REPORT
EUROPEAN UNION

SEPTEMBER 2022

Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY BRAND PROMOTION AGENCY

EXECUTIVE SUMMARY

- The European Union has been and continues to be a strategic international partner for Uruguay. In 2021, exports of goods to this market totaled USD 1,574 million and ranked third in terms of export destinations, accounting for 15% of total exports. Paper pulp and beef are the main products exported to the union, and together accounted for more than 70% of total exports.

- In 2021, USD 64 million were paid in tariffs associated with exports of goods to the European Union. Of this total, beef accounted for 65%, followed to a much lesser extent by tariffs associated with rice, citrus and honey, among other products.

- The European Union is the leading investor region in Uruguay, followed by South American countries. Indeed, European Union countries accounted for 36% of FDI stock in Uruguay (2020). European investments have been essential for the development of some strategic sectors in Uruguay, such as agriculture, forestry, energy and information technology. European Union countries account for 36% of FDI stock in Uruguay, which mainly consists of Spanish and Finnish capital. Spanish companies have invested primarily in energy (mainly wind) and services (financial, fintech and business services). Spanish companies also invest in other sectors, such as the food industry, tourism, agro-industrial production, and trade.

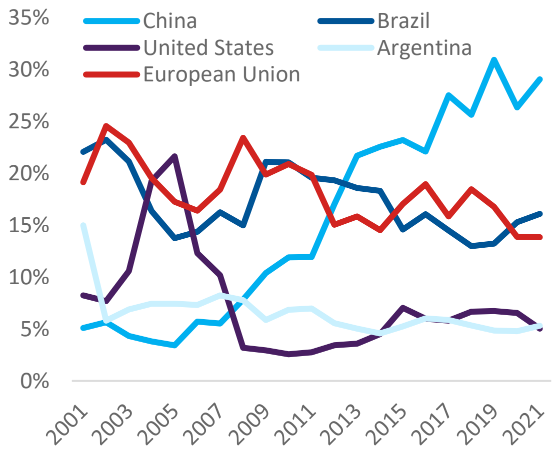
- Finally, the strategic European Union-Mercosur Association Agreement is expected to increase trade and investment between the two blocs. In addition, it will boost innovation, foster greater integration of both parties’ production chains, and promote sustainable development.

Uruguay XXI
PROMOCIÓN DE INVERSIONES, EXPORTACIONES E IMAGEN PAÍS

EUROPEAN UNION: STRATEGIC TRADE PARTNER FOR URUGUAY[1]

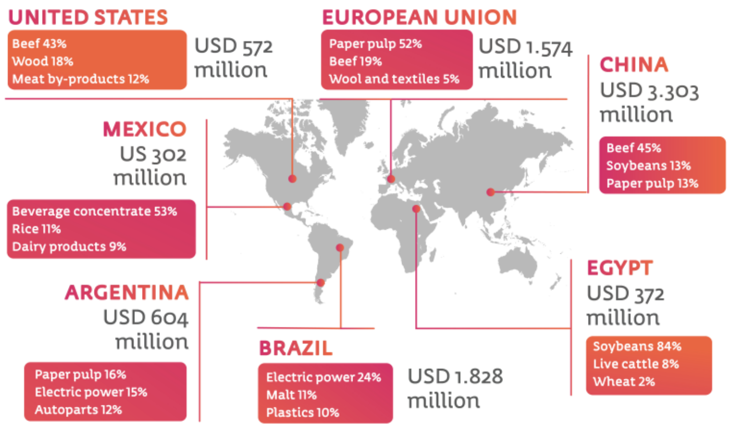
The European Union has been and continues to be a strategic trade partner for Uruguay. In 2011, exports of goods to this destination reached a record USD 1,746 million. Although the flow fell to an annual average of USD 1,493 million in the decade that followed, its share in total exports remained high (15%). **The European Union has been among the top three export destinations in the last two decades.** Between 2002 and 2008 it ranked first. As China became the main partner since 2013, the European Union began to take second and third place alternately with Brazil.

Chart No. 1
Exports of Goods from Uruguay (Including Free Trade Zones)
Share % 5 main destinations



Source: Prepared by Uruguay XXI based on data from the National Customs Authority, the Central Bank of Uruguay, Montes del Plata and SiGes Nueva Palmira.

Uruguay's Main Export Destinations 2021



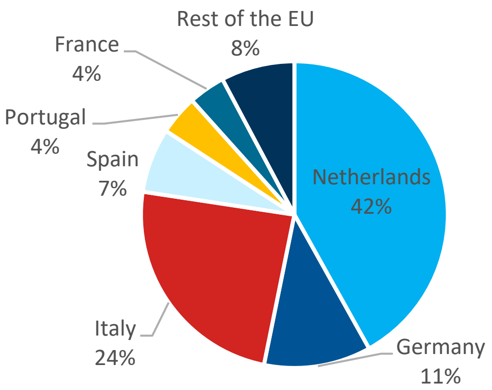
Source: Prepared by Uruguay XXI based on data from the National Customs Authority, the Central Bank of Uruguay, Montes del Plata and SiGes Nueva Palmira.

In 2021, exports to this market totaled USD 1,574 million, ranking third in terms of export destinations.

Regarding **destinations** within the union, the Netherlands has ranked first since 2008. It is worth noting the role played by the port of Rotterdam, as a regional logistics hub, in receiving and distributing products to the other countries of the continent[2]. In 2021, 42% of exports to the European Union were destined for this country. It was followed by Italy with 24%, Germany with 11%, Spain with 7% and Portugal and France with 4% both.

[1] Statistical data in this section include the United Kingdom within the European Union up to and including 2020.
[2] According to Shanghai International Shipping Institute, the port of Rotterdam is the best performing port in Europe. In 2021 it handled 469 million tons, while Antwerp in Belgium, which ranks second, handled 240 million tons.

Chart No. 2
Exports of Goods from Uruguay to the European Union
Share % main destinations 2021



Source: Prepared by Uruguay XXI based on data from the National Customs Authority, the Central Bank of Uruguay, Montes del Plata and SiGes Nueva Palmira.

Regarding **products**, there has been a clear increase in paper pulp's share since the first recorded shipments of this product in 2007. While in 2011 it accounted for 26% of the total exported value (USD 453 million), in 2021 its share amounted to 52% (USD 824 million). The increase is due both to the growth of paper pulp exports in absolute terms and to the fall in exports of the rest of the products.

In 2008, beef and its by-products recorded their highest export value: USD 559 million (36% of the total). In the subsequent period, its annual share averaged 26%. As for the rest of products, an overall decrease was registered, both in terms of share and level. Wood exports, which amounted to USD 164 million in 2011, reached USD 66 million in 2021.

In the same period, soybean fell from USD 130 million to USD 9 million and wool from USD 102 million to USD 75 million.

As can be seen in the following table, in the last decade there has been a change in the composition of goods exported to the European Union. This goes hand in hand with the change in Uruguay's export offer: more paper pulp and less leather and wool are exported.

Table No. 1
Exports to the European Union by Product
Millions of USD

	2011	2021
Paper pulp	453	824
Beef and by-products	429	338
Wool and fabrics	102	75
Wood	164	66
Rice	65	58
Leather and fur	86	16
Citrus fruits	52	24
Soybeans	130	9
Other products	265	163
Total	**1,746**	**1,574**

Source: Prepared by Uruguay XXI based on data from the National Customs Authority, the Central Bank of Uruguay, Montes del Plata and SiGes Nueva Palmira.

In the first half of 2022, exports to the European Union continued to be very dynamic. Sales amounted to USD 742 million, 46% higher than in the same period of 2021. Higher sales of paper pulp, beef and wood accounted for most of this variation.

In 2021, the tariff paid for exports to the European Union was USD 64 million. Of this total, beef accounted for 65%, rice for 12%, citrus for 6%, honey for 5% and the remaining products for 12%. In the year-on-year comparison, the tariff paid registered an increase of 17%, lower than the 38% growth in exports. The gap was explained by the increase in the share of paper pulp and soybean—which pay zero tariff—in total exports to this destination.

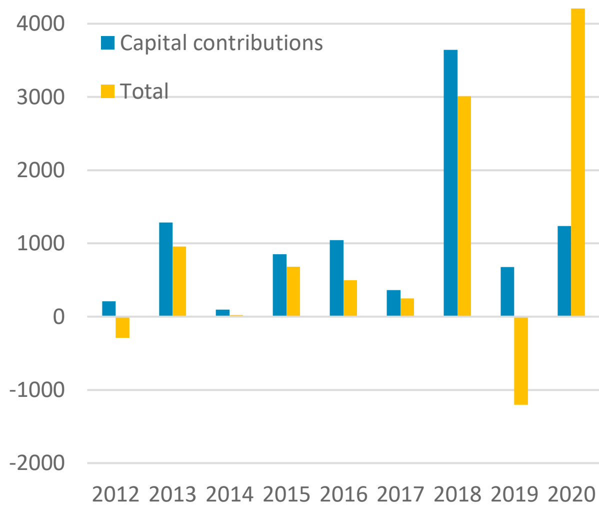
In turn, the European Union has remained one of the top five import origins in the last 20 years, together with Argentina, Brazil, China, and the United States. Between 2011 and 2021, the European Union's share of Uruguay's total imports ranged between 13% and 19%.

In 2021, Germany, Spain, France, and Italy had a combined share of 70%. The two main items that year were industrial supplies and machinery and equipment, which accounted for 34% and 22% of the total, respectively. More than 63% of products of German, Spanish and Italian origin fall into these categories. French imports, which accounted for 16%, consisted in 45% of transportation parts and accessories.

EUROPEAN UNION: STRATEGIC INVESTOR PARTNER FOR URUGUAY

Foreign direct investment (FDI) is one of the factors that has driven Uruguay's economic development in recent decades. Investments from the European Union[3] have been essential for the development of some strategic sectors such as agriculture, forestry, energy, and information technology.

Chart No. 3
FDI Received in Uruguay from the EU
Millions of USD



Source: Central Bank of Uruguay (BCU).

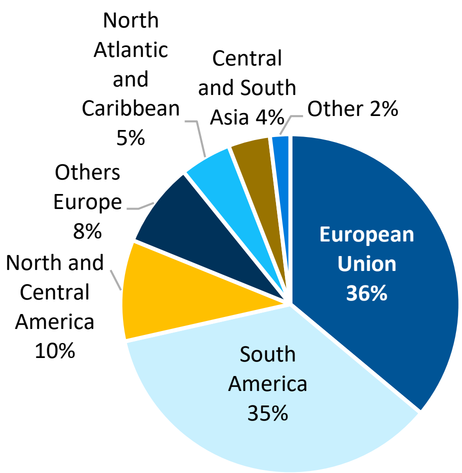
FDI inflows from the European Union to Uruguay totaled USD 4,097 million in 2020, showing a marked increase compared to 2019. In any case, this rise was largely explained by the intercompany loans' modality, which is the most volatile component of FDI. Considering only

[3] This section does not include the United Kingdom within the bloc.

capital contributions—which are the most genuine part of investment—positive records were observed throughout the period, with a peak in 2018 resulting essentially from Spanish investments.

European Union countries accounted for 36% of FDI stock in Uruguay, with almost USD 12,000 million in 2020[4]. Thus, the European Union is the leading investor region in Uruguay, followed by South American countries.

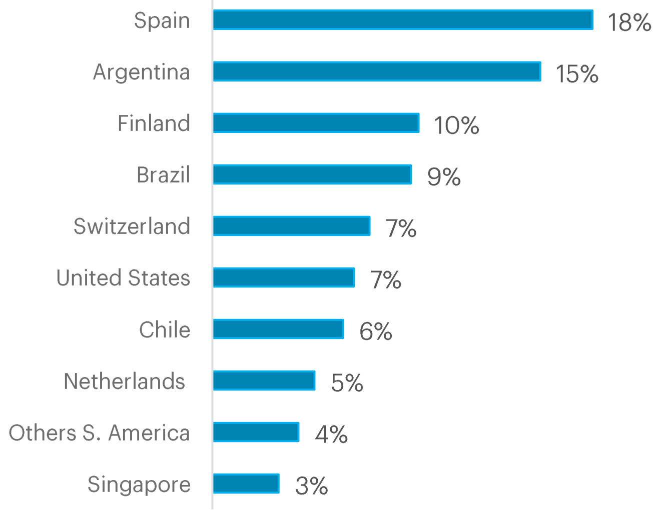
Chart No. 4
FDI Position in Uruguay by Region of Origin (2020)



Note: Only equity investments are considered.
Source: Central Bank of Uruguay (BCU).

This investment consisted mainly of Spanish, Finnish and Dutch capital, countries that positioned themselves as the main investors in Uruguay. Spain ranked first with an investment stock of USD 6,000 million, followed by Finland in third place with USD 3,000 million and the Netherlands in eighth place with USD 1,600 million[5].

Chart No. 5
FDI Position in Uruguay by Country of Origin (2020)



Note: Only equity investments are considered.
Source: Central Bank of Uruguay (BCU).

Spanish companies have invested in Uruguay mainly in industry and global services. Within the industry sector, energy generation projects stood out, mainly wind power, which are large and generally require large investment amounts. At the services level, there were several initiatives related to financial services, fintech and business services. However, Spanish investments were also seen in other sectors, such as the food industry, tourism, agro-industrial production, and trade[6].

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[4] Only equity stakes are considered, whose total for 2021 is USD 33,114 million. Considering also intercompany loans, FDI from the European Union reaches 40%.

[5] The Netherlands, along with other countries such as Luxembourg, are transit centers for investments from third countries. Many international companies channel their investments through Special Purpose Entities (SPEs), companies with no physical presence in these countries that use them as a source of financing or for holding assets and liabilities.

[6] BCU data does not show the cross-referencing by destination and by sector, so complementary information from COMAP, FDI Markets and EMIS is used.

Table No. 2
Position of European FDI in Uruguay by Country of Origin

Country/Region	2020	
	Mill. USD	Share %
Spain	5,882	49%
Finland	3,191	27%
Netherlands	1,583	13%
Germany	534	4%
Belgium	449	4%
Luxembourg	172	1%
France	91	1%
Sweden	28	0%
Denmark	8	0%
Italy	4	0%
European Union	**11,942**	**100%**

Source: Central Bank of Uruguay (BCU).

Finland's position is essentially due to investments in pulp mills, which are very large projects. Other European Union countries that invested in Uruguay are Germany, Belgium, Luxembourg, and France.

When analyzing the **foreign companies** established in Uruguay, results in line with BCU data are found. The European Union is a major investor, and Spain is the country with the most companies established in Uruguay. Twenty-nine percent (29%) of the foreign companies registered by Uruguay XXI[7] originate from a European Union member country, totaling 507 companies. The European Union is the second region in the world with more companies established in Uruguay, preceded by Latin America (37%) and followed by North America (17%). Of the companies from the bloc, 41% are from Spain, 18% from France, 11% from Germany, 7% from the Netherlands and 5% from Sweden.[8]

Spanish companies are distributed in various sectors such as trade, construction, global services and ICT, financial sector, other services, agribusiness, manufacturing, and energy. Companies of French origin are found in agribusiness, food industry, trade and retail (mainly supermarkets)[9], pharmaceuticals and other services, among others. It is worth mentioning that the Spanish Sacyr and the French NGE are part of the company that is leading the Ferrocarril Central Project, one of the most important projects currently underway in the country[10]. There are German companies in the pharmaceutical, services, trade and logistics sectors, among others. Some of these companies have recently expanded, such as Basf Services Americas and Merck Uruguay, which have broadened their service centers in Uruguay. In turn, Dutch companies can be found in commerce, financial services and agribusiness.

Companies of European origin in Uruguay also make use of the country's investment promotion regime. Investments promoted by the Investment Law Enforcement Commission (COMAP) from European Union capital accounted for 32% of total investments in projects between 2006 and July 2022. Once again, Spain is the country that made

[7] The register of foreign companies prepared by Uruguay XXI is not exhaustive and does not constitute an official register. It is an internal work tool, compiled from various sources of information available to the public, as well as information shared by embassies and binational chambers. It is updated annually.

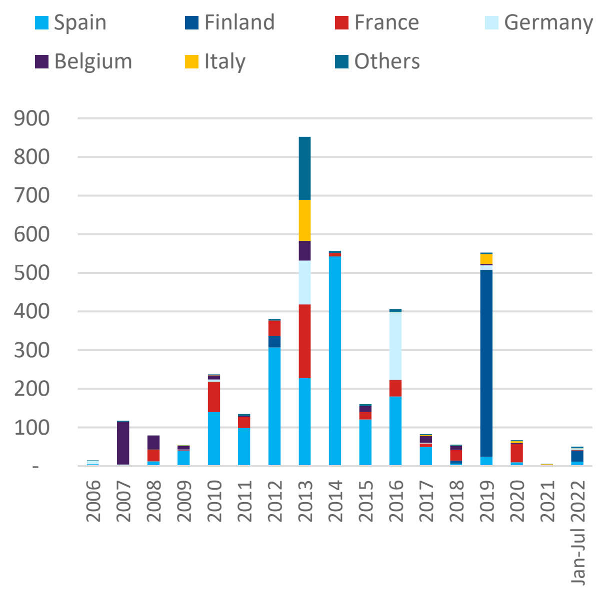
[8] It should be noted that Finland, in this case, does not appear as a relevant destination because its investment, despite being large, does not involve a large number of companies.

[9] The retail sector comprises companies engaged in retail sales. For example, European franchises and brands such as H&M, Adidas and Mango have established operations in Uruguay.

[10] Ferrocarril Central Project – Ministry of Transportation and Public Works.

most use of the scheme for projects of different types, with renewable energy generation projects prevailing, as they require large investments. It is followed by France with large projects in the renewable energy sector and in the retail sector. Other specific cases of major relevance stand out, such as a Belgian investment in 2007 in the port of Montevideo and Italian and German investments linked to wind farms.

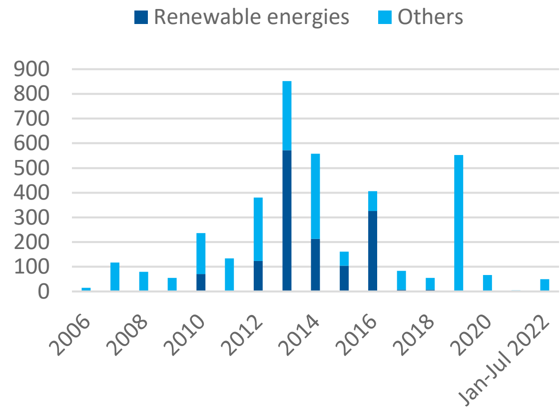
Chart No. 6
Investment Projects Promoted from European Capitals
Millions of USD



Source: COMAP.

Investments from the European Union were very important for the transformation of Uruguay's electricity matrix towards renewable sources. Between 2010 and 2016, several projects of European origin were developed for electricity generation, mainly wind and to a lesser extent biomass and solar.

Chart No. 7
Investment Projects Promoted from European Capitals
Millions of USD



Source: COMAP.

The above analysis is complemented by information on European Union capital greenfield projects in Uruguay, compiled by FDI Markets. Of the 334 projects that were announced in Uruguay between 2003 and August 2022, 124 were from EU member countries (37%). Once again, Spain was the main investor in Uruguay, with several projects related to global services (business, financial and technological), renewable energies and retail. Germany invested mainly in renewable energy, retail, transportation and life sciences projects. French companies started projects in retail, agribusiness, financial services, and renewable energies.

Table No. 3
Greenfield Projects in Uruguay with European Capital
2003-2022*

Origin	#	Sector	#
Spain	45	Retail	19
Germany	18	Renewable energy	19
France	17	Professional services	13
Finland	14	Wood, clothing and related products	12
Netherlands	6	Financial services	12
Sweden	5	ICT and electronics	10
Denmark	5	Agribusiness	6
Luxembourg	4	Physical sciences	6
Italy	3	Transportation equipment	5
Belgium	2	Consumer goods	5
Cyprus	1	Transport and storage	4
Austria	1	Tourism	3
Andorra	1	Life Sciences	3
Ireland	1	Construction	3
Portugal	1	Energy	2
		Creative industries	1
		Industry	1
Total	**124**	**Total**	**124**

(*) January-August 2022.
Source: FDI Markets.

Finally, some of the recent investment projects of European Union companies in Uruguay are mentioned below.

The Finnish company UPM announced in 2020 the development of a new pulp mill in the country, located in Paso de los Toros. According to the company's latest financial report, the new mill would start production in March 2023.

In March 2021, the Belgian company Katoen Natie announced a USD 455 million investment, aimed at transforming the port of Montevideo into a regional trade hub.

In May 2022, the German company Enertrag announced the first green hydrogen exploitation project in Uruguay, called "Tambor Green Hydrogen Hub". The project consists of producing methanol from green hydrogen, generated through wind and solar plants, an electrolyzer and conversion facilities. Methanol is an important raw material for the chemical industry and can be used as an energy carrier. In this case, it will be produced without environmentally harmful carbon emissions.

In Uruguay, the development of green hydrogen is part of the second stage of energy transition, which consists of decarbonizing energy generation beyond the electricity matrix. European companies in Uruguay were the driving force behind the first part of this transition, which involved reconverting the electricity matrix to renewable sources. Uruguay also has certain advantages for the development of green hydrogen, which makes it possible to decarbonize many sectors that cannot be supplied with energy based on electricity.

Developed countries, particularly European countries, are very interested in this process. Thus, several companies of European origin are currently in talks with the Uruguayan government to develop this type of project in the country. Enertrag's investment is the first one in this line.

Table No. 4
Greenfield Projects in Uruguay with European Capital
2020-2022

Date	Company	Origin	Sector	Jobs	Mill. USD	Source
May 2022	PrintFactory	Netherlands	ICT	49	5	Source
May 2022	Enertrag	Germany	Renewable energy	292	628	Source
Nov 2021	Decathlon (Oxylane)	France	Retail	101	3.1	Source
Sep 2021	Mango	Spain	Retail	101	3.1	Source
Jul 2021	Globant	Luxemburg	ICT	350	60	Source
Jul 2021	atSistemas	Spain	ICT	49	5	Source
Apr 2021	Tecnofor	Spain	ICT	49	5	Source
Mar 2021	Katoen Natie	Belgium	Transport and storage	2902	455	Source
Feb 2021	Lupa	Spain	Transportation equipment	954	261	Source
Sep 2020	CEVA Logistics	France	Agribusiness	104	19	Source
Aug 2020	Centralis	Luxemburg	Professional services	42	2.1	Source
Jul 2020	UPM-Kymmene	Finland	Wood, clothing and related products	120	25	Source
Jun 2020	Norman Alex	France	Financial services	42	2.1	Source
May 2020	FacePhi	Spain	ICT	28	4.5	Source

Source: FDI Markets.

EUROPEAN UNION-MERCOSUR STRATEGIC ASSOCIATION AGREEMENT[11]

Twenty years after their initiation, negotiations on the European Union-Mercosur Association Agreement were concluded at the end of June 2019. The agreement established a tariff reduction schedule, simplification of procedures (including customs and technical procedures), facilitation for the sale of services and for the setting up of companies outside the countries of origin, as well as greater openness in tenders for public contracts.

With predictable and transparent rules, the agreement will increase trade and investment, boost innovation, foster greater integration of both parties' production chains, and promote sustainable development. The agreement establishes a modern framework for addressing the major challenges faced by today's world and is of great geostrategic as well as commercial importance.

The text is currently under legal review. Subsequently, it will have to be translated into the different languages of the European Union and submitted for ratification to the parliaments of the Mercosur and European Union countries.

[11] For more information see the following link.

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