

**ANNUAL
REPORT
Foreign
Trade**



Uruguay XXI
PROMOCIÓN DE INVERSIONES
Y EXPORTACIONES



2017

Executive Summary

- Uruguayan exports of goods, including those made from free zones, totaled US\$ **9,058** million in 2017, which implied an increase of **9.2%** compared to 2016. The growth experienced in Uruguayan exports is the highest since 2011, and it also ends with a stage of 3 years of stagnation.
- Exports of soybeans, wood, pulp and meat were those with the greatest positive impact on the growth of 2017, while sales of beverage concentrate and wheat registered reductions that had the highest negative incidences in the year.
- In 2017, the export of electrical energy doubled, exceeding US\$ 141 million. If this item is included in the total exports, they would total US \$ 9,200, thus achieving a growth of 10% in the year. This increase is mainly explained by sales to Brazil through the new electric interconnection line inaugurated this year.
- China was the main partner in 2017, with amounts of US\$ 2,549 million, which implied a participation of 28%. Next in importance are Brazil (13%), the Netherlands (6%), the United States (6%) and Argentina (6%). If we consider the European Union as a whole, exports to this destination totaled US\$ 1,453 million in 2017 (16% of the total).
- According to the projections prepared by Uruguay XXI, Uruguayan exports of goods would grow in the order of 1.5% in 2018. The improvement in the regional economic perspectives are those that would generate a greater boost of Uruguayan trade. Meanwhile, from the world economy, the demand and prices of commodities would grow moderately.
- Imports of goods -without considering oil and derivatives- reached US\$ 7,395 million, which represented an increase of 1.4% in 2017. The main products imported were vehicles, clothing and footwear, plastics, cell phones and pharmaceutical products

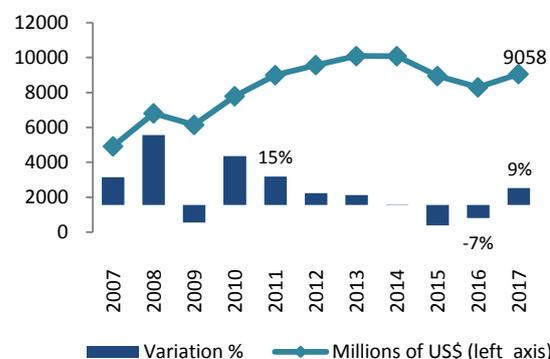
	US\$	US\$	%
	2016	2017	Var.
With Free Zones	8,298,513,243	9,058,431,409	9.2%
Without Free Zones	7,060,268,571	7,820,041,151	10.8%

Uruguayan exports of goods in 2017

Uruguayan exports of goods, including those made from free zones, totaled US\$ **9,058¹** million in 2017, which implied an increase of **9.2%** compared to 2016. This is the highest growth since 2011, and also ends a period of 3 years of stagnation of Uruguayan external sales² (see Chart N° 1).

This increase occurs in a global and regional context of recovery of goods trade. According to estimates of the World Trade Organization (WTO), the international merchandise trade would grow by 3.6% in 2017³. On the other hand, for Latin America and the Caribbean an increase of exports of 13% is foreseen in 2017⁴. In most countries, this increase is mainly explained by the rise in commodity prices. In this sense, the recovery seems to be weak, since the prices of these products begin to exhibit signs of slow down while the growth rates of the exported volumes do not show great dynamism, except in a few countries.

Graph N°1 – Exports of goods from Uruguay



Source: Prepared by Uruguay XXI based on National Customs Office, Nueva Palmira's New System and Montes del Plata

The growth of Uruguayan exports of goods in 2017 is mainly explained by the export volumes of some products. The index of physical volume of exports prepared by the BCU experienced an interannual increase of 29% in the period of January-October 2017⁵. The export volumes of soybeans and wood were the ones that experienced the highest growth, offsetting the fall in their prices. For its part, cellulose, meat and rice showed a slight increase in both prices and quantities. The prices obtained by the dairy allowed to reverse a significant drop in the volumes sold. Chart N°2 presents the seven main products exported in 2017 (together they are almost 70% of the total exported), disaggregating the growth of the value in prices and tons.

¹ Exports from Free Zones totaled US\$ 1,950 million, which implied an increase of 1.9%. Meanwhile, exports from non-franc territory totaled US\$ 7,820 million, 10.8% more than in 2016. The sales of beverage concentrate from ZF Colonia, cellulose from ZF Fray Bentos and Punta Pereira and from pharmaceutical products from Zonamerica and Parque de las Ciencias are taken into account.

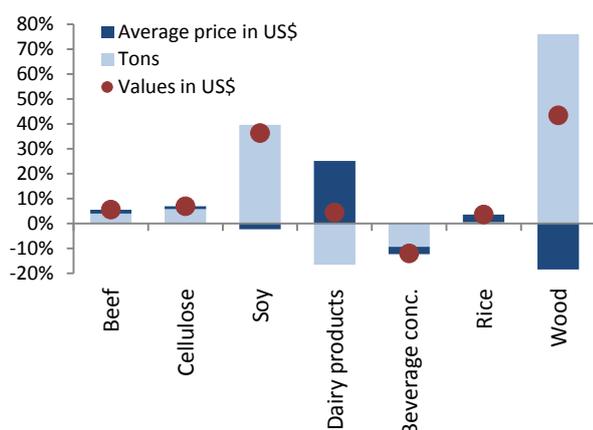
² In December 2017, export requests were reduced by 2.3% with respect to the same month of the previous year. This fall is not very surprising, given that December 2016 had been a month of significant growth.

³ Estimation of the World Trade Organization ([press/800](#)), September 21, 2017

⁴ [2017 Trade and Integration Monitor, 2017, IDB](#)

⁵ <http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Intercambio-Comercial.aspx>

Graph N°2 - Main export products (Variation %, 2017)



Source: Uruguay XXI based on National Customs Office and Montes del Plata.

Ranking of exported products

Exports of soybeans, wood, pulp and meat were the ones with the highest positive impact in 2017. On the other hand, the exported amounts of beverage concentrate and wheat registered reductions that had negative impacts on total exports

Beef was the most exported product in 2017 with sales reaching **US\$ 1,517 million**, which implied an increase of 5.5% compared to 2016. This increase was explained by an increase in the average export price of 1.5% and an increase of 4% in the exported volumes. Regarding the destinations of beef, China stands out with a 40% share on the exported amount and 52% on the exported volume. The European Union was the second destination market, with 25% of sales, followed by the United States with 13%

Cellulose exports reached **US\$ 1,327 million** in 2017, placing it as the second export product. Sales were 7% higher than in 2016. This increase was explained almost exclusively by an increase in export volumes, since annual average prices increased 1%.

Soybean sales reached **US\$ 1,189 million** in 2017, growing 36% compared to 2016. The extraordinary harvest 2016/2017, with record production and yield records was what allowed this increase in sales, which was explained by the increase in the exported volumes

of 40% compared to 2016. For its part, the average annual export price registered a decrease of 2%. China addresses more than 80% of the total Uruguayan soybeans.

Exports of **dairy products** totaled **US\$ 591 million**, growing 4% compared to 2016. The variation was explained by a significant increase in the prices of these products, which on average increased by 25%. On the other hand, exported volumes decreased 17%. Milk powder was the most exported product with a participation of 64% and amounts of US\$ 379 million, followed by cheese with amounts of US\$ 128 million. In terms of export destinations, Brazil lost participation in the total amount of sales, and went from 61% in 2016 to 39% in 2017, while Algeria increased its share from 7% to 20%.

Exports of **beverage concentrate** decreased 12% compared to 2016. This was mainly explained by a decrease in export volumes of 9.35%. On the other hand, prices experienced a decrease of 3%.

With amounts of **US\$ 447 million**, **rice** registered an increase of 3.5% compared to 2016, mainly explained by an increase in average export prices of 3%. Peru was the main destination, with a 26% share followed by Brazil with a 19% share. The amounts exported to Peru increased 10% in the year-on-year comparison, while the amounts exported to Brazil decreased 18%. On the other hand, the volumes exported to Mexico, Iraq and Cuba experienced important increases, positively impacting the total amounts exported from this product.

Exports of **wood and by-products** also showed a strong impact on exports in 2017. The exported amount was **US\$ 329 million**, which implied an increase of 43% compared to the previous year. China is the main destination with a 40% share. It is worth mentioning the shipment of raw pines to the Asian market, whose amount went from US\$ 10 million in 2016 to US\$ 96 million in 2017.

Table N°1 –Exports of goods from Uruguay

		Part.% 2017	Mill US\$	Var.%
1	Beef	17%	1,517	6%
2	Celullose	15%	1,327	7%
3	Soy	13%	1,189	36%
4	Dairy products	7%	591	4%
5	Bev. concentrate	5%	495	-12%
6	Rice	5%	448	4%
7	Wood	4%	329	43%
8	Leather	3%	244	-12%
9	Pharm. Products	3%	240	-1%
10	Meat byproducts	3%	251	12%
11	Wool and fabrics	2%	211	3%
12	Livestock	2%	221	15%
13	Auto parts	2%	200	14%
14	Plastic	2%	197	12%
15	Malt	2%	184	16%

Source: Uruguay XXI based on data from the National Customs Office and Montes del Plata.

The detail of the incidence of each product in monthly exports is available in the [annex](#).

Ranking of export destinations

China was the main export destination in 2017, since it is exported **28% of the total**, with amounts of **US\$ 2,549 million**, with a growth of 38% compared to 2016. Soybeans were the main exported product with a participation of 39% in the total amount of sales to the Asian giant. Beef and pulp ranked second and third respectively with a share of 24% and 22% respectively.

Brazil positioned itself as the second export destination, with a share of 13% in 2017. This destination registered the greatest negative impact on Uruguayan exports as the exported amounts decreased 9%, which is mainly explained by the reduction in exports of dairy, wheat and rice. On the other hand, exports of vehicles and plastics showed important increases with respect to 2016, which helped to counteract the effect generated by exports of dairy products, wheat and rice.

The amounts exported to **the Netherlands** decreased by 6% compared to 2016 with sales that were placed

at **US\$ 534 million**. Cellulose was the main exported product with sales reaching **US\$ 281 million**, which implied a reduction of 9% compared to 2016. It was followed by beef with sales that reached **US\$ 173 million**, 9% higher than those of 2016. For its part, soybean ranked third despite having decreased to almost half of what was exported the previous year. It is worth mentioning that the Netherlands works as a point of entry for a large part of Uruguayan exports to the European Union. If the block is considered as a whole, exports to this destination totaled **US\$ 1,453 million** in 2017, experiencing a decrease of 9%.

The United States ranked fourth as a destination for Uruguayan exports with amounts exceeding **US\$ 530 million**, a figure that represents an increase of 6% compared to 2016. Although the exported amounts of bovine meat and leather decreased, the amounts exported from cellulose, wood, citrus fruits, soy, honey and fish increased. As in 2015 and 2016, the United States was the main destination for citrus, after the commercial negotiations carried out in 2013 that allowed sales to this market.

The fifth place was occupied by **Argentina**, where more than **US\$ 515 million** was exported in 2017, which implied an increase of 15% in 2017. The auto parts were again the main exported products, with US\$ 96 million, followed by pulp with US\$ 73 million. Sales of pulp, auto parts, dairy products, margarine and oils, cement and vehicles were the ones that had the greatest positive impact on exports to this country. It should also be noted that soy sales to the neighboring country had a large negative impact on total exports to Argentina, registering a reduction of 54% compared to 2016⁶. Paper and cardboard sales also had a negative impact on exports to this country.

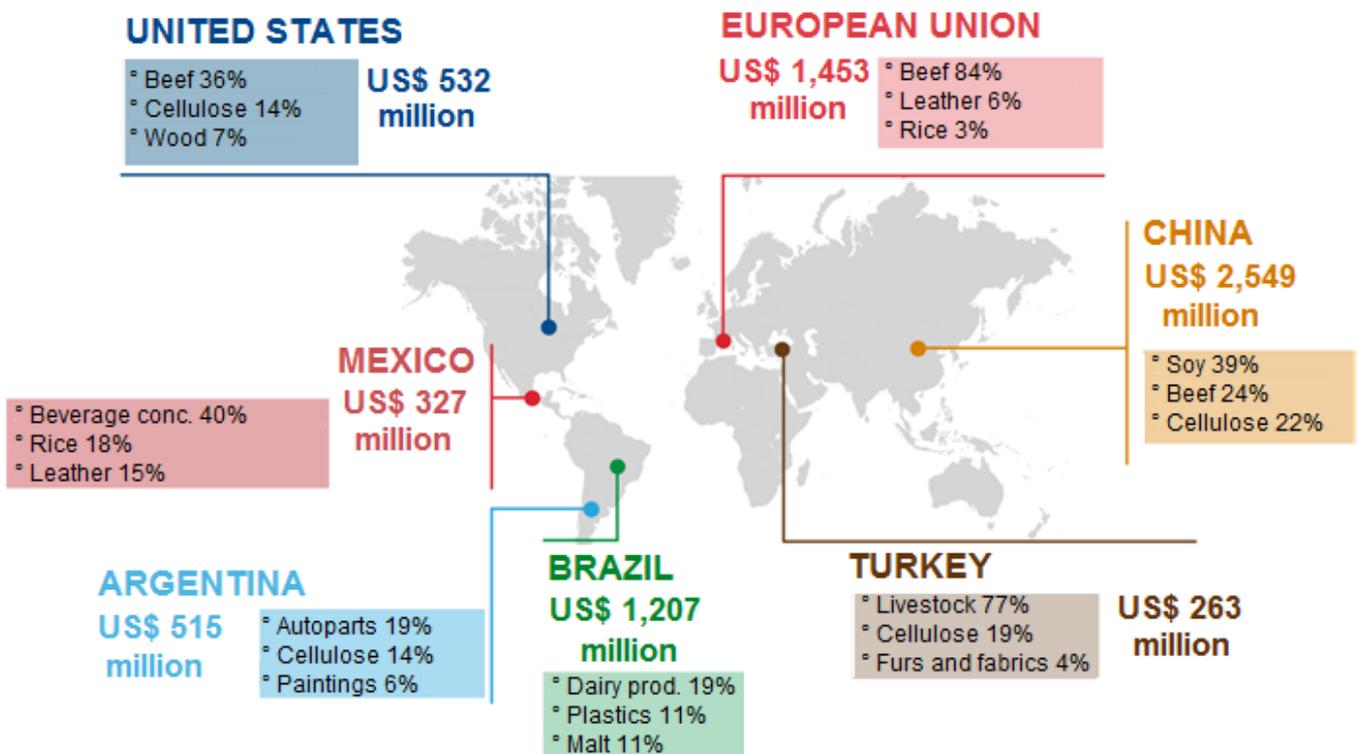
Although Algeria ranked 11th as an export destination, it was the country with the greatest positive impact on exports in 2017 after China. The amounts exported went from US\$ 42 million in 2016 to US\$ 145 million in 2017. The increase in sales to this destination is explained by higher sales of dairy products that tripled and reached amounts of US\$ 120 million, transforming Algeria in the second destination of dairy products

⁶ Soy sales in 2016 were through an unprecedented operation, transported through barges from the port of Montevideo to the port of San Lorenzo in the province of Santa Fe
Source: El país ["Soja uruguaya para Argentina, buena exportación"](#)

exports. Likewise, in 2017 wheat sales were registered for approximately US \$ 25 million.

Other relevant destinations in 2017 for Uruguayan exports were: Mexico - exports to this destination experienced an increase of 12%, mainly explained by higher sales of rice and wood; Italy - exports to this destination grew 22%, led by higher sales of pulp, wool and soybeans; Turkey - for sales of live cattle, which increased 17% in 2017; Peru - sales to this destination increased by 10% led mainly by higher sales of rice.

Figure N ° 1 - Main destinations of Uruguayan goods exports



Highlights of 2017

China

- From November 30 to December 2, the XI China LAC 2017 Business Summit was held in Punta del Este. This event brought together 2,400 foreign and national businessmen, trade organizations, authorities and media from China, Latin America and the Caribbean.
- In December 2017, the commercial traceability agreement between the National Meat Institute (INAC) and the China Certification & Inspection Group (CCIC) was signed. The objective of the agreement is to put the consumer in China in contact with the characteristics of the production processes in Uruguay by reading a QR code on the products. This seeks to generate greater value and a link of consumer loyalty. The CCIC is an independent organization dedicated to provide inspection, verification, certification and testing services and has the accreditation of the Chinese institution that controls the quality of the products (AQSIQ)⁷.
- In October 2016, the phytosanitary requirements protocol for soybeans exported from Uruguay to China was signed. The protocol became effective in 2017 for the 2016/2017 harvest. The document formally established certain sanitary requirements, most of which were already demanded from China. The procedures to be followed against any phytosanitary event were also determined. The protocol strengthened the cooperation and exchange between both countries. In the first year of implementation of the new protocol there was no case of rejection of soybean shipments⁸.

⁷ <http://www.mgap.gub.uy/noticia/unidad-ejecutora/direccion-general-de-secretaria/01-12-2017/inac-firmo-un-acuerdo-historico>
⁸ <http://www.mgap.gub.uy/unidad-ejecutora/direccion-general-de-servicios-agricolas/descarga/protocolo-fitosanitario-para>

New markets

- Negotiations to achieve the entry of beef into the Japanese market are increasingly advanced. The technical report on Uruguayan beef, carried out by a Japanese Sub-Committee, was approved in December 2017, within the framework of the 27th Meeting of the Bovine, Suine and Other Diseases Sub-Committee. Uruguay received a very positive balance regarding the sanitary control of beef. The opening of the Japanese market would be an important milestone since it is the only country of high demand in sanitary matters to which there is still no access⁹.
- In November 2017, the Uruguayan government announced the start of genetic research to sell soybeans for human consumption to China. Uruguay received a Chinese delegation that focused on the analysis of the quality of the soybeans, the control of the productive process and the rotation of crops. Although research has already begun, the generation of a new variety can take many years, which is a process that can be slow. However, China's intention to work in this direction stands out.
- Uruguayan bone-in sheep meat entered the United States. After 17 years of negotiation between the United States and Uruguay, in November 2017, the first shipment of bone-in sheep meat from Uruguay to Philadelphia set off. In 2013 the shipment of boneless ovine meat to this destination had already been enabled. The opening of this market for Uruguayan sheepmeat also represents a letter of introduction for other possible future markets

New agreements

- In October 2016, a last-generation Free Trade Agreement with Chile was signed. In addition

⁹ <http://www.mgap.gub.uy/noticia/unidad-ejecutora/direccion-general-de-servicios-ganaderos-unidad-de-asuntos-0>

to including commitments on access to markets for goods and services, it has chapters on disciplines such as electronic commerce, the environment, labor standards, trade and gender, SMEs, cooperation, transparency and anti-corruption. It is currently under discussion for approval in parliament.

- In 2017 significant progress was made in the negotiation between Mercosur and the European Union. The agreement is one of the priorities of Mercosur and it is currently waiting for the European Union to improve its offer, as did MERCOSUR in December 2017, particularly in the beef and ethanol sector.
- In 2017, the first negotiations between EFTA (Switzerland, Norway, Iceland, Liechtenstein) and Mercosur were established with the aim of reaching an agreement between both blocks. The next round of negotiations will take place in April 2018.
- In September 2017, the agreement between Egypt and Mercosur entered into force, which establishes the immediate release of tariff rates for 26% of Mercosur products and 31% of Egyptian products. In addition, the progressive liberalization of tariffs was determined, reaching 99% of the exports of the Mercosur countries and 97% of the exports of Egypt within 10 years. Egypt imports 50 billion dollars annually and a good part of these products are food, which implies important export opportunities for the regional bloc.
- During the official visit to Mexico in November 2017, the FTA between both countries was revised, achieving significant advances in commercial matters and access to that market. A tariff benefit was obtained for beef, which will enter with a quota of 250 tons without tariffs to the Aztec market¹⁰. In addition, Mexico established the entry of 1,500 tons of milk powder, which may be imported directly by the final distributor. Finally, in terms of rules of origin, the rules originally set for products such as alfajores

and certain aluminum products were renegotiated, with which the income will be exempt from tariffs. These changes will take effect once the internal procedures in both countries are met.

- Finally, it is expected that in 2018 MERCOSUR will launch negotiations for the signing of Free Trade Agreements with Singapore, Korea and Canada

Electrical energy

- In 2017, the Uruguayan export of electric energy doubled, reaching an amount of approximately US\$ 150 million. This increase is explained by the new electricity interconnection line with Brazil, which allowed the export of energy back to the neighboring country, which received 87% of the exported energy. Although UTE is the leading company in the field of energy exports, in 2017 two private companies, energy traders, obtained the permits to export to Argentina. One of these companies already made sales to the neighboring country in the last quarter of the year.

UPM

- In November 2017 an investment agreement was signed between the UPM company and the Uruguayan government for the installation of UPM's second pulp mill. It would have a similar production to the total of the two already installed, and would position cellulose as the main export product. In addition, Uruguay would become the second world exporter of short fiber pulp.

Uruguayan imports in 2017

Imports of goods remained stable in 2017. External purchases, without considering oil and derivatives¹¹,

¹⁰ According to what was originally agreed in ACE No. 60, beef entered with a 7% tariff.

¹¹ It excludes items 2709, 2710, 2711, 2713 and 2714 of the Common Mercosur Nomenclature (NCM) because purchases made by ANCAP are not recorded at the time of importation. Foreign trade statistics prepared by the Central Bank of Uruguay correct these discrepancies based on information provided by ANCAP.

reached **US\$ 7,395 million**, which represented an increase of **1.4% in the year-on-year comparison**.

The **vehicles** were the main import of the country, reaching an amount of **US\$ 705 million**, which implied an increase of 30% compared to 2016. 62% of the imported amount corresponded to automobiles, 30% to vehicles for the transport of merchandise and 8% to tractors.

The purchases of **clothing and footwear** were placed in second place with an amount of **US\$ 463 million**, which implied an interannual increase of 15%. China is the main supplier with 57% of the amounts imported, followed by Brazil with 12%.

Imports of the **plastic** sector exceeded **US\$ 448 million** in 2017 and had a strong regional origin, reaching a 43% share of purchases from Brazil, Argentina and Chile. China, India and the United States also had significant weights of 12%, 11% and 10% respectively.

Cell phones were the fourth product imported in 2017, with figures 11% higher in the year-on-year comparison and had China and the United States as the main suppliers. **Pharmaceuticals and chemicals** ranked fifth and sixth in imports in 2017 with amounts of **US\$ 273 million** and **US\$ 263 million** respectively.

The **auto parts** reached amounts of **US\$ 209 million**, experiencing an increase of 46% compared to 2016. This increase is explained by the reactivation of auto assembly production lines by companies in the automotive sector. Brazil is the main destination for armed vehicles in our country.

The purchases of inputs for the wind mills were those that had the greatest negative impact on the imports of 2017, going from amounts of US\$ 477 million to amounts of US\$ 48 million. This is due to the slowdown in 2017 of the wind farm construction boom that occurred between 2014 and 2016. On the other hand, the import of solar panels tripled and went from US\$ 26 million in 2016 to US\$ 79 million in 2017, achieving a positive impact on imports.

The analysis by origin shows that **China** had a participation of 23% in the total, and purchases from that source increased by 11% compared to 2016. Of note in this source were the purchases of clothing, telephones, chemical substances, computers, supplies

for solar energy, plastics and their manufactures, auto parts and vehicles.

Brazil was the second origin of imports, with a participation of 22% and an increase of 18% compared to 2016. Vehicle purchases were those that showed the greatest positive impact, with amounts that reached US\$ 382 million.

Argentina ranked third with a 14% share. Purchases from the neighboring country experienced a slight retraction of 0.5%.

Meanwhile, **the United States** ranked fourth with a 7% share. Although the amounts from this source remained stable, the composition of the purchases suffered some variations. The purchases of inputs for the wind mills and plastics had a significant decrease, offset by an increase in purchases of phones and vehicles.

Finally, **Mexico** ranked as the fifth origin of Uruguayan imports surpassing Germany and Spain. Purchases from these European countries experienced a significant drop, also explained by the drop in purchases related to components for wind mills.

Exports will grow in 2018

By 2018, exports are expected to continue growing, albeit at a slower pace. According to **the projections prepared by Uruguay XXI, Uruguayan exports of goods would grow in the order of 1.5% in 2018**¹². This growth will be supported by stable commodity prices, a region that will continue to grow - at moderate rates - and weak global demand.

Although China's economy will slow slightly in 2018, it will continue to be the main destination for Uruguayan exports. The growth of this market in the last two decades has modified the global dynamics of trade and in Uruguay has had a particular impact since 2008. The process of urbanization in the Asian country and the greater consumption of its population, with a growing concern for quality, has had an impact especially on the demand for food. In this sense,

¹² For more information:
<http://www.uruguayxxi.gub.uy/informacion/knowledge-base/perspectivas-del-comercio/>

Uruguay will benefit from an increase in food sales with higher added value (for example beef) in the years to come. In addition, China has shown interest in new multilateral initiatives, such as the "new Silk Road" that will expand its commercial and financial integration with the rest of the world.

The economy of **Brazil** - Uruguay's second trading partner - managed to finally emerge from a deep recession in 2017. It is expected that in 2018 it will grow at rates close to 2% and for 2019 the expectations are even better.

For its part, Argentina also resumed growth in 2017 and it is expected that in 2018 the level of activity will increase 3%, slightly above the previous year. It should be remembered that Argentina is a relevant partner for Uruguay, not only as a destination for exports of goods, but mainly for tourism and for being one of the main origins of Foreign Direct Investment. On the other hand, the current government began to develop a less restrictive trade policy, which in 2017 is reflected in an increase in exports.

The economic recovery of the two great neighbors of Uruguay has been accompanied by a greater real appreciation of its currency with respect to the Uruguayan peso. This also has a positive effect on exports in the short term.

On the other hand, it is estimated that the **US** economy will continue to grow, beyond the risks that a more protectionist policy by the Trump government could imply.

Europe continues to go through one of the stages of greatest political uncertainty in its history. The Brexit process - which has already formally started and will take at least two years - will affect trade relations between the United Kingdom and the European Union and will have an impact on global trade flows. As a long-term strategy, the European Union is promoting an intense agenda of trade negotiations that includes agreements with Japan, Canada, Singapore, Vietnam and progress in negotiations with Mexico and MERCOSUR.

In summary, the regional economic perspectives are those that would generate a greater impulse of Uruguay's trade in 2018. Meanwhile, from the world economy, although the signals are mixed, demand

would grow moderately. Commodity prices would also grow moderately contributing to an increase in exports in most of the exportable items of the country.