic supply, placements in volume of beef were practically equal to 2018, forcing greater imports from the region to supply the local market. Demand from China due to the impact on domestic pig supply from African swine flu increased beef shipments from Uruguay significantly. The increase was based on both an increase in volume and a rise in the average export price. In terms of volume, China concentrated 35% of external sales with a decrease in the participation of the European Union and Israel.

The year ended with a decrease in exports measured in dollars of **cellulose** pulp (-8%) despite an increase in volume (1%), the total exported was US\$ 1,527

million, positioning it as the country's second largest export. The price evolution is framed by a decrease in the international price of the product after a strong valorization in 2018. Commercial tensions between China and the United States generated a retraction in the demand of the Asian giant, to which was added an increase in world stocks given by a higher supply in the main producing countries. Among the main destinations for these exports, the European Union stands out with a share of 48%, followed by China and the United States with 32% and 12%, respectively.

Soybean was the product with the greatest positive impact on Uruguayan exports in 2019, with a total of **US\$ 1,002 million**. The volume of soybeans sold abroad more than doubled in 2019 with a crop helped by a very positive rainfall regime after the drought of the previous harvest. The increase in terms of volume was of the order of 117% year-on-year, while the amount was somewhat lower, at around 90%, due to the decrease in the average export price. The recovery of the regional supply in 2018/2019, the trade war between Beijing and Washington and a lower Chinese demand due to the African swine flu, led to a drop in prices. China's share of total purchases was around 80%, with an improvement in the protein content of exported soybeans.

Exports of **live cattle** reached US\$ 100 million in 2019. The turnover was less than half of the recorded in 2018. Turkey, Uruguay's main cattle buyer, moderated its purchases this year, prioritizing imports from other markets such as Brazil at more competitive prices. At the end of October the Turkish government suspended permits to buy live cattle in the face of an oversupply, and it is expected to return to the market around the end of the first quarter of 2020. In 2019, occasional deals were closed with the Chinese market, both for beef and dairy cattle, although there was no current and predictable demand from that source.

Dairy product sales reached US\$ 649 million in 2019, 5% less than in 2018. Within this sector, milk powder is by far the most exported product, accounting for 70% of total sales in the sector. In particular, for this product, the increase in international prices that was seen in the last part of the year - and which is expected to continue in the first months of 2020 - failed to compensate the fall in exports in volume. Algeria continued to dominate as the main buyer, followed by Brazil and in third place by China. It should be borne in mind that in Algeria it is the government that buys at price references given in the auction platform led by Fonterra.

Beverage concentrate exports increased 11% in the year-on-year comparison. Export volumes increased 17% compared to 2018, while the average export price maintained its downward trend. It is worth noting that in November 2019, the government extended the license to the company that manufactures the concentrate for 20 years, which added to the planned expansion of the plant -one of the three most important in the world-, reaffirms the commitment of large companies to continue investing in Uruguay⁷.

Rice exports totalled US\$ 372 million in 2019, making it the country's sixth largest export. The volume exported increased 6% over the previous season, but the sector faced a sharp drop in prices, mainly due to the adjustment in the main destinations and a greater share of shipments of paddy rice - with a lower export value. Between March and December, the share of paddy rice in the total was almost 22%, compared to less than 5% for the same period in 2018. Peru regained first place as a destination for the grain, with a share of 22%, followed by Mexico - including paddy rice after the qualification of this market - and Brazil. Non-traditional export markets such as Cuba, Turkey and Senegal also grew.

Table N°1 –Good exports of Uruguay

		Part.% 2019	Mill US\$	Var.%
1	Beef	20%	1.798	11%
2	Cellulose	17%	1.527	-8%
3	Soy	11%	1.002	90%
4	Dairy	7%	649	-5%
5	Beverage Conc.	6%	524	11%
6	Rice	4%	372	-6%
7	Wood	4%	359	-23%
8	Meat by-products	3%	302	8%
9	Plastics	3%	235	2%
10	Malt	2%	216	6%
11	Pharmaceutical Products	2%	211	-7%
12	Wool and fabrics	2%	186	-25%
13	Autoparts	2%	181	-11%
14	Leather	2%	155	-30%
15	Vehicles	1%	117	-9%

Details of the impact of each product of cumulative exports are available in the [Annex](#).

Ranking of the main export destinations in 2019

In 2019 **China** consolidated itself as the main destination of Uruguayan exports, a position it has held since 2013. Exports increased 23% in the year-on-year comparison as a result of increased shipments of beef (which exceeded US\$1 billion for the first time) and soybeans. These increases were 50% and 74% respectively, and in turn allowed the Asian giant to increase its share of total exports, reaching **31% of total exports** (US\$ 2,872 million).

The **European Union** had a 17% share of Uruguayan exports in 2019, making it the second largest export destination in the year. **Total exports were US\$ 1.532 billion, 8% less than in 2018**. The dynamics experienced by exports to the European block can be explained by lower placements of cellulose (-11%) and beef (-18%), which were not offset by a significant increase in sales of soybeans. In any case, cellulose occupied almost half of the sales to the European Union, being the main exported product, while bovine meat and wood were the second and third exported products respectively. In terms of countries, the main destinations were the Netherlands, Italy and Germany,

⁷ Source: [Presidency](#)

which are in turn the main destinations for cellulose destined for Europe. It should be noted that the Netherlands operates as an entry point for most of Uruguay's exports, which are then redistributed within the European block.

The main regional destination of Uruguayan exports was **Brazil**. In 2019, total exports stood at **US\$ 1.198 billion**, registering a **year-on-year growth of 5% (representing 13% of total sales)**. Sales were driven by agricultural products such as malt -with a high component of intra-company trade-, wheat, barley and rice, which were positioned as products with a high positive impact on exports. Exports of vehicles and beverage concentrate also had a positive impact. On the other hand, sales of sheep meat (-38%) and rubber (-36%) were the most negative. Thus, malt was the main product exported to the northern market (15% of the total), followed by plastics (14% of the total) and dairy products (11%).

With a total export of **US\$ 628 million**, the **United States** ranked fourth as a destination for Uruguayan exports in 2019. Exports had a 3% increase over 2018, driven mainly by the forestry sector, with sales of pulp, panels and sawn timber. Beef was the main product in this market⁸, with a 33% share of the total, followed by pulp (28%) and wood (8%).

Argentina ranked fifth as a destination for Uruguayan exports in 2019. Total exports were **US\$ 369 million**, which meant a 21% drop in sales to that country. Auto parts, the main product in that destination, suffered a 20% retraction in placements, while soybeans also had lower shipments. The cellulose maintained similar values to those of 2018 and was located as the second product exported to the neighboring country.

Despite a 13% retraction in sales to that destination, **Mexico** was again sixth in 2019. Total exports were US\$ 286 million, of which beverage concentrate occupied 49%, followed by rice with 16% and dairy products 10%. The retraction can be explained by lower sales of leather, wood and dairy products in the Aztec market.

Other relevant destinations in the year for Uruguayan exports of goods were Egypt -sales quadrupled, especially for soybeans-, Cuba -62% increase in exports, driven by rice- and Algeria, which was again the main destination for Uruguayan dairy products.

⁸ It should be noted that Uruguay participates in a quota for beef in this market, which amounts to 20,000 tons.

Figure N°1 –Main destinations of Uruguayan exports of goods (2019)



Highlights in 2019

- After twenty years of negotiations, the Strategic Association Agreement between Mercosur and the European Union⁹ was signed at the end of June 2019. For Uruguay in particular, the European Union is a key trading partner. Not only was it the second largest export destination in 2019, with a 17% share (and total exports of US\$ 1.532 billion), but it is also one of the main sources of Foreign Direct Investment (FDI) in Uruguay. The export of goods will receive preferential treatment upon entering the European block, which represents one of the main gains for Uruguay in this agreement. It is worth remembering that in 2018 Uruguay paid US\$

106 million in tariffs to the European Union¹⁰. This recently signed agreement eliminates almost all of these, which means that Uruguay will save 40% of the payment for this concept. In addition, access quotas were negotiated for some products such as beef, rice, honey and dairy products¹¹.

- In 2019, Mercosur also closed a trade agreement with EFTA (European Free Trade Association)¹². With both agreements, Mercosur ensures preferential access to practically the entire European continent. As in the agreement with the European Union, one of the most significant results is the significant reduction and elimination of tariffs for agricultural and agro-industrial goods. EFTA also grants exclusive access quotas for

⁹ Once the agreement has been signed, the text will be subject to a legal revision of style, and then signed and sent to the respective parliaments for ratification. It is estimated that the process will take at least two years.

¹⁰ Source: [Tariffs paid for exports from Uruguay](#).

¹¹ See IDB - INTAL - [Tariffs of the Agreement between the European Union and Mercosur](#).

¹² Block consisting of Norway, Switzerland, Iceland and Liechtenstein.

Mercosur for meat, honey, rice, wine and olive oil.

- In 2019, Mercosur also made progress in negotiations with other partners such as Korea, Canada and Singapore, in order to reach trade agreements with markets that represent a high trade potential for both the block and Uruguay¹³.
- Beef regained first place as an export product in 2019, after being overtaken by cellulose in 2018. The positive performance of this product is explained by the price growth, which accompanies an international trend influenced by phenomena such as the trade war and the African swine flu, which affected the supply and drove the demand for the product. In the case of Uruguay, the average export price increased by 10%. It should be noted that 2019 was the first full year of sales to the Japanese market, where qualification was achieved at the end of 2018. Although total exports to that market represented only 1% of the total, the prices offered are higher than average. Meanwhile, the Chinese market accounted for more than 60% of the total, while the European market had a 16% share. With respect to the European Union, it was confirmed that from January 1, 2020, the new regime of the so-called 481 beef import quota will begin, allocating a fixed and growing quota to the United States. From a quota of 45,500 tonnes - which until now had been dominated by Uruguay and Australia - the United States will be given 18,500 tonnes, a volume that will rise to 35,000 tonnes within seven years. Uruguay has achieved similar business to the 481 quota in recent years, although it would not be enough so far to compensate for the lower share in that quota.
- In July 2019, UPM confirmed the installation of its second pulp mill in Uruguay, which represents the largest foreign investment in the history of the country and the largest UPM investment outside Finland. The third plant will have a production capacity of 2.1 million tons, a volume notoriously higher than

the two existing plants. It is estimated that UPM's investment will increase annual exports by an average of US\$ 1.155 billion, approximately 12%¹⁴. As a result, the new plant will consolidate pulp as the country's main export product in the coming years and will improve Uruguay's position as a global pulp supplier, making it the second largest exporter of short-fiber pulp in the world.

- Cellulose, the country's second most important export product, suffered a gradual fall in the average export price during the year. On average, prices in 2019 were 10% lower than in 2018, affected by lower demand in one of the main markets, China, and a consequent overstocking by the main producers. This phenomenon affected the value of Uruguayan exports, given the share of pulp in total exports. In fact, if cellulose exports are not considered, export growth would have been 3% in 2019.
- In July, Mercosur [Decision No. 33/2015](#) on free zones entered into force. It establishes the maintenance of MERCOSUR origin when in the course of transport or storage a good enters a free zone. The regulation also applies to goods from third countries that have a trade agreement with Mercosur. This change exempts users from payment of the Mercosur external tariff, which implies a reduction in costs for these companies.
- In 2019, several health protocols and agreements that improve access in different markets were also signed. In particular, protocols for the entry of [honey and horsemeat](#)¹⁵ were negotiated in China, in the framework of an official tour in which national authorities of the agricultural sector, the president of the National Meat Institute (INAC), Uruguay XXI, and businessmen of the dairy sector participated. In the same tour, it was agreed to negotiate soon five additional protocols for the Chinese market (tripe, vegetable sorghum, non-GM soy for human consumption, poultry meat and meat and bone meal). Additionally, there were also

¹³ Source: [Presidency](#)

¹⁴ [See report](#)

¹⁵ Source: [Presidency](#)

private agreements, such as Conaprole, (which closed two export deals for 2,500 tons of powdered milk), Claldy (cooperation agreement with Theland) and Frigorífico Florida (agreement with the state-owned China Merchants Group for 60,000 tons of meat). Finally, the negotiation of the protocol for meat and citrus was determined in Vietnam¹⁶.

- In September 2019 it was signed the decree regulating the special customs regime for exports by micro and small enterprises (Mypes). Seventy-seven per cent of Uruguay's export companies are MSMEs and account for only 7% of total exports. This type of company contributes to the diversification of the exportable supply, provides innovation, adds value and helps to generate employment. The agreement signed between the Ministry of Economy and Finance (MEF), the Association of Customs Brokers of Uruguay (ADAU), Transforma Uruguay and Uruguay XXI¹⁷ creates a simplified export regime for micro and small enterprises. To facilitate the implementation of this new regime ([TUExporta](#)), customs declarations can be made through the Single Window for Foreign Trade (VUCE), simplifying all associated operations. This platform allows companies to make a simplified customs clearance, exempt from all taxes and duties and has a special procedure for returned goods, allowing savings in costs and time¹⁸.

Uruguayan imports in 2019

Imports of goods, excluding oil and oil products¹⁹, totaled **US\$ 7.201 billion in 2019**, a **7% reduction in**

the year-on-year comparison. This amount determined that Uruguay will have a positive trade balance in 2019, whether or not exports from free zones are considered.

The main import item was again **vehicles**, with an amount of **US\$ 572 million**, almost identical to that of 2018. Cars accounted for 52% of the amount imported, vehicles for the transport of goods for 37% and tractors for 10%. Imports came in almost 60% from Mercosur countries.

On the other hand, **clothing and footwear** imports had a 10% retraction, despite which they remained in second place in the ranking of imported products. The total was **US\$ 418 million**. China is the main supplier with more than half of the amount imported, followed by Brazil with 13%.

The **plastic** sector was the third product in Uruguayan imports in 2019. The amount imported was **US\$ 338 million**, 10% less than in 2018. Brazil, Argentina and Chile were the main origins of imports, together occupying 60% of total foreign purchases.

Cell phones were the fourth imported product in 2019 with an amount of **US\$ 282 million**, 8% less than in 2018, with a significant drop in purchases from the United States, the second supplier. **Chemicals and pharmaceuticals** ranked fifth and sixth in imports in 2019, with amounts of **US\$ 274 million** and **US\$ 272 million** respectively.

It is worth noting the growth in **beef** imports in 2019. The rising international price limited local supply, which boosted foreign purchases in order to meet domestic demand. In total, some 33,000 tons were imported for **US\$ 120 million**, with Brazil as the origin of 90% of these purchases.

¹⁶ Source: [Presidency](#)

¹⁷ MEF - Ministry of Economy and Finance, ADAU - Association of Customs Brokers of Uruguay, TU - The Secretariat of Productive Transformation and Competitiveness, Uruguay XXI - Investment, Export and Image Promotion Agency Country <http://tuexportas.gub.uy/images/convenioadau.pdf>

¹⁸ Source: [Presidency](#)

¹⁹ Headings 2709, 2710, 2711, 2713 and 2714 of the Mercosur Common Nomenclature (CNM) are excluded because purchases made by ANCAP are not recorded at the time of import. The foreign

trade statistics compiled by the Central Bank of Uruguay correct these discrepancies on the basis of information supplied by ANCAP.

Table N°2 – Imports of goods to Uruguay - 2019

		Part.%	Mill US\$	Var.%
1	Vehicles	7%	571	0%
2	Clothing and footwear	6%	418	-10%
3	Plastics	5%	338	-10%
4	Telephones	4%	282	-8%
5	Chemical substances	4%	274	-2%
6	Pharmaceutical products	4%	272	0%
7	Autoparts	3%	225	-7%
8	Paper and cardboard	2%	177	-6%
9	Paints and varnishes	2%	167	-7%
10	Beef	2%	127	101%

Brazil was the main source of imports, with a share of 23% and stable amounts compared to 2018. Vehicle purchases were the largest, with US\$ 302 million. Additionally, beef was the product that showed the greatest positive impact, while sugar had the greatest negative impact.

Purchases from **China** maintained their share of 22% despite a 4% drop from the previous year. Total imports stood at US\$ 1,609 million. Although they suffered a significant decrease, clothing purchases were the largest in the year. Phones and chemicals were other relevant products imported from this country.

Purchases from **Argentina** were the most negative incidence in the total variation of imports. They decreased by 12% with respect to 2018 and totaled US\$ 968 million. Purchases of plastics, chemicals and paper were the main ones from the neighboring country.

Meanwhile, the **United States** occupied fourth place with a 7% share. The amount imported from this source decreased for the second consecutive year, with a variation of -6% with respect to 2018. The main products imported were plastics, chemicals and telephones.

Mexico ranked as the fifth origin of Uruguayan imports, with US\$ 209 million, followed by other origins such as Germany, India, Spain and Italy.

Moderate outlook for exports of goods in 2020

After two years of very lean growth, it is expected that 2020 will also be a year of low dynamism for Uruguayan goods exports.

Firstly, the international context will continue to be complex this coming year. World trade in goods has shown very low growth since 2012 due to various structural factors including the loss of dynamism of the world economy, lower trade income-elasticity, and the fall in demand in countries dependent on commodity exports among others. This situation has been compounded by trade tensions between China and the United States, which seem far from being resolved and are already affecting global growth.

Furthermore, according to the latest ECLAC report²⁰, Latin America's trade performance will also be affected, mainly by an expected fall in the prices of the raw materials that the region exports. It should be noted that the biggest drop will be in the prices of metals, minerals and energy. Meanwhile, the prices of food and agricultural raw materials (products that Uruguay exports) would remain at similar levels to 2019.

Finally, the effect of the countries of the region is expected to be ambiguous. Argentina's situation will continue to have a negative impact on exports of goods. The recession that will continue in 2020, the strong devaluation of the Argentine peso and possible protectionist policies will probably mark 2020 as the third consecutive year of falling sales from Uruguay. Thus, the neighbor of the Rio de la Plata will continue to lose weight as an export destination.

On the other hand, the economic outlook for Brazil is more promising. As long as the recovery of the northern giant is confirmed, some Uruguayan export sectors could benefit, such as malt, dairy products, plastics, vehicles and auto parts.

²⁰ See [Preliminary Overview of the Economies of Latin America and the Caribbean 2019](#)

Some sectors, particularly those linked to agriculture, depend on internal elements in addition to the external factors already mentioned. For example, it is likely that last year's excellent soybean harvest in Uruguay will not be repeated, and therefore, soybean exports would fall in 2020 regardless of what happens to the price. In this sense, according to recent estimates by the Ministry of Livestock, Agriculture and Fisheries (MGAP)²¹, agro-industrial exports would fall 6% in 2020. The products with the greatest negative impact would be soybean, wood and cellulose, while beef would be positively affected.

In short, 2020 will again be a challenging year for the Uruguayan external sector. The global and regional context is complex and volatile, so export performance is also uncertain. Thus, it is expected that the export sector will be less dynamic on average, with the exception of some specific products.

²¹ See [Anuario OPYPA - 2019 \(MGAP\)](#)