Exports opportunities

WOOL TOPS

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Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY BRAND PROMOTION AGENCY

SECRETARIADO URUGUAYO DE LA LANA
SUL

Characterization of the combed wool tops industry worldwide

This is an industry that has evolved and adapted to changes over time.

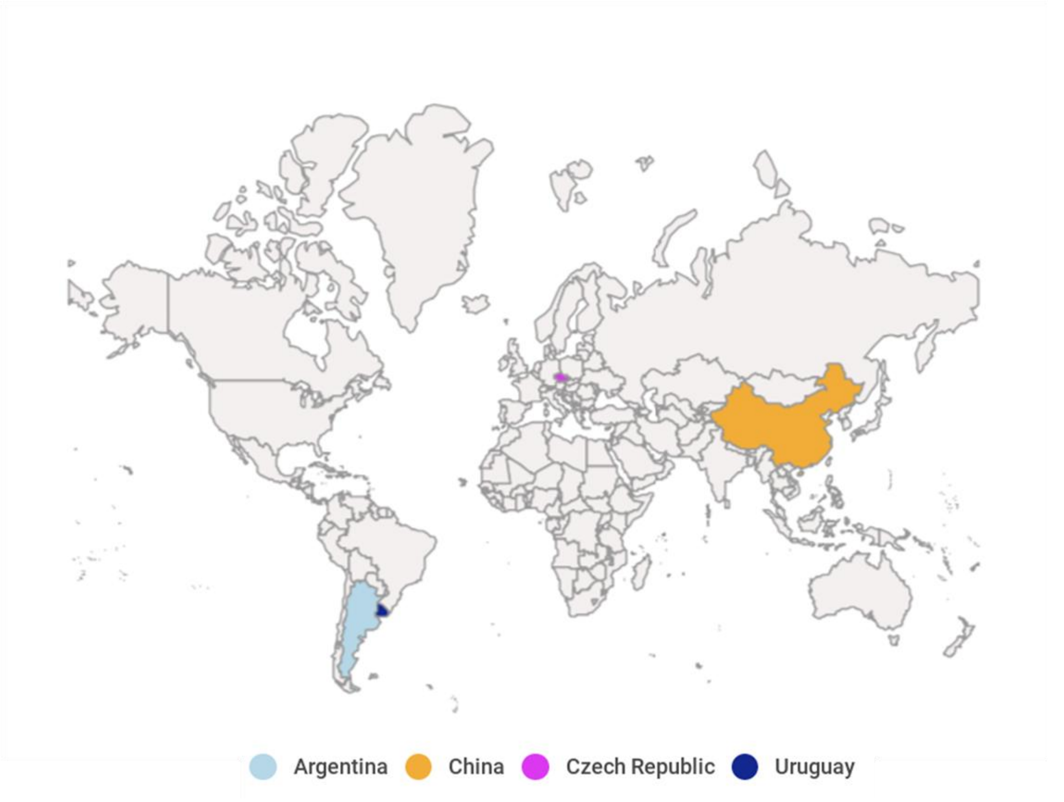
- It was initially developed in England and then it expanded to other regions in Europe
- It gradually migrated to developing countries that have two characteristics
    - Proximity to raw material production
    - Abundance of water for **the scouring operation**

- In the 1990s the wool textile industry is developed in China
    - It was the competition of this country that modified the paradigms of the sector and its global industrial map

- In order to face China's stiff competition, the other competing countries had to generate their own competitive advantages.

- Currently, there are **four exporting industrial poles** that were able to survive in the combed wool industry worldwide.
    - Argentina
    - Uruguay
    - Czech Republic
    - China

Figure Nº 1 – Wool processing regional poles



The productive specialization has been a constant in the modern wool textile chain

» Given the specificities of the sector at a general level, it is not expected that new players will enter; there are strong entry barriers, including know-how, training and high investments

» The existing industries will absorb the positions of those who were displaced from the sector

» The world wool production is expected to show no significant changes in the short term

The international trade of the combed wool tops industry is highly concentrated

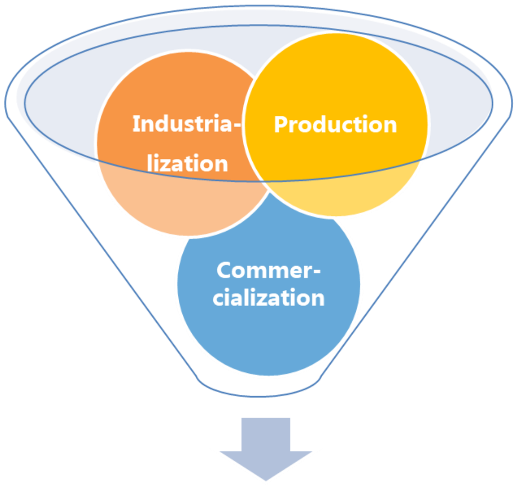
- Asia (India and China)
- Europe (Czech Republic, Bulgaria and Italy)
- South America (Uruguay, Argentina and Chile)
- South Africa

> **There is an opportunity for Uruguay, as a wool processing center, both regionally and globally**

Agroindustrial wool chain in Uruguay

Phases of the agroindustrial wool chain

» Production
» Industrialization (scouring and combing)
» Commercialization



Wool textile chain

Primary sector[1]

Sheep stock is stable after years of continuous decline

Ovine production has suffered great transformations. After several years with a continuous reduction, it now shows signals of stabilization both in our country and in referring countries of quality wool (Australia, New Zealand,

[1] Source: Prepared by Uruguay XXI based on the data provided by the Livestock Survey 2016, MGAP and the Statistic Yearbook 2017, DIEA, MGAP.

South Africa and Argentina).

» At national level, sheep activity is relevant for many agricultural producers, especially in smaller farms

Table Nº 1 – Sheep stock by category

Category	2016	2017	Var. % 2017/2016
Rams	141	140	-0.7%
Breeding Ewes	3.818	3.729	-2.3%
Wethers	548	493	-10.0%
Maiden ewes	326	342	4.9%
Lambs	1,739	1,859	6.9%
Total	**6,572**	**6,563**	**-0.1%**

Source: Prepared by Uruguay XXI based on data provided by MGAP.
Note (*): Latest available data

» There are 17,093 sheep holders of which 60% has more than 50 heads in production for commercial purposes

» according to the last agricultural census 2011, the sheep cattle region is 507 thousand hectares large, which represents 8% of the total cattle area of Uruguay

» The sheep activity involves approximately 46 thousand people in the primary phase of the productive chain

» The Uruguayan Wool Secretariat (SUL) estimates the wool production for the 2017/2018 season is 25,496 thousand tons, including leather wool. This represents a moderate decrease of around 0.7% compared to the 2016/17 harvest

Presentation of wool batches: the conditioning of wool

» To preserve and highlight the virtues of wool and obtain a good quality product, wool conditioning standards were developed (agreed between the wool producers, through the SUL, and the wool industry) in order to guarantee an adequate harvest (shearing) and presentation

» These standards are a series of guidelines to be followed at the time of shearing in order to present the wool free of contaminants (colored fibers and contaminants), separating and identifying the different types of wool that the sheep produce and correctly detailing the different packages obtained

» The labels are the tools to distinguish the conditioning according to different requirements; the green shearing has SUL endorsement since machines are supervised by this institution and in the light blue label the producer is responsible for the quality of the lot.

- According to data from the Livestock Survey, of the total number of sheep from establishments that have these animals for productive purposes, 43% are green label, 24% are light blue label and the rest are not conditioned

This conditioning system is a reference for other countries in the region

- Work is continuing so that the largest number of producers can access this type of technology. The improvement in wool quality has an impact on better prices and affects the future development of the wool sector

New concept in wool quality

- In order to deepen the quality of the wool and associated with the global trends of consumers (demand for natural, sustainable products), an **Animal Welfare Guide for the Sheep Sector**[2] has been developed in our country

- Not only the sustainability of the product is important, but also the sustainability during the different stages of the processes; their certification from starting to work with animals to obtaining the final product

The primary activity has some short term challenges

- Lift some technological restrictions by providing more and better training to producers

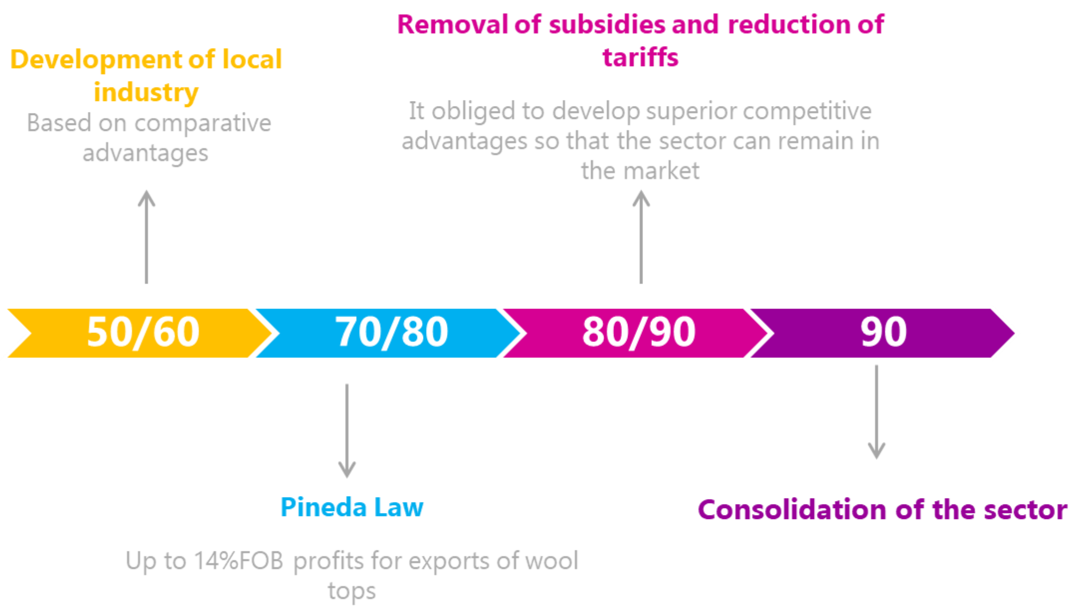
[2] See following: link

Characterization of the wool industry in Uruguay

A Little history

» What we consider today as the wool-combing industry in our country mainly started from the second half of the 20th century, since there has been a traveling path towards the development of products with added value and permanent updating

Figure Nº 2 – Development of the Uruguayan wool tops industry



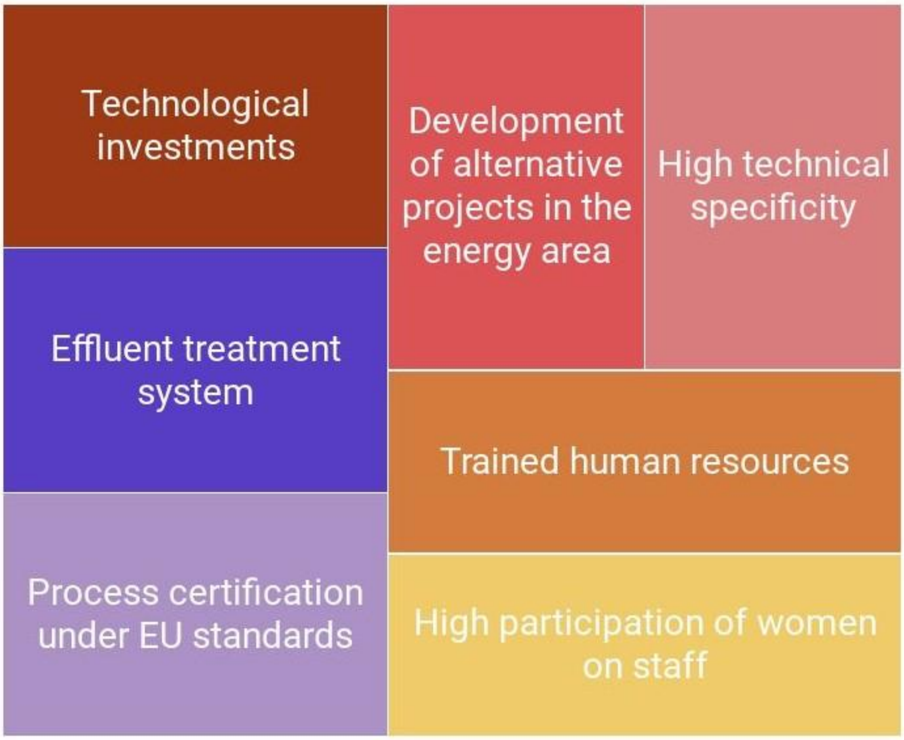
The strategy aims at the diversification of markets through the placement of several products: combed wool tops, dirty wool, scoured wool and wool grease and lanolin

» The wool combing industry is essential in the institutional strategy of the sheep chain

» These products have an impact in all the chain and strengthen national wool production

The Uruguayan combed wool tops industry developed a competitive capacity, allowing the consolidation of the sector

Figure Nº 3 –Competitive advantages of Uruguayan wools



It is a sector that managed to build a structural competitiveness that allowed it to subsist once most of the incentives were removed

Factors that allow Uruguay to be a world leader in the sector

i. **Know how – expertise in blending**[3]

The local combing industry developed skills to produce different types of wool qualities and products in order to supply the different markets worldwide

[3] With "blending" we refer to the combination o

ii. **Permanent investment in machinery and process improvement**

- Constant process of investment in machinery that has placed it on the threshold of existing technologies
- Investment in alternative projects with the purpose of
    - Cushioning the rise of costs
    - Increasing productivity
    - Diversifying business lines

iii. **Certifications and environment**

- Incorporation of ecological and environmental certifications
- Quality integral development
    - Companies' environmental management
    - Achievement of different certifications
- The Uruguayan industry is a very good worldwide example of responsibility in water intake and its subsequent treatment

iv. **Conditioning and improvement of wool quality**

- Adaptation in volume and qualities to high standard requirements and regulations with high levels of demand (eg European)
- Conditioning in wool shearing
    - Light blue label
    - Green label
- The Comparsas system, apart from being differential for the industry, was a pioneering project in the development of micro entrepreneurs for agricultural services under a fully formalized system and a certification regime.
- Moreover, this kind of label, is endorsed by the quality control carried out by the Uruguayan Wool Secretariat (SUL, for its Spanish acronym).

v. **Successful comercial policy**

- Contract compliance regardless of price fluctuations

Uruguay is today seen on the world map as a wool processing pole outside China, processing not only the Uruguayan wool but also wool from the region

This chain aims at the diversification of markets

- Differentiated product placements with high added value (tops and wool products)
- These products have an impact in the whole chain and strengthen the national wool production

> The wool is no longer considered a commodity but a "speciality", mainly in the fine wools of good color and low content of colored fibers

International insertion of Uruguayan wool

It is the 3rd largest exporter worldwide in terms of volume, while it is in the 6th position if data in dollars is considered

- The diversification of products, conquest of new markets and investment in new technologies, are some of the factors that have led the industry to position and stay in privileged place

- In 2017, the amount exported by Uruguay represented 7.7% of the world exports of combed wool (tops)

- Exports of wool and fabrics occupy the 12th place in Uruguay´s exporting matrix and accounted for 2.3% of the total external sales in 2017

- The industry exports combed wool in tops, as well as scoured wool and the byproduct wool grease and lanolin; they constitute products with a different level of added value

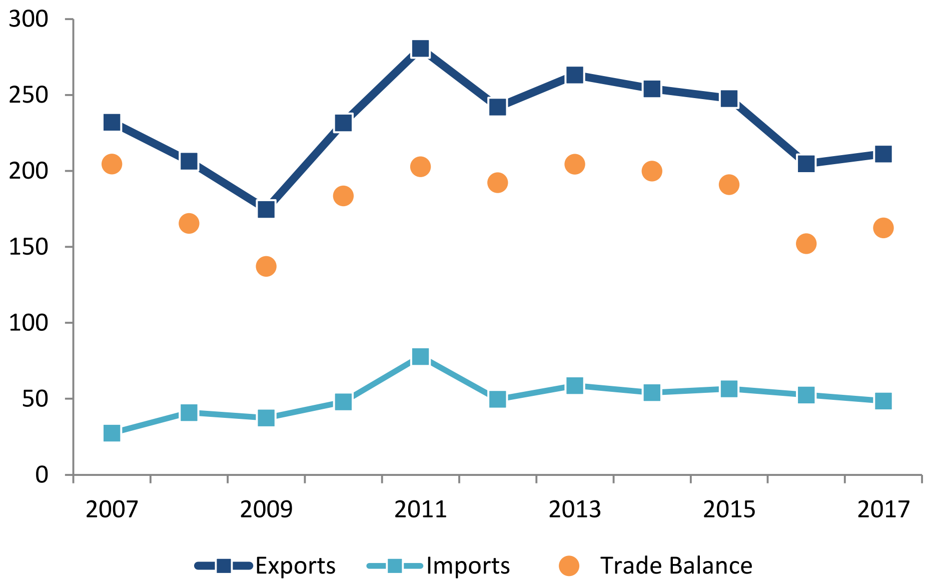
- There are exporters of dirty wool whose main market is China

In the last ten years, the commercial exchange of the Uruguayan wool industry[44] measured in dollars has registered surplus, staying relatively constant between 2010-2015.

In 2017, the flow shows signs of recovery after the decrease in 2016.

[4] Chapter 51 of the MERCOSUR Common Nomenclature (NCM for its Spanish acronym).

Graph Nº 1 – Uruguay's Wool Trade (NCM 51)
Years 2007-2017 (Millions USD)

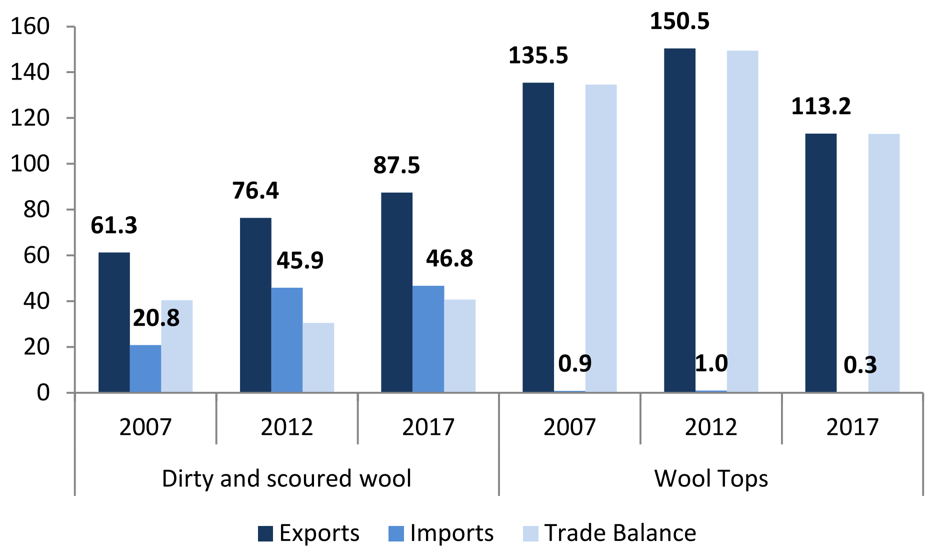


Source: Prepared by Uruguay XXI based on data provided by the National Customs Office (DNA).

- **Exports of dirty and scoured wool**[5] reached **USD 87.5 million** in 2017 and grew by an average of 3.6% between 2007-2017

- **Tops exports**[6] were **USD 113.2 million** in 2017 and decreased slightly (1.8% on average)

Graph Nº 2 – Trade of dirty/scoured wools and tops
Years 2007-2017 (Millions USD)



[5] For these products NCM 5101 was considered.
[6] For these products NCM 5105.29 was considered.

Source: Prepared by Uruguay XXI based on data provided by the National Customs Office (DNA).

» The top sector represents 53. 6% of the total exports of the national wool textile chain

» It is a sector that contributes to the diversification of exports and has in its wool combing industry an activity that converges with current public policies

Uruguay's wool industry and exports today has more than 40 active markets

» Export markets for dirty and scoured wool have been maintained with a strong presence of China

» There is an increase in the number of export destinations for wool tops

Impact of the fall in the production of Uruguayan wool in the international trade

» In order to be able to make more efficient use of its industrial installed capacity, the wool top sector began to import this raw material

» Policies of Temporary Admission (TA) were implemented to allow incorporating wool from other origins within the Uruguayan wool matrix

- **Main effects:**

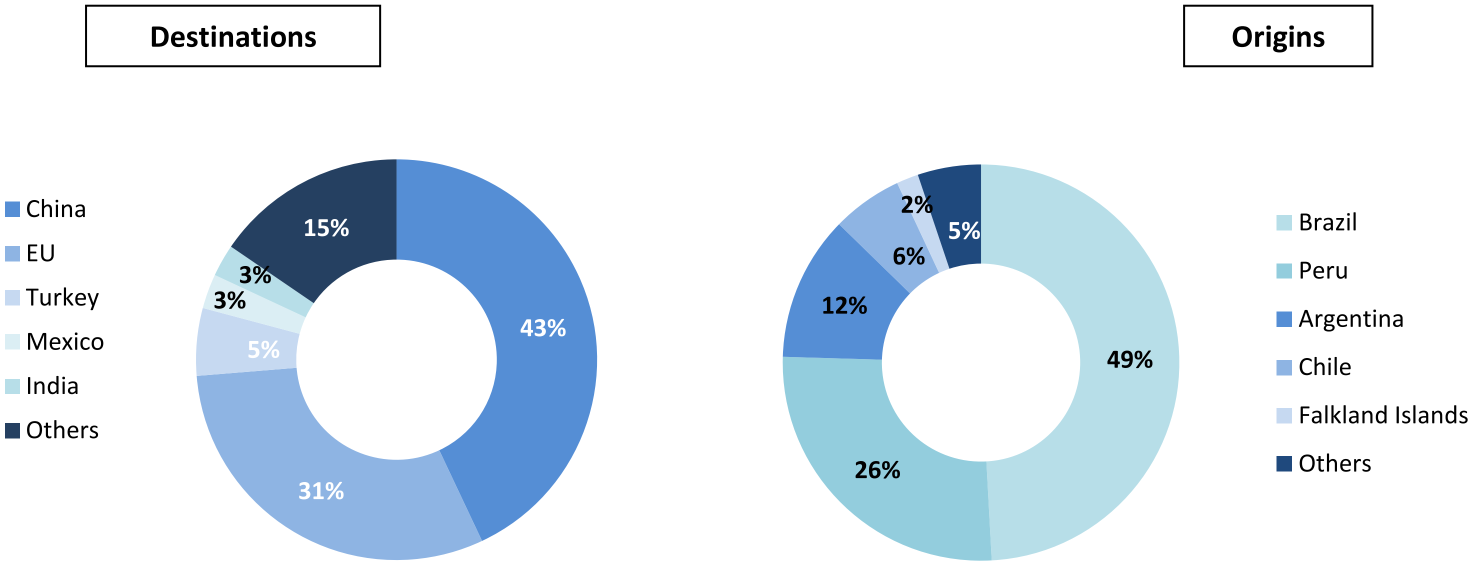
a) Uruguay has positioned itself as a regional reference processing center within the continent together with Argentina

b) The incorporation of complementary wool to Uruguayan wool (both in fineness and quality) has allowed to leverage the price paid in the domestic market for the thickest wool

» The sector practically exports all of its production, which generates strength to the wool combing activity in Uruguay

The Uruguayan industry has managed to develop different products for each of its client´s needs

Graph Nº 3 – Uruguay's main trading partners (NCM 51)
Year 2017 (Part. US%)



Source: Prepared by Uruguay XXI based on data provided by DNA.

Tariffs

Uruguay does not have free trade agreements with China, Turkey and the European Union. As a result, to place production abroad, it is necessary to pay the tariff applied to the most favored nation (MFN), as a member of the WTO.

On the other hand, there are preferences granted by India through the tariff preference agreement with MERCOSUR, and with Mexico through the free trade agreement between Uruguay and this country[7].

[7] For more information about the current treaties of Uruguay with third countries see: link

Table Nº 2 - Tariffs applied by the main trading partners

Destination	Dirty/Semi washed wool (5101)	Wool Tops (5105.29)
China*	1%	3%
EU	0%	2%
India	4%**	(10) 4%
		(90) 8%
Mexico	0%	0%
Turkey	n/d	2%

Note: (*) China applies a quota of 28,700 tons to the washed wool and a quota of 80,000 to the wool tops; if the tariff rate to be paid not met it is 38% in both cases.
(**) NCM 5101.30 has a tariff of 5%.

Source: Prepared by Uruguay XXI based on data provided by Mac Map.

Investments

The wool top industry has made significant investments in fixed capital

» Some of the investment projects were presented by the companies within the regulatory framework of the Investment Promotion Law

» Industries invested USD 35 million (2007-2016)

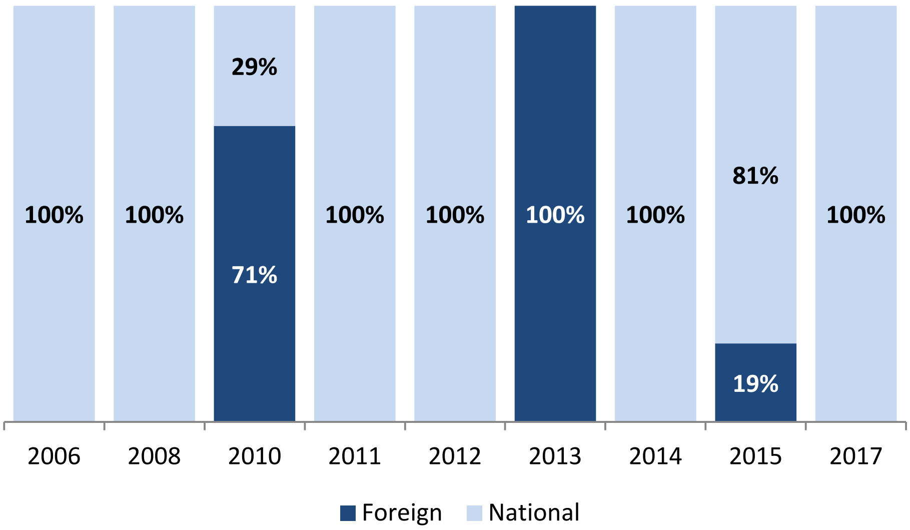
» Dirty wool exporters invested USD 1.5 million (2007-2016)

» In the last ten years, many companies in the sector have presented their investment projects to COMAP[8] to obtain various tax benefits

» In the 2006-2017 period, 70% of the projects promoted by COMAP in the wool top industry come from companies of national origin.

[8] Implementation Commission of the Investment Law (COMAP for its Spanish acronym).

Graph Nº4 - Projects Promoted by COMAP in the wool top industry[9]
Years 2006-2017.



Source: Prepared by Uruguay XXI based on data provided by COMAP.

Investment promotion law[10]

The foreign investor enjoys the same benefits as the national investor and does not require prior authorization to be established in Uruguay

» Law 16.906 of 1/7/98 declares the promotion and protection of national and foreign investments of national interest. Decrees 455/007 and 002/012 updated the regulation of this law

» It is allowed to exonerate from the Income Tax of Economic Activities (IRAE for its Spanish acronym) between 20% and 100% of the amount invested, according to the definition of the project

» The national IRAE rate is 25%. Movable property of fixed assets and civil works are also exempt from Property Tax and VAT is recovered from purchases of materials and services for the latter

» The law exempts from taxes or duties of the imports of movable property of fixed assets, declared non-competitive for the national industry

[9] The data corresponds to ISIC 13111: "Elaboration of wool tops".
[10] Source: Report from FDI in Uruguay, Uruguay XXI. See: link.

This regulation does not apply to projects that are exclusively intended for the construction and subsequent sale of real estate

- Those projects that have the construction of a building as part of a promoted activity (tourism, expansion or creation of new productive activities, etc.), can make use of the incentives provided by the regulation

The application to enter the investment promotion regime is submitted to the Private Sector Support Unit (UnASeP for its Spanish acronym)

- All the information required by the Investment Law Implementation Commission (COMAP) must be presented. This entity will determine which Ministry and body is responsible for the project evaluation, depending on the nature of the project and the activity to which it corresponds[11]

Main members of the national ovine chain

The National Strategic Plan for the Ovine Industry (PENRO) is a public-private inter-institutional cooperation initiative in which the main members of the National Ovine Chain participate.

- **Uruguayan Wool Secretariat (SUL)** - https://www.sul.org.uy/
- **National Meat Institute (INAC)** - https://www.inac.uy/
- **National Institute of Agricultural Research (INIA)** - http://www.inia.uy/
- **Ministry of Livestock, Agriculture and Fisheries (MGAP)** - http://www.mgap.gub.uy/
- **San Jacinto Slaughterhouse– Nirea SA** - http://www.nirea.com.uy/
- **Uruguayan Wool Center**- http://www.central-lanera.com.uy/sitio/intro
- **Engraw export, Import and Co. SA** - http://www.engraw.com.uy/
- **Trinidad Wools SA** - http://www.lanastrinidad.com/
- **Tops Fray Marcos SA** - http://www.tops.com.uy/
- **Rantex S.A –**

The main objective of the Competitiveness Plan is to lift restrictions and develop competitive advantages for the two main agro industrial chains originated in ovine, wool and meat production.

Bibliography and data sources

- National Strategic Plan for the Sheep Industry, 2016
- National Livestock Survey, MGAP, 2016
- OPYPA Yearbook, MGAP, 2017
- DIEA Statistical Yearbook, MGAP, 2017
- National Customs Office
- Trade Map
- COMAP