Trade Policy Review Mechanism

Uruguay

Report by the Secretariat

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on Uruguay. Volume B (Tables and Appendices) is presented in document C/RM/S/26B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by Uruguay. As required by the Decision, in preparing its report the Secretariat has sought clarification from Uruguay on its trade policies and practices.


Note to Delegations

Until further notice, this document is subject to a press embargo.
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1. Uruguay's trade policies have evolved in a gradual and generally progressive manner over the last 30 years. Quantitative restrictions were substantially replaced by high tariffs in 1959 and the process was taken further in 1974. Average tariffs dropped from nearly 700 per cent in 1968 to 21.5 per cent (simple average) by January 1992. Since then, tariffs have again been lowered in April 1992 and will be further reduced in 1993. The scope of discretionary policy instruments, such as officially determined reference prices, is falling. Preferential margins on Government procurement have been cut back. Fiscal policy is aimed both at reducing the budgetary deficit and at improving the allocation of resources, through increases in indirect taxes and the suppression of fiscal concessions for certain industrial activities. Membership of MERCOSUR - the newly-signed customs union with Argentina, Brazil, and Paraguay - will mean both increased competition from those countries and enhanced market opportunities for industries which can adapt to the changing economic environment.

2. In the early 1980s, the benefits of trade reforms were offset, to some extent, by the introduction of a system of discretionary administered prices for imports, which effectively delinked part of domestic production from trends in world prices. Although intended to cope with rapidly changing prices of imports from neighbouring countries, the system inhibited structural adjustment in a number of industries which have come to depend on protection. The full coverage of the system, the extent to
which reference prices exceed world prices and the full details of changes in the system since its inception are not available to the Secretariat. Nevertheless, the reforms now being undertaken should promote greater adjustment.

3. Uruguay's economy has, historically, been relatively stable compared with those of its main neighbours, Argentina and Brazil. Freedom of capital movements and relatively low inflation contributed to the country's rôle as a haven for regional flight capital. However, these large capital movements have made the management of domestic macro-economic policies more difficult. Although foreign debt rose to a high level during the 1980s, Uruguay has had some success in stabilizing the economy and in bringing its foreign indebtedness under control. Current macro-economic policies are aimed at reducing or eliminating the public sector deficit and maintaining a rein on inflation.

4. Uruguay's small domestic market provides limited opportunities for the import-competing manufacturing sector, which has been characterized by monopolistic practices and a high degree of dependence on Government resources. Non-tariff protection to local industries has been mainly through reference prices, State participation in production and trade, and preferential Government procurement. At the same time, traditional agriculture and outward-oriented agro-industries are highly sensitive to international market conditions. The rationalization of the import régime, coupled with exchange rate policy, has helped to increase the share of non-traditional vis-à-vis traditional exports. Apart from a maximum export tax of 5 per cent, there are currently no significant export restrictions.

5. The size of the Argentinian and Brazilian economies, their common borders and their close economic integration with Uruguay, mean that the level of economic activity in Uruguay is strongly affected by economic
performance in its neighbours. Thus, while the expansion and intensification of regional economic ties have always been a priority for Uruguayan policy-makers, in practice this has been approached with considerable caution. Trade agreements signed in the mid-1970s with Argentina and Brazil created market opportunities for Uruguayan exports, but rapid movements in the bilateral exchange rates affected their price competitiveness. Managed trade was favoured in this situation. Given the scope of MERCOSUR and the rapid and extensive liberalization now taking place in the other member States, there is a strong possibility that the common external trade policy of the group will be more open than Uruguay's current policies. In these circumstances, Uruguay's domestic industries will have to face greater competition from its partners' much larger manufacturing sectors, as well as from the outside world.

6. Uruguay will need to meet these challenges by maintaining policies which facilitate the production of internationally competitive goods and services through trade liberalization and clear economic signals to entrepreneurs. The new environment created by Uruguay's own liberalization and the creation of MERCOSUR will necessarily mean the restructuring of the import-competing sector. In particular, the deadline for the accomplishment of MERCOSUR indicates that delay in the implementation of structural adjustment would have serious consequences for Uruguay's economy.

(1) Uruguay in World Trade

7. Uruguay's overall share in world trade is close to 0.04 per cent. However, it is a leading supplier of wool, with 3.4 per cent of world exports, of leather and leather goods and of rice, as well as an important beef exporter.
8. The share of agriculture in Uruguay's exports declined from 95 per cent in 1965 to 60 per cent in the 1980s. Although sales of manufactures (chemicals, semi-manufactures, wearing apparel) increased in the same period, Uruguay remains highly dependent on exports of products directly or indirectly based on agricultural inputs.

9. Uruguay's main trading partners are Brazil, the European Communities, the United States and Argentina. Historically, most of Uruguay's trade was outside Latin America, principally with Europe and the United States. However, a re-orientation of Uruguay's trade flows towards South America occurred following the signature of trade agreements in the 1970s with Brazil and Argentina. Between 1970 and 1990, the share of Brazil in Uruguay's exports increased from 5 to 30 per cent and that of Argentina increased from 2.7 to 4.8 per cent (with a peak of over 13 per cent in 1980). However, exchange rate fluctuations with Brazil and Argentina have been reflected in large fluctuations in Uruguay's export competitiveness vis-à-vis those markets.

10. Uruguay's export earnings are heavily influenced by world price and market developments: in particular by the incidence of import restrictions on beef, lamb, dairy products, sugar, and textiles and clothing in major trading partners, and by fluctuations in the market for wool. In addition, internal factors including lack of adequate investment in modern machinery and equipment, low competition and labour market rigidities discourage further processing of agricultural exports.

(2) Institutional Framework

11. Uruguay's legal regulatory framework is complex. A large number of laws and decrees accumulated over several Administrations cover trade. The current trade régime is based on the 1959 Exchange and Monetary Reform Law,
which allows for the introduction of import deposits, surcharges and temporary prohibitions.

12. The Ministry of Economy and Finance (Directorate General of Foreign Trade, COEX) is the main Government agency responsible for trade policy and negotiations. The Ministry of External Relations is involved in aspects such as international economic relations and representation in negotiations. The main inputs to trade policy design are provided by the Office of Planning and Budget, the Central Bank and the Banco de la Republica Oriental de Uruguay (BROU). COEX and the Ministry of External Relations implement and execute these policies.

13. Private sector views on trade policy matters may be officially expressed in the Working Group on Foreign Trade, established in March 1991. Close links are also maintained between the Government and the private sector through informal channels.

14. There are no independent statutory bodies through which the Government can receive advice on trade and industrial policy. However, a number of private-sector institutions publish papers and reports with the objective of influencing public opinion and policy-makers on economic policy issues. Press coverage of economic issues is also well-informed.

15. Uruguay negotiated its accession to GATT in 1949 (Annecy) and became a contracting party in 1953. It has participated in all subsequent rounds of negotiations and is a signatory to the MTN (Tokyo Round) Agreement on Subsidies and Countervailing Measures, the International Dairy Arrangements and the Arrangement Regarding Bovine Meat, while maintaining observer status in the Committee on Anti-Dumping Practices. As a signatory to the Multi-Fibre Arrangement, Uruguay maintains export restraint agreements on textiles and clothing with Canada and the United States, as well as a
framework agreement (without any specific limitations) with the European Communities. Other agreements with the EC cover market access conditions for beef, mutton and lamb and citrus fruit; with the United States, Uruguay is subject to quotas on certain cheese and on sugar.

16. In September 1986, Uruguay hosted the Ministerial Meeting that launched the Round of Multilateral Trade Negotiations bearing the country's name. Uruguay has been an active participant in the Round, inter alia, through its Chairmanship of the Trade Negotiations Committees at Ministerial level and of negotiating groups, and is also a founder member of the Cairns Group.

(3) Trade Policy Features and Trends

17. Uruguay conducts its main formal trade relations through GATT and within the Latin American Integration Association (LAIA). Around four-fifths of total imports are subject to m.f.n. tariffs. The remaining 20 per cent enjoy preferential tariff reductions of up to 100 per cent under different LAIA agreements.

18. Uruguay has signed preferential agreements with most LAIA members. Two of these, the Trade Expansion Protocol (PEC) with Brazil and the Argentine-Uruguayan Convention of Cooperation (CAUCE), provide duty free entry for items which, in 1990, represented 14.5 per cent of total imports.

19. MERCOSUR, the Southern Cone Common Market grouping Argentina, Brazil, Paraguay and Uruguay, is to establish duty free trade, together with elimination of non-tariff measures, among its members by 1 January 1995. Tariff reductions by Uruguay will proceed more slowly than normal for 960 "sensitive" items.
Evolution of trade policies and instruments

20. The goods-producing sectors of the Uruguayan economy comprise export-oriented agriculture and agro-based industries, and largely inward-oriented manufacturing (tourism, banking and non-tradeable services). Despite periodic slippages, for two decades the major aim of Uruguay's trade policies has been the greater integration of the economy into world markets. The main success has been in progressive rationalization of the tariff system and declining levels of nominal and effective tariff protection. However, during the 1980s, tariff cuts were offset for many products by the introduction of administered prices.

21. Moves away from import-substitution policies date back to 1959, when quantitative restrictions were substantially eliminated, export taxes were introduced on traditional agricultural exports (such as hides and skins) to encourage further processing in Uruguay, export subsidies were initiated and multiple commercial exchange rates were suppressed. Nevertheless, foreign exchange shortages led to the use of strict external controls, mainly through prohibitively high and complex tariffs (increased by import surcharges) and temporary import prohibitions.

22. Uruguay also made a major reform of its trading system in 1974. The formal guidelines of trade policy, set at that time, remain unchanged today. The tariff structure was simplified and rationalized, and tariff and tax concessions were introduced for imports related to exportable goods. A global tariff rate, composed of four elements, put order into the different import charges by covering import duties, import surcharges, consular fees, and cargo handling charges in one. Emphasis was also given to strengthening regional ties by negotiating trade agreements with neighbouring countries.
23. The opening of the economy was slowed by recession in 1982, when reference and minimum "export" prices were introduced to provide extra protection. These were estimated to increase nominal tariffs by between 7 and 18 percentage points on average in 1983. However, in some important sectors the price wedge associated with reference prices has exceeded 100 per cent. Their maintenance, and the discretionary manner in which they are set, has been one of the least transparent aspects of Uruguay's trade policies. However, the 1980s also saw important nominal tariff reductions. Since 1980, 11 tariff reforms have been carried out. Between 1980 and 1992, maximum global tariff rates were reduced from 50 per cent to 24 per cent and the structure of tariffs has been considerably simplified.

24. Currently, Uruguay maintains an essentially four-tier tariff, with rates of zero, 10, 17 and 24 per cent (as from 1 April 1992). As from 1 January 1993, the maximum level is to fall to 20 per cent. Any loss of Government revenue will be compensated through import growth, increase in indirect taxes and the abolition of some concessional entry provisions.

25. Tariff escalation remains particularly pronounced in fisheries, tobacco, wool tops, yarns and cotton. It is also significant in the production of leather goods, which is characterized by a high degree of vertical concentration and is dominated by a limited number of firms.

26. Uruguay's GATT tariff bindings have been subject to a waiver since 1961, covering the application of import surcharges. In the Uruguay Round, Uruguay has offered to bind its tariff schedule at a uniform ceiling rate of 35 per cent.

27. The scope of reference and minimum "export" prices has been considerably reduced, although the Secretariat, as noted, does not have detailed information on their application. This should have contributed to reducing further both nominal and effective protection.
28. Industries "of national interest" are eligible for concessional, duty-free entry for imported inputs. The recent elimination of duty and tax concessions for imports of raw material, machinery and equipment and parts used by industries termed of "national interest" may allow for a better reallocation of resources through foreign competition.

29. Indirect taxes, such as the value-added tax and the IMESI first-sales tax, are relatively neutral in their sectoral application. However, IMESI rates on beverages containing fruit juice favour those containing a certain quantity of Uruguayan juice.

30. At present, export taxes penalize a few, but important, low value-added agricultural items, such as live animals, boned beef, greasy wool, raw hides and skins and bovine fat. Export prohibitions apply only to live, non-pedigree cattle, and this prohibition is expected to be eliminated during 1992. There is some pressure from tanners and the leather industry to re-introduce an export prohibition on hides and skins. Export restraints under the MFA and other agreements with Canada, the European Communities, and the United States affect trade in certain items. Export subsidies were eliminated in the early 1980s following Uruguay's adherence to the GATT Agreement on Subsidies and Countervailing Measures. However, Uruguay uses a drawback scheme for the rebate of domestic taxes on exports.

31. Uruguay's industrial performance is closely linked to trade arrangements in the region. While the 1974 economic reform encouraged a major re-allocation of resources from import competing sectors to exporting sectors, the economic complementarity agreements with Argentina and Brazil ensured preferential access for Uruguay's exports to those markets.
32. Exchange rate movements have had a strong influence on Uruguay's export competitiveness, particularly with regard to neighbouring markets. Delay has often occurred in compensating rapid price changes in these markets through changes in bilateral nominal exchange rates. Although the main preoccupation of successive Uruguayan Governments has been to avoid real appreciation of the peso, exchange rates are also regarded as important in avoiding inflation. Since early 1992, the band within which the Uruguayan peso is permitted to float under the "crawling peg" system adopted in 1986 has been widened from 4 to 6 per cent. This should reduce the need for Government intervention aimed at correcting parities.

33. Freedom of capital movements, together with an absence of foreign exchange controls or limitations on foreign capital have historically distinguished Uruguay from other countries in the area. As a result, Uruguay has had to absorb the impact of large, speculative capital inflows and outflows. Liberalization in Brazil and Argentina should lead to greater stability in this regard.

34. The State is the most important employer in Uruguay, providing employment for approximately one quarter of the active population. Privatization is not as advanced as in other countries of the region. Active consideration is being given to the divestment of State participation in production, processing, and trade of certain goods, including sugar, alcohols, alcoholic beverages, cement, oil refining and petroleum. Foreign direct investment may benefit from a recently approved privatization plan, expected to open opportunities in electric power, telecommunications and the national airline.

35. Government procurement has, in the past, influenced resource allocation in Uruguay by providing particularly high levels of effective protection. However, from 1 January 1992, the preferential margin for
domestic products has been reduced from 40 to 10 per cent. Countertrade, although not officially encouraged, has been used in the past to pay for imports from certain eastern and central European countries and Iran.

(iii) Temporary measures

36. Uruguay has never taken emergency protective measures under the provisions of GATT Article XIX, and has not since 1976 used balance-of-payments justification for import surcharges. However, reference and minimum "export" prices are officially used to counter any dumped or subsidized exports, or to counter abrupt price changes in neighbouring countries.

(iii) New initiatives

37. In May 1991, the Office of Planning and Budget was asked to oversee the execution of a new Foreign Trade and Investment Plan. Under this plan, various proposals have been developed for the revision of foreign trade and investment regulations, rationalization of procedures, co-ordination among Government institutions and adoption of new, more operational, trade policy instruments. So far, a number of improvements have been made to import and export procedures and the components of the global tariff rate have been reduced from four to two. A National Debureaucratization Programme is also leading to improved efficiency and simplification of State procedures, resulting in savings both for the Government and private enterprises.

(4) Trade Policies and Foreign Trading Partners

38. The re-orientation of Uruguay's trade towards the Latin American region is both a consequence of external factors in traditional markets,
and a deliberate policy. The most visible manifestation of the policy shift is Uruguay's participation in LAIA and MERCOSUR, which is expected to bring about ever-closer integration with its Southern Cone neighbours. The overall effect of such integration, if combined with continuing m.f.n. trade liberalization by MERCOSUR as a group, should be trade-creating and conducive to greater economic efficiency: this will strengthen pressures for adjustment within the Uruguayan economy.

39. Uruguay's exports face serious actual or potential constraints in developed country markets. Most of Uruguay's exports do not qualify for GSP. Barriers to entry and subsidized exports under the European Communities' Common Agricultural Policy and the United States' Commodity Credit Corporation seem to raise particular obstacles for Uruguayan exports of beef and dairy products. Reductions in m.f.n. tariffs by Uruguay's main trading partners, combined with the elimination of these non-tariff measures, are therefore crucial to creating a more positive climate for the expansion of Uruguay's exports. External liberalization would also contribute to reinforcing the existing process of reform within the Uruguayan economy itself.
I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Uruguayan Economy

1. Uruguay is one of the smallest countries in South America (176,000 square kilometres) (Table I.1). The population of around 3 million is growing relatively slowly, at an annual average of 0.6 per cent since 1980. Demographic characteristics are atypical for a developing country. The welfare state policies implemented in the 1950s contributed to a high literacy rate (around 95.4 per cent in 1989), to life expectancy (73 years) comparable to developed countries' levels, and to an early high concentration in urban areas (rising from 77 per cent in 1960 to 85 per cent in 1991). The active population is 42.5 per cent of the total. Per capita GDP of US$2,835 in 1990 was higher than neighbouring countries in the region, such as Argentina and Brazil.

2. Within Latin America, Uruguay has also had relatively stable macroeconomic conditions, it made a smooth transition from military to civilian Government in 1985. It has a fully convertible currency and a foreign exchange system free of restrictions on capital movements, no personal income tax, and legislation protecting foreign firms. These are among the reasons why the country has been seen as a haven for flight capital from neighbouring countries.

3. The 1970s marked the phasing-out of import-substitution policies adopted in the 1930s. Economic reforms introduced at that time aimed at liberalizing and restructuring the economy towards a pattern of export-led growth. Between 1974 and 1980, exports and investment grew considerably; real GDP increased by an average annual rate of 4.5 per cent; unemployment reached its lowest point (6 per cent in 1981); the budget was in surplus in 1979-80 and inflation dropped from 107 per cent in 1974 to 43 per cent in 1980 (World Bank (1989)).

4. However, as economic conditions deteriorated again in the early 1980s, a system of administered prices was introduced which partly offset the gains from tariff reductions and the rationalization of the tariff

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1 This is partly related to the net emigration which took place in the 1960s. According to the Financial Times Survey on Uruguay, 15 October 1991, about 10-20 per cent of Uruguayans live abroad as employment opportunities at home do not correspond to their skills.

2 During one recent period of hyperinflation, Argentines reportedly sent US$0.6 billion in flight capital to Montevideo. Non-resident deposits grew by 35 per cent in 1989. In 1989, the banking system held US$5 billion in deposits (80 per cent in foreign currency) half of which are believed to belong to Argentines who also own a large portion of the Government's US$2 billion stock of dollar-denominated paper. (The Financial Times (1991), Survey: Uruguay, 15 October.)
structure (see Chapter IV). Although the system was, in principle, intended to help cope with large fluctuations in exchange rates, especially with Argentina and Brazil, in practice the system provided continued protection for inward-oriented industries and inhibited structural adjustment.

5. The importance of trade to Uruguay's economy can be seen to some extent in Chart I.1, showing the ratio of exports and imports to the GDP, in 1987 constant prices.

![Chart I.1](Degree of "openness", 1970-89)

6. During most of the 1980s, Uruguay's merchandise trade balance was positive. Between 1987 and 1989, the trade surplus (on a balance-of-payments basis) rose from US$40 million to nearly US$400 million, declining to around US$350 million in 1990. In the same period, the current account, which was mainly in deficit between 1980 and 1989.

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1987, moved into surplus in 1988; in 1990, the surplus stood at some US$216 million.

7. According to World Bank sources, the ratio of total external debt to GNP moved rapidly upwards from 17 per cent in 1980 to a peak of 80.7 per cent in 1985, declining to 47 per cent in 1990. Debt servicing followed the same pattern and, in 1990, accounted for 15.9 per cent of exports of goods and services. Long-term debt doubled from 1980 to 1983 and reached its highest level in 1987 (Chart I.2). Since then, it has been reduced to US$3.2 billion (1990), and Uruguay has been removed from the World Bank list of the most severely indebted countries. The public sector is responsible for more than two-thirds of the debt.

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Chart I.2
Level and composition of external debt, 1980-90

<table>
<thead>
<tr>
<th>Year</th>
<th>Long term debt</th>
<th>Short term debt</th>
<th>IMF credit</th>
<th>Export credit</th>
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<tr>
<td>1980</td>
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<td>1983</td>
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There are important differences between Uruguayan Government debt figures and those of the international agencies. The Central Bank figure for 1990 is US$7.3 billion. The difference is believed to be related to the valuation of private and short-term debt denominated in currencies other than U.S. dollars.
8. Uruguay has a satisfactory debt-servicing record. Agreed rescheduling of debt payments took place in 1983, 1985 and 1988. Under the Brady Plan for debt relief, Uruguay expects to reduce its external financial requirements and public sector financial needs, which would reduce inflationary pressures and lower interest rates. (World Bank (1991))

(2) Recent Economic Performance

9. The current broad economic adjustment programme began in 1985, to redress the economic crisis of the early 1980s, during which real GDP fell over one-sixth; unemployment climbed to 16 per cent in 1983; and real per capita income dropped over 30 per cent (Chart I.3).

10. The adjustment programme adopted in 1985 brought early results. By 1987, the public sector deficit had been reduced to 4.2 per cent of GDP (compared to 9.25 per cent in 1984) and inflation had been reduced to 57 per cent (Chart I.4). Real GDP grew by 8.8 per cent in 1986 and 8 per cent in 1987. However, since then, growth has stagnated, (Table I.2) reflecting a severe drought (affecting agricultural production and hydroelectric output), frequent strikes and low levels of investments.
Chart I.4  
Inflation and New Peso/US$ exchange rate  
1970-90

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation (%)</th>
<th>New Peso/US$ exchange rate (%)</th>
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<tbody>
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<td>1970</td>
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<td>1990</td>
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Note: Inflation is the percentage increase in the GDP price deflator and New Peso/US$ exchange rate is the percentage increase in the New Peso price of the US dollar.


11. The Government that took office in March 1990 adopted a series of stringent fiscal measures including increases in agricultural income taxes, excise taxes, and value added tax, and a temporary surcharge on certain imports; tightening of credit granted by the official banks; and an increase in interest rates. This helped to reduce the overall public sector deficit (including State enterprises and Central Bank operations) to 3.6 per cent of the GDP. However, inflation rose from 57 per cent in 1987 to nearly 130 per cent in 1990. Among the factors contributing to this increase were strong demand for Uruguayan goods and services by neighbouring countries (whose currencies had appreciated); public utility tariff increases accompanied by a growing intensity of wage-indexation; and the sharp increase of oil prices. These factors outweighed the impact of the tightening of fiscal policies.
12. In 1991, in discussions held with the IMF, the Government undertook to resist wage pressures and to base public sector wage adjustments on projected (rather than on actual) rates of inflation. At the end of the year, the fiscal deficit had been reduced to 2.5 per cent of the GDP, while inflation stood at 85 per cent.

13. In the past three years private domestic consumption has fallen as a result of the decline in real wages (Table I.2). The growth rate of consumer prices declined from 1985 to 1987, but prices have been accelerating since then. Overall real wages (of both private and public sector) growth rates steadily decreased until 1988 while from 1989 onwards negatives have been experienced. Government expenditure has risen, reflecting the increase in the public sector wage bill and social security benefits. Investment has declined in real terms because of inventory reductions and a sharp cut in public sector investment in 1990 (IMF).

14. A UNDP/World Bank (1990) study cites some reasons for the recent stagnation of domestic investment. First, the 1985 law, by obliging banks to refinance their loans, affected perceptions about future enforcement of property rights. In view of consequent uncertainty about reimbursement, the commercial banks were reluctant to lend. Second, a November 1989 referendum mandating the indexation of all social security benefits required the Government to raise additional financial resources to cover this expenditure. Lastly, entrepreneurs, taking account of the economic power of labour unions, were reluctant to invest without having stronger control over their workforces.

(3) Sectoral Performance

15. The Uruguayan economy is divided into export-dependent agriculture and agro-based industries, import-dependent manufacturing, and services (including tourism and banking, as well as non-tradeable services).

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5 Uruguay has a 15 month standby arrangement for SDR 94.8 million, or 57.9 per cent of Uruguay's quota, which was approved on 12 December 1990.
7 Law No.15.786 on Refinancing of Internal Debt.
8 The Uruguayan trade union movement is highly organized. Since 1985, the Ministry of Labour and Social Security has acted as arbiter in numerous labour disputes between entrepreneurs and the workforce.
(i) **Agriculture**

16. Uruguay is among the world's major producers of livestock for meat (around 0.6 per cent of slaughtered animals in 1990) and wool. It produces an estimated 3.4 per cent of 1991-92 world output of raw wool in volume terms and is responsible for 2 per cent of world exports by value. Uruguay is also an important supplier of leather and leather clothing, accounting for 1.3 and 1.1 per cent, respectively, of world exports. It has emerged as a leading supplier of rice, with 2.1 per cent of world exports.

17. A large proportion of Uruguay's total land area can be farmed. Stock rearing accounts for about 85 per cent, crops cover 4 per cent and another 4 per cent is forested (mainly to meet fuelwood and charcoal demand as well as to supply local production of furniture and paper pulp). The pasture area, with large farms of over 2,500 acres (60 per cent of the farmland), is located at the southern part of the territory. Crop production mainly comes from small-scale farms (250 acres) with little use of machinery. Cereal crops are characterized by variable yields (generally low) and significant production variations from year to year. However, productivity has improved as new techniques of wheat cultivation have been introduced recently while the cultivation area has expanded.

18. Dairy production has risen as an increase in milk output was coupled with entry into service of a new milk-processing plant. This investment was aimed at modernizing production and diversifying exports.

19. The share of agriculture in total export earnings has fallen from 94.8 per cent in 1965 to 60.5 per cent of export earnings in 1990. In 1989, agriculture contributed 12 per cent to GDP and provided employment to 4 per cent of the active population. The sector is a major contributor to the gross value of manufactured exports.

20. Agricultural production growth over the past five years has been at an annual average pace of 1 per cent, while the fish catch (which had been a rapidly growing activity since the 1970s) has fallen by more than one half (see Chapter V). From 1981 to 1984 the sector's performance

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12This reflects a reluctance to invest in arable crops (EIU). However, in some areas the soil cover is shallow, unsuitable to some arable crops.
was severely affected by low international prices for key commodities, domestic debts and inflation. There was some growth from 1985 until 1988. Then drought from mid-1988 to mid-1989 caused a fall in output, first in pork production and then beef in the livestock sector as well as summer crop yields (corn and oil seeds). The situation improved in 1990, when good weather conditions assisted crop yield and beef production increased by 30 per cent.

(ii) Industry

21. Manufacturing, including agro-industrial production, accounts for approximately one quarter of GDP and employs around 21 per cent of the active population. There is significant production of intermediate goods such as chemicals and petrochemicals. Consumer products with significant export potential include processed food, textiles, wearing apparel, leather products and footwear.

22. While during the 1960s, the sector experienced annual average growth rates lower than the average for Latin America (1.3 per cent against 6.8 per cent), the export promotion policies of the 1970s pushed the growth rate up to 3.3 per cent. In the first three years of the 1980s this trend was reversed as domestic austerity measures combined with the deterioration of world economic conditions (in particular the debt crisis in neighbouring countries), affected export performance. Over that period, there was a cumulative decline of 26 per cent in manufacturing production.

23. Progress in the industrial sector has been mixed since the mid-1980s. Strong industrial expansion in 1986-87 was followed by an annual average decline of around 1 per cent. In 1986 and 1987, the sector grew by 11.7 and 9.9 per cent. However, the recession, strikes and rising interest rates led to stagnation of output in the last three years. While export demand for wool tops and washed wool in 1990 helped the textile industry to recover, clothing was affected by a loss of market shares abroad. The growth of the food processing industry in 1989 (due to increased slaughtering caused by the drought) ended in 1990. On the import side, electrical goods have faced stiff import competition, while transport equipment contracted, after having rapidly expanded (1986-87), as the cost of importing inputs from neighbouring countries increased.

(iii) Services

24. Services (including commerce) contribute about two-thirds of GDP. The share in GDP of financial and banking services was approximately one-quarter in 1990, while tourism, commerce, hotels and restaurants contributed some 11 per cent. Open foreign exchange and investment laws, labour force qualifications, geographical location and public order make Uruguay a country with potential for growth in the services sector.
Several foreign companies have chosen Uruguay for establishing their regional headquarters for Latin America.

25. Trade in non-factor services recorded an average annual surplus of one and a half of the GDP between 1986 and 1989. In 1990, this widened to 2½ per cent as a result of a significant improvement in net tourist receipts, which exceeded US$260 million, increasing consumption and generating additional merchandise imports. Investment projects for new hotel infrastructure and plans for diversification of the tourism and entertainment sectors are under way. Maritime transport (see Chapters IV and V) with national carriers is protected by law. Efforts to enlarge the national merchant fleet by offering flag of convenience facilities is envisaged. In view of the MERCOSUR developments, improvement of port facilities may strengthen the rôle of Montevideo as a harbour serving neighbouring Argentina and land-locked Paraguay. If privatization efforts are successful, new opportunities will develop in areas such as electric power, telecommunications and air transport.

(4) Trade Performance

26. According to Central Bank estimates, the merchandise trade balance for the first ten months of 1991 registered a deficit of US$12.1 million. This was expected to reach US$81 million for the year as a whole. Compared to the previous year, exports fell by 5.9 per cent, while imports rose by 21 per cent (Chart I.5). (Banco Central del Uruguay, Intercambio Comercial del Uruguay, October 1991) .
27. As most of Uruguay's economic activities (trade, finance, services) are heavily integrated with those of its two large neighbours, Brazil and Argentina - a situation which will inevitably increase under MERCOSUR - the performance of the economy (including the balance of payments) is vulnerable to the impact of policies, measures or major events in those countries. For instance, a recent appreciation of the Argentine currency against the Uruguayan peso is expected to have positive effects on the production of Uruguayan goods and services.

(i) Commodity pattern of trade

28. Despite the incentives for exports introduced under the economic reform of the 1970s, the overall structure of exports has changed little over time (Chart I.6), although leather, clothing, rice and fish exports gained in importance (Tables I.3 and I.5).
Chart 1.6
Composition of foreign trade, 1965-90
Percentage share

Exports

Imports

Manufactures  Mining  Agriculture

Source: UNSO Comtrade.
29. Uruguay's traditional exports are wool and beef (fresh, chilled or frozen). These accounted for 18.7 per cent and 15.6 per cent of total exports respectively in 1990 (Table 1.5). Wool's share in total exports declined from the 1960s to the 1970s, and since then it has fluctuated around a slightly decreasing secular trend. The contribution of meat to exports declined through 1988, but increased again in 1989 and 1990, possibly because of the increased slaughtering resulting from the drought.

30. In the period 1980-85, exports fell with a negative annual rate of 4.2 per cent. It is worth noting that exports of food preparations attained the highest growth rate of 3,189.5 per cent in the period 1985-86, followed by 360.2 per cent in 1986-87 (Table 1.6). Textile products, butter, rubber materials and inorganic chemicals experienced their highest growth between 1989 and 1990.

31. For 1991, the Central Bank notes that exports of meat, meat offal and wool fell sharply. The same source cites dairy products, paper and paper products, clothing and transport equipment as sectors with great export potential.

32. Uruguayan exports of products which enjoy a comparative advantage, such as beef, dairy products, textiles and leather, face barriers in industrialized and developing countries. Third-market competition by heavily subsidized exports of surplus beef, dairy products and rice depress prices and volumes of Uruguayan exports.

33. Uruguay's single most important import item is petroleum, whose weight in trade has varied according to the movement of international prices (Table I.9). The second most important item of the import structure is road motor vehicles whose share fluctuated in the previous decade but has been relatively stable since 1987. Plastic materials, organic chemicals and telecommunications equipment constituted 14.8 per cent of imports in 1990.

34. Since the mid-1970s, the only period when the value of imports contracted was between 1980 and 1985 (Tables I.8 and I.10). The highest average annual compound growth rate of 2,411.5 per cent (1985-86) was recorded for iron and steel in primary forms. In the years 1989 and 1990, imports of industrial machinery, vegetables, fixed vegetable oils and leather imports increased considerably.

35. Certain commodity price and production developments in the world markets may have a positive short-term impact on Uruguayan export earnings. For example, the fall in northern hemisphere production of oranges and tangerines in 1991-92, coupled with price rises, provide good prospects for Uruguayan exports. Opening of the beef markets in Japan and the Republic of Korea could generate export opportunities. Reductions in world rice
production in conjunction with an increase in world imports, in particular into Brazil, may further benefit Uruguayan producers.

(ii) Regional pattern of trade

36. According to Central Bank estimates, Uruguay had trade deficits with Argentina (US$101.4 million), Nigeria (US$68.5 million, petroleum), Iran (US$47.8 million, petroleum), Japan (US$31.4 million), and the United States (US$31.1 million) in 1991 (January-October), while a surplus of US$106.3 million was registered with the European Communities.

37. In 1990, the most important foreign markets for Uruguayan products were Brazil, the EC, the United States, the former Soviet Union and Argentina (Tables I.11 and I.13). The relative market shares have changed considerably since 1965, when the United States and the United Kingdom took 32.9 per cent of Uruguay's exports. These markets have progressively lost their significance in the export structure, while Brazil, in particular, has progressively gained in importance as export markets, particularly from 1975 (Chart I.7) when preferential agreements entered into force (see Chapters II and IV).
Chart I.7
Foreign trade by region, 1970, 1980 and 1990

Source: UNSO Comtrade.
38. Exports to Algeria, Thailand, Malaysia and Turkey grew at a faster pace than those to other destinations between 1989 and 1990 (Tables I.12 and I.14). In 1991 (January-October), exports grew strongly to Asia.

39. Uruguay's most important suppliers in 1990 were the EC, Brazil, Argentina and the United States with shares equivalent to 24.9, 15.5, 9.9 and 6.5 per cent, respectively (Tables I.15 and I.17). Other principal suppliers were Iran, Mexico, Colombia, Japan, the former Soviet Union, Switzerland and Chile (Table I.16 and I.18).

(5) Outlook

40. In 1992, the Government hopes to reduce the public sector deficit to 1 per cent of GDP. Controlling inflation continues to be a major preoccupation. Recent structural reforms are intended to increase the integration of Uruguay into the world economy, and intensify the rôle of the private sector in the economy. Market opening and deregulation are intended to achieve better resource allocation as a basis for future economic development.

41. Fiscal measures currently being undertaken constitute the cornerstone of the stabilization policy by lessening State intervention in the economy. They are aimed at closing tax loopholes (investment tax breaks, US$60 million of additional revenues), reforming public tendering (US$20 million of savings), and increasing by 1 per cent the employers' contribution to the State health scheme (US$80 million).

42. Reforms intended at reducing the size of and rationalizing the public sector are foreseen. Central Government is to reduce the number of civil servants and simplify administrative procedures. State monopolies will be eliminated for certain activities, while others will be privatized or opened to greater capital participation by the private sector. In this connection, a major privatization plan is expected to be implemented in 1992, unless it is neutralized by the results of a referendum. The airline company (PLUNA) and the telephone company (ANTEL) are expected to be sold by December 1992 (see Chapter IV). However, opponents of privatization were reported to be seeking a referendum on whether these companies should be privatized.

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14This section draws on articles in Latin American Economy and Business.
II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) Introduction

43. Uruguay was a Spanish possession until 1811 when it became part of the River Plate Union. Independence was declared in 1825. The early twentieth century was marked by significant economic, social, political and cultural advances largely inspired by West European social democracy. This process was arrested in the 1950s as progress in the economy could not measure up to advances in other fields such as education and social security.

44. Increasing economic and political crisis led to a military Government (1973-84), an exception for Uruguay, which has a long democratic tradition. Democratic Government restored in 1985 under President Sanguinetti of the Colorado Party. A second civilian Government took office in 1990 under President Lacalle, a member of the Partido Nacional. His Cabinet also contains members of the Colorado party, under a coalition arrangement (Coincidencia Nacional).

45. The major political organizations are the Partido Nacional or Blancos (39 parliamentary seats) and the Partido Colorado (30 parliamentary seats). Both are divided into three different factions. The Blancos are composed by three factions of similar size combining centre-right (neo-liberal), centre-left and left wing factions. The Colorados largely comprise extreme-right and centre-right wing factions, while a small part belongs to the centre-left. The Frente Amplio (21 parliamentary seats) and the Nuevo Espacio (9 parliamentary seats) are two left wing political parties. The next general parliamentary election is due in 30 November 1994.

(2) General Framework

46. Uruguay is a unitary republic, on the basis of a Constitution last reformed in 15 February 1967. Legislative, executive and judicial powers are separate and independent (Chart II.1). A new Government is elected every five years by universal suffrage. The executive power is in the hands of a President and a Cabinet of 11 Ministers. Referendums can also be organized and may be used to nullify laws.
Chart II.1
Institutional chart/organigramme of the Oriental Republic of Uruguay as of October 1991

Legislative power
- General Assembly
  - Chamber of Senators
  - Chamber of Deputies
  - Permanent Committee

Judiciary power
- Supreme court of Justice
  - President of the Republic
  - Council of Ministers

Executive power
- Office of Planning and Budget
- National Office of Civil Service

Autonomous Institutions
- National Committee of Civil Service

State Powers and Instruments

Central administration
- Interior
- Economy and Finance
- External Relations
- Transport and Public Works
- Defence
- Agriculture, Livestock and Fisheries
- Industry, Energy and Mining
- Public Health
- Education and Culture
- Labour and Social Security
- Tourism
- Housing Public Order and Environment

Autonomous entities
- Central Bank of Uruguay (BUC)
- Banco de las Naciones Unidas del Uruguay
- State Insurance Bank
- Railway Company AFE
- Airline Company PLUNA
- National Institute of Colonies
- National Institute of Colonies
- State of Alcoholic Cement Company Cineylo (UTE)
- National Institute of Youth
- National Institute of Public Education
- National Institute of Public Security
- Social Security Bank

Decentralized services
- National Ports Administration
- Telecom. Company AMTEL
- National Ports Administration

Department administration
- Artigas
- Cerro Largo
- Durazno
- Florida
- Maldonado
- Paysandu
- Rivera
- Salto
- Soriano
- Treinta y Tres

Tucumán
47. Under Article 85 of the Constitution, the legislative power is exercised by the General Assembly or Parliament, composed of two chambers; a 30-member Senate which is elected on a nationwide basis and chaired by the Vice President of the Republic, and a 99-member Chamber of Deputies, with seats allocated on the basis of proportional representation of each department.

48. The judiciary consists of the Supreme Court (5 members elected by the General Assembly for 10 years), Courts of Justice (appointed by the Supreme Court with prior approval by the Senate) and judges (appointed by the Supreme Court) on a nationwide basis.

49. Departmental and municipal authorities are also elected under universal suffrage. The scope of their activities is limited to the management of their internal affairs, leaving justice, education, health, security, foreign policy, defence and primary responsibilities for economy and finance to the national Government.

(3) Structure of Trade Policy Formulation

(1) Legislative and executive branches of Government

50. The Uruguayan legal system is based on laws passed by the Parliament and promulgated by the President. Legal drafting may take place in either Chamber. Legal matters of a fiscal nature (budget, taxation including customs duties and charges to foreign trade, investment) must be passed by an absolute majority of each Chamber of the Parliament. Laws enter into force ten days after publication.

51. Under Article 168 of the Constitution, the Executive has the authority to conclude and sign trade treaties and other agreements with foreign powers. According to the Government of Uruguay, these instruments are subject to approval or disapproval by the Parliament following which, if approved, they are ratified by the Executive.

52. The Parliament can approve or disapprove (by absolute majority vote in each Chamber), but cannot amend, any alliance, peace or commercial treaties or conventions concluded between the Executive and foreign governments or international organizations. Such agreements enter into force on ratification or enactment. They then acquire national status.

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1Uruguay is geographically divided into 19 departments (districts).
53. As the Constitution is the ultimate source of law, any laws passed by the Parliament or by departmental assemblies can be declared invalid and void by the Supreme Court if they are not in conformity with the Constitution. Under Article 239 of the Constitution, the Supreme Court is also empowered to examine the conformity of an international treaty or convention with the Constitution.

54. The Ministry of Economy and Finance and the Executive Power are responsible for trade policy formulation. Many trade-related functions are carried out by the Directorate General of Foreign Trade or COEX (Dirección General de Comercio Exterior) of the Ministry of Economy and Finance. Among COEX's responsibilities within the Ministry are: foreign trade policy implementation, export promotion, co-ordination of national position in respect of overseas activities, and participation in regional, bilateral and multilateral trade negotiations.

55. In May 1991, the Office of Planning and Budget (Oficina de Planeamiento y Presupuesto, OPP) was asked to oversee the execution of the Foreign Trade Deregulation Plan (Plan de Desregulación del Comercio Exterior or PLADES). Under this plan, OPP formulates proposals related to foreign trade and investment deregulation, revision of the legal framework, rationalization of procedures, co-ordination among Government institutions and adoption of new, more operational trade policy instrument (see Chapter IV).

56. Other interministerial consultative bodies exist. Sometimes in addition to representatives from Ministries, they include officers from institutions like the Central Bank, Banco de la República Oriental de Uruguay (BROU) or the National Port Administration (ANP), and other State or State-owned bodies. A Tariff Advisory Committee (Comisión Arancelaria Asesora) provides advice to the Executive, particularly the Ministry of Economy and Finance, with respect to tariff policy and the utilization of instruments against unfair trade practices. In March 1991, on the suggestion of PRONADE (National Debureaucratization Programme, see Chapter IV) a Working Group on Foreign Trade (Grupo de Trabajo Comercio Exterior) was created. Its tasks consist of submitting proposals intended

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2 The Ministries of Industry, Energy and Mining, Agriculture, Livestock and Fisheries, the Banco de la República Oriental del Uruguay (BROU) and the Office of Planning and Budget (Oficina de Planeamiento y Presupuesto, Office of the President of the Republic, in charge of PLADES) are represented in this Committee.

3 In practice this refers to the system of administered prices (reference prices or minimum "export" prices) - see Chapter IV.

4 Participation to the group is very wide as it is open to all interested Government and private sector elements.
to avoid overlap in the functioning of different institutions, and of making recommendations to adapt the existing legal framework on the basis of suggestions made by and interests of the private sector.

57. An interministerial Committee (Comisión Interministerial) on MERCOSUR (Mercado Común del Sur, see later)\(^5\) was established on 1 April 1991. It is entrusted with the co-ordination and conduct of the integration process as well as the submission of proposals to the Executive on any measures required by virtue of Uruguay's membership of the common market. COEX and the Ministry of External Relations provide technical support.

58. The Ministry of External Relations represents Uruguay in international fora and ensures the follow-up on the country's commitments, in collaboration with the competent Ministries. It cooperates with other Ministries in the area of export promotion (see Chapter IV).

59. No Government agency involved in trade matters, except for the Office of Planning and Budget (OPP) and PLADES, publishes any annual report on its activities.

(ii) Advisory bodies

60. Whenever possible, the Government takes account of private sector interests in the design of trade policy. It appears, from recent moves by PLADES, that in the privatization and other plans (described in Chapter IV) some note has also been taken more recently of consumers' interests.

61. The Marketing Institute (Instituto de Comercialización) of the Universidad Mayor de la República was set up in 1989, to undertake trade policy research and analysis. However, it has no formal consultative rôle.

62. Private sector institutions intervene in a limited manner in LAIA negotiations, consultations for trade policy formulation, and in finding solutions to problems related to the legal framework for exports.

63. The private sector can participate in the Working Group on Foreign Trade, mentioned earlier. A five member Sectoral Committee for MERCOSUR (Comisión Sectorial para el MERCOSUR) has been created with mixed Government and private sector representation. Two senior OPP officials and representatives of the labour force, private enterprise and public sector

\(^5\) The Committee is composed of the four Ministers of Economy and Finance, Agriculture, Livestock and Fisheries, Industry, Energy and Mining and External Relations.

\(^6\) Decree 176/91 of 1 April 1991.
enterprises have been appointed by the Executive upon proposal by interested sectors to be part of the Committee. The tasks of the Committee consist of making proposals for the adoption of measures related to the implementation, follow-up and evaluation of regional integration plans. A number of sectoral sub-committees are to be established.

(iii) Review bodies

64. There is no formal periodic review of trade policy by any independent commission, although trade-related issues are debated in Parliament.

65. Reports by private sector associations, Chambers of Commerce or Industry and research institutions occasionally discuss economic policy (including trade policy) initiatives or make proposals for policy changes.

66. The Centre of Studies on Social Reality (Centro de Estudios sobre la Realidad Social or CERES), a non-profit voluntary association, carries out economic research and publishes studies with the objective of generating a rational debate on, and a better understanding of problems affecting the country.

67. The financial press is of high quality and well-informed.

(4) Trade Policy Objectives

(1) General trade policy objectives

68. For almost two decades, the formal lines of Uruguayan trade policy have remained unchanged, with a stated reliance on exports as the fundamental element in growth. The Government has sought to promote exports through an active commercial policy directed at improving access to major export markets. Apart from certain markets with which Uruguay has concluded trade agreements (see below and Chapters IV and V), the main commodity exports continued to face serious barriers.

69. As stated in Chapter I, since 1974 the authorities have undertaken a series of trade reforms with the intention of opening the domestic market to foreign competition, with tariffs as the central element of protection. The introduction of administered prices in the early 1980s (see Chapter IV) partly offset the tariff rationalization and liberalization undertaken at that time, retaining elements of the earlier import-substitution policy. Administered prices were justified by the Government by the need to counter large, rapid price changes associated with bursts of hyperinflation and exchange rate changes in neighbouring countries. The system is under examination, although important elements in the business community are strongly opposed to its elimination. The number of products subject to
this régime has now been considerably reduced (see Chapter IV), although full details have not been made available.

70. Deregulation of foreign trade has been actively pursued in recent years to eliminate unnecessary import, export or other trade-related procedures which create additional costs and cause prejudice to export expansion. It is also becoming recognized that excessive intervention by the State, producing trade distortions and fiscal imbalances, hampers the control of inflation and inhibits growth. Liberalization and more competition in certain public sector activities are among the objectives of recent privatization reforms.

71. Uruguay attributes particular importance to regional trade liberalization. As discussed in Chapter I, the direction of foreign trade has shifted towards LAIA partners. Successful integration into MERCOSUR constitutes a major challenge to the country's economy and is conceived as a step forward in preparing the country to more exposure to world competition. It is one of the factors inspiring and guiding current trade and other economic reforms.

(ii) Sectoral trade policy objectives

72. For several decades the promotion of non-traditional exports has been the main priority of Uruguayan policy-makers. To this end, trade policy measures allow concessional entry for a large number of raw materials, machinery and capital goods, promote increased processing of domestic raw materials and the diversification of exports. Both agricultural and industrial sectors enjoy these benefits. Sectoral policy is discussed in detail in Chapter V.

(iii) Objectives in the Uruguay Round

73. The Uruguay Round of Multilateral Trade Negotiations was officially launched with the adoption of the Punta del Este Declaration at the September 1986 Ministerial meeting. Uruguay hosted the meeting and has since then chaired the Trade Negotiations Committee meetings at Ministerial level.

74. In the Round, the major issues for Uruguay are agriculture, textiles and clothing and non-tariff measures.
75. Uruguay is a founder of and active participant in the Cairns Group. As such, it supports tariffication in agricultural trade as a means of improving market access, substantial annual reductions in trade- and production-distorting domestic subsidy programmes, substantial annual reduction in the use of and the eventual elimination of export subsidization, and increased discipline on the use of phytosanitary measures, ensuring the suppression of any unjustified barriers.

76. Uruguay has submitted an indicative request list on tropical products addressed to the European Communities, Finland, Japan, Norway, and Sweden covering several items of the standard list (flowers, fruit, rice, cigarettes, cigars, etc.).

77. Uruguay is a member of the International Textiles and Clothing Bureau which has formulated a number of Uruguay Round proposals in the field of its competence.

78. In the area of non-tariff measures, Uruguay has submitted specific request lists to other participants. Action is sought from Australia, Austria, Canada, the EC, Finland, Japan, Korea, New Zealand, Norway, Sweden, Switzerland, and the United States. Uruguay is seeking the elimination of seasonal tariffs, variable levies or duties, discriminatory internal taxes, off-loading tax, turnover tax, compensatory tax, import prohibition, quantitative restrictions, discriminatory quantitative restrictions, bilateral quotas, global quotas, seasonal global quotas, prior import permit or authorization, import licensing, price support measures, arbitrary customs valuation, reference prices, minimum import price, export subsidies, packing and labelling regulations, phytosanitary measures, sanitary restrictions. The products whose exports are affected by such measures are: fresh chilled or frozen bovine and bovine meat, corned beef, horse meat, poultry meat, meat extracts and preparations, eggs, cheeses, dulce de leche, fresh and frozen fish and shellfish, prepared and canned tuna, fish flour, wheat and wheat flour, sorghum, rice, barley malted or not, semolina, vegetable oils and oil cakes, citrus fruit, apples, peaches, pears, honey, orange juice, flowers, granite, semi precious stones, manes, sheepskins, bovine leather, tanned leather, leather wearing apparel, travel goods made of bovine leather, leather footwear, chinaware, earthenware and porcelain goods. Uruguay has suggested that restrictions subject to "standstill" and "rollback" provisions should be unilaterally abolished on a non-reciprocal basis.

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7 Other members of this group are: Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, New Zealand and Thailand.

8 MTN.GNG/AG/W/2.
79. A proposal on the security of non-tariff concessions was submitted by Uruguay. Uruguay has stressed the importance of multilateral surveillance, binding commitments and non-recourse to trade distortive measures.

80. Canada (six HS items), the EC (52 HS items), Japan (one item) have asked Uruguay to eliminate various non-tariff measures. These include customs valuation practices, sanitary requirements, service charges, government procurement, government aids, restrictive business practices, technical barriers to trade, customs formalities and documentation, etc. The products affected are: live animals, vegetable products, raw hides and skins, leather and products thereof, chemical products, plastics, rubber, metal articles, cement, ceramic, glass and glassware.

81. Uruguay's conditional offer in the field of market access comprises the binding of all tariffs (on industrial and agricultural products) at a ceiling level of 35 per cent, as well as commitments regarding tariffication and other measures on a number of basic commodities.

82. Uruguay has associated itself with a proposed draft legal text on trade-related aspects of intellectual property rights (TRIPs), calling for the institution of adequate border measures to discourage international trade in counterfeit and pirated goods, while ensuring that such measures do not become barriers to legitimate trade, and addressing standards and principles concerning the availability, scope and use of intellectual property rights.

83. In the area of dispute settlement Uruguay was among the countries which proposed regular GATT Council meetings under a separate chairman in a special dispute-settlement forum. The objective of this approach is to improve the monitoring of the dispute-settlement process as well as enhancing compliance with adopted panel recommendations.

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9 MTN.GNG/NG2/W/65.
10 MTN.GNG/NG2/RS/2.
11 MTN.GNG/NG2/RS/1.
12 MTN.GNG/NG2/RS/12.
13 MTN.GNG/NG11/W/71. Co-authors to this paper are Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Peru, Tanzania and Zimbabwe.
14 MTN.GNG/NG13/W/16. Co-authors are Argentina, Canada, Hong Kong, Hungary, and Mexico.
Trade Laws and Regulations

84. Uruguay's accession to the GATT was approved by Law No 12.019 of 30 October 1953. Tariff concessions were originally negotiated at the Annecy Negotiations (1949). Since May 1961, these obligations have been waived (see Chapter IV).

85. The cornerstone of the current foreign trade régime is Law No 12.670 of 17 December 1959, also known as the Exchange and Monetary Reform Law (Ley de Reforma Cambiaria y Monetaria). Article 2 of this Law provides for the free importation of merchandise, and authorizes the Executive to introduce prior deposits, import surcharges and to temporarily prohibit imports (for up to six months) whenever necessary. It may also exempt certain goods from these interventions. In this regard, goods are classified into four broad categories - dispensable, luxury, competitive and indispensable. At present, surcharges (see Chapter IV) apply to merchandise falling under the first three categories.

86. Trade regulation originates in laws, decrees and resolutions issued by the Executive, the "Recopilación de Normas de Comercio Exterior y Cambios" of the Central Bank, circulars from Banco de la República Oriental del Uruguay (BROU) and routine orders or rulings (órdenes del día) from the National Customs Directorate. Trade policies are implemented by Presidential decrees, ministerial decrees, joint ministerial decrees, decrees approving updated legislation texts (textos ordenados), BROU resolutions and circulars.

Trade Agreements and Arrangements

(i) Multilateral agreements

87. Uruguay negotiated its accession to the GATT at the Annecy Round. The CONTRACTING PARTIES approved this accession by their Decision of 30 November 1949. Uruguay's membership was ratified on 16 November 1953. The Protocol of Accession entered into force a month later on 16 December 1953.

88. Uruguay is a signatory to the MTN (Tokyo Round) Agreement on Articles VI, XVI and XXIII of the GATT (Subsidies and Countervailing Measures), the International Dairy Arrangements and the Arrangement Regarding Bovine Meat. Uruguay is a signatory to the Arrangement Regarding International Trade in Textiles (the Multi-fibre Arrangement).

15Up to a maximum of 300 per cent of the c.i.f. value.
Although a non-signatory to the Agreement on Anti-Dumping Practices, it has observer status in the Committee.

89. Uruguay has not indicated any intention of adhering to any other GATT legal instruments.

90. Uruguay is signatory to the Protocol relating to Trade Negotiations among Developing Countries.

91. Uruguay is a GSP beneficiary and participant in the Global System of Trade Preferences among Developing Countries (GSTP). Ratification of the latter is pending.

92. Uruguay is signatory to the convention constituting the Common Fund for commodities. Ratification is pending.

(ii) Regional agreements

(a) LAIA

93. Uruguay is a member of the Latin American Integration Association (LAIA). LAIA was established on 12 August 1980 by the Montevideo Treaty replacing the Latin American Free Trade Association (LAFTA, 1960). The long-term objective of the Treaty is the gradual and progressive establishment of a Latin American Common Market. Nine out of the eleven LAIA members are contracting parties to the GATT.

94. LAIA's efforts are not exclusively trade-oriented: economic complementarity and the development of economic cooperation activities constitute other functions which contribute to the enlargement of the LAIA market. These objectives are to be achieved through two types of intergovernmental agreements: Regional-Scope Agreements, in which all members participate, and Partial-Scope Agreements, in which two or more countries participate.

95. Uruguay is signatory to the two existing LAIA Regional-Scope Agreements. First, tariff preferences are granted under the Regional Tariff Preferences Agreement (Preferencias Arancelarias Regionales or PAR) which in 1990 covered 3.3 per cent of total Uruguayan imports (mainly from Brazil). PAR preferences are operated according to the level of

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16 Other LAIA members are: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru and Venezuela.
development of each donor and recipient. In this context, Uruguay is considered as a country of intermediate development. The second type of instrument covers Market Opening Agreements, under which exports from Bolivia, Ecuador and Paraguay - equivalent to 0.1 per cent of total imports for 1990 - are granted concessions.

96. The Partial-Scope Agreements with a significant direct impact on trade are the bilaterally negotiated Economic Complementarity Agreements which are discussed in Section (iii) below. Apart from these agreements dealing with tariff concessions and economic complementarity, this second broad category of LAIA instruments contains sectoral development and trade promotion agreements referring to agriculture, chemicals, petrochemicals, machinery, electronics, household equipment, refrigeration and air-conditioning, photography, tourism, transport, as well as cultural and scientific matters, etc.

97. Imports of goods covered by LAIA agreements are partially or fully exempt from the Uruguayan tariff (IMADUNI) and import surcharges.

98. Chapter IV discusses in detail how each type of LAIA preferential treatment is applied. The GATT TPRM reports on Argentina, Chile and Colombia also provide background material on such regional preferences. A biannual report on LAIA activities is submitted every two years to the GATT Committee on Trade and Development.

(b) Treaty of Asunciôn/MERCOSUR (MERcado COMún del SUR)

99. Uruguay is a signatory to the Treaty of Asunciôn, aimed at completing a common market between participating countries by 1 January 1995. The

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17 Countries are classified in three categories: most developed, intermediately developed and least developed. Countries higher up in the classification are expected to give more benefits to those standing lower.

18 Acuerdo Agropecuario with Argentina.

19 Agreement on tourism with Bolivia; Agreement on Promotion of South American Tourism with Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Paraguay, Peru and Venezuela.

20 Agreement on International Road Transport with Argentina, Bolivia, Brazil, Chile, Paraguay and Peru.

21 Agreement on Cultural, Educational, and Scientific Cooperation with Argentina, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, and Venezuela.

22 Most recently, GATT document L/6946.

23 Signed in Asunciôn (Paraguay) on 26 March 1991 by the Presidents of Argentina, Brazil, Paraguay and Uruguay.
treaty contains a number of provisions providing for: free movement of goods, services, capital and labour; elimination of non-tariff barriers to trade; and establishment of a common external tariff. There is also to be co-ordination in fields such as foreign trade; agriculture; industry; tax, monetary and exchange rate policy; capital movement and services; customs; transport; and telecommunications. There will also be co-ordination on positions to be taken at regional and international economic and trade fora.

100. Signatories are expected to gradually and simultaneously proceed to the mutual elimination of their national customs tariffs by 1 January 1995. Tariffs are to be eliminated in a progressive, linear and automatic manner, on the basis of a specific timetable with eight distinct phases implemented twice a year on 30 June and 31 December, beginning on 30 June 1991. Some products will remain outside the scope of such reductions until December 1994 for Argentina and Brazil or 1995 for Paraguay and Uruguay. Each country has its own list of product exceptions, which will be eliminated in two stages. Argentina and Brazil made a 20 per cent annual reduction on 31 December 1991 (retroactive). Paraguay and Uruguay have made two initial reductions, each of 10 per cent (one when the Treaty entered into force on 29 November 1991 and a second on 31 December 1991), and will make four reductions of 20 per cent (on 31 December 1992, 1993, 1994 and 1995).

101. A common external tariff (CET) is yet to be negotiated. According to agreement reached at a meeting in Brasilia in December 1991, the CET will reflect internal competitive capacity but no indication has yet been given of its structure or level.

102. Fiscal treatment is to be the same for both imported and domestically produced merchandise.

103. Two institutions have been created: the Council of the Common Market (Consejo del Mercado Común) and the Group of the Common Market (Grupo del Mercado Común). The first, entrusted with the conduct of policy and decision-making, is composed of Ministers of Foreign Affairs, Economy and Finance, and will meet at least once a year. The second, representing the Executive, is to be the watchdog for the implementation of the Treaty. The

24 The phasing of tariff cuts envisaged between 30 June 1991 and 30 December 1994 aim to reduce initial levels by 47, 54, 61, 68, 75, 82, 89 and 100 per cent, respectively.

25 Uruguay has by far the largest list of exceptions comprising 960 items (Argentina 394 items, Brazil 324 items, Paraguay 439 items).
Brasilia Protocol (1991) also established Arbitration Tribunals for the settlement of any disputes which may arise during the transition period.

104. MERCOSUR members will accept proposals for membership from other LAIA countries after 5 years.

105. Under the "Bush Initiative", MERCOSUR countries signed a trade and investment agreement with the United States on 19 June 1991.

106. Chapter IV discusses in detail how the MERCOSUR transitional tariff cut programme is implemented. The recently circulated GATT TPRM report on Argentina also provides information on this matter (including the translation of the original text of the Trade Liberalization Programme).

107. To assist Uruguayan industry to meet increased MERCOSUR competition, taxes on imports of capital goods used in restructuring agricultural and industrial activities were abolished.

(iii) Bilateral agreements

108. In the LAIA context, three bilateral Economic Complementarity Agreements of major importance were concluded with Argentina, Brazil and Mexico. These are intended to improve market access conditions for Uruguayan exports. In 1988 and 1989, more than 19 per cent of total Uruguayan imports enjoyed such preferential treatment. There has been a substantial growth in bilateral trade. For the same period, imports under other LAIA preferences accounted for less than one-quarter of imports from the world (Table II.1).

109. The first Argentine-Uruguayan Convention of Economic Cooperation (CAUCE) (Convenio Argentino-Uruguayo de Cooperación Económica or CAUCE, Acuerdo de Complementación Económica No 1), signed in 20 August 1974, and an Additional Protocol of 1 January 1975, allow for duty-free entry of non-agricultural products in the Argentine market up to a maximum of 5 per cent of the national production and focus on intra-industry trade and complementarity. Liberalization by Uruguay applies to a value of imports from Argentina equivalent to 60 per cent of the annual export growth of Uruguayan exports (estimated on previous years figures) to Argentina. The system has, thus far, operated with tariff quotas.

110. This instrument has been of greater importance for Uruguayan exports than for those of Argentina. Between 1975 and 1978, the CAUCE was not used.

by Argentina while 48 per cent of Uruguayan exports under the agreement benefited from such special treatment. From 1979 to 1984, 13 per cent of Argentine exports entered Uruguay under the CAUCE régime against 80 per cent for Uruguay's exports to Argentina. In this period, 400 Uruguayan firms utilized the CAUCE facilities. Uruguay received around 1,000 quotas, has used a maximum of 350 and fully utilized only a hundred. On the Argentine side, 90 enterprises have used only one-quarter of the 400 concessions granted by Uruguay.

111. The CAUCE was intensified with the signature on 19 January 1985 of the Act of Colonia which quantified and determined 3,000 Uruguayan export items subject to the specific domestic production share limitations (5 per cent and 2.5 per cent for sensitive products). Uruguay undertook to liberalize fully its imports from Argentina, with the exception of products which are domestically produced. In practice, this meant that Uruguay's liberalization commitments were restricted to capital goods produced in Argentina and subject to low import duties in Uruguay. Special conditions were established for the automobile sector. Under the arrangement, Uruguayan exports to Argentina rose from US$54 million in 1989 to US$80 million. In 1989, 6.2 per cent of total Uruguayan imports benefited from CAUCE concessions; in 1990, the share was 5.3 per cent, on a value of US$74.6 million (Table II.1).

112. Uruguay has used the agreement to boost exports and reduce its bilateral trade imbalance with Argentina which, according to Favaro and Sapelli (1989), stemmed from the different degrees of openness of the two economies. In Argentina, until recently, high protection on inputs and high production costs affected the competitiveness of exports to the Uruguayan market. In Uruguay, low protection on raw materials, including the temporary admission régime (discussed in Chapter IV) enabled domestic producers to obtain cheaper supplies (from other than Argentine sources) and consequently be competitive in this export market. The CAUCE helped Uruguay to increase exports of products which would not otherwise be internationally competitive and also to increase imports of goods from Argentina, possibly at the expense of other sources. Favaro and Sapelli (op. cit.) underline the fact that the CAUCE had resource allocation effects similar to those of import substitution policies, by providing production incentives to goods which did not enjoy comparative advantage in Uruguay and had no export market other than Argentina. In other words, Uruguayan production was indirectly protected by Argentine import duties.

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27 This comment pre-dates Argentina's important liberalization programme - see document C/RM/S/18A and Add.1.
113. The Protocol of Trade Expansion (Protocolo de Expansión Comercial or PEC, Acuerdo de Complementación No 2), concluded in June 1975, eliminated trade barriers with Brazil through a quota system confined to certain products. Coverage included agroindustrial products and items included in NABALALC chapters 25 to 98. An exceptions list of products not subject to reductions included live animals and products thereof, vegetable products, greases and animal and vegetable oils and fats, and foods, tobacco and beverages. Compliance with the annually distributed export quotas is monitored by the Chamber of Industries of Uruguay and the Foreign Trade Office of the Bank of Brazil. In 1986, a second convention considerably extended preferential treatment by Brazil to a wide range of industrial products and fruits and vegetables, and ensured the automatic issuing of Brazilian import licences (guías de importación)\(^2\) and automatic adjustment of quotas.

114. Concessions granted by Brazil bear a code number (from 1 to 7) denoting applicability limitations. Figures from 1 to 5 refer to specific, progressively increasing value ceilings denominated in US dollars, number 6 corresponds to quantity limitations, while 7 indicates the absence of any restrictions. Concessions classified under categories 1 to 5 are automatically upgraded whenever Uruguayan exports under the category reach 90 per cent of the maximum amount for the category, defined as average figure over the past three years. Preferences under number 5 move to category 7, while those under 6 have their annual ceilings increased by 30 per cent. In July 1988, the PEC was again widened to include new products and increase existing quotas. Brazil has made concessions on around 1,400 products. Uruguayan producers have not made full use of such quotas yet.

115. Between 1974 and 1984, the share of preferential trade under the PEC in Uruguayan exports to Brazil declined, varying between 24.2 and 16.2 per cent, while preferential imports from Brazil were between 4.9 and 11.5 per cent. From 1985 onwards, the share of Uruguayan exports covered by the PEC oscillated and peaked at 80.9 per cent in 1988, falling to 74.3 per cent in 1990. In the second half of the 1980s there was also a marked increase in the share of Uruguayan imports from Brazil covered by the PEC. The preferential trade balance has always been substantially positive for Uruguay, while the overall bilateral trade balance was in favour of Brazil in the years 1979, 1980, 1981, 1984, 1987 and 1988. In 1988, 12 per cent of total imports benefited from PEC treatment. This

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\(^2\) As from 1990, all import licenses are automatic in Brazil.

\(^2\) Dollar values for 1991: Category 1 = US$33,000; 2 = US$550,000; 3 = US$1.1 million; 4 = US$2.75 million; 5 = US$5.5 million.
share declined to 9.2 per cent in 1990 when the total value reached US$129.6 million (Table II.1).

116. Preferences under the PEC cover over 70 per cent of bilateral trade. Uruguayan imports under PEC have mainly been industrial supplies and this has tended to increase effective protection for those sectors where they are processed, while exports consist of intermediate goods. Import substitution takes place to a lesser extent under PEC as a large part of the products sold to Brazil are manufactures using agricultural inputs.

117. A third agreement was signed on 7 May 1986 with Mexico (Acuerdo de Complementación Económica No 5) covering 7,000 Mexican tariff items. This constitutes the widest LAIA agreement in terms of coverage. This agreement has been enlarged twice, in January 1987 and October 1988. (Since 1986, around 1 per cent of total annual imports into Uruguay have benefited from preferential treatment under this agreement (Table II.1).) In 1990, imports under this agreement were US$11.4 million.

118. An Agreement of Economic Complementarity was signed with Cuba in 1987. Since then, Uruguayan exports to Cuba have grown steadily, increasing from US$1.1 million in 1986 to US$13 million in 1989.

119. Since 1987, the product coverage of concessions under Partial-Scope Agreements with Peru (No 33), Colombia (No 23) and Venezuela (No 25) has increased.

120. An Agreement of Economic Complementarity (No. 15) was signed with Bolivia on 12 April 1991. It provides, inter alia, for duty-free preference for final goods, inputs and parts and components traded under LAIA industrial complementarity agreements and partial "percentage" preferences negotiated between signatory countries on items contained in annexes to the agreement.

(iv) Other agreements or arrangements

121. Uruguay has recently (4 November 1991) signed its third trade and cooperation agreement with the EC, extending an existing, narrower agreement dating back to 1973. The new agreement (valid from 1992 to 1996) covers agriculture, science and technology (not covered in earlier

30 GATT document L/6985/Add.1

31 A similar series of agreements have been signed with Mexico, Chile and Argentina.
agreements), trade, industrial development, investment and the environment. The objective of the agreement is to encourage Latin American integration; increased regional aid is to be provided. In 1990, aid from the European Communities and member countries reached US$56.6 million.

122. In 1992, an agreement on cooperation in areas such as phytosanitary and veterinary arrangements and food health was signed between the EC, Argentina and Uruguay. This aims at preparing these countries for the new conditions set under the Single European Market in 1993. The programme covers phytosanitary surveillance, disease prevention and cooperation in the field of bio-engineering, cooperation on veterinary medicaments and research on residual products of animal origin.

123. Countertrade agreements have been signed with the former Soviet Union (Convention on Merchandise Supplies or Convención sobre Suministro de Mercancías, 1988-90), Czech and Slovak Republic, Poland, and Iran (see Chapter IV).

124. Since February 1988, when Uruguay established diplomatic relations with the People's Republic of China, various economic, trade and cultural agreements have been signed with that country. A programme, beginning in 1988, for the gradual increase of non traditional Uruguayan exports to China, up to the equivalent of one fifth of Uruguay's annual imports from China, set an initial objective of US$80 million, increasing to US$150 million for 1992. Twenty per cent of these exports must be other than wool tops and tanned leather. In 1988, exports to China attained US$135.9 million; in 1989 and 1990, adverse conditions in the world wool market, reduced exports to US$75.5 million and US$66.5 million respectively.

125. Until 1988, Uruguay maintained an agreement with Taiwan covering investment in soybeans production in the northern part of Uruguay and purchase of the crop at favourable prices.

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32 Memorandum de Entendimiento de Intenciones.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

126. Uruguay has a long tradition of being open to foreign investment. There are no foreign exchange controls, no restrictions on capital movements, no restrictions on foreign investment and no personal income tax.

(1) Exchange Rate Movements and Trade

127. In Uruguay, exchange rates have long been used as an instrument of trade policy. A system of multiple exchange rates was used from 1931 until 1959. A series of commercial rates were applicable to import and export transactions and public sector demand originating in public debt service, while a "financial" rate was used for all other transactions. From 1931 until the end of 1959, multiple commercial rates were utilized for promoting a steadily growing number of exportable items. Favaro and Sapelli (1989) describe these regimes as subsidies to exports and taxes to imports. In 1960, the commercial rate was unified, leaving a dual system of financial and commercial rates.

128. The economic crises of the mid-1960s and 1970-71 led to divergences between the commercial and financial rates (Table III.1), indications of the exchange pressure. From 1972 to 1974, a series of mini-devaluations failed in their objective of keeping real exchange rates stable, as they did not manage to keep pace with differences between domestic and international inflation. Tight exchange restrictions were maintained to cope with the deepening crisis.

129. From 1974 to 1978, attempts were made to reduce fiscal disequilibrium, promote non-traditional exports and maintain a pace of nominal exchange rate devaluation at a level that would avoid real appreciation of the currency. In this connection, the dual exchange rate system was maintained with a managed commercial rate until October 1978, when the financial and commercial markets were unified and a system of pre-announced devaluations (tablitas) was introduced.

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1 Ley de Reforma Cambiaria y Monetaria of 17 December 1959.

2 The "free" rate (tipo libre) from 1931 to 1932 was equivalent to double the official rate, "Special Free" rate (tipo libre-especial) from 1932 to 1933; "Compensated" rate (tipo compensado) from 1934 to 1937, consisting of premiums (up to 50 per cent) above the official rate for specific items; "Free oriented" rate (tipo libre-dirigido) from 1937 to 1956 when a reorganization of the system introduced eleven categories of rates for exports and three for imports.
130. From 1978 to 1982 the principal concern of economic policy was domestic stabilization. High domestic interest rates and open capital markets contributed to capital inflow and the build-up of large international reserves. This resulted in a strong appreciation of the currency and a decline in the trade balance (Chart III.1), leading to a sharp devaluation in 1982.

Chart III.1
Real effective exchange rate and trade balance 1978-90

131. Since 1982, the Uruguayan authorities have pursued exchange rate policies intended to maintain a steady, gradual devaluation of the overall parity (Table III.2). Trade liberalization has been explicitly supported by a policy of keeping downward pressure on the real exchange rate, through nominal devaluations, to activate resource re-allocation toward export-oriented activities.

132. Since 1986, a crawling peg exchange rate mechanism has operated. The Central Bank and BROU intervene to set the pace of exchange rate adjustments depending on external and domestic circumstances. Until October 1991, the Central Bank bought and sold only at the higher and lower limits of a 2 per cent band, and allowed the rate to float freely within these limits. This band was enlarged to 4 per cent in November 1991 and in January 1992 was expanded to 6 per cent. This enlargement is viewed as a
means of reducing the need for continuous Government intervention in the exchange market by allowing market forces to set parities within a larger range. The Central Bank fixes the daily exchange rate of the peso in relation to the U.S. dollar by taking into account the difference between domestic and foreign inflation. Rates for other currencies are based on U.S. dollar rates in exchange markets abroad.

133. From 1985 to 1990 the real exchange rate of the peso has depreciated mainly against the currencies of the EC, Japan and Brazil, while remaining relatively stable vis-à-vis the United States. The appreciation of the austral against the Uruguayan peso reflected the unification of the official and parallel exchange rates of the austral and the stability of the nominal austral/US dollar rate during most of 1990.

134. Uruguay's close economic integration with the Argentinian and Brazilian economies means that the country is highly vulnerable to changes in exchange rates with those countries. It has not been the practice to let bilateral nominal exchange rates fully compensate for the rapid shifts in prices in those countries. This has sometimes caused sharp swings meant losses and gains of competitiveness for the Uruguayan exports. This happened, for example, in mid-1988 the Argentine and Brazilian currencies rapidly depreciated, while this trend was reversed after mid-1989 with the appreciation of the austral and cruzeiro.

(2) Foreign Exchange Allocation

135. Since 1974, the Uruguayan New Peso has been fully convertible. No parallel market for foreign exchange exists in Uruguay. Foreign exchange controls and restrictions were converted to tariffs in 1960. An obligation to sell all or part of foreign currency earnings from exports to the BROU was eliminated in 1974.

136. Exchange transactions are operated through authorized banks, financial houses, foreign exchange bureaux and the BROU. Foreign exchange operations can be freely undertaken without any identity requirement. Secret deposits are legal.

137. External receipts and payments can take place in any convertible currency. Export proceeds are freely convertible to local currency through the banking system. No foreign exchange limitations apply to Central Bank sales or purchases to or from BROU, the Mortgage Bank, commercial banks,

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BROU was operated as the country's Central Bank until 1967.
and financial and exchange houses. Export financing in foreign currency is possible.

138. Foreign exchange sales, both in the spot and forward exchange markets, are subject to a 2 per cent tax, while sales through interbank operations are taxed at a rate of 0.5 per cent.

139. As a member of the Latin American Integration Association, Uruguay is signatory to the Reciprocal Payments and Credits Agreement (Convenio de Pagos y Créditos Recíprocos). The objective is to encourage trade by reducing currency transfers among central banks of participating countries. Bilateral credit lines are multilaterally cleared every four months. This system has been operating satisfactorily for 26 years. For example, in 1991, only 22 per cent of the foreign currencies for settlements have actually been needed. All settlements under the multilateral clearing system are made in US dollars.

140. In the same context, the Agreement of Santo Domingo is a supplementary instrument to which Uruguay, despite its balance-of-payments problems, has not so far had recourse. This agreement provides finance in the absence of liquidity which may occur as a result of the compensatory clearing (mentioned above) or balance-of-payments difficulties or natural disaster. These provisions have not been used since 1983.

141. A payments agreement with Cuba provides for settlements to be effected in currencies other than U.S. dollars.

142. Gold may be freely purchased, held and sold. Gold for industrial use is subject to the general trade régime.

(3) Foreign Direct Investment and Trade

143. In general, foreign investors are treated in Uruguayan law on the same terms as local investors. No special authorization is needed to import or export goods, make deposits or other banking transactions in any currency, contract loans or receive promotional benefits.

144. Foreign investment projects in [fields such as] electricity, hydrocarbons, basic petrochemicals, strategic mineral exploitation, agriculture and livestock, meat packing plants, intermediary financial

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4This agreement was signed on 25 August 1982 by the Central Banks of Argentina, Bolivia, Brazil, Colombia, Chile, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. It has thus replaced the ALALC Reciprocal Payments and Credits Agreement set in 1965.
activities, railroads, telecommunications, the radio, press and television media, as well as commercial activities which might be entrusted to public enterprises, are subject to prior authorization by the Council of Ministers.

145. The Foreign Investment Law of 1974 guarantees, under certain conditions, the convertibility and remittance of profits and invested capital according to the terms stipulated in the investment contract signed with the Government. One hundred per cent foreign ownership is fully acceptable. A company is considered as foreign if 50 per cent of its capital is owned by foreigners.

146. Under the Industrial Promotion Act of 1974, foreign investors receive tax exemption from import surcharges, from capital tax and also partial exemptions from corporate income tax through mechanisms that provide for reinvestment of profits. Credit assistance is also granted under certain conditions. (See also Chapters IV and V.)

147. Uruguay has signed an investment guarantee arrangement with the United States Overseas Private Investment Corporation, which provides qualified United States investors with political-risk insurance, financial aid and advice investment matters.

148. The November 1991 agreement with the European Communities (see Chapter II), encourages foreign investment in Uruguay. It is also intended to foster greater cooperation between small and medium-sized enterprises (see Chapter IV). Uruguay envisages launching a series of cooperation agreements with the objective of diversifying production in its service industries, in particular with regard to small and medium-sized enterprises.

149. Bilateral investment treaties are maintained with Canada, Germany, Great Britain, Hungary, Italy, the Netherlands, Poland, Romania and

5 Law No. 14179. The authorities can deny the protective guarantees of the law if an investment project does not promote national (export) interests or economic development goals. In the context of investment, sectors qualified as of national interest are defined in Decrees No 158/90 of 30 March 1990 of 22 February 1991 (for more details see Chapter IV. Tax concessions and exemptions). Remittance of profits is subject to a 40 per cent tax on all profits exceeding 20 per cent per annum of the foreign capital invested. Companies are faced with local credit restrictions if more than 50 per cent of the voting rights are held by foreign capital. These provisions have in practice been applied liberally.

6 A company must show that it contributes to diversifying Uruguayan exports and incorporating the maximum amount of available new materials. It can also qualify if it establishes a new industry in the country or if it is reforming an existing one so as to make a more effective use of available labour and new raw materials. Other relevant activities are increasing value added, carrying out research for the exploitation of natural resources, expanding tourism or training programmes in technical skills.
Switzerland were signed. Similar agreements are under discussion with France, Spain and the United States.

150. Since 1986, a Committee for Investment Development has been looking at investment promotion techniques, carrying out studies and research on obstacles to investment growth, establishing an operative information system capable to identify investment opportunities in the country, designing and implementing policies and guidelines for the development of investment, and co-ordinate actions of investment promotion.

151. Uruguay is a member of the Multilateral Investment Guarantee Agency (MIGA). In 1991, Uruguay received advice on investment promotion strategies from the World Bank Foreign Investment Advisory Service (FIAS), which is jointly operated by MIGA and the International Finance Corporation (IFC).

152. Uruguay is a member of the Inter-American Investment Corporation.

153. The majority (67.2 per cent) of the stock of foreign investment in 1986 originated in the United States, EC member States and Argentina (Chart III.2). (No more recent data are available).

**Chart III.2**

Foreign investment by country in 1986

<table>
<thead>
<tr>
<th>Country</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>33.3%</td>
</tr>
<tr>
<td>Argentina</td>
<td>20.1%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3.3%</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other European</td>
<td>9.5%</td>
</tr>
<tr>
<td>EC</td>
<td>9.1%</td>
</tr>
<tr>
<td>Others</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Source: Centre Francais du Commerce Extérieur.

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7 Decree No. 863/986 of 23 December 1986.
154. Foreign firms operating in the manufacturing sector contributed about 15 per cent of value added in manufacturing, or 5 per cent of the GDP (World Bank (1989)). The firms concerned were generally relatively large (more than 100 workers) and 80 per cent of their output was directed to the internal market. Two-thirds of their operations were concentrated on chemicals and food products. In addition to these products, foreign firms exported clothing, basic metal products, electrical appliances and transport equipment. For the period 1984-88 foreign investment generated 18.5 per cent of total exports to the world, 29.1 per cent of exports to Brazil and 28.3 per cent of exports to Argentina.
Chart III.3
Stock of foreign investment, 1986

Foreign enterprises by sector in 1986
Number of enterprises (400)

- Transport & communications: 63
- Banking & financial institutions: 34
- Insurance & other services: 80
- Agriculture: 4
- Mining: 7
- Retail trade, restaurants & hotels: 61
- Construction: 15
- Manufacture: 148

Foreign investment by sector in 1986

- Banking & financial institutions: 48.3%
- Industry: 11.63%
- Other: 43.1%

Foreign investment in specific industrial branch

- Foodstuffs: 12.0%
- Beverages: 9.0%
- Textiles: 16.9%
- Leather: 7.5%
- Chemicals: 17.5%
- Pharmaceuticals: 9.8%
- Construction: 2.1%

Source: Centre Français du Commerce Extérieur.
155. Foreign investment has been attracted by the free zones where light
manufacturing and assembly plants are encouraged. Recently, a
US$5.5 million privately owned "teleport" was privately built to serve as a
telecommunications channel to broadcast all over Latin America. Pepsico is
planning to set up a US$8 million concentrates plant whose output is
expected to be exported to the region, as well as to Canada, Eastern Europe
and East Asia.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

156. In the late 19th and early 20th centuries, Uruguay experienced remarkable economic growth and prosperity through an outward-oriented development strategy. Agriculture was the most dynamic sector, with major exports of livestock products, mainly beef and wool. Tariffs were generally moderate, with some exceptions where nominal protection reached 200 per cent. In 1912, a liberal customs law, also known as the Raw Materials Law (as it exempted most of them from import duties) provided for a simple tariff structure, with a maximum ad valorem rate of 31 per cent.

157. In response to the Great Depression, the Government turned to an import-substitution model. This was further stimulated by the shortage of consumer goods during the Second World War. Measures were taken, somewhat unsystematically, to restrict foreign trade, with little regard for the efficient allocation of resources, by means of price and quantitative limitations. Tariffs were increased and duties had to be partly paid in gold, US dollars or other foreign currency. Exceptions were made for raw materials and inputs used by domestic industries. Import prohibitions were imposed on certain items. Importers were required to settle transactions in gold, while a foreign exchange control régime was developed, with the Banco de la República Oriental de Uruguay (BROU) assuming control of foreign exchange operations related to both imports and exports. A frequently modified system of multiple exchange rates\(^2\) (Chapter III) established implicit taxes on imports and implicit subsidies to non-traditional exports, discriminating against traditional agricultural export industries.

158. The Export and Import Control Act of 1941 consolidated all the measures taken in the previous decade and, among others, provided authority to the BROU for the assignment of foreign exchange by country and item. Priority in the allocation of foreign exchange for imports was given to raw materials to be processed in the country. Different exchange rates were applied depending on the class of good: essential, intermediate or luxury. The whole system was operated on the basis of a barter trade model, whose aim was to encourage imports from countries which imported from Uruguay.

\(^1\)This section draws heavily on the following publications: Favaro and Sapelli (1989), Favaro and Spiller (1991), World Bank (1989), (1990(a)).

\(^2\)This system generated speculative purchases of large quantities (exceeding by far domestic consumption capacities) of goods enjoying preferential exchange rates (like insulin, aircraft, sewing machines) which were ultimately re-exported to other Latin American countries.
Administered prices (aforos) for imports were increased by 30 per cent. Quantitative restrictions were administered by import licenses.

159. In view of the limited size of the Uruguayan market, opportunities for domestically-led growth through import-substitution were exhausted by the mid-1950s. In 1958, after having ruled for over 90 years, the Partido Colorado lost the elections. Support was given to an alliance promising the liberalization of the economy. The exchange and tariff reform of 1959 (Ley de Reforma Cambiaria y Monetaria) brought significant changes in several areas. The objective was to abandon bilateralism in trade policy, to bring national legislation into line with international obligations and replace other means of protection by tariffs. The exchange rate was to be fixed according to supply and demand. Quantitative restrictions were eliminated. Import prohibitions could be temporarily introduced on luxury goods or goods competitive with domestic products. Additional import surcharges (recargos a la importación) were introduced and levied on administered prices (aforos) which were often higher than true prices. Taxes were levied on traditional exports (such as beef, wool or hides) with the objective of encouraging greater processing in Uruguay, collecting revenue and keeping the domestic price of exportable goods low. Taxes (detracciones) were applied to exported items. However, the policy changes did not result in any important quantitative or qualitative changes in foreign trade.

160. Between 1963 and 1968, Uruguay experienced serious economic difficulties and a foreign exchange shortage. During this period, the Government reverted to a policy of strict trade restrictions and frequent nominal devaluations of the peso. All legal means available, including tariffs, import surcharges, temporary import prohibitions, prior import deposits, foreign exchange control and export taxes were used to regulate trade. Maximum tariffs were increased to 300 per cent and import surcharges to 150 per cent. Maximum prior import deposits of 200 per cent also applied to goods subject to import surcharges. In 1964, a law introducing export subsidies (reintegros a la exportación, see Section IV.(3)(ix)) was approved to help boost export earnings.

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3 Aforos were introduced during the second half of the 19th century as a list of values (tarifa de avalúos) for customs valuation purposes.

4 In 1954, almost all imports were carried out by 28 companies which were selling parts of their quota to others. In the automobile sector, out of 367 importers, 9 held 50 per cent of the quota.

5 In 1967, a 100 per cent export tax for items subject to a 60 per cent import surcharge penalized exports.

6 In 1965, BR0U was the sole institution allowed to authorize purchases or sales of foreign currency by individuals.
161. Tight trade and exchange control restrictions were continued up to 1974. Strict exchange controls were backed up by high tariffs and by tariff quotas under which imports above the quota level were subject to advance deposits, for a six month period, of up to 12 times the c.i.f. peso value of the imports. In a situation of high domestic inflation (up to 260 per cent a year), imports beyond quota levels became prohibitively expensive. Under this import substitution policy, a pattern of output and trade was established under which, in general, no good produced domestically was imported and no imported item was domestically produced. The resulting rigidities in the economy handicapped its ability to face the first oil crisis.

162. A major reorientation of policy took place in 1974; the economy was to be revitalized by improving economic efficiency and promoting and further diversifying non-traditional exports. This objective was pursued by launching a two-stage programme of structural reform covering trade, fiscal, monetary, exchange rate, and domestic pricing policies.

163. In the first stage (1974-78), import licensing and quotas were abolished, the maximum level of import surcharges was cut, the tariff régime was simplified, consular taxes were reduced and the export subsidy programme was expanded, in particular, by intensifying the export subsidy (reintegro) scheme for non-traditional exports in 1974 and 1975. However, between 1975 and 1978, export subsidies were once again drastically reduced because of serious fiscal constraints. The export financing régime (preventa), created at the end of the 1960s, assumed greater importance in the 1970s. Fiscal incentives (such as exemptions from export revenue tax, VAT, import duties and charges, and duty-free import of intermediate goods and raw materials used in the manufacture of export goods) were introduced to provide preferential treatment to

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7 An exception to the régime was for firms that argued the impossibility of maintaining their level of activity: these were granted an increase in their licence allocations.

8 From 300 per cent in 1976 to 90 per cent in 1979.

9 The single or unified customs duty IMADUNI (see Section 2(iii)(c)(ii)) and the cargo handling charge TMB (see Section 2(iii)(d)(iii)) were established by law in 1977.

10 From 10 per cent in 1976 to 4 per cent in 1978.

11 In certain cases, depending on the size of the market, the reintegro ceiling in that period could be as high as 80 per cent.

12 In view of exchange rate depreciation, components of this system such as advance payment of export revenue (at the production or shipment stage), credit lines in foreign currency and nominal interest rates in US dollars, provided a credit subsidy.
non-traditional exports. Price controls were progressively removed. During the same period, the devaluation of the peso was monitored with a view to avoiding real appreciation. Foreign exchange markets were fully deregulated and international capital movements were fully liberalized.

164. The second stage (1978-82) of the reform was mainly aimed at economic stabilization. A rapid deceleration of inflation was sought, with a pre-announced exchange rate schedule (tablita). Initial overvaluation of the peso adversely affected export competitiveness and domestic production. In 1982, growing external debt and capital flight forced a major devaluation.

165. With regard to trade policy, further simplifications and reductions of tariffs were made. Duties were reduced gradually under a six-year tariff programme initiated in January 1980. Initially, a general tariff (Tasa Global Arancelaria or TGA) base rate of 35 per cent was established, composed of four elements: the single customs duty (Impuesto Aduanero Unico a la Importación or IMADUNI), import surcharges (recargos), consular fee (tasa consular) and the cargo handling charge (tasa de movilización de bultos or TMB). The number of individual tariff rates fell from 28 to 12 and then to nine in 1982, when a minimum general tariff of 10 per cent was established. The automobile and sugar industries were the most important exceptions to the programme of tariff reductions.

166. In 1979, domestic price stabilization considerations led the Government to accelerate the implementation of the tariff reduction plan. However, because of the onset of a balance-of-payments crisis in 1982, the plan was interrupted; in June 1982, the minimum global tariff and minimum export subsidy (both at 10 per cent) were increased by 10 per cent.

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13The World Bank (1990) reported that price controls covered 66 per cent of the gross value of agricultural production (85 per cent of which were livestock products) until the late 1970s.

14The automobile assembly industry became part of the tariff cut programme after 1980. Imports of assembled cars were prohibited. Cars with motors up to 1500cc capacity were allowed as from 1980 while subject to the highest tariffs and other requirements (see Chapter V).

15Sugar imports were authorized only when domestic supply could not meet demand. "Since the import bureaucratic process involved previous authorization by the BIDU, import prohibition could be implemented through private intervention in the administrative procedure." (Favaro and Spiller, 1991) Similar cases were observed for the car industry.

16In order to fight inflation, accelerated tariff reductions were made with the objective of introducing foreign competition to sectors where prices were rising faster than justified by cost increases. This affected tractors and agricultural machinery, wool and textiles, and foodstuffs.
effectively a nominal exchange rate devaluation of the same order. Subsequently, in 1983, the tariff structure was further simplified to comprise five global tariff rates: 10 per cent, 20 per cent, 35 per cent, 45 per cent and 55 per cent.

167. At the start of the recession in 1982, several new reference prices were established above international price levels (see Section 2(vi)). Then, in 1983, an additional, and more restrictively administered, import price device - the "minimum export price" mechanism - was introduced. These administered prices have remained in place until today, although many items have been removed from the system and there is discussion among policy-makers about their possible elimination (see Section 2(vi)). Export taxes on traditional exports (beef and wool) were reintroduced in 1983 at a rate of 15 per cent under the IMF stabilization programme, and reduced to 5 per cent in 1984. At the same time, export subsidies (reintegros) were finally abolished and replaced by a drawback scheme.

168. Under the civilian Government of President Julio Sanguinetti, which took office in 1985, emphasis was placed on stabilizing the economy, restructuring external debt and creating conditions for sustained growth. A medium-term development plan, financed by World Bank structural adjustment loans, was introduced to improve investments and exports. Until 1987, results were seen in positive GDP growth, falling unemployment, increasing real wages, diminishing inflation and rising export performance. Recovery slowed in the following years, mainly due to exogenous influences, such as the economic situation in Argentina and Brazil (affecting trade and tourism), the loss of Taiwan as an export market following the establishment, in 1988, of trade relations with China, and severe drought.

169. In 1985, as part of the IMF stabilization programme, a 5 per cent temporary additional import surcharge was introduced to strengthen public finance. Subsequently, duties were lowered twice, in 1986 and 1987, reducing the global rates of 35 and 55 per cent to 30 per cent and 40 per cent. Significant progress was achieved in reducing the level and dispersion of effective protection.

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17 In 1982, export subsidies were extended to traditional exports for the first time, following Uruguay's signature in 1981 of the Tokyo Round Agreement on Subsidies and Countervailing Measures. At the same time, the gradual elimination of the subsidies and their replacement by a drawback system by 1985 was announced. Domestic credit policy changes had already resulted in the suppression of the export financing régime in 1979. As part of a wave of tax reforms aimed at correcting the distortions in the allocation of resources, export taxes on the two main traditional products, beef and wool (up to 50 per cent), were also eliminated in 1978. VAT exemptions for exports were introduced in 1983.

18 This is a direct translation of the term: the system is one of minimum import prices set by the Government for customs valuation purposes.
170. The Lacalle Government (1 March 1990) launched a subsequent stabilization programme with the objectives of reducing the rate of inflation and the level of the public sector deficit (via privatization and a restructured pension scheme), and of increasing investment. Among other things, the Administration's agenda includes the extension of the tariff reduction plan, with further reductions in TGA levels made in September 1991 and March 1992 (see Section IV.(2)(ii)(b)), the promotion of export growth (through a number of incentives, programmes and favourable tax policy) and the diversification of the agriculture and manufacturing sectors.

171. Thus, despite periodic setbacks, for two decades trade policies aimed at integrating the Uruguayan economy into the world market have progressively, albeit slowly, rationalized the tariff system and reduced levels of nominal and effective tariff protection. Nevertheless, this process was to some extent countered by the introduction of administered prices through the system of minimum "export" prices and reference prices in the early 1980s, and the effect of the combination of these measures is not completely clear. This is mainly because the extent of the price "wedge" between world prices and the reference prices - and changes in this price wedge - are not known. Viana (1991) argues that, despite reforms, non-tariff measures continue to have adverse effects on resource allocation. Favaro and Spiller (1991) conclude that policy changes made a minimal contribution to improving resource allocation, while export performance was mainly determined by real exchange rate variations.

172. Against this background, action is being taken under PRONADE (Programa Nacional de Desburocratización) and PLADES (Plan de Desregulación del Comercio y las Inversiones) to deregulate the economy, simplify, rationalize and lessen the cost of administrative procedures and reduce the weight of bureaucracy. Changes made so far involve simplification of import and export procedures; suppression of the consular fee and TMB; abolition of import restrictions affecting oils; provisions relating to port activities; transit; and the temporary admission régime. So far, the major achievements have been the simplification (and reduction) of the global customs tariff, the suppression of a number of procedures and requirements delaying imports or exports, the elimination of restraints on the importation of oil, the abolition of an air freight tax, and the improvement of port services (leading to faster loading procedures).

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\[19\] Both plans are directly linked to the Presidential Secretariat (Secretaria de la Presidencia).

\[20\] It is claimed by PLADES that the first year of its recommended changes to the foreign trade régime improved the competitiveness of domestic industry by an estimated US$15 million.
Further pre-announced tariff reductions took place in 1992 and more reductions have been announced for 1993 (see Section IV.(2)(ii)(b)).

173. MERCOSUR (Chapter II) is considered by the Government as an opportunity to open further the Uruguayan market, to increase the efficiency of resource allocation and to boost exports, in particular to Brazil. President Lacalle\(^21\) considers that Uruguayan exports to Brazil (US$500 million) may double under this initiative.

(2) **Measures Directly Affecting Imports**

(i) **Registration, documentation**

174. Any company or private individual wishing to import must be registered on the Importers Register kept by the Banco de la República Oriental del Uruguay. An import declaration ("denuncia de importación") is submitted to BROU, which automatically authorizes the operation. A registration commission of 1 per cent is generally charged (see also Section IV(2)(v)). Chart IV.1 illustrates currently applied import procedures.


Chart IV.1
Import Procedures

Importer
(Agent of Ex. Co.)

BROU

Merchant Navy
Director-General
(DIGEMAM)

Customs Agent

National Customs
Directorate (DNA)

Directorate-General
for Taxation

Prior certificates

IMPORT DECLARATION
(Form 733)

IMPORT CLEARANCE
(Form 835)

REASSESSMENT
(Form 317)

Acceptance
of Declaration
Payment of:
- Charges
- BROU Commission

Copy No. 2 of
Import Declaration
- Form 835
- DNA Permit
- Commercial (or Proforma)
invoice

Checks:
- DNA Matrix
- BROU Form 835

Documents entered

IMPORT CLEARANCE
PERMIT (MATRIX)

ANNEX OF IMPORT
CLEARANCE PERMIT

MINISTRY OF
EXTERNAL
RELATIONS

Payment:
- VAT
- IMESI
- Form 2/911
- Form 2/103

Payment:
- IMADUNI
- Special Services Fee

NATIONAL
PORTS
AUTHORITY

Authorization of
Customs Clearance

Checked by:
LATU, NGAP, others

ADJUSTMENT OF
IMPORT CLEARANCE
(Form 566)

Copy for BCU
- Form 555 Reassessed
- Original documents
returned

Note: BROU: Banco de la República Oriental del Uruguay.
BCU: Banco Central del Uruguay.

Source: PLADES.
(ii) **Tariffs**

(a) **Structure of global tariffs**

175. The Uruguayan import tariff consists of 7,744 tariff lines. A private enterprise (CENCI, Uruguay S.R.L.) publishes, on a regular basis, the complete national customs tariff (including preferential rates applied under different agreements) in the Manual Práctico del Importador. Laws, decrees and resolutions which affect imports or exports are wholly or partly contained or summarized in an additional volume. These private publications are regularly and constantly updated but are not official and may be subject to error.

176. The Uruguayan customs tariff employs the Customs Cooperation Council Nomenclature, which corresponds to Nomenclatura Arancelaria y Derechos de Importación (NADI) for imports and Nomenclatura Arancelaria de Exportación (NADE) for exports. The Harmonized System is to be introduced as from 30 June 1992.

177. From 1983 until October 1991 the m.f.n. customs tariff consisted of four components, combined into a single global tariff rate (TGA) for each item. The four components, namely, the single customs duty (Impuesto Aduanero Unico a la Importación, IMADUNI), import surcharges (recargos), consular fees and cargo handling charges (Tasa de Movilización de Bultos) were expressed in ad valorem terms.

178. Following action under PLADES, a Decree issued on 17 October 1991 eliminated the consular fees and the cargo handling charges. To maintain the overall level of global tariff rates, import surcharge and IMADUNI rates applicable on affected items were simultaneously increased by 4 and 1 percentage points, respectively. Today, the TGA consists of two components; IMADUNI and the import surcharge. The Banco de la República Oriental del Uruguay collects import surcharges and the General Administration of Customs receives the revenue from IMADUNI. Both components apply to the c.i.f. value of imports or, where applicable, to the reference price (aforo) or the minimum export price.

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23 The BROU has published the national tariff schedule. Amendments made by decree are published in the Official Journal and national press. Currently, the Ministry of Economy and Finance is preparing a new tariff schedule based on the Harmonized System nomenclature.

24 Although the Uruguay tariff is sometimes described as "single column", there are preferences under LAIA, including MERCOSUR.
(b) Global tariff rate levels

179. Since 1980 Uruguay has undertaken a substantial, progressive rationalization of its customs tariff. In 1980, Uruguay applied 29 different TGA rates ranging from zero to 103 per cent. A five-tier tariff with rates of 10, 20, 35, 45 and 55 per cent was introduced in 1983; in 1985, these rates were increased by 5 percentage points. From 1986 onwards, the maximum rates were again progressively reduced. In 1990, the structure of rates was simplified to four rates (15, 25, 35 and 40 per cent), with the lower rates (those of 10 and 20 per cent) raised by 5 per cent.

180. Between 1 September 1991 and 31 March 1992, three main rates of TGA were applied. Raw materials not produced in Uruguay were subject to a 10 per cent rate; intermediate goods paid 20 per cent or 30 per cent and a 30 per cent global duty was levied on final consumption goods. Twelve tariff items enjoyed duty free treatment and a single one was subject to a 40 per cent TGA (IMADUNI 16 per cent plus import surcharges 24 per cent).

181. In order to promote external competition, the Government has proceeded with further tariff cuts (Table IV.1). In a first reduction on 1 April 1992, the 30 per cent TGA rate was cut to 24 per cent and 20 per cent to 17 per cent (Chart IV.2). A second cut, scheduled for 1 January 1993, will bring these rates down to 20 per cent and 15 per cent, respectively.

182. The net effect of the changes appears to have been, firstly a reduction of nominal tariff protection in the early 1980s. Unweighted average nominal tariff protection fell from 101 per cent in 1978 to 47 per cent in 1981. In the mid-decade, the trends were less clear, with an increase in the average rate from 38 per cent to 40 per cent between 1985 and 1986, followed by a decline to 29 per cent in 1987. Since then, the average level of nominal protection has fallen further: GATT estimates that the unweighted average nominal global tariff rate (TGA) was just over

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25 Agricultural NADI items: 01.02.89.01 (heifers of any bovine species having no more than two teeth), 10.01.01.19 and 10.01.01.99 (wheat not in form of seeds for planting), 23.07.02.00 (nutrient for calves used as a milk substitute which contains proteins, fat, fibre and vitamins A and D as well as antibiotics of the group of tetracyclines). Industrial NADI items: 71.05.01.01 (raw silver in bars), 71.07.01.01 (raw gold in bars), 71.09.01.01, 71.09.02.01, 71.09.05.01 (ingots of platinum or other metals of the platinum group like palladium and alloys), 72.01.01.01 and 72.01.03.01 (coins made of precious metals other than gold) and 72.01.02.00 (gold coins).

26 NADI item 87.05.02.00, comprising cabins for transport equipment included in headings 87.01, 87.02 and 87.03 like tractors, motor vehicles carrying passengers or merchandise, as well as motor vehicles designed for special uses.
21.5 per cent in late 1991. The latest reductions under the new programme would reduce the average rate yet again.

183. No firm evidence exists as to the effects of the tariff changes during the 1980s on overall protection in Uruguay. The UNDP/World Bank (1990), using 1989 data, stated that "evidence shows that import liberalization has in fact not taken place in Uruguay as the declining influence of nominal barriers has steadily been replaced by mechanisms of administrative import deterrence", (i.e. reference price systems or minimum "export" prices - see later). This seems to have been borne out by the share of import tax receipts in the value of imports (Chart IV.8). In the early 1980s this dropped from 20 per cent to 10 per cent, but increased again after 1983 to nearly 17 per cent in 1986, falling again in the later 1980s. Data supplied by the Central Bank of Uruguay show that the share in 1990 was some 14.5 per cent.

184. Since the above-mentioned study was carried out, the rationalization and reduction of the tariff structure should have tended to lower effective rates, thus reducing the negative impact on industries adversely affected by the structure of protection. This should also be supported by the reductions which have taken place in the scope of administered reference and minimum "export" prices. (The sectoral distribution of protection is discussed in Chapter V.)

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27 Calculations are on a simple average basis, the sum of all duty rates (including duty free items) by the number of tariff lines. They are based on the rates applied in the period 1 September 1991 - 31 March 1992. Uruguayan estimates for December 1991 show that the corresponding import weighted average of all tariffs, taking account also of concessional entry, was 10.1 per cent.

28 The same UNDP/World Bank study estimated effective rates of protection, based on 1983 data. These show that, at that time, weighted average nominal tariff protection was 25 per cent, while the weighted effective rate reached 67 per cent, with wide dispersion. Effective rates of protection from 100 per cent to over 1,000 per cent benefited sectors such as leather, footwear, rubber, dairies, wood, fish and foodstuffs. It is to be noted that the study included reference prices and minimum "export" prices in its calculations of protection. No more recent calculations of effective rates are available.
Chart IV.2
Tariff dispersion, April 1992
Per cent

<table>
<thead>
<tr>
<th>TGA rate</th>
<th>Number of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0.2%</td>
</tr>
<tr>
<td>10</td>
<td>28.2%</td>
</tr>
<tr>
<td>17</td>
<td>28.2%</td>
</tr>
<tr>
<td>24</td>
<td>43.4%</td>
</tr>
<tr>
<td>40</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Total number of items: 7,745

Source: Government of Uruguay.

Chart IV.3
Average TGA structure, November 1991
Per cent

IMADUNI 35.8
Surcharge 64.2

Source: Government of Uruguay
(c) Global tariff rate components

Single Customs duty (IMADUNI)

185. The "single" customs duty (IMADUNI) was created in the first stage of the trade liberalization reforms of the 1970s. Its creation unified all border charges then levied by the authorities. IMADUNI is assessed on the normal c.i.f. customs value, or the reference price or the minimum export price of the merchandise and is collected by the Customs (Dirección Nacional de Aduanas) (Table IV.2).

186. Originally a basic rate of 25 per cent was established. In 1979, it was reduced to 20 per cent. Up to April 1992, rates of 1 per cent, 6 per cent and 16 per cent applied. In 1990, IMADUNI revenue represented 12.8 per cent of government revenue from foreign trade (Table IV.4).

Import surcharges

187. Import surcharges were originally introduced on 29 September 1960 with the objective of restricting imports at a time of balance-of-payments difficulties (BISD 10S/51). Their inconsistency with GATT Article II provisions was recognised as they affected products for which Uruguay had assumed binding obligations. Ever since then, the CONTRACTING PARTIES have waived Uruguay's GATT bindings under certain conditions.

188. Import surcharges, like IMADUNI rates, are expressed in ad valorem terms. They are collected by the Banco de la Republica Oriental del Uruguay (BROU) upon the c.i.f. or officially determined valuations (aforos, e.g., minimum "export" price or reference price) whichever is higher (Table IV.2). Originally, importers were obliged to pay the charges on submission of the import declaration, an average of 45 days before the delivery of the merchandise. This requirement has now been abolished.

189. The rates of surcharge, originally set at 25 to 300 per cent, have varied considerably over time. Up to April 1992, they were set at 10, 14, 29 and 30 per cent. Surcharges are applied to all "non-essential" or "luxury" goods as well as those which compete with national products. Import surcharges constitute the largest part of Government revenue from foreign trade (Table IV.3 and Chart IV.4).

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29Law No. 14.629 of 5 January 1977. This legislation was notified to the GATT in document L/4646 of 10 April 1978.

30GATT, BISD 10S, page 51: see also Section IV(e) below.
190. Import surcharges and IMADUNI either do not apply or are only partially applicable to imports of goods falling under LAIA agreements. All imports of agricultural inputs, imports by the public sector, machinery and equipment, tools and spare parts for certain priority industries, and goods under the temporary admissions procedure are exempt. Imports of goods subject to the minimum 10 per cent IMADUNI rate and which do not require any exchange operations are also exempt.

![Chart IV.4](chart.png)

**Chart IV.4**
Structure of Government revenue from foreign trade, 1986 - 1991 (July)

(d) Previous TGA components which have recently been abolished

Consular fee

191. The consular fee was originally established in 1955. A uniform ad valorem rate of 10 per cent of the f.o.b. value of imported goods was introduced in 1974, and lowered to 4 per cent in 1975, remaining at

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31 Decree No. 125/77 of 2 March 1977.
32 Law 11.924
33 Decree-Law 14.289 (Article 524).
34 Decree 278/75 of 9 April 1979.
that level until its consolidation into IMADUNI in 1991. Consular fees were paid to BROU.

192. Exempted goods included those with specific uses not directly linked with production or trade (e.g. material of diplomatic missions, public entities, international organizations, military, commercial samples), as well as certain merchandise for resale or to be used as inputs to domestic production, such as: printed material and books, billets, scrap copper for fungicide production, fertilizers, agricultural surpluses (United States PL 480 goods) and vaccines, inoculants, solar energy equipment, etc.

Cargo handling charge (Tasa de Movilización de Bultos, TMB)

193. The TMB charge, set at 1 per cent of the appropriate customs value, and collected by Customs, was introduced in 1979 as the fourth component of the global tariff rate, and was consolidated into the IMADUNI in 1991.

(e) Tariff bindings

194. Although Uruguay became a contracting party to the GATT on 16 December 1953, its initial tariff bindings, listed in Schedule XXXI, were negotiated at the Annecy Negotiations (1949). Ad valorem and specific import duties and surcharges with regard to a number of tariff items were included. Officially determined import values (aforos) were covered under explanatory notes. Since then, Schedule XXXI has been modified and amended on five occasions with regard to both coverage and tariff rates.

35 It is worth noting that a number of items for which bindings were granted, figure today as products of particular interest to the Uruguayan industry like iron and steel products, glass and glassware, motor vehicles etc. Initial product coverage comprised, inter alia, live animals (horses, cows, bulls, calves), apples, grapes, almonds, chestnuts, vanilla, coffee, pepper, seeds, vegetable and essential oils, mustard flour, tobacco, cigarettes, fruit juices, marble, chemicals, cellulose products, wood, paper pulp, textiles of silk, cotton fibres, glass and glassware, unwrought and wrought iron and steel (like bars, wire), cookers, printing machines, typewriters, calculators, cash registers, washing machines, sewing machines, transport equipment (engines, chassis, components, spare parts) including aircraft and tractors.

36 Torquay Negotiations 1951, Fifth Protocol of Rectifications to the GATT (dried figs, fresh apples, coca leaves, beers, wines, cinematographic films, paper and pulp of paper, iron and steel wires, engines, machinery and equipment for paper industry, etc.); 27 April 1955: Renegotiation of concessions initially negotiated with Sweden and Norway in order to protect national industry (pulp of paper); Terms of Accession of Japan, Protocol 1955 (bars, sheets and other unworked iron and steel, sewing machines); L/1813, 15 November 1961: Withdrawal of concessions initially negotiated with Colombia (participant to the Annecy negotiations/green coffee) and China (which ceased to be a contracting party/natural silk tissues); Tokyo Round, Protocol Supplementary to the Geneva (1979) Protocol to the GATT (bindings on Irish whiskey, cognac and liquors).
195. Uruguay's Article II obligations were waived, in relation to import surcharges, from May 1961 onwards, for balance-of-payments reasons. The balance-of-payments justification for the waiver was continued until 1976 (BISD 23S/11). Subsequently, until 1990, Uruguay's import surcharges remained subject to GATT waiver, reviewed every two years, pending the development of a new Schedule. In 1990, Uruguay requested a new waiver in the light of further modifications which it intended to make to its Schedule. This was granted, in "exceptional circumstances", subject to negotiations, in December 1990 (L/6783), and subsequently extended until 30 June 1992 (L/6965). Consequently, Uruguay has, for the last 30 years, been partly or wholly exempt from its GATT tariff obligations.

196. Uruguay's original Schedule XXXI contained bindings on 308 tariff items (classified under the original nomenclature) affecting approximately 13 per cent of total imports in 1989. Sixty-four items, with an import value of US$8 million in 1989, were to be withdrawn. The revised bindings proposed in 1990 referred to the TGA, combining IMADUNI and surcharge and ranged from 15 to 100 per cent. Out of 454 NADI items, 169 were set at levels up to 30 per cent, 169 between 31 and 70 per cent, 51 between 71 and 99 per cent, and 65 at 100 per cent for agricultural and industrial products combined.

197. Benelux, Brazil, Canada, the Czech and Slovak Federal Republic, Chile, Denmark, France, Germany, Italy, Japan, New Zealand, Norway, Peru, Sweden, Turkey, the United Kingdom and the United States have initial negotiating rights. Since November 1990, by means of letters, Australia, the European Communities, Japan, New Zealand and the United States have expressed reservations with regard to certain products of interest to them and have requested further consultations with the Uruguayan authorities.

198. In March 1992, in the context of the Uruguay Round, Uruguay, like Argentina and Brazil, made a conditional offer to bind its whole tariff at a ceiling level of 35 per cent (see Chapter II). This will presumably supersede any previous proposal.

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37 BISD 10S, page 51.

38 Uruguay had initially proposed to submit a new Schedule in 1981 (L/5048), but this was only done in May 1990 when Uruguay submitted to the GATT Secretariat (i) a proposed new Schedule XXXI; (ii) a corrected transposition of the nomenclature of products originally negotiated to NADI/CCCN; and (iii) a list of products to be withdrawn from the originally negotiated Loose-leaf Schedule XXXI.

(f) Specific or compound duties

199. Uruguay does not use any specific, compound or alternative duties.

(g) Seasonal tariffs

200. Seasonal tariffs are not used.

(h) Regional tariff preferences

LAIA

201. In 1990, 48.7 per cent of total imports into Uruguay came from LAIA member States. As explained in Chapter II, LAIA preferential tariff treatment has mainly taken two forms. First, at regional level, under Regional Scope Preference agreements (Preferencia Arancelaria Regional or PAR), Uruguay grants tariff cuts of 34 per cent to imports from Bolivia and Paraguay; 28 per cent to those from Ecuador; 20 per cent to those from Colombia, Chile, Peru and Venezuela; and 12 per cent to those from Argentina, Brazil and Mexico. These preferences apply to all imports except for 960 sensitive items. Secondly, two partial-scope agreements with Argentina and Brazil provide for preferential entry of goods seen as complementary to Uruguay's production structure. The CAUCE agreement with Argentina, today called Economic Complementarity Agreement No. 1, provides duty-free entry for 2,500 items not produced domestically. Under its Trade Expansion Protocol with Brazil (Protocolo de Expansión Comercial, PEC), Uruguay admits around 1,200 items free of charge. Merchandise from Brazil constitutes 57.4 per cent of total preferential imports, followed by imports from Argentina (30.6 per cent), Mexico (4 per cent), Chile (3.3 per cent) and Paraguay (2.4 per cent). Other agreements referred to as commercial, agriculture or market opening (Apertura de Mercados) are of minor importance as total trade carried out under their provisions does not exceed 1 per cent of LAIA preferential imports.

MERCOSUR

202. Tariffs on trade among signatories to the MERCOSUR agreement between Argentina, Brazil, Paraguay and Uruguay are to be eliminated as from
As part of a transition plan agreed in the Treaty of Asunción, duties on imports from MERCOSUR countries have been reduced by 54 per cent as at 31 December 1991; with effect from 30 June 1992 until 31 December 1992, a 61 per cent cut will apply. Tariffs on the list of 960 sensitive items for Uruguay will be gradually reduced each year until 1995. Details are provided in Chapter II.

(1) Global System of Trade Preferences (GSTP)

Uruguay's contribution under the GSTP consists of granting preferential rates of duty corresponding to a 10 per cent cut in the TGA rates on imports of 22 industrial products. Products like chemicals (soda), pharmaceuticals (vitamins, vaccines), fertilizers, electrical and non-electrical equipment (electrical generators, air compressors, etc), transport equipment (railway coaches, track-laying tractors) are represented. However, Uruguay has not yet ratified its GSTP commitments.

(j) PTN

Under the GATT Protocol of Trade Negotiations Among Developing Countries, concluded in 1971, Uruguay grants preferential tariff treatment to all participating countries on six tariff lines: hazelnuts and pistachios, unmanufactured tobacco in leaves, quinine chlorhydrate, quinine sulphate and other quinine derivatives, cigarette paper in rolls and strips, polyamide fibres (nylon and similar) and polished diamonds.

"Concessional" rates of duty are in most cases more than twice as high as currently applied global tariff rates (TGA). Tobacco in leaves, which is subject to a 15 per cent TGA (i.e., only surcharges) against a 10 per cent preferential rate, and polished diamonds are the sole items for which PTN concessions may be operative.

In 1986, (the latest available figures) Uruguay's imports of the items covered by the scheme were US$3.2 million. Of this, US$631,000 (19.58 per cent) originated in current PTN countries. Brazil (86.37 per cent of PTN imports) was the main beneficiary from Uruguayan concessions, in particular with regard to unmanufactured tobacco and synthetic fibres. Turkey (13.63 per cent of PTN imports) benefited from preferences on unmanufactured tobacco and unshelled pistachios.

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41GATT document L/6227/Add.2.

42In 1984, Romania also exported unmanufactured tobacco to Uruguay under this scheme.
(k) Concessional entry: tariff and tax concessions and exemptions

207. Three basic types of import duty concession are extended by Uruguay: firstly, for products not produced domestically; second, for inputs related to agricultural or industrial activities, as well as to activities considered to be of national interest; third, for expendable parts and components for equipment used by industries manufacturing exportable goods (Table IV.5). In most cases concessional treatment, which is aimed at encouraging production, is granted under certain defined conditions or limitations. Items which might compete with domestically produced goods are excluded. The concessions comprise freedom from payment of TGA and value-added tax.

208. More specifically, under Decree 140/91, TGA rates applicable to capital goods which are not nationally produced do not exceed 10 per cent (covering only minimum import surcharges). The same rate applies to goods which are also nationally produced but which are part of a complete plant to be imported or are for use in the agricultural sector. For these, the IMADUNI rates are set at zero per cent. Components, spare parts and accessories are charged a TGA rate of 5 per cent. The range of tax exemptions and conditions and products affected is shown in Table IV.6.

209. As mentioned earlier, Uruguay also employs drawback and temporary admission régimes. Since the early 20th century (Laws 3.816 of 15 September 1911 and 4.268 of 12 October 1912; Decree of 22 February 1991), items such as cotton canvas for the manufacture of flour bags, material used for meat packing and articles used in hat making, have

43 In this Section any reference made to import duties refers to the global tariff rate, except if otherwise specified.

44 Defined in Decree No. 158/990 as amended in February 1991 (see Table IV.6).

45 This treatment has been prolonged until 1 July 1993.

46 The point of reference for determining whether a similar product is nationally produced is Decree No. 798/87 of 30 December 1987. It contains a detailed listing of domestically produced capital goods. (See summary in Chapter V.)

47 A prior certificate issued by the Ministry of Industry and Energy is required.

48 A prior certificate issued by the Ministry of Agriculture and Fisheries is required.

49 Following O/D 14/83 of 28 January 1983, in order to benefit from such an exemption from IMADUNI, a certificate with regard to the non-existence of similar nationally produced goods (contained in the list of domestically produced capital goods of Decree No. 798/87 which is summed in Chapter V) or utility has to be issued by the Ministry of Industry and Energy or the Ministry of Livestock, Agriculture and Fisheries.

benefited from the drawback system. Additional items such as burlap and steel banding (arpillera y flejes de los fardos) for wool and sheepskins have been covered by the system. Industrialists who wish to take advantage of such treatment have to supply evidence that dutiable inputs for the manufacturing of the exported goods have been imported.

210. The temporary admission régime has operated since the 1960s. Decree 420/90 (11 September 1990) permits the import of merchandise duty-free with an obligation to re-export it within a maximum period of 18 months. Full tariff exemption, concessional cargo handling rates, and absence from limits or quotas or other restrictions are granted. Import surcharges do not apply to products under the temporary admission régime. However goods imported under this régime are subject to an administrative charge of 1 per cent on the c.i.f. value, levied by LATU (Laboratorio Tecnológico del Uruguay), the Government agency which is in charge of temporary admission formalities (Table IV.2). A commission is also charged by the Banco de la República Oriental del Uruguay (BROU). Customs can separately authorize temporary admission of agricultural machinery in border areas for 120 days.

211. The temporary admission régime applies to raw materials, parts and components of engines, engines, packing material, matrixes, moulds, specimens, intermediary semi-manufactured goods, agricultural products and inputs (consumed without being incorporated in the final product), which are used by the domestic industry for the manufacturing of exportable goods.

212. Procedural changes to the temporary admission régime have been introduced following proposals by PLADES in order to ensure prompt and inexpensive raw material deliveries (Chart IV.5).

51 Decrees No. 125/77 of 2 March 1977 and No. 224/78 of 26 April 1978.
52 Resolution of 12 July 1965.
53 Decree No. 232/91 of 2 May 1991. A certificate (constancia), issued by the Ministry of Livestock, Agriculture and Fisheries, must accompany any request. It must indicate whether the machinery for which demand for temporary admission is made, is appropriate for the projected work.
Chart IV.5
Temporary admission procedures (TA)

1. **Importer** (Agent of Ex. Co.)
   - Deposit Document
   - Payment: 2% for LATU

2. **Technological Laboratory of Uruguay (LATU)**
   - Approves TA Application and retains Copy No. 1

3. **Central Bank (BROU)**
   - Checks Form 835 and allocates TA

4. **Customs Agent**
   - TA Application
   - Brou Copy
   - Import Declaration
   - DNA Permit
   - Payment: Brou Commission

5. **National Customs Directorate (DNA)**
   - Import Clearance Permit
   - Signature of National Naval Prefecture
   - Check DNA Matrix
       - DNA Matrix
       - BROU Declaration
       - BROU Form 835
       - AT Application

6. **National Ports Authority (with copy of AT Application)**
   - Various forms finalised

**Source:** PLADES.
(1) Customs valuation and clearances

213. The c.i.f. value, the "aforo" (officially assessed price), reference price or the minimum "export" price of the merchandise constitute the basis for the calculation of the duties to be paid under each element of the global tariff rate. Consular fees were the only TGA component calculated on the basis of the f.o.b. value.

(iii) Tariff quotas

214. As a general principle, Uruguay does not apply tariff quotas. However, a zero per cent global tariff rate applies up to 5,000 tonnes of imported raw sugar. This measure, which was to expire in February 1992, is reported to have been extended until 31 December 1992. (Búsqueda, 9 January 1992)

(iv) Variable import levies

215. Uruguay does not use variable import levies except for sliding surcharges (recargo móvil) applied to products subject to the minimum export price mechanism (see Section IV(2)(vi)).

(v) Other levies and charges (Table IV.2)

216. The Banco de la República Oriental del Uruguay (BROU) charges a commission of 1 per cent on the c.i.f. value, reference or minimum export prices of imported merchandise. This is unrelated to the actual cost of the services provided by BROU in each particular case, e.g. the paper work for a high-value product may be no more complex than for a low-value item. A rate of 0.75 per cent applies to imports under the temporary admission régime (Table IV.3).

217. A port fee (Provento Portuario) is levied on the c.i.f. value of imports by the National Ports Administration (Administración Nacional de Puertos), the agency overseeing the off-loading of imports and onloading of exports. The port fee is aimed at covering the cost of loading and unloading services. This is different from the cargo handling charge incorporated in IMADUNI in October 1991 (Table IV.3).

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54 The "Brussels Definition of Value" is used to set c.i.f. value.
55 On the basis of BROU resolution of 8 September 1988.
218. Provisional payment of the fee is made before port services are supplied. Final payment is made once operations are completed. Rates of 7.5, 5.5, 3.5 and 2 per cent apply to products classified in four groups: I, II, III and IV. The large majority of imported goods are in Group I. Group II consists mainly of NADI Chapters 38 (various chemical products), 44 (wood and manufactures thereof, wood charcoal), 48 (paper and paperboard, articles of paper pulp, of paper or of paperboard) and 73 (iron and steel and articles thereof). Groups III and IV are limited to mineral oils, explosives, medicines and dietetic foods.

219. A tax for extraordinary services (servicios extraordinarios) provided by Customs is levied on imports of a c.i.f. value higher than US$500 (Law 15,000 of 9 April 1986). This tax, which is collected by Customs, applies to every import permit processed. It consists of specific amounts of US$10, US$25, US$40, US$90, US$200 and US$500 set for six different ranges of import value. The ad valorem incidence of the tax does not exceed 2.5 per cent. However, its incidence is likely to be higher on low-value than on high-value imports.

220. A foreign shipping tax (Impuesto al Transporte de Mercaderias por Buques de Bandera Extranjera) of an ad valorem rate of 0.5 per cent applies to the c.i.f. value of imports shipped by vessels registered under foreign flag. Merchandise covered by LAIA agreements is exempt (Table IV.3). This tax applies if ten days before or after the scheduled loading date, no Uruguayan vessel is available.

221. Imports and domestically produced goods are affected by two indirect taxes: value-added tax (VAT) and IMESI (Specific Internal Tax/Impuesto Especifico Interno) (Tables IV.2 and IV.3). VAT and IMESI have different rates, as well as exemptions (Table IV.5). Thus, they are not neutral in their effect on Uruguayan production, favouring some sectors at the expense of others. Exports are exempt from VAT.

222. The VAT, first collected in 1973, is a major element in Government income. In 1990, it accounted for approximately 54 per cent of total internal tax revenue (excluding revenue generated by TGA) and 62.2 per cent of indirect taxes on production, consumption and transactions (Chart IV.6). It is administered and collected on imported goods by the General Tax Office (Dirección General Impositiva) at the time of importation.

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57 In 1989, the Uruguayan fleet consisted of overseas freighters (21,877 gross register tons), tankers (42,235 gross register tons), of coastal freighters (1,100 gross register tons), tankers (2,516 gross register tons) as well as vessels (5,760 gross register tons) ensuring inland waterways transport (ECLAC 1990).
Chart IV.6  
Structure of internal taxes, 1986-1991 (July)  
Per cent and US$ million

<table>
<thead>
<tr>
<th>Year</th>
<th>IMESI</th>
<th>VAT</th>
<th>Production and Consumption</th>
<th>Other Internal Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>721.092</td>
<td>922.126</td>
<td>988.080</td>
<td>1151.554</td>
</tr>
<tr>
<td>1987</td>
<td>986.401</td>
<td>875.575</td>
<td>1151.554</td>
<td>988.080</td>
</tr>
<tr>
<td>1988</td>
<td>1151.554</td>
<td>875.575</td>
<td>988.080</td>
<td>922.126</td>
</tr>
<tr>
<td>1989</td>
<td>875.575</td>
<td>1151.554</td>
<td>988.080</td>
<td>922.126</td>
</tr>
<tr>
<td>1990</td>
<td>922.126</td>
<td>721.092</td>
<td>988.080</td>
<td>986.401</td>
</tr>
<tr>
<td>1991 (July)</td>
<td>721.092</td>
<td>922.126</td>
<td>988.080</td>
<td>986.401</td>
</tr>
</tbody>
</table>

Source: Central Bank of Uruguay (BCU)

223. For imports, value-added tax is assessed on the sum of the c.i.f. value and the import surcharge. Two rates apply: a minimum rate of 12 per cent and a "basic" rate of 22 per cent (Tables IV.5 and IV.6). Essential items (bread, fish, beef, fresh, frozen or chilled offals; edible oils, rice, flour and milling by-products, pastas and noodles, salt for household use, sugar, maté, coffee, tea, soap, edible fats, drugs and medicines, active substances used in medicine production, as well as lodging services provided by hotels) qualify for the 12 per cent rate. Sales of fresh vegetables and fruit, foreign currency, precious metals, credit instruments, real estate, agricultural machinery and spare parts, tobacco and cigarettes, fuel derived from petroleum except fuel oil, pasteurized vitaminized skimmed and powder milk, raw materials for use in agriculture, books, newspapers, magazines, educational material, water and electricity supply, are not subject to VAT. Imports of crude petroleum are exempt from VAT implementation.

58 Raised from 21 per cent in April 1991.
224. Between 3 April 1990 and 31 December 1991, payment of VAT was waived for imports of machinery and equipment aimed at equipping plants serving national interests, as defined in relevant decrees (see previous Section on tariff concessions and exemptions).

225. The Uruguayan authorities aim to reintroduce VAT on most agricultural machinery and inputs (except for ploughs, milk coolers and tractors) and to subject purchases by public enterprises to VAT, in 1992 as part of an exercise of reducing the budget deficit to a projected 1.5 per cent of GDP.

226. The Specific Internal Tax, IMESI, is the second most important indirect tax in Uruguay. IMESI is a tax on first sales, including goods for taxpayers', manufacturers', or importers' own use. It is applied on actual values or values officially fixed by the State. The latter are established on a six-monthly basis and adjusted every two months according to changes in prices of the goods concerned. Exports are exempt from such treatment. In 1990, this tax provided approximately one third of total internal tax revenue and 33.2 per cent of income collected through indirect taxes (Chart IV.6).

227. Different product groups are covered by different IMESI rates (Texto Ordenado 1991, Decreto 534/91 of 30 September 1991, Título 11) (Table IV.7). Sales of wines and other alcoholic beverages are subject to rates of 11 per cent, 23 per cent, and 85 per cent. IMESI for beer is 27 per cent while for alcohol used for production of cosmetics and pharmaceuticals it is 10.5 per cent. Tobacco, cigarettes and cigars are subject to a 70 per cent up to a maximum of 72 per cent rate and in 1990 their contribution reached 20.5 per cent of revenue generated by the IMESI.

228. Non-alcoholic beverages containing a minimum of 10 per cent (5 per cent for lemon) juice made from Uruguayan fruit pay 22 per cent while the same products which do not comply with this norm are subject to a rate of 30 per cent.

229. Exemptions to IMESI are also shown in Table IV.5.

230. On 20 November 1991, the Comisión de Vivienda of the Parliament approved a project for introducing different IMESI surcharge rates for certain transport equipment (buses, passenger motor vehicles, tricycles, etc.). Proposed rates are 1, 3, 6, 8 and 11 per cent according to weight, engine size and fuel used (Búsqueda, 21 November 1991).

(vi) Reference prices and minimum export prices

231. With the implementation of trade liberalization policies in the late 1970s, the Government took measures to deal with what it saw as unfair
trading practices. More specifically, anti-dumping and countervailing duty laws intended to accord with GATT rules were adopted. However, the desire to respond promptly and effectively to such practices, while at the same time avoiding difficulties related to formal procedures and the potential retaliation which may follow them, led to a decision to use two instruments. First, the "aforo" reference price, originally designed as a means against under-invoicing of imports, was given an additional rôle from 1981 onwards. Secondly, on 5 January 1983, the Minimum Export (sic) Price (direct translation - in fact a minimum import price in normal GATT terminology) was introduced in order to protect domestic producers whenever the reference price did not prove adequate.

232. Reference and minimum "export" prices impose floors, in US dollars, upon which customs duties are calculated. The importer of goods subject to minimum export prices is obliged, prior to registration of the import permit, to pay a sliding surcharge (recargo móvil) representing the difference between the minimum export price and the declared c.i.f. import price.

233. Reference and minimum "export" prices are set, modified or converted from one system to the other on the basis of requests from firms. An interministerial commission (Comisión Arancelaria Asesora) determines whether, in the light of specific "unfair" trade practices and damage to domestic products, a product may benefit from such protection, as well as the system and level to be applied. Initially, reference or minimum export prices are set for a provisional period not exceeding six months, under resolutions issued by the Minister of Economy and Finance. The establishment of definitive minimum export prices requires a presidential decree; the period of application cannot exceed one year at a time.

234. The minimum "export" price level is usually established on the basis of export prices of other countries (most readily available and accessible source of information). Information on world prices is also collected by consulting specialized publications or trade statistics of other countries or by using the historical data on Uruguayan imports (Nattino, 1989).

235. In the past, no proof of the facts or of actual damage was required in order to have recourse to such measures. Large price differentials

59 Law No. 15.025 of 17 June 1980.
60 There is also a view that such devices protect the Uruguayan economy from macroeconomic disturbances originating in neighbouring countries (48.3 per cent of the relevant items originate in Argentina and Brazil) which reach the country through abrupt shifts in demand and major exchange rate fluctuations, seriously affecting trade flows and tourist revenues (UNDP/World Bank (1990)).
among imports were taken as evidence justifying their introduction. Since November 1990, under Presidential decree, specific information has to be submitted for consideration prior to the introduction or renewal of minimum export and reference prices. By decree of 30 August 1991, reference and minimum "export" prices may be established when the Ministry considers that the sale does not take place under free competitive conditions between independent buyers and sellers. In this case the burden of proof is placed on the importer. The system does not apply to goods admitted under the Temporary Admission Régime.

236. The coverage of the minimum "export" price and reference price system has been markedly reduced since the mid-1980s. During 1984 and 1985, the two systems covered 565 tariff lines. This was reduced to 493 items in 1989, accounting for 5 per cent of Uruguayan imports excluding oil. Current information provided by the Uruguayan authorities indicates that in March 1992, reference prices applied to 113 and minimum "export" prices to 29 tariff lines. Table IV.8 provides a detailed list of products covered by reference prices and minimum "export" prices on the basis of information dated April 1991 available to the Secretariat.

237. The reference price and minimum "export" price systems provide additional protection to items which already benefit from relatively high rates of duty. Nominal tariffs applicable to products under these systems vary from 38 per cent to 45 per cent on average, which is higher than the overall tariff average imposed on all imports. Preferences are extended to products imported mainly from Argentina and Brazil, through reference and minimum "export" prices which are lower than world prices.

61 A description accompanying a demand has to indicate among others the circumstances related to the existence of unfair trade practices, the proof of existence of injury and its impact to domestic production at national level as well as the causal link between circumstances and injury. All this has to be supported by evidence such as the development of the volume of abnormally priced imports and their impact on the volume of production and sales, their market share, employment, income yield/profitability and saving and investment capacity.

62 The Uruguayan authorities state that the system does not aim to provide additional protection but to counter unfair trading practices.

63 These are products of the following categories: wines, paper and paperboard, shoes, glass and iron and steel products.
Note IV.1 Reference Prices and Minimum "Export" Prices: the Impact

A report published by the UNDP/World Bank in 1990 highlighted the impact of the operation of reference prices and minimum "export" prices in Uruguay. Three major effects were considered in an effort to evaluate the costs of administered protection:

- first, the systems magnified nominal tariff rates on imports with a unit value lower than the floor price. In 1989, tariffs (on c.i.f. prices) for items covered by the reference price system were effectively boosted by 18 per cent above their nominal rate, while those bearing minimum "export" prices by 7 per cent;

- second, such measures might nullify trade liberalization effort or commitments in the area of tariffs;

- third, serious price distortions were seen to take place, with detrimental effects to the national economy. The system was seen as encouraging importers to set import prices at or above the floor price. This could take the form of direct rent-seeking by importers or shifting imports to higher quality goods (also a form of rent-seeking). In the latter case, the system also encouraged the domestic industry to produce low quality goods which do not face direct competition from imports.

Uruguay's pattern of production and price competition was also adversely affected. Domestic production was diverted from exportables to importables as producers, who ceased to be competitive, were subsequently converted to importers. Price competition in the domestic market was reduced and could lead to market cartelization. In addition to this, the export structure could also be modified.

Tax regressive effects were also created by price distortions ranging from 15 per cent to 30 per cent for goods under and above floor prices. An artificial price alignment to the floor price improved the rents of the exporter or the importer of the good in question at the expense of the Uruguayan consumer.

In 1989, despite the fact that floor prices for the large majority of non-textile products under both mechanisms remained below world levels, sixteen of them (raw and refined sugar, chewing gum, chemicals, plastics, tyres, carpets, kraft paper, etc. from the EC, Korea, Taiwan and the United States) exceeded world prices. Prices for merchandise subject to the reference price were higher by 13 to 189 per cent, while those under the minimum "export" price from 6 to 112 per cent.
238. Currently, revision of the system is under consideration with a view to establishing more realistic prices and thus improving competition. The UNDP/World Bank (1990) report suggested that one way to proceed could be by improving guidelines (e.g. tightening the complaint process) and by imposing a stricter control on floor prices. Another, and probably simpler way, would be to remove both systems progressively, while at the same time increasing nominal tariff rates so as to reflect the real levels of protection required by domestic producers. This would boost tariff revenues and their reallocation to sectors needing support. All negative effects resulting from the operation of the systems would disappear and help the Uruguayan Government pursue more credible trade liberalization policies.

(vii) Import prohibitions

239. Very few products are subject to import prohibitions. The main group was motor vehicles. Imports of chassis and bodywork (excluding those for vehicles which have already been registered or damaged) were prohibited for those not involved in car assembly activities until 15 November 1991 and those of bicycles and motorcycles until July 1991. This prohibition has now been definitely abolished.

240. Remaining products subject to import prohibition are:

- dodder (cuscuta) seeds (of a parasitical plant); 67
- certain veterinary products containing or made of chloramphenicol, chloride products used in sheep dip, veterinary medicaments for animal growing or fattening.

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64 Decree No. 494/90 of 12 October 1990 and Decree No. 263/91 of 17 May 1991. The prohibition was valid until November 1991.

65 Decree No. 583/90 of 18 December 1991.


67 Decree 619/79.


69 Resolution of Ministry of Livestock, Agriculture and Fisheries, 16 December 1987.

70 A few exceptions and more details of technical nature are found in Articles 3 and 4 of Decree No. 915/68 of 28 December 1968.
(viii) **Import licensing**

241. Uruguay maintains no import licensing requirements other than the registration mechanism described in Section IV(2)(i).

(ix) **Import quotas**

242. Wheat imports (other than seed) are authorized only if there are no domestic supplies available at a maximum domestic price level determined in relation to the minimum "export" price, which has been set at US$130 per tonne for 91/92 crop. This domestic price is obtained by adding to the minimum export price import costs which vary between 6 and 7 per cent of the MEP. The Ministry of Livestock, Agriculture and Fisheries can limit imports by distributing among importers quotas based on milling output. These quantities are calculated on the basis of the average of the past two seasons.

(x) **Import surveillance**

243. Imports and import credits related to investment projects for private medical services require prior authorization.\(^72\)

(xi) **State trading**

244. To date, no notification on the basis of the GATT Questionnaire on State-trading has been received from Uruguay. However, there are several state-owned enterprises with monopoly rights, such as ANCAP (Administración Nacional de Combustibles, Alcohol y Portland), Dirección Nacional de Comercio y Abastecimiento and ILPE (Industria Lobera y Pesquera del Estado).

245. Administración Nacional de Combustibles, Alcohol, y Portland (ANCAP), was established by Law No. 8.764 in 1931. It is a production and import monopoly in petroleum, refining and exports of fuels. A production and import monopoly is also maintained on industrial and denatured alcohol. Alcoholic beverages (Caña, Grappa, Rhum, Espinillar) production is another ANCAP monopoly. However, with regard to whisky, brandy and Pineau, it

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\(^71\)Decree No. 171/91 of 20 March 1991. A necessity certificate (certificado de necesidad), issued by the Ministry of Agriculture, Livestock and Fisheries is required in order to prove that the buyer cannot find domestic wheat at a price lower or equal to the one set by the Administration.

\(^72\)Article 16 of Decree No. 88/83 of 22 March 1983 and Notice (Aviso) of Banco de la República Oriental del Uruguay of 2 September 1983. The latter contains a detailed list of items.
competes with the private sector. ANCAP also competes with the private sector in the production and export of Portland cement and the production of sugar cane (for refining and molasses). Total sales amounted to US$643.5 million in 1990, out of which US$580.4 million represented oil products, US$32 million alcohols, US$23.7 million Portland cement and US$7.3 million agroindustrial products. In the context of MERCOSUR, Uruguay is considering eliminating the fuel and alcohol trade monopoly of ANCAP. Imports by the private sector of alcohols and diesel oil have not been authorized (Büsqueda, 9 January 1992). The most recent data on imports by ANCAP show that in 1990 its main importing activity was in crude oil from Iran, the former Soviet Union, Colombia, and the United Arab Emirates. Earlier information indicates that in 1985, ANCAP was involved in imports of liquid gas from Argentina; ethyl alcohol from France; distillates from Brazil and Argentina and naphtha from Argentina.

246. The Dirección Nacional de Comercio y Abastecimiento (originally Dirección Nacional de Subsistencias), created in 1947, part of the Ministry of Economy and Finance, proceeds through tenders and inter-State transactions for the supply of products of basic necessity. In 1991, imports by this entity were US$.09 million, principally of sunflower oil (from Argentina) and yerba maté (from Brazil). In 1990, US$2.2 million of potatoes were imported by this entity.

247. Industria Lobera y Pesquera del Estado (ILPE), set up in 1972, was until 1991 engaged in imports and exports of fish and fish products. It ensured quality control of both imports and exports. With respect to imports, ILPE handled customs and sea and air transport. No recent data on ILPE's operation are available: according to the UNCTAD Handbook of State Trading Organizations of Developing Countries (1990), exports of frozen fish to Brazil, the United States and Kuwait at different stages of processing, and skins of sea lions of a value of US$1.7 million were reported for 1979.

248. State entities are obliged to deal exclusively with the Banco de la República Oriental del Uruguay whenever they undertake imports, exports or any other activity involving foreign exchange operations.

249. Imports of merchandise by State enterprises under tenders financed by loans granted by the World Bank or the Inter-American Development Bank are

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According to a recent report by the Asistencia Reciproca Petrolera Latinoamericana, 1 litre of diesel oil in Uruguay is worth US$0.42 while in Paraguay it costs US$0.19, in Argentina US$0.32 and in Brazil US$0.21.

Decree No. 23/77 of 12 January 1977.
exempt from import duties, but not from VAT.  

This exemption also applies to raw materials and other inputs imported for the manufacturing of goods which are finally consumed by the Government.

250. In the case of public contracts or auctions, State enterprises are required to give a 10 per cent preference to national products.

251. Public enterprises in Uruguay also cover areas concerning public works, port services, energy supply (petroleum, electricity), water distribution, insurance, telecommunications, rail and air transport, education and health. These are the railway company (Administración de Ferrocarriles del Estado or AFE); the National Port Administration (Administración Nacional de Puertos or ANP); the telecommunications company (Administracion Nacional de Telecomunicaciones or ANTEL); the electricity company (Usinas y Transmisiones Electricas or UTE); the sewage company (Obras Sanitarias del Estado or OSE); and the airline company (Primeras Lineas Uruguayas de Navigación Aérea or PLUNA).

252. A privatization law, passed on 27 September 1991, opened the way for reforms. It introduced a number of new guidelines enabling private and public sector enterprises to operate either jointly or separately depending on the kind of activity concerned. This directly affects PLUNA, ANTEL, ILPE and UTE. ILPE has been eliminated and INAPE (Instituto Nacional de Pesca) will be responsible for conserving sea lions living on Uruguayan islands or in coastal areas. A number of specific rules (including foreign capital limitations) are set for ANTEL with regard to capital and management participation by private sector companies and personnel. In January 1992, a Decree was issued providing, for both ANTEL and PLUNA, 49 per cent State capital participation (of which 8 per cent may be acquired by the employees) while a 51 per cent is offered to the private sector (Búsqueda, 3 January 1992). UTE’s monopoly on production of energy is to be eliminated. Measures aimed at protecting freedom of consumer choice, avoiding the establishment of private monopolies and unfair trade practices, enhancing technical standards and improving transparency regarding contracts may also be taken.

(xii) Import cartels

253. No information has been made available with regard to either import


Public Enterprises Law No. 16.211.
cartels or restrictive business practices. Apparently, there are no anti-trust or competition laws in Uruguay, nor has any consideration been given to their establishment.

(xiii) Countertrade

254. Uruguay maintains no legislation providing preferential treatment for countertrade. The possibility is provided for direct Governmental purchases, involving compensatory trade in Uruguayan exports in the context of intergovernmental agreements or those with foreign State enterprises. Such arrangements have been used to pay for imports of Italian telecommunication equipment, Iranian petroleum and Austrian rails.


256. During the same period three countertrade agreements were signed with Iran in 1985, 1988 and 1989 exchanging petroleum imports of US$100 million, US$13 million and US$35 million respectively for Uruguayan products such as rice, meat and wool tops of values corresponding to US$80 million, around US$13 million and US$50 million, respectively.

(xiv) Standards and other technical requirements

257. Uruguay is not a signatory to the Tokyo Round Agreement on Technical Barriers to Trade.

258. Since 1991, the Uruguayan Institute for Technical Standards (UNIT, Instituto Uruguayo de Normas Técnicas) has been a full member of the ISO.

259. The objective of national regulations is to safeguard public interests such as public health, safety of persons and goods, consumers' rights, environment and the image of the country as an exporter. Uruguay's regulations apply to both domestic and foreign goods.

260. Central and Departmental Governmental bodies have regulatory competence. In general, international norms (such as those of ISO or IEC) and recommendations issued by international organizations (like the Codex Law 16.170 of 28 December 1990 (Article 653).
Alimentarius) are followed. Some adjustment of such standards is made in order to be compatible with the technology and risk factors of the country. Exports are adapted to the technical requirements of the destination. In the context of MERCOSUR, national regulations are under revision on the basis of international standards.

261. All imports of foods and beverages are subject to LATU (Laboratorio Tecnológico del Uruguay) inspection in order to obtain certificates authorizing marketing of the products.

262. Sanitary norms and import procedures apply to imports of potatoes used for planting; livestock semen, ovules and embryos, horses, plants, exotic birds, canines and felines; raw hides in crude, dry or salted form; animals and products of animal origin; meat and meat products; molluscs used for scientific purposes; fish and fish products for human and animal consumption and animal food.

263. Sanitary certificates must accompany imports of beef, prepared meats, milk and milk products, fish, shellfish, molluscs, poultry and all products of similar nature, and tobacco leaf.

264. Certificates must be issued in order to allow imports as well as production of certain items. All information related to imports of vegetables must be notified to the Ministry of Agriculture and Fisheries, which evaluates all phytosanitary risks and takes whatever measures necessary to protect public health. Imports of fruit, vegetables and flowers are subject to controls with regard to transport, size, packing and category identification. Such imports have to comply with rules set by the Decree on Phytosanitary Accreditation for Imports (Acreditación Fitosanitaria de Importación, AFIDI) of 15 December 1988. The objective is to make a prior assessment of the phytosanitary risks that imported

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79 Decree No. 338/82 of 22 September 1982 and Resolution of 7 July 1983. A detailed list of products covered and exempted from this régime is supplied.

80 Decree No. 45/83 of 9 February 1983.

81 Resolution of the Ministry of Livestock, Agriculture and Fisheries of 15 October 1987 prohibits any imports of horses originating in Spain in order to avoid the introduction to the country of the Equine African Plague/Pest (Peste Equina Africana).

82 Decree No. 638/78 of 15 November 1978.

83 Decree No. 378/82 of 8 October 1982 allows such imports prior authorization by the Dirección de Contralor Legal of the Ministry of Agriculture and Fisheries. Imports of parrots and similar birds originating in countries where animals are infected by the "Newcastle" disease are prohibited.

84 As origin, quantity, etc. Decree of 5 February 1986.
products run so as to take appropriate measures. AFIDI phytosanitary rules require a certificate issued at the country of origin. Lists of high risk products and origins are published by two newspapers in Montevideo. The lists consist of groups of vegetable products, established according to the kind of controls prescribed. They comprise seeds, plants, raw and semi-processed goods. PLADES has succeeded in reducing the list of items covered by this formality.

265. The National Institute of Wine Production (Instituto Nacional de Vitivinicultura), in addition to quality and category controls, ensures that all imported wine is marketed in bottles of 1 litre or less.

266. Activities related to the purification, fluoridation and iodization of salt for human consumption have to be registered by the Ministry of Public Health. Specific norms are set with regard to importation, processing, composition, packaging and distribution of salt for human consumption.

267. Containers of dietetic foods and beverages containing cyclamates must bear a specific indication with regard to health hazards which may result if used over a long period as well the maximum dose which can be taken.

268. According to forestry legislation, import authorization is only granted for seeds which are in conformity with categories established by the Grains Directorate (Dirección de Granos, DIGRA) upon advice given by the Advisory Commission on Seeds (Comisión Asesora en Materia de Semillas).

269. Until recently, imports of lumber were subject to consular visa requirements, established in 1903. On recommendation by PLADES, all consular visa requirements were eliminated.

270. In order to sell pharmaceuticals in the domestic market, prior approval by the Ministry of Public Health and a sales permit are required. Import or export certificates are required from the Subcomisión

\[\text{Decree No. 328/91 of 21 June 1991.}\]

\[\text{Decree No. 356/91 of 4 July 1991.}\]

\[\text{Decrees No. 375/90 of 17 August 1990 and No. 247/91 of 9 May 1991, and BROU Circular No. 96/7. In Uruguay a Programa Nacional de Fluoración in conformity with technical principles of both the Organización Panamericana de la Salud and the World Health Organization is operated. Consequently all relevant aspects have to comply with such rules.}\]

\[\text{Decree No. 70/86 of 29 January 1986.}\]

\[\text{Law No. 15.443 of 5 August 1983. Legislation applies also to the production, processing and marketing of pharmaceuticals.}\]
Técnica de la Comisión Honoraria de Contralor de Medicamentos. Soil disinfectants, insecticides, fungicides, herbicides, anti-sprouting and parasiticidical products are covered by import and production surveillance on compliance with phytosanitary norms (see also Section on production subsidies).

271. For veterinary specialities, either an official test or approval must be obtained before importation. The Bureau of Agronomy of the Ministry of Livestock and Agriculture has to register and issue a sales permit before imported insecticides and fungicides for agriculture are put on sale.

272. Marking and labelling requirements apply to all goods. The country of origin has to be marked visibly in Spanish. Container labels must indicate in Spanish the quality, composition of the contents and the net weight and measure in metric units, the exact address of the factory and if it is the case the name of distributor. If packaging of foreign goods takes place in Uruguay this should be stated on the label.

(xv) Government procurement

273. Uruguay is not a signatory to the Tokyo Round Agreement on Government Procurement.

274. Government procurement activity covers the Central and Departmental Governments and public enterprises. (In total, there are 275,000 civil servants or around one-quarter of the active population.) In 1988, according to the estimates by the private research institute CERES, Government procurement in Uruguay represented purchases (including goods, supplies and capital goods) of US$950 million. Of this, some 52.63 per cent was imported. A field study by the Treasury/State Exchequer (Sección Archivo de Carpetas, Tribunal de Cuentas) indicates that between August 1979 and July 1980, out of 674 public contracts (licitaciones/bids), 201 (30 per cent) involved amounts higher than US$200,000 while 327 (48 per cent) related to values between US$100,000 and US$200,000. Fifteen different State entities were responsible for 78.8 per cent of the purchases (77.4 per cent of the contracts).

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90 Decree No. 149/77 of 15 March 1977. Servicios Fitosanitarios de Inspección de la Dirección de la Sanidad Vegetal are entrusted with controlling the composition of the products.

91 The GATT Agreement on Government Procurement refers to purchases worth more than US$155,000 (SDR 130,000).

92 The five most important public enterprises whose contracts exceeded total value of US$16 million were: ANTEL (17.6 per cent), UTE (13.5 per cent), Banco Hipotecario del (Footnote Continued)
275. Until 1988, Decree 104 of 6 February 1968, as amended, was the main legal instrument regulating public procurement. Protection under this Decree provided, in addition to import tariffs, a 40 per cent preferential margin, exemption from VAT and other taxes for domestic production destined for Government consumption, and special BROU credit facilities.

276. According to Sayagués (1989), the overall cost of protection under the Government procurement régime was estimated at US$27 million. The 40 per cent preferential margin led to problems in calculating such variables as ratios of the imported components in domestic value, VAT treatment and the global tariff rate to be charged. The protection over and above tariffs afforded to certain industries raised prices to consumers of public goods and services, also affecting the competitive position of domestic enterprises through higher input costs. The main products protected by the régime were intermediate products, in particular electrical material, which represented about 90 per cent of the sales by domestic industry to the State. Of this total, 80 per cent was supplied by six firms. Sayagués estimated that the effective rate of protection for a domestic product subject to TGA of 20 per cent could range from 133 per cent to 635 per cent depending on the value of imported component.

277. From 1985 onwards, serious efforts were made to modify Uruguay's Government procurement legislation. Certain improvements in tendering procedures were brought about in the 1990 Budget Law. Currently, direct purchases are allowed for amounts lower than six million new pesos (about US$2,500). From this amount up to 240 million new pesos (equivalent to US$100,000) an abbreviated public tendering procedure is required. Under this procedure, the time allowed for bidding is brief and is, therefore, likely to favour national suppliers. If the expenditure exceeds 240 million new pesos, public tendering procedure is followed.

278. Both domestic and foreign suppliers can participate in bids. A register of suppliers is maintained in order to keep a record of their reliability. A large number of possibilities exist for direct purchase, regardless of the value. Such exceptions involve, among others, State-trading operations, imports of oil and products thereof, and compensatory export arrangements.

(Footnote Continued)

Uruguay (8 per cent), ANCAP (6.9 per cent), OSE (6.5 per cent). In terms of number of contracts ANCAP (11 per cent), the Ministry of Public Health (10 per cent), UTE (9 per cent) and ANEP (8.1 per cent) generated 55 or more contracts.

93 Article 48 of Decree 95/991 states that an abbreviated procedure requires public opening, a minimum of six firms being invited three days in advance.

94 Paragraphs M,0 and P of Article 482, Budget Law No.16.170 of 22 December 1990.
279. Preferential margins have recently been reduced considerably. From 1 January 1992, the margin of preference for national products against foreign offers was reduced from 40 per cent to 10 per cent. There have been other changes in procedure, mainly in simplifying the procurement process. F.o.b., c.i.f. and c.& f. values of goods proposed from abroad are increased by adding all cost components such as import duties and other charges, (e.g. VAT, port charges etc.) which are necessary for a comparison with domestic products. Imports which are financed by international financial institutions like the World Bank and Inter-American Development Bank within the framework of Development Plans, and which are carried out by public enterprises, are exempt from import duties and taxes except for the VAT. Public works contracts which ensure the highest utilization of domestic raw materials and labour are selected. In cases where goods can only be obtained from foreign sources, preference is given to contracts which provide outlets for Uruguayan exports.

(xvi) Local content requirements

280. Local content requirements have been used until recently in the automobile components and assembly industry (see also Section IV(3)(xvi)). Local content was measured on the basis of officially determined values (aforos) fixed for each component by weight, in relation with the aforo value of the entire vehicle.

281. Until the system was revised in July 1992 under Decree 727/91 of 30 December 1991, a minimum local content of 30 per cent applied to passenger cars (more details can be found in Chapter V).

282. Another local content requirement refers to diesel engines as well as boats of over 6 metres in length imported in kits. Regarding boats, a value amounting to more than 50 per cent of the c.i.f. value of the kit must be added in Uruguay in order to benefit from exemption from payment of import duties and other related charges.

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95 Article 654, Budget Law No. 16.170 of 22 December 1990.
96 Article 52, Decree 95/991 of 26 February 1991.
97 Decree 329/990 of 24 July 1990.
98 Decree 656/980 of 12 December 1980.
100 Article 53, Decree 95/991 of 26 February 1991.
283. IMESI rates on non-alcoholic beverages differ according to the content of Uruguayan fruit juice.

(xvii) Rules of origin

284. Imports enjoying LAIA preferential treatment have to satisfy the guidelines set by the General Régime of Origin of LAIA. These rules stipulate that the c.i.f. value of materials from non-members of LAIA must not exceed 50 per cent of the f.o.b. value of the finished good in the final importing country. However, specific and tighter rules of origin may be agreed and annexed to each agreement.

285. The rules applicable to trade of MERCOSUR origin are contained in the Treaty of Asunción. Apart from certain transitional arrangements, they are essentially the same as LAIA rules.

(xviii) Anti-dumping and countervailing duty actions

286. Uruguay is a signatory to the Tokyo Round Agreement on Subsidies and Countervailing Measures and has observer status to the Anti-dumping Agreement. National rules are contained in specific laws intended to reflect multilaterally agreed rules. In 1980, the Agreement on Subsidies was ratified and granted national law status.

287. The Ministry of Economy and Finance is the only Government body which can make proposals to the Executive with respect to measures in this area.

288. Despite concerns about these laws in the Committee on Subsidies, the laws have never been amended. However, no action has been taken under their provisions.

(xix) Safeguard actions

289. Uruguay has not had recourse to GATT Article XIX measures.

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103 LAIA, Resolution No. 78 of 24 November 1987.

(xx) Measures implemented in exporting countries

290. Uruguay has not restricted imports of any product by concluding any arrangements with other Governments for the latter to restrain their exports to Uruguay.

(xxii) Balance-of-payments measures

291. Import surcharges (discussed earlier in Sections IV(1) and IV(2)(ii)(c)) were introduced, under a GATT waiver, in the 1960s for balance-of-payments purposes. The last time Uruguay held BOP consultations was in 1976 (BISD 23S/93).

(3) Measures Directly Affecting Exports

(i) Registration, documentation

292. All exports must be registered by the BROU (Banco de la República Oriental del Uruguay) before being loaded. The objective is to check whether any prior certificates required coincide with the goods shipped. A single document (Documento Unico de Exportación or Solicitud de Embarque) is used for this purpose. The volume, the f.o.b. value per unit, and the final destination have to be declared.

293. In order to ease and accelerate export procedures, a series of certificates for such products as seeds, hens' eggs, potatoes, sweet potatoes and fat have been suppressed as a result of suggestions by PLADES.

294. Chart IV.7 illustrates the procedures which must be followed in carrying out an export transaction in Uruguay. These have been considerably simplified in relation to previous practices.

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105 See PLADES (1991), El Via Crucis del Exportador which describes previous export procedures for meat.
Chart IV.7
Export Procedures

**EXPORTER** (AGENT OF EXPORTING COMPANY)

**INTERMEDIARY BANK**

**CENTRAL BANK (BROU)**

**NATIONAL CUSTOMS DIRECTORATE (DNA)**

**NATIONAL PORTS AUTHORITY**

**CUSTOMS AGENT**

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**Single Export Document**

- Copies: B1-B6
- A1-A2

**Signed by:**
- broker
- exporter

- **Certification of signatures**
- **Submission of Single Export Document**
  - Certification of signature of intermediary bank
  - Checking by Export Shipment Section
  - B2 Export Shipment

**Special certificate**

**Proforma invoice issued**

- **B4 Negotiation of Documents**

**B6 Exporter**

**Submission of:**
- A1, A2 and proforma invoice
- Export department, checking, numbering
- Processing of DNA dossier
- Numbering of Copy A1 and return to Customs Agent

**Balanza Florida**

- **At Central Office, pays: Port Charges (provisional)**
- **Presents Copies A1 and B1 to Balanza Florida**
- DNA National Ports Authority (photocopies)
- Weighing and Inspection Shipment
- Shipping Requirements

**BROU ASSESSMENT**

- **BROU Assessment Section**
  - Collection of taxes as per assessment
  - Photocopy LATU (A1)
  - Archives

**Source:** PLADES.
295. Ten documents related to meat, wool and leather exports, have also been replaced by the following four: the single loading document (Documento Unico de Embarque) mentioned above, a sanitary permit (Pase Sanitario), a quality control document by the INAC meat institute (Control de Calidad de Instituto Nacional de Carnes), and a sanitary certificate (certificado sanitario). It is estimated that this change will reduce bureaucratic costs for exporters by up to US$130,000 per year.

(ii) Export taxes, charges, levies

296. In the past, export taxation on traditional products was an important source of Government revenue. More recently, it was realized that such taxation impeded the expansion of the livestock sector. Chart IV.8 illustrates the trade weighted levels of Government intervention on imports and exports.

Chart IV.8
Import and export tax and revenue percentages, 1970-90

297. During the mid-1970s, export taxes on traditional exports were abolished as part of the reform programme. In 1983, they were reintroduced as part of an IMF stabilization programme but rates were reduced in 1984. Currently, a maximum rate of 5 per cent applies to exports of unprocessed agricultural products or items of low value added in Uruguay. These are live animals (bovine, ovine, equine), except for pure-bred breeding stock, boned beef, greasy wool, raw hides and skins (bovine and ovine salted, dried, pickled or limed/wet blue) and bovine fat. The list of products is regularly revised in order to ensure the availability of such products at
low prices for domestic processing industries. In 1990, export taxes provided US$10.9 million or 5.3 per cent of Government revenue from foreign trade duties (Table IV.3, IV.4 and Chart IV.6).

298. A Tax for the Sanitary Inspection Fund (Impuesto para el Fondo de Inspección Sanitaria) of 1 per cent of the declared f.o.b. value is levied on exports of meat of bovine, ovine, swine, equine, poultry, and small game species. Preserved meat is exempt (Texto Ordenado 1991, Decree 534/991 of 30 September 1991, Titulo 18).

299. A 4 per cent tax levied on air freight of exported merchandise carried by foreign-owned aircraft was eliminated in the context of the PLADES programme. The Dirección General de Infraestructura Aeronáutica collected this revenue, while PLUNA (the national air carrier) enjoyed tax exemption. Exports of fresh fruit and vegetables have benefited from this change.

(iii) Minimum prices

300. To the knowledge of the GATT Secretariat, no minimum export prices are fixed. However, the National Meat Institute (Instituto Nacional de Carnes or INAC) has a role in giving guidance on prices (see Chapter V).

(iv) Export prohibitions

301. Recently, export prohibitions have applied to live non-pedigree cattle. According to the Government, as from 1992, this prohibition is abolished.

(v) Export licensing

302. Apart from the obligation to register, no export licensing requirements seem to exist.

(vi) Export quotas

303. Export quotas administered by Uruguay cover the following products: sugar and Italian-type cheese under United States import quotas (see Section (ix) below and Chapter V); textile products falling under MFA agreements (see below) and lamb under the voluntary agreement with the European Communities (see below).

(vii) Export cartels

304. The Secretariat has no evidence of export cartels.
(viii) Voluntary restraints and export surveillance

305. In the context of the MFA, Uruguay has signed bilateral agreements with Canada, the United States and the European Communities (Section (ix) below and Chapter V). The agreement with the EC does not contain any specific product limitations. The agreement with Canada, in force since 1987, provides for quantitative restrictions on worsted fabric containing more than 17 per cent or more by weight of wool, garments and clothing made of cotton, wool and synthetic or man-made textiles. The bilateral textile agreement with the United States, first signed in 1973, initially covered wool suits for women, girls and infants. The coverage of restrictions has progressively been expanded to include woollens, worsted fabric, cotton coats, wool coats for men and boys and wool skirts. Quotas under the agreement with the United States were generally fully utilized in the years 1988-1989, but utilization has fallen sharply since then. Similar trends are evident in the agreement with Canada. Uruguay regards the quotas as having had a real restrictive effect during periods when markets were favourable.

306. During the period 1985-1988, a voluntary export restraint agreement was in force with the EC covering mutton and lamb (MTN.GNG/NG9/W/2/Rev.1). A new agreement entered into force on 1 January 1989 and shall remain in force until 31 December 1992. This agreement is more liberal than the previous one as it allows total importation of 6,920 tonnes free of charge. Average monthly price surveillance is foreseen. Measures have to be taken by Uruguay to restore any price difference of 45 per cent (Southern EC States) or 55 per cent (Northern EC States) between EC and Uruguayan product.

(ix) Other restrictive measures in external markets affecting Uruguay's exports

307. Imports of "Italian-type" cheese and of sugar into the United States are limited by import quotas (Chapter V). The EC maintains an import quota of 1,900 tonnes for "Hilton" beef from Uruguay. In addition, for 1990, an autonomous special tariff quota for 3,000 tonnes of high-quality, fresh chilled or frozen beef covered imports from Argentina, Brazil and Uruguay. No variable levy was to apply and a tariff of 20 per cent would be the only import charge.

308. Since 1986, a list of specific establishments in Uruguay which fulfil the hygiene conditions of the EC has been maintained by the Commission. Only bovine, ovine and caprine animals and swine, fresh meat and meat products from establishments included in this list can be imported to the EC market. (Commission Decision of 12 November 1991, 91/608/EEC, OJ No. 331/17)

309. A countervailing charge systematically applies between May and September to exports of fresh lemons to the EC whenever there is a difference between the EC reference price and the Uruguayan export price. (Commission Regulation No. 3313/91 of 13 November 1991, OJ No. L313/20)

(x) Export subsidies

310. Export rebates (reintegros), originally introduced in 1964 and amounting up to 20 per cent of the f.o.b. value, were used until 1983 to promote non-traditional exports. Following the imposition of countervailing duties on leather exports to the United States and the acceptance of the Agreement on Subsidies and Countervailing Measures, Uruguay in 1981 established a drawback system for indirect taxes. Reintegros were finally discontinued in 1983.

(xi) Duty and tax concessions

311. Uruguay encourages exports of manufactured goods mainly through tax incentives.

312. Exemption from income tax, capital tax and other taxes is provided for firms manufacturing for export within the framework of the Industrial Promotion Law.

313. Exports are not subject to VAT. Exporters are refunded the amount of indirect tax corresponding to the value of exported goods. Since 30 July 1991, a régime providing for the refund of indirect taxes on exports has been in place on a provisional basis. Replacement by a definitive system is under consideration. Indirect tax refunds are...

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108 The importer pays the tariff but receives a rebate once the imported goods are re-exported regardless of whether any value is added in Uruguay. Each case is examined separately and a decision is taken by the Ministry of Industry and corresponding controls.

109 They were temporarily reintroduced in 1982 with a 10 per cent subsidy to all exports (including traditional exports) so as to compensate the overvaluation of the peso.


111 Article 83 of Decree of 31 January 1990.
realized by means of credits effective on the basis of certificates issued by BROU valid for one month. Such refunds are set on an item by item basis, in US dollars per volume unit or ad valorem rates. Currently, 194 tariff lines (105 of which are agricultural products) are covered. They include goods such as various meats and preparations thereof, dairy products, fruit and vegetables, cereals, seeds, oils, meat and tomato extracts, citrus fruit juices, malted drinks, beer, flours, essential oils, soap, leather goods, garments, paper products, wool tops and fibres, cotton textiles, cotton garments, footwear, and glassware. In 1991, the rates of indirect tax refund were reduced by approximately one-third with the exception of certain bovine meat and rice products, on which the rate was reduced by about 55 per cent.

314. As noted in the discussion on the import régime, in order to promote export-oriented activities, imports of machinery and equipment for manufacturing enterprises are not subject to the import tariff, the VAT or IMESI tax (Decree 117/90 of 23 February 1990).

(xii) Export finance

315. Special credits for financing and pre-financing of exports are granted by the Banco de la República Oriental del Uruguay (BROU). An export financing régime is provided for capital goods.

316. BROU pre-financing facilities are available for the purchase of raw and packing materials or components and payment of wages which are necessary for the production of exportable goods. Credits are granted on the basis of export arrangements which have to be proven by letters of credit (in possession of the bank) or by pro-forma invoices or contract or orders from abroad. This facility applies not only to exporters but also to manufacturers which are not directly involved with exports of their products, as long as exports are carried out by a trader without any additional transformation.

317. BROU also provides finance at the post-exportation stage with funds from international sources. Such finance consists of an advance payment to the exporter on the basis of his bill of exchange. Indirect exporters are also among the beneficiaries (see above).

318. A further scheme operated by the Central Bank aims to provide finance for procedures preceding onloading of non-traditional exports toward IMF

\[112\] The designation of the merchandise, volume and f.o.b. value of the exports as well as the officially established refund, have to be indicated.
members, including Switzerland. Financial resources come from abroad out of which US$2 million are provided by IDB (Inter-American Development Bank). The operation of an export financing scheme for specific products by the Central Bank was suspended on 2 September 1991.

(xiii) **Export insurance and guarantees**

319. Export insurance guarantees are given by the State-owned insurance bank (Banco de Seguros del Estado) at commercial rates.

(xiv) **Export promotion, marketing assistance**

320. Export promotion and marketing assistance are provided by the Dirección General de Comercio Exterior of the Ministry of Economy and Finance. These activities, which are financed by the national budget, attained US$2.3 million in 1987. Seven Commercial Offices are located in countries which are considered to be of strategic importance for Uruguayan exports. In the absence of such representation, officers from the Ministry of External Relations carry out this task.

321. Export promotion is carried out through product and market promotion and development, specialized services to exporters (for example, regarding export procedures and documentation, marketing and settlement of legal controversies), activities abroad (such as organization and participation in international trade fairs and exhibitions with the objective of introducing exportable products to new markets or expanding existing ones) and participation in various activities of other entities. In recent years, private sector institutions have deployed parallel efforts in the same directions.

322. Pre-export financing can be financed by BROU with the objective of placing domestic products (mainly non-traditional) to foreign markets. More specifically, such credit assistance is aimed at meeting financial needs related to sending samples abroad, participation to international fairs, technical research, market studies, etc.

323. With the aid of a World Bank loan and co-finance by Japan, a five year export promotion programme was established in November 1989. The PENTA (Programa de Promoción de Exportaciones No Tradicionales

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113 For goods valued between US$5,000 and US$200,000, loans for up to 85 per cent of the f.o.b. value are available. The rate of interest is currently 8 per cent plus a commission of 0.25 per cent of the value of the loan.

114 Argentina, Brazil, Germany, Italy, Mexico, Switzerland and the United States.
Agropecuarias) is available only for non-traditional agricultural and agro-industrial exports. The objective is to encourage exporters (including potential exporters) to place products in overseas markets. This is done first by generating export interest through overseas visits to production and marketing sites, coupled with seminars and conferences, in order to increase awareness of producers, technical experts and exporters concerning export markets, production and processing methods, quality and packaging standards, etc. abroad. Secondly, a risk fund (Fondo de Riesgo para la Promoción de Exportaciones Agrícolas No Tradicionales) provides financing opportunities up to 50 per cent (without any reimbursement obligation) of the direct costs of activities related to market research and access. A ceiling of US$50,000 per project is fixed. Market studies, shipment of samples to interested overseas importers, market testing and participation to trade fairs are part of the activities which may be covered. When satisfactory knowledge of the market is acquired, the fund resources may also be used to enable pilot production so as to test the profitability, quality and other features of the exportable products and to identify the most adequate means for handling products at commercial scale. Those interested by PENTA facilities are publicly invited three times a year to submit proposals on export projects. So far, PENTA has benefited some 120 companies promoting exports of 50 products such as fruits and vegetables, honey, frogs, etc. A total amount of US$800,000 has been devoted to this exercise.

(xv) Export performance requirements

324. In order to benefit from import duty and tax concessions (see also Section IV.2(ii)(k)), industries considered of national interest have to demonstrate their export performance for the previous two year period.

(xvi) Compensatory export requirements

325. A compensatory export requirement has applied to the automobile industry in connection with local content requirements and other measures like import duties and taxes (see Chapter V).

326. Under Decree 727/91 of 30 December 1991, the equivalent of 42 per cent (previously 60 and 70 per cent) of the f.o.b. value of every imported car kit or assembled vehicle must be exported in the form of automotive components or parts. As from 1 July 1992, this requirement no longer applies, liberalizing the automotive sector with regard to both CKD and CBU cars. Local content and compensatory export requirements have thus been phased out.

(xvii) Free-trade zones, export-processing zones

327. Free zones were originally allowed under Act No. 14.498 of
19 February 1976. Today a law passed in December 1987 governs this activity. Overall tax exemptions are granted for companies established in the free-trade zones. In order to keep their tax free privileges, the users of the zones have to engage 75 per cent or more of their personnel from the domestic labour market. Goods and services from abroad enter the zones without paying any import, internal or other tax. Those originating in Uruguay are treated as Uruguayan exports and all of them, including products manufactured therein, may be freely shipped abroad at any time. No State monopolies are established in these zones.

328. Management, supervision and controls are entrusted to the Dirección de Zonas Francas of the Ministry of Economy and Finance.

329. According to the Uruguayan authorities, there are four zones in Colonia, Nueva Palmira, Montevideo and Fray Bentos. Four others await Government approval: in Nueva Helvecia, San José, Durazno and Florida. The operations permitted in these zones consist mainly of storage, assembling, sampling, mixing, exhibiting, blending, repacking and manufacturing, as well as provision of financial, informatics and relevant maintenance services. So far, only a few manufacturing activities have been undertaken in these zones, such as assembly operations of goods for both exports and domestic consumption as well as soft drinks manufacturing.

330. The objective of the recent legislation has been to reinforce the incentives for the creation of additional zones or developing the existing ones through a comprehensive framework of rules. The privatization of the Nueva Palmira and Colonia zones is in progress. New zones are also to be operated by private entities.

(xviii) Other measures

331. A system of rapid onloading of exports (sistema de embarque urgente) has been devised for specific cases, for example, perishable products, export companies situated inland, cases where the exporter does not know the exact quantity of merchandise to be exported, etc. This system waives the obligation to submit an application prior to the shipment while port fees can be paid after the merchandise has been loaded.

115 Law No. 15.921 of 17 December 1987.

116 Section II/Section 8 of Free zones Law No. 15921: "... operation means the activity whereby, in exchange for a price agreed upon with each user, an individual or legal person supplies the necessary and adequate infrastructure for the establishment and operation of a Free Zone."
(4) Measures Affecting Production and Trade

(i) Adjustment assistance

332. Taxes on imports of capital goods used for the restructuring of agricultural and industrial activities to enable producers to face increased MERCOSUR competition have been abolished.

333. Loans under concessional rates (4 points lower than current BROU rates), with 40 per cent up to 60 per cent of the amount granted as a subsidy, are provided to small agricultural producers (from the Department of Canelones) who suffer from structural adjustment problems. In 1990, a total amount of US$508,000 has been attributed to 490 producers.

(ii) Assistance for research and development

334. The Industrial Promotion Law provides for the support of programmes aimed at fostering the rational exploitation of unexploited national resources and the improvement of the existing domestic products. No information on such activities has been made available to the Secretariat.

335. The Consultative Unit of Industrial Promotion (Unidad Asesora de Promoción Industrial) or the Directorate of Science and Technology (Dirección de Ciencia y Tecnología) of the Ministry of Education and Culture, can authorize exemptions from the Tax on Industry and Commerce for amounts equivalent to 1¼ times the cost of research and development projects in the fields of science and technology.

(iii) Production subsidies, tax concessions

336. The Industrial Promotion Law provided for income tax subsidy and other exonerations. These were eliminated in 1979. Exemptions from the value-added tax and patrimony tax (see also Section IV.4(v)) were reintroduced in 1986.

337. Duty and tax concessions on imports of goods necessary to the production activities of specific sectors are described in Section IV.2(ii)(e).

338. Agricultural machinery and equipment is exempt from global tariff rates including the minimum import surcharge. Irrigation equipment also

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enjoys such treatment if imported for exclusive use in agricultural production (see also Section IV.(2)(iii)(k)).

339. Importation of certain fertilizers and raw materials for processing exempt from any duties and charges. Under the law, the Executive Power is also authorized to encourage fertilizer consumption by subsidies although, according to the authorities, no such subsidies currently exist. These measures affect both agricultural and fertilizer producers (see also Section on concessional entry and Chapter V Section on minerals and fertilizers). Soil disinfectants, insecticides, fungicides, herbicides, anti-sprouting and parasiticidical products are covered by the exemptions régime as well as by import and production surveillance on compliance with phytosanitary norms (see also Section on Standards).

340. A wide range of other agricultural inputs can also be imported duty-free. These include seeds, vaccines, fencing wire for agricultural use, specific veterinary drugs, and frozen animal semen.

341. Imports of raw materials, machinery and equipment for the production of salt for human consumption are exempted from import duties and other charges as well as of IMESI (see also Sections IV.(2)(ii)(k) and IV.(2)(xiv)).

342. Agricultural machinery, parts and components imported by rice producers for their own use or that of their associates are exempt from Value Added Tax.

343. Upon prior approval by the Honorary Commission for Sugar, imports of agricultural machinery (including parts and components) aimed at technological or economic improvements to sugar plantations take place free of any duty and other charges. This treatment excludes items which may compete with domestic production.

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118 Law 13,663 of 1968.
119 Decree No. 149/77 of 15 March 1977. Servicios Fitosanitarios de Inspección de la Dirección de la Sanidad Vegetal are entrusted with controlling the composition of the products.
121 Decree No. 981/75 of 23 December 1975.
122 Law No. 14392 of 1 July 1975.
344. Imports of items aimed at promoting forestry activities, such as seeds, fertilizers, raw materials, certain motor vehicles, machinery, parts and components for the processing of domestically produced wood, are exempt from any charges.

345. Diesel engine kits and parts imported for assembly in Uruguay are subject to a minimum import surcharge of 10 per cent. Assembled diesel engines pay a minimum VAT rate of 7 per cent. If these engines are mounted to a vehicle assembled in Uruguay a rebate of the minimum import surcharge is operated.

346. Imports of paper to be used by newspapers are subsidized. The amount of subsidy is established under Article 11 of Decree of 15 September 1960.

347. The tourism sector benefits from a package of measures including fiscal facilities and duty free inputs. As tourist accommodation facilities have been declared of national interest, imports of all construction material and equipment for building or even improving hotels are carried out free of any import duties and other charges (including VAT). Special rules apply for projects referring to luxury hotels.

(iv) Pricing and marketing arrangements

348. Decree 205/991 of 11 April 1991 lists goods and services whose prices are under administrative control. These include pharmaceuticals sold against medical prescription; milk and bread; and taxi fares. Regarding pharmaceuticals, as from 7 August 1991 the number of items subject to price control was reduced from 3,000 to approximately 900 as a result of a reclassification realized by the Ministry of Public Health.

349. Prices for wine grapes (for low quality wine) and sub-products are set by recommendation of the National Wine Producers Institute (Instituto Nacional de Vitivinicultura).

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125 Decree No. 548/79 of 26 September 1979, contains a detailed listing of items covered.
126 Decree of 1 December 1960.
128 Decree 406/991.
350. Both retail and household consumption prices for milk are set for the whole country every four months by resolution of the Ministry of Economy.

The Ministry of Livestock, Agriculture and Fisheries determines such prices by taking into account the producer price (which is fixed every four months) as well as pasteurization and distribution costs. Domestic prices for milk used as an input for the production of dairy products and pasteurized milk are set at a lower level than export and consumption prices on the basis of international prices, without State intervention.

351. Bread prices are regulated only for "pan de consumo popular" by using a formula consisting of three parameters: raw material, labour and general expenses. Price adjustment takes place whenever the combined incidence of input price increases exceeds 4 per cent.

352. The domestic price of wheat is subject to Government control (see Chapter V for details).

353. Special arrangements among brewing companies govern barley production. They contain a package of inputs and credit and guarantee the market.

(v) Regional assistance

354. Imported machinery and equipment for export industries are exempt from the Patrimony Tax for a period of three years if the plant is located in Montevideo and five years if situated at more than 60 kilometres away. It is reported that this facility may be waived in 1992 as part of the Government's plan to reduce the fiscal deficit (Búsqueda, 3 January 1992).

355. Agricultural producers of border areas can temporarily import agricultural machinery, free of duty for a maximum period of 120 days.

356. Tax-free shops located at the border towns of Rivera and Chuy can import luxury items, free of duty for sale to tourists.

(vi) Other measures

357. Since December 1990, a Directorate National of Craftsmanship, Small
and Medium Size Enterprises (Dirección Nacional de Artesanías, Pequeñas y Medianas Empresas, DINAPYME) has been in charge of supporting, co-ordinating and promoting the establishment and activities of such firms. A register of these enterprises is kept.

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V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

358. From the 1930s to the 1970s, Uruguay's sectoral development policy was one of import substitution in manufacturing, backed by explicit and implicit taxation of the export-oriented farm sector and agro-based industry in which Uruguay has a strong comparative advantage. There was an explicit shift in policies in 1974 towards reducing the anti-export bias of existing policies, although this change suffered a major set-back in the early 1980s when the system of administered prices was introduced (Chapter IV) to protect import-competing sectors, mostly in manufacturing, from "unfair competition". However, review of trade and industrial policies is ongoing, and has been given an important stimulus by MERCOSUR, which poses considerable challenges and opportunities for Uruguay.

359. Uruguay's dependence on agriculture as an export earner is evident from Chart V.1 and Table AV.2. Overall, agriculture and agro-based products accounted in 1990 for 74 per cent of export earnings. Bovine and sheep meat, raw and greasy wool, unprocessed hides and skins, and wheat are the traditional agricultural exports, while rice has grown in importance.

Chart V.1
Exports by sector, 1990

[Diagram showing exports by sector, 1990]

Source: UNSO Comtrade Data Base
360. The contribution of basic agriculture, (excluding agro-based industries) to GDP, fell from nearly 17 per cent to over 11 per cent in real terms between 1955 and 1984: its share has remained stable since then (Chart V.2). By contrast, after rising to 31 per cent of GDP in the 1970s, the share of the manufacturing sector, which includes agro-industries, declined to around one quarter throughout the period since 1983, reflecting growth in services (Table V.1).

Chart V.2
GDP in 1990

Source: Central Bank of Uruguay

361. The crop sector, stimulated in the 1950s by price policy, has continued to grow, with improvements in land use increasing productivity. Rice has become a major export since the 1970s. Recently, new food-processing export industries have been developed. Chart V.3 shows the share of different products in the gross value of agricultural production in 1989.
362. Agro-industrial activities are the most important manufacturing sector in the Uruguayan economy. In 1990, food processing alone contributed 23.1 per cent to the total value-added by industry (Table V.3).

363. In view of limited investment in the food processing industry over a prolonged period, Uruguay lacks modern production facilities. Its output in this sector is directed mainly to the domestic market; even here, however, it is losing its share, partly because of supply difficulties in an industry dominated by small-scale producers (e.g. fruit and vegetables). However, there have been some important investments in the processing of vegetable oils and oilseeds, e.g. sunflowers, soybeans, linseed and corn oil, etc.

364. Agricultural and agro-industrial products have faced both internal and external constraints. A discriminatory exchange rate structure, up to 1978, and tariff and taxation policies aimed at protecting industry, reduced incentives for modernization. Ongoing external problems include the volatility of meat and wool prices, barriers to imports in major markets and trade distorting effects of subsidies to third markets by major trading countries. Investment in the meat sector has remained low, leading
365. Officially policies currently being followed in this sector aim to create, under free-market conditions, an environment in which agro-industrial exports can grow. The policy framework is intended to allow market forces to operate freely in the allocation of resources. While government intervention is intended to correct market imperfections, this is mainly within the sector and little account is taken of the cross-sectoral market distortions caused by support for inefficient manufacturing. Thus, within the sector, emphasis is given to improving quality, productivity and value added. Specific programmes aim first at improving production conditions and secondly at developing production in certain areas. Three categories of activities are supported: the traditional, for which Uruguay has a comparative advantage and where the market potential exists; the recently-developed, non-traditional activities; and new products with development potential.

366. The framework of duty and tax incentives aimed at encouraging agricultural and agro-industrial activities is described in Chapter IV; particularly Table IV.5. Domestic tax and import duty benefits are offered to sectors declared of national interest (except for machinery and equipment which, even if competitive with national production, can be imported free of import duties, including VAT). In principle, indirect taxes are reimbursed for processed goods but not for raw materials. Temporary duty free admission of agricultural machinery has been recently allowed for producers in border areas.

367. Manufacturing industry policy has gone through three stages. From 1945 to 1955, the sector expanded rapidly in a framework of import-substitution policies. Subsequently, from 1955 to the early 1970s, it stagnated. There were few structural changes and low levels of

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1This is carried out by means of: (i) introduction of new technologies and modernization of processing installations to increase exports competitiveness; (ii) better land use and soil conservation, supported by credit, research and technical assistance; (iii) strengthened research; (iv) the expansion of disease and pest control programmes; (v) the development of rural electrification, access roads, and other infrastructure; and (vi) the formation of marketing associations.

2Ongoing programmes support production of rice, citrus, dairy, fruit, and vegetables by setting infrastructure that enables to take advantage of a better technology and by improving the handling and marketing of products.

3Decree No 232/91 of 2 May 1991.
technological innovation. Industrial concentration was favoured by import restrictive policies which eliminated any foreign competition.

368. In the third phase, the more open policy initiated in 1974 brought about major changes in resource allocation. The Industrial Promotion Law of 1974 provided the legal basis for the introduction of fiscal exemptions, preferential tax treatment and other incentives for investment. Particular emphasis was given to the expansion and diversification of non-traditional exports such as textiles, leather goods, rice and fish. Border and price protection were reduced, while subsidies were made available for industries using domestic raw materials in the production of non-traditional exports. From 1974 on, the dismantling of the quota system and the export promotion policy encouraged a strong reallocation of resources from import-competing sectors and marginal trade sectors to exporting sectors.

369. These industrial and export promotion policies have helped agro-based manufacturing activities, in particular, to grow at a rapid pace. Since the 1970s the measures taken include the deregulation of markets, reduction in tariff protection, decontrol of prices, establishment of realistic exchange rates, tax incentives and preferential credit. In addition, bilateral trade agreements with Argentina and Brazil reduced regional tariff and other trade barriers. This environment induced domestic producers to expand exports of processed products and to engage in new activities. As a result, exports of wool tops, textiles and clothing increased considerably; tanned leather, garments and shoes replaced exports of raw hides; while new export activities developed such as rice milling, fish and dairy products. By contrast, exports of chemicals, cement, paper, vehicles and tyres can largely be attributed to the indirect protection against third country suppliers provided under regional agreements.

370. There was a set-back in the early 1980s, when the overvaluation of the peso (as a mechanism to bring inflation under control), combined with economic difficulties in Argentina and Brazil brought the Uruguayan manufacturing sector into crisis. The administered price system was introduced at this time. Recovery started in 1985 with textiles and clothing, leather goods, chemicals, tyres and motor vehicles the lead industries. Increased export-orientation together with the preferential

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4 However, Favaro and Spiller (1991) claim that tariff protection contributed to the development of capital- and skill-intensive industries.


6 Particularly wool and hides.
trade arrangements with Argentina and Brazil made a significant contribution to this process. The motor-vehicle component sector benefited particularly from these preferential arrangements.

371. Overall, since 1974, non-traditional exports have grown from 37 per cent to 63 per cent of the total (Chart V.4). In 1990, 37.8 per cent of value added in the industrial sector was generated by "export-oriented" industries while "inward-looking" industries accounted for 59.8 per cent (Chart V.5 and Table V.3). Exports of manufactured goods accounted for 59 per cent of Uruguayan exports in 1990. These are mainly goods related to the processing of agricultural products. Chart V.6 indicates the shares of the active population employed in different industrial sectors.

Chart V.4
Share of "traditional" and "non-traditional" exports, 1961-91 (September)

(1) Data until September 1991 have been used for 1991.


7As classified by the Chamber of industries of Uruguay.
Chart V.5
Value added by main industries, 1990

Inward oriented industries

Outward oriented industries

Source: Central Bank of Uruguay (BCU)
372. Recent tariff reforms, to the extent that they are not still offset by reference prices or minimum "export" prices - will have an impact on the industrial structure. Favaro and Spiller (1991) considered that substantial adjustment costs would be involved in the transfer of resources from previous import-substitution sectors to export-oriented activities. They argued that sectors with major capital assets would face the most costly adjustment. Consequently, reductions in employment would require flexibility in the labour market to keep adjustment costs low and allow the trade liberalization programme to succeed.

373. The subsequent sector-specific sections of this chapter show how tariff escalation, reference and minimum "export" prices, as well as the dominant position of State-owned or domestic private firms, have influenced both production and foreign trade patterns since the 1970s and in particular in the past decade. Almost all the non-traditional sectors remain weak, inefficient and dependent on Government protection. Some sectors still concentrate on meeting domestic demand rather than the original export objective. Other sectors which have achieved export success remain protected by tariff and non-tariff measures. In addition, the limited size of Uruguay's market and the absence of import competition...
or effective anti-trust legislation may encourage price cartels among domestic enterprises.

374. Currently, sectors of export interest ("national interest") to the Uruguayan economy benefit from specific tariff and tax exemptions (Table IV.6). Additionally, domestic production of capital goods is defined to be in the national interest, leading to special consideration when decisions are made on protective or trade liberalizing measures, or when negotiating bilateral or multilateral agreements.

375. As mentioned, MERCOSUR poses a number of challenges and opportunities for Uruguayan industry. Industries which are most likely to be adversely affected are those which developed under earlier import substitution strategies. For example, five foreign laboratories have wound up their activities; two US car assembly companies have ceased manufacturing in Uruguay, while the Uruguayan tyre producer, has considerably reduced its workforce (by two-thirds) and restructured its activities.

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8 See Table IV.6.

9 Article 5 of Decree No 798/87 of 30 December 1987, lists sectors and specific NADI items. These are: industrial plant; certain kind of live animals (those of pedigree for reproduction including rabbits, otter, mink, chinchillas and queen bees; plastic liquid containers reinforced with fibre glass of a capacity of more than 300 litres; glass and glassware used as moulds for making acrylic plates; some products of iron or steel (tubular scaffolding and similar equipment, certain containers for compressed or liquified gas) and aluminium scaffolding; almost all products falling under NADI Chapter 84 containing boilers, machinery and mechanical appliances and parts thereof; certain electrical machinery and equipment (e.g. electrical generators, electric motors, rotary converters, transformers, battery chargers); certain railway locomotives and rolling stock; motor vehicles, tractors, cycles, chassis, works trucks used in railway stations, trailers; balloons, aircraft, catapults and similar air launchers, ground flying trainers; ships boats and floating structures; certain optical, photographic, measuring, medical instruments and apparatus; medical, dental, surgical or veterinary furniture; gymnasium and athletic equipment. According to a joint resolution issued on 30 December 1987 by the Ministries of Industry and Energy and Economy and Finance, national producers have to be on the register of the Ministry of industry and Energy.
(2) **Review of Specific Sectors**

(i) **Animals and animal products**

376. In 1989, animal production represented some 23 per cent of gross agricultural output (Table V.2). Around 50 per cent of domestic meat production is exported (Table V.4).

377. Meat has traditionally been Uruguay's principal agricultural export. Exports grew moderately (at 4.7 per cent a year) in the 1980s. The principal items are illustrated in Chart V.7. In 1990, animal products overall registered a total of US$310.6 million or 18.3 per cent of total exports and were Uruguay's second largest export, after textiles (Table AV.2). External constraints to export expansion have been mentioned earlier (as well as in Chapter IV).

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10 Production data used in this section are based on the International Standard Industrial Classification (ISIC). Under this classification, semi-processed or final agro-industrial production is included under industrial rather than agricultural activities. These "industry" figures include food processing, textiles (including all stages of processing of wool other than the sale of unwashed fleeces), and leather (including hides and skins). In all "industrial" sectors, value added data are used to express the relative importance of production. In the case of "agricultural" products, such as cereals, livestock, milk, etc., value added is not calculated by the Uruguayan authorities and gross output data are used. No direct comparison can therefore be made between production figures in "agricultural" and "industrial" sectors.
Chart V.7
Imports and Exports in 1980 and 1990: Animals and products thereof
US$ million

Imports

<table>
<thead>
<tr>
<th>Item</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sausages, incl. tinned</td>
<td>0.0%</td>
<td>34.4%</td>
</tr>
<tr>
<td>Cattle</td>
<td>6.2%</td>
<td>28.7%</td>
</tr>
<tr>
<td>Bovine meat fresh, frozen</td>
<td>0.0%</td>
<td>66.7%</td>
</tr>
<tr>
<td>Horses, Asses, Mules</td>
<td>16.4%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Sheep, Lambs, Goats</td>
<td>8.4%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Others</td>
<td>17.6%</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

Exports

<table>
<thead>
<tr>
<th>Item</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bovine meat fresh, frozen</td>
<td>79.6%</td>
<td>69.3%</td>
</tr>
<tr>
<td>Mutton, etc. fresh, chilled, frozen</td>
<td>7.5%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Meat prepared, preserved NES</td>
<td>2.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Bovine cattle</td>
<td>3.8%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Edible offal fresh, chilled</td>
<td>1.8%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Others</td>
<td>4.8%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

Source: UNSO Comtrade Data Base
378. Imports of animal products were less than one-half of 1 per cent of exports. Average nominal TGA protection in 1991 was of the order of 24 per cent. Live animals are imported free of charge, while TGA rates for other items vary between 10 and 30 per cent (Table V.6).

379. Among the objectives of Uruguay's meat policy is to eliminate the anti-export bias of past policies. Recent reforms include liberalizing supply in border areas, and eliminating certain export prohibitions (see Chapter IV) as well as discriminatory fiscal and credit requirements.

380. The National Meat Institute (Instituto Nacional de Carnes, INAC), a public entity, is entrusted with executing domestic meat policy in the areas of setting and controlling quality and technical norms, meat marketing, meatpacking and cold-storage plant administration. The INAC registers, controls and provides prior authorization for export contacts. It also fixes price guidelines ("precios de orientación").

381. The Animal Health Directorate (Dirección de Sanidad Animal) of the Ministry of Agriculture, Livestock and Fisheries is responsible for health inspections related to livestock imports, exports or in transit.

382. Details on beef, mutton and lamb and other meats are contained in the following sections.

(a) Beef

383. Uruguay is a signatory to the Tokyo Round Arrangement Regarding Bovine Meat.

384. Fresh and frozen bovine meat exports accounted for 12.7 per cent of Uruguayan export earnings in 1990 (Table AV.2). The main export markets were Brazil, the EC (mainly the United Kingdom and Germany), Israel, Egypt, the United States, the Soviet Union, Algeria and Saudi Arabia.

385. In the early 1980s a number of internal and external factors (including transitory increase of export prices, the decontrol/deregulation of beef and cattle prices under the August 1978 reform package, and the availability of easy credit) encouraged an increase in Uruguay's cattle stocks. Subsequently, a fall in international prices, resulting from expansion of production in developed countries and subsidized competition, forced breeders to liquidate stocks at a loss in order to pay short-term

\[ ^{11} \text{Including Canary Islands which represent almost 3 per cent of exports.} \]
debts. This rundown in herds prevented Uruguayan producers from benefiting from improved foreign demand and higher external prices in 1986. As a result, producers started rebuilding cattle stocks which currently which in 1990 stood at 8.7 million head (FAO). In 1990, Uruguay had 17.4 per cent of the South American cattle stock.

386. The free-market price policy implemented by the Government leaves the sector subject to the uncertainty of external markets and the necessity to improve the technical efficiency of the country's herds by raising the carrying capacity of the land. Droughts in 1988-90 reduced cattle stocks by 30-40 per cent.

387. Fluctuations in the world meat market have also affected the viability of Uruguay's slaughtering industry. The construction of plant was supported by the Government in the 1960s; however, most slaughterhouses are now heavily indebted to the Central Bank, which maintains some cash flow in the hope of recovery in the market. Large fluctuations in the structure of the demand for imported meat in developed markets, discourage investment in more sophisticated meat packing plants which would meet the high health standards required.

388. Beef exports generally benefit from indirect tax reimbursements, according to the stage of processing, of 2, 3 or 6 per cent ad valorem. However, in the case of deboned prepared meat, the indirect tax reimbursement was US$633.27 per tonne in November 1991 compared with almost US$950 in April 1990.

389. According to the World Bank (1989), product quality and markets, the remodelling and modernization of plants as well as development of new products are the key elements for a better future.

(b) Lamb and mutton

390. Lamb and mutton, which account for around 2 per cent of total exports, are secondary exports, derived from sheep bred mainly for wool production. Such exports have grown rapidly. In 1990, exports of refrigerated, frozen and prepared sheepmeat amounted to US$31.8 million (Table AV.2). Saudi Arabia, Iraq and Algeria together account for some 50 per cent of exports and the European Communities for a further 30 per cent. Following the invasion of Kuwait, the implementation of the United Nations embargo affected US$22 million worth of beef and lamb exports covered by existing 1990 contracts with Iraq and Kuwait, while losses are estimated to have been greater in 1991.

391. In late 1991, indirect tax reimbursements on exports of lamb meat were set at 3 per cent while an 8 per cent applied for meat extracts.
(c) Other meat

392. Since 1988, exports of horse meat have grown fivefold to reach US$6.2 million in 1990. The EC (94.5 per cent) and Japan (5.5 per cent) are the main markets. Poultry of a total export value of US$2.9 million has been sold within the region (85.6 per cent to Argentina, Chile and Brazil), as well as to Zaire (8 per cent) and Asian countries (6.4 per cent). The same year, game animals with a total value of US$1.5 million were exported to the EC. (INAC)

393. The share of swine, poultry, and other meat (other than bovine and ovine) in the gross value of agricultural production did not vary much during 1980s, amounting to 6.2 per cent in 1989.

394. Poultry meat exports have benefited from indirect tax rebates ranging from US$14.25 to US$30 per tonne.

(d) Dairy products

395. Uruguay is a signatory to the Tokyo Round International Dairy Agreement.

396. Dairy products are the third most important agricultural product, accounting for about one-fifth of the gross value of production of the livestock sector. Milk production was 987 million litres in 1990; 70 per cent was processed. The average rate of increase in gross output was slightly higher in the first half of the 1980s (2.4 per cent) than in the second part (2 per cent) (Table V.7).

397. Exports of dairy products, mainly butter and cheese, have grown considerably to US$16 million in 1980 and US$58 million in 1990 (Chart V.8 and Table AV.2). Dairy products are Uruguay's eighth largest export sector, with exports mainly to Argentina, Brazil and Mexico. According to the Uruguayan authorities, exports of dairy products are considerably affected by subsidized sales, notably by the European Communities (e.g., sales of butter from stock in the former Soviet Union).
Chart V.8
Imports and Exports in 1980 and 1990: Grains
US$ million

Imports
- Wheat, etc. unmilled: 0.4% (1980), 71.7% (1990)
- Maize, unmilled: 13.6% (1980), 62.4% (1990)
- Other cereals, unmilled: 5.7% (1980), 11.3% (1990)
- Barley, unmilled: 7.3% (1980), 0.0% (1990)
- Rice in husk, or husked: 0.0% (1980), 19.2% (1990)
- Others: 1.7% (1980), 6.7% (1990)

Total Imports 1980 (US$ million): 15.5
Total Imports 1990 (US$ million): 10.1

Exports
- Rice, glazed or polished: 71.7% (1980), 67.6% (1990)
- Rice in husk, or husked: 19.5% (1980), 8.6% (1990)
- Barley, unmilled: 7.2% (1980), 7.5% (1990)
- Wheat, etc. unmilled: 0.0% (1980), 18.0% (1990)
- Other cereals, unmilled: 0.6% (1980), 0.3% (1990)
- Others: 1.0% (1980), 0.0% (1990)

Total Exports 1980 (US$ million): 70.4
Total Exports 1990 (US$ million): 134.2

Source: UNSO Comtrade Data Base
398. The National Dairy Products Cooperative, CONAPROLE, established in 1936, is obliged by law to purchase all milk delivered by domestic producer to its plants. CONAPROLE dominates milk processing, marketing and exports by purchasing about 56 per cent of domestic production. Since 1974, CONAPROLE's production and export activities have grown steadily. In 1989, it exported products of a value of US$40 million, making it the largest dairy exporter in Latin America.

399. According to ECLAC (1990), modernization and technological progress have led to higher productivity and better quality, in both the primary production and industrial phases. This modernizing process put pressure on small-scale producers. CONAPROLE has tried to cut the production costs of small-scale producers and enhance their access to new technologies. Pricing policy has been a major factor in the industry's growth. A scale of differentiated prices is applied, originally intended to stimulate the supply of milk in low-producing stations. Thus, a controlled market segment with high prices has co-existed with a liberalized segment with lower prices. The ability of CONAPROLE to influence buyer and seller prices has stabilized the profit margin, which has made it possible to withstand the ups and downs of macroeconomic policy. The Government and CONAPROLE run joint programmes for the improvement of road and electricity infrastructure. The objective is, once again, to expand production by raising productivity.

400. Milk prices for domestic consumption and exports are higher than those for milk used as an input for the production of dairy products. However, the administered price for domestic, household fresh milk consumption cannot be more than 1.5 times higher than the price set for milk for industrial use. It is expected that, as exports gain importance, the domestic prices will be adjusted more to export prices.

401. In late 1991, average nominal TGA protection was at 20.6 per cent (Table V.6). Domestic raw materials are protected against cheaper imports by means of an average TGA rate of 25 per cent (close to the highest TGA level) while processed goods are subject to an average of 20 per cent. A minimum "export" price on butter imports of US$1,550 per tonne (c.i.f.) was abolished on 3 November 1991.

402. Between April 1990 and November 1991, indirect tax reimbursements for milk and dairy products declined by 33 per cent, having already been

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12 The "Plan Esperanza" currently involves more than 800 cooperatives and provides technical assistance and tilling equipment to groups of the smallest producers. The latter make instalment payments for the use of the equipment, which is priced according to the number of hectares being farmed (ECLAC (1990)).
reduced by 10-20 per cent since September 1988 (as noted in Chapter IV). The level of reimbursement varies according to the product. For example, fresh milk is reimbursed at a rate of US$5.80 per kilolitre, a number of processed milk products at a rate of just over US$50 per tonne, while butter is reimbursed at a rate of US$116.66 per tonne.

403. Uruguayan exports of cheese (Italian type) face quotas in the United States market. In 1985, a quota of 250 tonnes was obtained. Three years later an increase to 428 tonnes was negotiated. Quotas are fully utilized.

(ii) Grains

404. Cereals account for the largest share of crop production in Uruguay (24.5 per cent of total gross agricultural production in 1989). The gross production value in 1989 was 32.1 per cent greater than in 1983.

405. Rice is the most rapidly increasing grain in production and exports. Its share of gross production was 9.5 per cent in 1989, compared with 9.4 per cent for wheat (Table V.3). The volume of rice production increased tenfold since the 1970s and by 10 per cent from 1988/89 to 1990/91 (EIUC, 1991). In 1989, Uruguay was responsible for 2.4 per cent of Latin American rice production.

406. In 1989, barley contributed 1.6 per cent to the gross value of production, 252 per cent above 1983 levels (Table V.3). The growth in barley production is mainly attributable to the doubling of the yield per hectare, although there was a small increase in the area under production. About 10,000 tonnes out of a total output of over 200,000 tonnes in 1990 is consumed domestically; the balance is mostly exported to Brazil. Special purchase arrangements exist between brewing companies and domestic producers.

407. Uruguayan wheat production has lost more than half of its share in Latin American output, dropping from 5.2 per cent in 1960 to 2.3 per cent in 1989 (Table V.5). In 1989, wheat production was the second most important cereal crop after rice, contributing 9.4 per cent to gross agricultural production (Table V.2). In 1989, production was 28.7 per cent greater than in 1983 in constant prices. This situation partly reflects the evolution of relative prices for beef and wheat and domestic incentives described in Chapter IV. Wheat planting has been characterized by

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13 Brewers provide a package of inputs and credit while at the same time guaranteeing the market. A new malting facility to process 15,000 tons of grain was under construction by 1989.
instability and decline, and timing and methods for planting have been poor and unsystematic.

408. Grains are Uruguay's fourth largest export sector, with a total of US$134.2 million or 7.9 per cent of total exports, in 1990 (Chart V.8). This is mainly due to rice (76.2 per cent), unmilled wheat (16 per cent) and barley (7.5 per cent).

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14 As most landowners are in the livestock sector, they plant wheat or similar crops to pastures whenever livestock prices are low. Traditional methods involve poor land preparation and seeding, late planting, minimal fertilization and poor weed control.
Chart V.9
Imports and Exports in 1980 and 1990: Dairy products
US$ million

Imports

<table>
<thead>
<tr>
<th>Product</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk and Cream, dry</td>
<td>46.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cheese and Curd</td>
<td>33.9%</td>
<td>66.1%</td>
</tr>
<tr>
<td>Milk cream evaporated, condensed</td>
<td>46.8%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Butter</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Milk and Cream fresh</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Total Imports 1980 (US$ million): 0.7
Total Imports 1990 (US$ million): 0.2

Exports

<table>
<thead>
<tr>
<th>Product</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheese and Curd</td>
<td>48.4%</td>
<td>37.7%</td>
</tr>
<tr>
<td>Butter</td>
<td>31.3%</td>
<td>33.7%</td>
</tr>
<tr>
<td>Milk cream evaporated, condensed</td>
<td>0.0%</td>
<td>27.7%</td>
</tr>
<tr>
<td>Milk and Cream, dry</td>
<td>16.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Milk and Cream fresh</td>
<td>3.5%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

Total Exports 1980 (US$ million): 16.2
Total Exports 1990 (US$ million): 57.9

Source: UNSO Comtrade Data Base
409. Total polished rice exports grew by 6 per cent annually between 1980 and 1990 while those of husk or husked rice increased by 1.7 per cent. The domestic market absorbs only 8.9 per cent of production. Rice millers have contributed to the success by introducing technological advances coupled with technical support services (World Bank (1989)). Exports of rice grew from US$102 million to US$116 million between 1990 and 1991. Brazil remains the main export market; Uruguayan rice enters the Brazilian market free of import duty. However, producers claim that the 15 per cent tariff preference that their exports enjoy in this market (against non-MERCOSUR rice) is not enough. Exports to Iran declined in 1990 and those to Portugal ceased following its entry into the EC.

410. In late 1991, average nominal TGA protection for cereals was 14.9 per cent, with a maximum rate of 20 per cent (Table V.6). Nominal TGA protection for rice and barley was 20 per cent (seeds 10 per cent (Table AV.1).

411. Agricultural machinery, parts and components directly imported by domestic rice producers are exempted from the VAT régime (Table IV.6). For 1991, exports of rice, sorghum and malted barley benefited from indirect tax reimbursements in a range of US$2.72 up to US$12.87 per ton (Unión de Exportadores del Uruguay).

412. Wheat is the sole "traditional" product for which Government intervention is maintained. Despite nominal zero per cent TGA, protection has been afforded on the basis of minimum "export" prices applicable to imports of wheat (see Chapter IV and section on Foodstuffs). Imports of wheat for milling are prohibited unless no local wheat is available at the minimum "export" price. A "certificate of need" is required for permission to import milling wheat. It is planned to eliminate this measure for the 1992/93 crop and the minimum "export" price itself in 1993-94. As from January 1991, wheat producers obtained an indirect tax reimbursement equivalent to US$10 per exported ton.

413. The Grains Directorate (Dirección de Granos, DIGRA) of the Ministry of Agriculture, Livestock and Fisheries, is entrusted among others with authorizing the importation or exportation of seeds according to their compliance with quality and phytosanitary requirements.
Oilseeds, fats and oils and their products

414. In 1989, oilseed crops (principally soybeans and sunflowers) accounted for 2.9 per cent of gross agricultural production. The US dollar value of oilseed output grew by 132 per cent between 1983 and 1986, but subsequently declined by 20 per cent to US$23 million in 1989. Exports, which had grown by 27-fold in the 1970s, have fallen considerably in the 1980s and their structure has changed dramatically. In 1990, groundnuts were the only oilseed crop with significant exports, while no groundnut exports were recorded in 1980; by contrast, other previously important export oilseeds (linseed and oil, soybeans) fell to insignificant levels (Table AV.2).

415. In late 1991, average nominal TGA protection was 21.2 per cent, with rates ranging from 10 to 30 per cent (Table V.6). Tariff escalation favours finished goods, with an average of 22.5 per cent, against raw materials with an average of 16.1 per cent. Imports of soya and sunflower seeds are covered under the temporary admission régime upon the condition that any product thereof will be exported.

416. In late 1991, exports of items like crude and refined sunflower and linseed oil as well as other fats enjoyed an indirect tax reimbursement ranging from US$10.47 to US$63.3 per tonne. (Unión de los Exportadores del Uruguay)

Fish, shellfish and products

417. From 1983 to 1985, the fisheries sector contributed 0.3 per cent to the GDP. By 1990, its share fell to 0.1 per cent (Table V.1). This is believed to be associated with the migration of shoals away from the Uruguay coast as well as labour problems (see below). In 1987, 78 per cent of domestic production was exported (Table V.4).

418. Fish exports provided US$64.1 million of revenue and ranked as the seventh largest export sector in 1990. The highest average annual compound growth of the 1980s originates in exports of frozen, tinned or prepared fish products (Chart V.10). Main markets are the United States (30 per cent), Brazil (23 per cent), and Japan, Germany, Saudi Arabia and Israel, which account for 4 to 6 per cent each.
Chart V.10
Imports and Exports in 1980 and 1990: Fish, shellfish and products
US$ million

Imports

| Fish, etc. tinned prepared | 91.1% |
| Fish fresh chilled, frozen | 2.3% | 13.3% |
| Shellfish fresh, frozen | 3.9% | 8.9% |
| Fish salted, dried smoked | 2.7% | 2.8% |

Total Imports 1980 (US$ million): 4.8
Total Imports 1990 (US$ million): 3.1

Exports

| Fish fresh chilled, frozen | 98.1% | 94.9% |
| Fish, etc. tinned prepared | 0.0% | 0.2% |
| Shellfish fresh, frozen | 0.0% | 3.2% |
| Fish salted, dried smoked | 1.8% | 1.7% |

Total Exports 1980 (US$ million): 48.3
Total Exports 1990 (US$ million): 64.1

Source: UNSO Comtrade Data Base
419. Uruguay's fisheries policy was established in the 1970s as part of its efforts to develop non-traditional economic activities. A National Plan for Fisheries Development (Plan Nacional de Desarrollo Pesquero) was implemented to rationalize the use of available resources, to increase the size of both the fishing fleet and infrastructure and to generate employment for the local skilled labour force. As a result of the plan, by 1986, fish processing capacities had increased tenfold to 200,000 tonnes per year and several plants were fully automated.

420. Since 1979, the National Fisheries Institute (Instituto Nacional de Pesca, INAPE) has been in charge of quality control and certificates, as well as transport, marketing and distribution of final products. It publishes import and export statistics, and provides technical and administrative assistance in relation to handling procedures for fisheries products. Before the privatization reforms, ILPE, a State company, was charged with implementing specific fishery policy objectives (see Chapter IV).

421. From 1974 until 1981 the fish catch increased ninefold. In the 1980s, the average catch growth rate was positive (2.9 per cent) at the first part of the decade, but towards the end of the decade, it was marked by a decline of 8.7 per cent (Table V.7). This was due to frequent strikes which affected productivity, together with a shoal emigration into Argentina's territorial waters. A major problem may rise in some years' time, as extensive fishing is being undertaken in breeding grounds. Extraction of certain species is said to be reaching the limit of a good conservation policy (World Bank (1989)).

422. In late 1991, the average nominal TGA protection for fish, shellfish and fish products was 24.9 per cent (Table V.6). A measure of tariff escalation is observed in favour of semi-processed (29.2 per cent) and finished (26.4 per cent) items against unprocessed (20.6 per cent) which is likely to provide substantial effective protection to the domestic processing industry (Table V.8).

423. A Fisheries Agreement (Tratado del Limites del Rio de la Plata), signed on 19 November 1973, between Uruguay and Argentina extends the former's fishing limits and allows fleets from both countries to operate in a common area. It entered into force on 12 February 1974.

\[\text{Created by Decree Law No 14.484 of 18 December 1975 of the Ministry of Agriculture, Livestock and Fisheries.}\]
424. According to the World Bank (1989), fisheries exports could increase if the catch were diversified to other species and if more value was added by introducing frozen fish preparations.

(v) Foodstuffs

425. Foodstuffs, mainly citrus fruit, malt and refined sugar, accounted for 4.9 per cent (US$82.4 million) of total exports in 1990 (Chart V.11). No imports of citrus fruit, refined sugar and molasses have taken place recently while those of sugar beet and sugar cane have drastically declined over previous decades. Imports in 1990 were mainly maté, potatoes and bananas.
Chart V.11
Imports and Exports in 1980 and 1990: Foodstuffs
US$ million

Imports

<table>
<thead>
<tr>
<th>Item</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mate</td>
<td>33.0%</td>
<td>38.6%</td>
</tr>
<tr>
<td>Bananas</td>
<td>10.4%</td>
<td></td>
</tr>
<tr>
<td>Potatoes</td>
<td>4.9%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Coffee green, roasted, etc.</td>
<td>4.2%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Raw beet &amp; Cane sugar</td>
<td>1.2%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Others</td>
<td>30.6%</td>
<td></td>
</tr>
</tbody>
</table>

Total Imports 1980 (US$ million): 73.7
Total Imports 1990 (US$ million): 56.7

Exports

<table>
<thead>
<tr>
<th>Item</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malt including flour</td>
<td>35.2%</td>
<td>28.7%</td>
</tr>
<tr>
<td>Citrus fruit</td>
<td>10.7%</td>
<td>27.4%</td>
</tr>
<tr>
<td>Starch, inulin, gluten, etc.</td>
<td>9.3%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Food preparations</td>
<td>10.4%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Natural honey</td>
<td>3.5%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Others</td>
<td>30.9%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

Total Exports 1980 (US$ million): 44.4
Total Exports 1990 (US$ million): 82.4

Source: UNSO Comtrade Data Base
426. Citrus production has doubled since the 1970s and in 1989 was 0.8 per cent of gross agricultural production value (fresh fruits 4.8 per cent) (Table V.2). Approximately 37 per cent of output is exported to the northern hemisphere, during the off-season. Exports - mostly of oranges - more than doubled in value from 1980 to US$23 million in 1990. According to the Uruguayan authorities, the application of seasonal tariffs ranging from 4 per cent (mid-May to mid-October) and 20 per cent (mid-October until end of March) and countervailing duty by the EC and higher Community standards applied in eastern Germany since reunification have adversely affected orange exports in 1991, while lemon exports are affected by variable levies. World Bank (1989) forecasts are for a 70 per cent increase in production by 1995, with a doubling of export volumes. Juice production is expected to absorb an increasing share of the rejects.

427. The Honorary Commission of Citrus Plan (Comisión Honoraria del Plan Citricola) is responsible for quality control, packing and storage of exported citrus fruit.

428. The share of sugar in the gross value of agricultural production has steadily declined in the 1980s to 2.4 per cent in 1989. Sugar-beet represents 0.4 per cent and sugar cane 1.9 per cent (Table V.2).

429. Nominal TGA protection for raw sugar has been 20 per cent (Table AV.1). Domestic production of raw beet and cane sugar was protected until 15 November 1991, by minimum "export" prices of US$300 and US$375 per tonne (c.i.f.). Improvement of sugar plantations is encouraged by tariff and tax exemptions provided for imports of relevant agricultural machinery, parts and components. ANCAP (the State company - see Chapter IV on State trading) is involved in the production and sales of sugar.

430. In the past, imports of chewing gum were subject to the reference price mechanism. The UNDP/World Bank (1990) report indicates that in 1989, although nominal tariff protection for refined sugar and chewing gum did not exceed 40 per cent, overall nominal protection, taking into account price distortions, attained levels of 50 per cent and 45 per cent, respectively.


431. Imports of wheat flour are insignificant, while exports have been increasing and reached US$1 million in 1990. During the last decades exports of bread, biscuits and similar products experienced significant growth (Table AV.2).

432. Until 15 November 1991, wheat flour imports were subject to a minimum "export" price of US$182 per tonne (c.i.f.). Similar protection is also afforded to wheat producers (see Chapter IV). Nominal TGA protection for wheat flour is 20 per cent (Table AV.1).

433. Temperate fruit such as apples, pears and quinces are produced almost entirely for internal consumption, while table grapes are exported to Germany.

434. Under a Decree issued by the Ministry of Agriculture, Livestock and Fisheries, prices for wine grapes (white and red wine) are annually set before the vintage period on the recommendation of the National Institute of Winegrowing (Instituto Nacional de Vitivinicultura). The objective of this price control measure is to support small producers and strengthen their bargaining position against owners of wine cellars (bodegueros). The share of wine grapes in gross agricultural production has steadily declined in the 1980s to 1.3 per cent in 1989 (Table V.2).

435. Vegetables are produced mainly to satisfy domestic demand. In 1989 they accounted for 1.7 per cent of the gross value of agricultural production (Table V.1). Roots and tubers accounted for 4.8 per cent of the gross agricultural value of production in 1989, out of which potatoes accounted for 3.8 per cent. Production is situated outside Montevideo and in Salto and Bella Union where irrigation and modern techniques are used. In 1991, exports of garlic, onion, fruits, apples, pears, prunes and peaches benefited from tax reimbursements ranging from US$5.31 to US$14 per tonne. Garlic is occasionally exported to Brazil.

(vi) Beverages and spirits

436. Exports of beverages and spirits, although low compared to overall exports, have experienced high annual average growth rates in the past two decades. Production and trade of distilled alcohol and certain alcoholic beverages are an ANCAP monopoly.

437. The beverages sector showed one of the highest rates of growth in value-added in the industrial sector - 7.1 per cent in 1990 (Table V.3). In 1987, 2 per cent of production was exported. This sector is heavily taxed under IMESI (see Chapter IV).
438. In late 1991, average nominal tariff protection was the second highest (after toys) at a rate of 27 per cent, with a range of 10 to 30 per cent (Table V.6).

439. Protection is afforded to domestic production of wines of fresh grapes and vermouths and other wines of fresh grapes flavoured with aromatic extract by means of minimum "export" prices. Reference prices for these goods which ranged from US$0.60 to US$0.90 per litre were abolished in May 1992. In 1991, exports of beer and malted drinks benefited from indirect tax reimbursements ranging from US$0.20 to US$0.28 per hectolitre.

(vii) Tobacco

440. In 1990, tobacco processing contributed 5.5 per cent to value added in the industrial sector in Uruguay (Table V.3). During the 1980s, cigarette imports decreased considerably while exports increased.

441. In 1991, pronounced average TGA escalation favoured the processing industry by providing a 26.3 per cent average rate for processed items against a 14 per cent for raw materials.

(viii) Textiles and clothing

442. In 1989, wool was the second most important item in gross agricultural production, accounting for 21 per cent of the total (Table V.2). The textile sector, based on the wool industry, is the most important export sector of Uruguay with US$488 million exports in 1990. The leading items in 1990 were combed wool, greasy wool, clothing and woven woollen fabrics (Chart V.12).
Chart V.12
Imports and Exports in 1980 and 1990: Textiles
US$ million

Imports
- Raw cotton, excluding linters
  - 1980: 20.2%
  - 1990: 17.8%
- Synthetic fibre to spin
  - 1980: 8.7%
  - 1990: 12.4%
- Woven regenerated fabrics
  - 1980: 2.5%
  - 1990: 15.2%
- Jute fabrics, woven
  - 1980: 3.8%
  - 1990: 11.4%
- Woven synthetic fabrics
  - 1980: 13.3%
  - 1990: 2.9%
- Other
  - 1980: 43.9%
  - 1990: 47.9%

Total Imports 1980 (US$ million): 58.2
Total Imports 1990 (US$ million): 65.9

Exports
- Wool greasy, fleece washed
  - 1980: 40.8%
  - 1990: 24.1%
- Wool or hair combed
  - 1980: 0.0%
  - 1990: 39.1%
- Wool tops
  - 1980: 0.0%
  - 1990: 28.4%
- Clothing
  - 1980: 11.3%
  - 1990: 11.4%
- Woven wool fabrics
  - 1980: 6.1%
  - 1990: 9.6%
- Other
  - 1980: 13.3%
  - 1990: 15.7%

Total Exports 1980 (US$ million): 306.7
Total Exports 1990 (US$ million): 488.1

Source: UNSO Comtrade Data Base
443. The textiles industry dates back to the nineteenth century and was originally established to meet domestic demand.

444. During the 1970s and early 1980s, the machinery and equipment in the textiles sector has been renovated and expanded. In 1990, the sector contributed 8.2 per cent to value added in manufacturing, while clothing contributed 3.7 per cent (Table V.4). In 1987, 41 per cent of textiles production and 70 per cent of clothing were exported (Table V.4). In 1987, the textiles and clothing industries were responsible for almost 14 per cent of employment in the whole sector (Chart V.6).

445. Wool textiles, the most important sub-sector, is dominated by a few firms, four of which are responsible for 90 per cent of exports. Uruguay accounts for 3 per cent of world supply. Despite quota restrictions under the Multi-Fibre Agreement, the main markets remain the United States, the EC (mainly Germany) and Canada (see Chapter IV).

446. A favourable macroeconomic framework, the increase of international wool prices, problems encountered in world beef markets and the lighter debt burden on sheep farmers, allowed for a record expansion of both production and exports in the period 1985-87 - the first time since the peak of 1908 that wool production and exports grew at more than 15 per cent per year. However, in February 1991, when Australia held its first "free market" wool auction for 17 years, prices for clean wool fell by an average of 35.5 per cent. While this policy change by Australia is considered likely to have a beneficial impact on demand in the medium term, in Uruguay in 1991 export earnings from wool and wool tops declined by 67.9 per cent and 12.9 per cent, respectively.


448. Export taxes apply to greasy wool (see Chapter IV). In 1991, indirect tax refunds for exports of wool tops, wool yarns and cotton clothing ranged between US$122.66 and US$330 per tonne, and 0.9 and 1.3 per cent, and US$4.45 and US$5.21 per 100 square metres. The average nominal TGA rate in late 1991 was 26.1 per cent. Tariff escalation for

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20 The main components of such framework are the floating exchange rate, the reduction of export taxes from 15 to 5 per cent, the free-pricing of wool.

21 This increase was favoured by a change in consumers preferences from synthetics toward natural fibres.

22 Beef prices had been falling, largely as a result of the subsidy policies and competition from the EC.
this sector is also pronounced, with the highest average TGA level for finished manufactures (28.7 per cent) while unprocessed items attract an average rate of 16.8 per cent (Table V.8).

449. Reference prices apply to certain man-made fibres and yarns, woven fabrics of man-made fibres or cotton), wool and synthetic carpeting, corduroys and velveteens of polyester or cotton, tulle, felt, cordage for footwear, shoe laces and items like silk. For knitted and crocheted goods, apparel and clothing accessories, and other made-up articles reference prices are calculated on the basis of the average c.i.f. value or reference price of their components increased by 50 per cent.

450. According to UNDP/World Bank (1990), textiles and apparel products covered by the reference price system account for almost 33 per cent of Uruguayan value added in manufacturing goods. A particular feature of the system in this sector is the use of two methods for the calculation of such prices, according to the degree of processing. According to the report, reference prices for yarns are set in the same way as for non-textile goods, whereas those aimed at more elaborated products are reference prices used in previous stages of production, increased on the basis of ad hoc multiplicative coefficients. As an illustration of the effects, the impact of reference prices for synthetic carpets was to increase nominal rates of 40 per cent to levels of 85 per cent and 86 per cent.

451. The Uruguayan Wool Secretariat (Secretariado Uruguayo de la Lana, SUL), which is affiliated to the International Wool Secretariat, provides price and marketing information to producers and exporters.

(ix) **Leather and leather products**

452. The leather industry in Uruguay consists of a limited number of enterprises, processing raw materials of national or foreign origin. Four tanning firms process 80 per cent of domestic production; 90 per cent of the output is exported. The sector is characterized by a high degree of vertical concentration, particularly with regard to sheepskins. Leather and leather products have made a declining contribution to the value added by the industrial sector, accounting for 1.7 per cent in 1990 (Table V.3).

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23 The UNDP/World Bank analysis shows that, in terms of magnification and distortion effects, the reference price system has a more severe impact in textiles than in the non-textile sector. "The magnification effect is larger for all textile products than for non-textile products - roughly 18.3 per cent versus 18.1 per cent under the RP system and 7.5 per cent versus 7.1 per cent under the MEP system for 1989. More important for assessing its impact on the domestic industry, the magnification effect clearly reveals the existence of escalation of protection, that is, effective protection rises with the degree of processing."
453. In export terms, this is the third largest sector for Uruguay (13.4 per cent of total exports in 1990 (Chart V.1)). During the 1980s, exports grew by an average of 5 per cent per year. The most important export items are bovine leather, leather clothes and leather manufactures (Chart V.13). Despite the taxes applicable to exports of hides and skins (see Chapter IV), their average annual growth was of the order of 5.9 per cent in the 1980s.
Chart V.13
Imports and Exports in 1980 and 1990: Raw hides and skins, leather and furskins
US$ million

**Imports**

<table>
<thead>
<tr>
<th>Item</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather bovine NES, equine</td>
<td>15.0%</td>
<td>82.0%</td>
</tr>
<tr>
<td>Fur skins tanned, dressed</td>
<td>1.0%</td>
<td>28.8%</td>
</tr>
<tr>
<td>Bovine, equine hides</td>
<td>7.3%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Fur skins undressed</td>
<td>10.7%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Leather NES</td>
<td>7.3%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Other</td>
<td>0.8%</td>
<td>31.1%</td>
</tr>
</tbody>
</table>

Total Imports 1980 (US$ million): 16.9
Total Imports 1990 (US$ million): 25.7

**Exports**

<table>
<thead>
<tr>
<th>Item</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather bovine NES, equine</td>
<td>30.2%</td>
<td>51.6%</td>
</tr>
<tr>
<td>Fur, etc. clothes, products</td>
<td>37.3%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Leather clothes, accessories</td>
<td>22.8%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Leather manufactures</td>
<td>6.6%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Fur skins tanned, dressed</td>
<td>1.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Other</td>
<td>2.7%</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

Total Exports 1980 (US$ million): 128.5
Total Exports 1990 (US$ million): 227.9

Source: UNSO Comtrade Data Base
454. No restrictions currently exist on exports of leather, although it was reported that in November 1991, the Senate approved a bill to reintroduce export regulations (withdrawn in 1990) for unprocessed leather. Tanneries in Uruguay complain of being short of raw material supplies as leather prices in foreign markets are higher than at home.

455. In late 1991, exports of several bovine leather manufactures benefited from indirect tax reimbursement by amounts ranging from 2.6 per cent to 3.2 per cent. Leather clothes made from imported leather enjoyed a lower reimbursement rate than those from domestic raw material (2.7 per cent instead 3.5 per cent). Fur clothes are subject to 3.3 per cent rates.

456. In late 1991, the sector was characterized by tariff escalation, and finished leather goods had one of the highest average TGA rates (27.4 per cent). Imports for processing benefit from the temporary admission régime.

(x) Footwear and travel goods

457. Since 1979, the footwear industry has been affected by the abolition of certain industrial incentives, a major increase in the domestic leather price, protective measures in the United States, and the emergence of Brazil as a competing producer. These events have left the sector highly dependent on domestic demand. In consequence, in the 1980s the share of the footwear industry in manufacturing declined to 1.1 per cent of value added in 1990 (Table V.3).

458. Current footwear production capacity in Uruguay is smaller than Brazil's. The main export market for shoes is the United States. Despite difficulties of the early 1980s which until 1986 led to a drop in exports, in 1987 the export value of shoes rose at over 75 per cent.

459. Exports of footwear rose by 1.2 per cent in the 1980s while those of footwear parts and travel goods shrunk. Total exports attained US$25.2 million against growing imports of US$3.6 million.

460. Exports of boots, leather shoes, slippers, and footwear parts enjoy tax reimbursements of 2.6 per cent.

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24 As exports benefited from tax rebates (reintegros) they became subject to an inquiry for the determination of injury under the Tariff Act of 1930 which led to their abolition.

25 The tax rebates were suspended while at the same time leather price increased.
461. The export promotion policies of the 1970s encouraged the production of finished goods. As in the leather industry, there is considerable concentration. One firm exports more than 80 per cent of belts sold abroad while two manufactures are responsible for more than 40 per cent of bag exports. Far East Asia and Brazil are two important markets. Handbags, wallets and belts are mainly sent to the United States, leather garments to the United States and Germany and sheepskin garments to Germany. As Uruguay has signed the Agreement on Subsidies and Countervailing measures, export promotion incentives have been limited to a drawback for indirect taxes.

462. A relatively high average nominal TGA rate of 25.8 per cent has protected the sector in late 1991.

(xi) Chemicals

463. Chemicals are the second largest industrial sector, contributing 11.3 per cent of value added by manufacturing. Plastic products were responsible for 1.7 per cent (Table V.3). In 1987, 29 per cent of the domestic chemicals production and 11 per cent of the plastics were exported (Table V.4).

464. Chemicals are also the fifth most important export sector (US$117.8 million in 1990). In the 1980s exports grew at an annual average rate of 15.1 per cent. The most dynamic items in the decade were: colouring material, pesticides, disinfectants, essential oils, resinoids, synthetic tanning products, organic and inorganic compounds, nitrogen compounds, etc. The leading 1990 exports by value were: prepared paint, driers, pesticides and products of polymerizing (Chart V.14).

26Handbags, jackets and leather coats were subject to a determination of injury under the USTC. As a result Uruguay had to drop tax rebates.
Chart V.14
Imports and Exports in 1980 and 1990: Chemicals
US$ million

Imports

<table>
<thead>
<tr>
<th>Product Type</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products of polymerising, etc.</td>
<td>18.0%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Organic, inorganic compounds, etc.</td>
<td>5.7%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Products of condensation, etc.</td>
<td>7.1%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Medicaments</td>
<td>6.5%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Synthetic dye, natural indigo, lakes</td>
<td>4.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Other</td>
<td>58.0%</td>
<td>50.6%</td>
</tr>
</tbody>
</table>

Total Imports 1980 (US$ million): 167.0
Total Imports 1990 (US$ million): 270.8

Exports

<table>
<thead>
<tr>
<th>Product Type</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared paint, driers, etc.</td>
<td>16.0%</td>
<td>19.8%</td>
</tr>
<tr>
<td>Pesticides, disinfectants</td>
<td>0.1%</td>
<td>19.3%</td>
</tr>
<tr>
<td>Products of polymerising, etc.</td>
<td>18.2%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Washing preparations, etc.</td>
<td>3.9%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Products of condensation, etc.</td>
<td>4.4%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Other</td>
<td>45.4%</td>
<td>38.8%</td>
</tr>
</tbody>
</table>

Total Exports 1980 (US$ million): 28.9
Total Exports 1990 (US$ million): 117.8

Source: UNSO Comtrade Data Base
465. The average compound annual growth of imports between 1980 and 1990 was 5.1 per cent. The most important items in value terms were products of polymerizing, organic and inorganic compounds and synthetic dyes.

466. In late 1991 the average nominal TGA rate of protection was 17.2 per cent, with tariffs escalating from 15.6 per cent (semi-manufactures) to 22.4 per cent.

467. Exports of certain essential oils (lime, citrus), soaps and other chemicals enjoy indirect tax reimbursements at rates ranging from US$40 to US$316 per tonne.

468. The reference price mechanism afforded additional protection to domestically produced phthalic anhydride and plastic products (bags and rigid PVC) at rates of US$1.7 and US$2.3 per kilogramme (c.i.f.). This was abolished on 3 May 1992. The minimum "export" price for solid caustic soda fixes levels of US$460 and US$485 per tonne (c.i.f.).

469. The UNDP/World Bank (1990) study notes that the artificially established prices for imports of these goods destined for the internal market exceed world price levels. Calculations indicate that in 1989 the implementation of these mechanisms provided nominal protection at a record level of 198 per cent for polyethylene. Figures for phthalic anhydride and caustic soda were 52 and 53 per cent respectively.

470. Import restraints apply to certain veterinary products like those made of or containing cloramphenicol (prohibition), products containing chlorine for use in sheep dips (prohibition), and medicaments for growing or fattening animals (prohibition with specific exceptions).

471. Importation, production and marketing of pharmaceuticals are subject to specific legislation. Import or export certificates issued by the Technical Sub-Committee of the Honorary Committee for the Control of Medicaments are required. Companies which import, produce or process

\[27\] Resolution of the Ministry of Livestock, Agriculture and Fisheries of 27 November 1986.

\[28\] Resolution of the Ministry of Livestock, Agriculture and Fisheries of 16 December 1987.

\[29\] Decree of 28 December 1988.

\[30\] Law No 15.443 of 5 August 1983.
narcotics must figure in the relevant register kept by the Ministry of Public Health.

(xii) **Coal, petroleum, natural gas**

472. Uruguay mainly uses hydroelectric power. During the recession of the early 1980s, this helped to keep down its oil bill. In 1990, the oil price decline brought down the value of crude petroleum imports to less than half of the 1981 level.

473. The country imports all its oil. ANCAP, the State oil company, has a monopoly on crude petroleum importing and refining. In 1990, petroleum refineries held 6.8 per cent of manufacturing value added.

474. Lubricants are also produced. In the 1980s, lubricants imports have declined by an annual average rate of 16.7 per cent. IMESI (see Chapter IV) on fuels and lubricants ranges between 7 and 102 per cent, making them the most important contributors to internal tax revenue (more than 14.1 per cent in 1990).

475. Major, but unsuccessful, oil exploration efforts have been undertaken in 1974 by ANCAP and Chevron and later on with the Argentine State company Yacimientos Petrolíferos Fiscales (YPF).

476. A bilateral agreement signed with Argentina in February 1985, foresees the expansion of the common gas pipe network. The Argentine YPF helped ANCAP to drill and survey natural gas reserves in north west Uruguay; however, no gas is extracted.

477. Coal imports fell during the 1980s.

478. At the end of 1991, average nominal TGA was 21 per cent, with rates of 30 per cent for fuel and crude petroleum and lubricants, and an average of 19.8 per cent for refined petroleum (including fuels like gasoline and diesel oil) (Table AV.1).

479. Fuel prices in Uruguay are higher than those of other MERCOSUR participants. Recently, intentions for a policy change have been announced.

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Machinery and equipment

(a) Non-electrical machinery

480. In 1990, fabricated metal products, machinery and equipment contributed 6 per cent to value added by the industrial sector (Table V.3).

481. Exports of office machines, machine tools for metal, harvesting machines, dairy farm equipment, and powered tools grew in the 1980s, which was a decade of export decline for the sector as a whole. Imports declined in the same period.

482. In late 1991, the average TGA rate was 21.6 per cent.

483. Minimum "export" prices protect domestic production of electric refrigerators for domestic use and gas cookers. Those items with three or four cooking rings are additionally charged with reference prices at different levels, according to the components which they contain.

484. Imports of machinery and equipment for certain activities enjoy import duty and tax free treatment (see Chapter IV).

(b) Electrical machines and appliances

485. This sector contributed 3.1 per cent of total value added by industry in 1990 (Table V.3). In 1987, 8 per cent of the production was sold abroad (Table V.4). In 1990, Uruguay imported ten times more than it exported in this sector. During the 1980s, imports increased by 5.2 per cent per year. Telecommunication equipment, batteries, electric insulating equipment and domestic electric equipment were the most rapidly-growing items.

486. The sectoral average TGA rate in late 1991 was 24.4 per cent. Electric cables and electric filament lamps were subject to 30 per cent (Table AV.1), the higher of three generally applicable TGA rates.

487. As stated in Chapter IV, government procurement practices provide protection and sales opportunities for the domestic industry of electric cables and products of similar use in power distribution.

488. Imports of electric filament lamps of more than 25 watts are subject to a minimum "export" price of US$0.22 per unit.

(c) Professional, scientific and controlling instruments, photographic apparatus, clocks and watches
489. Although Uruguay is import-dependent in this sector, exports of medical (69 per cent of sectoral exports) and photographic equipment have rapidly progressed in the 1980s.

490. An average nominal TGA of 19.5 per cent applied in late 1991 (Table V.6).

491. Imports and import credits for investment related to private medical services is subject to prior authorization by the executive (see also Chapter IV). Various types of medical equipment are included.

(xiv) **Transport equipment**

492. In 1990, the transport equipment sector accounted for 3.8 per cent of the value added in manufacturing (Table V.3). In 1987, no exports were recorded, although in 1986 2 per cent of the sector's production had been exported (Table V.4).

493. In 1990, Uruguay imported US$141.9 million of transport equipment while it exported US$19.2 million. Both imports and exports have fallen in the 1980s. Imports in 1990 mainly consisted of passenger cars, tractors, trucks, motor vehicle parts and motorcycles (Chart V.15). Uruguay exported car parts (increased by 5.5 per cent in the 1980s) and passenger motor vehicles.
Chart V.15
Imports and Exports in 1980 and 1990: Transport equipment
US$ million

Imports
- Passenger motor vehicle, excluding buses: 57.9% (1980), 11.8% (1990)
- Lorries, trucks: 17.5% (1980), 11.1% (1990)
- Tractors non-road: 12.4% (1980), 11.8% (1990)
- Motor vehicle parts NES: 5.1% (1980), 1.1% (1990)
- Motorcycles, etc. parts: 6.6% (1980), 3.5% (1990)
- Other: 16.3% (1980), 4.1% (1990)

Total Imports 1980 (US$ million): 240.5
Total Imports 1990 (US$ million): 141.9

Exports
- Lorries, trucks: 67.6% (1980), 0.1% (1990)
- Motor vehicle parts NES: 24.2% (1980), 50.5% (1990)
- Passenger motor vehicle excl. buses: 9.4% (1980), 39.4% (1990)
- Motorcycles, etc. parts: 7.9% (1980), 2.3% (1990)
- Ships and boats non-war: 0.9% (1980), 4.9% (1990)
- Other: 0.0% (1980), 2.7% (1990)

Total Exports 1980 (US$ million): 23.5
Total Exports 1990 (US$ million): 19.2

Source: UNSO Comtrade Data Base
494. Car assembly increased from 6,000 units in 1985 to 14,000 in 1987. Of this, 900 units were exported to Argentina in the framework of automotive integration and CAUCE arrangements. Truck and tractor production remained at 300 units. In the light of these agreements Uruguayan components producers exported in 1987 to Argentina and Brazil material worth of US$20 and US$16 million respectively. Leather car interiors, paints, electrical parts and tyres were also imported by France (US$9 million) and the United States (US$4 million). Other components which seem to be internationally competitive comprise mechanical and electrical parts like pistons and small engines, and textile and leather specialties for luxurious models.

495. The average TGA protection to the sector was 22.7 per cent in 1991 (Table V.6), while the highest rate of 40 per cent applies exclusively to NADI item 87.05.02.00 (bodywork cabins for tractors and motor vehicles).

496. A major change has taken place in policy towards the motor vehicle industry in 1992. Under Decree No. 727/91 of 30 December 1991, the requirement for vehicles to be imported by accredited agents was abolished. However, other details of the present régime had not been received by the GATT Secretariat at the date of completion of this document. The following paragraphs describe the régime up to July 1992. The Uruguayan automotive industry was, until 1 July 1992, protected by a carefully designed régime. Article 436 of Law No. 13892 of October 1970, stipulated that it was in the national interest that automobiles used in Uruguay be assembled within the country. Importation of vehicles, either assembled or in kit, was Government controlled.

497. A Consultative Committee (Comisión Asesora) was established in 1983 with the objective of assisting the Executive and the Ministry of Industry and Energy, in formulating sectoral policy for the automobile industry. This Committee was composed of representatives of the Ministries of Industry and Energy, Economy and Finance, the BROU, the producers of automotive components and parts, and the assembly companies. The delegates from the private sector were appointed by the Chamber of Industries of Uruguay.

498. Regulations and requirements differed for fully assembled vehicles and for kits to be assembled in the country. They applied to four out of

32 Decree No. 373/83 (Article 1) of 7 October 1983.

33 Categories C, D1, D2, D3 as set up by the Uruguayan Government.
13 different vehicle categories, in particular to passenger vehicles of different engine size. Other categories were subject to more relaxed requirements.

499. A prior requirement for importing firms was to be on the Register of Motor Vehicle Industries (kept by the Commission for the Automotive Industry). To be included in the Register, a company had to satisfy financial and capacity requirements and to possess a licence from the factory of origin. A plan for the year ahead had to be submitted annually to the Commission notifying the number of kits to be imported as well as the expected level of domestic parts to be introduced. This plan had to be approved (by the Directorate of Industry), be strictly implemented and changed only by resolution of the Commission for the Automotive Industry. Production of at least 300 units of each model was obligatory. No new model could be introduced before 1,000 units of existing models had been assembled the previous year.

500. Under the previous policy, domestic prices of cars could not be modified without giving prior notice and explanations justifying the change to the Commission for the Automotive Industry as well as to the National Directorate for Costs, Prices and Revenue (Dirección Nacional de Costos, Precios e Ingresos, DINACOPRIN).

501. Imports of fully assembled (C.B.U.) vehicles bore a 30 per cent tariff (TGA), a 15 per cent special excise tax (IMESI) applied to the c.i.f. price plus tariff and a 22 per cent value-added tax (VAT). In addition to this, the importer had to meet compensatory export provisions. In order to import a new vehicle, the importer had to export, in general prior to the importation, automobile parts with a value added in Uruguay equivalent to 70 per cent of the f.o.b. value of the vehicle in question.

502. Imports of vehicles in C.K.D. form to be assembled in Uruguay, were subject to a 10 per cent tariff (TGA), 12 per cent special excise tax (IMESI) and a 22 per cent value-added tax (VAT). Kits from Argentina or Brazil are exempt from tariffs and represent almost 86 per cent of such imports. Kits for vehicles to be used as taxis were exempt from any import

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34 Categories contained in Decree No 128/70 of 13 March 1970.

35 These categories comprise: chassis, buses and trucks, cargo vehicles, motorcycles, tractors, and four-wheel drive vehicles.

36 Similar registers exist for manufacturers of automobile components and importers of motor vehicles.

37 Article 8 of Decree No 232/80 of 24 April 1980 and Article 2(e) of Decree No 128/70 of 13 March 1970.
tax and charge. Regulations indicated which car components might be imported.

503. Domestic content requirements with regard to imported kits made it compulsory that 30 per cent of the calculated value of the vehicle be produced in Uruguay. Compensatory exports of 60 per cent of the f.o.b. value of the kit were required. A trade-off with a ratio of 2 to 1 between these requirements could take place.

504. Surveillance of the implementation of domestic content requirements was ensured by domestic producers of parts and components, which informed the Government whenever there were firms that did not comply with agreed plans.

505. Compensatory export requirements (Exportaciones Compensatorias or Programas de Intercambio Compensado) were monitored by the Dirección de Industrias. This body informed the Banco de la República whether imports of kits or assembled vehicles were authorized so that BROU could issue import licenses.

506. As noted earlier, the automotive sector is likely to be one of the sectors most affected by MERCOSUR. With zero tariffs and no non-tariff restrictions, it seems that considerable rationalization will be required in the face of increased competition from the large Brazilian and Argentine auto industries.

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38 Decree No 224/79.

39 These for example consist of unpainted (except for anti-corrosive coverings) fenders, doors, hoods, roofs, windshields, bumpers, windshield wipers, door handles, locks, dashboard instruments, and front, side and rear panels.

40 The value of a vehicle assembled in Uruguay is calculated by multiplying its weight by an aforo, which is an officially determined price or assessment factor of US$3.1 per kilo. All car components are distributed into 32 groups. Each group is subject to an aforo. Domestic input in terms of components is thus assessed by multiplying their weight by their respective aforo and adding them up.

41 Article 44 of Decree No 128/70 of 13 March 1970 and Article 2 of 18 April 1985. Percentage shares according to automobile category are set by the latter.
Note V.1 Effects of the Automotive Régime

Until the reform in July 1992, compensatory export requirements and tariffs on imports of assembled cars raised their cost and consequently increased the price paid by consumers and user industries (i.e. most of the economy). This consumer loss was transferred to the domestic component and assembly industries in the form of a comfortable margin of profits. However, the domestic content and compensatory export requirements for kits, together with the tariff, also raised input costs for domestic production. Thus the system also represented an efficiency loss: vehicles were assembled at a price higher than the price of finished vehicles in the world market. The domestic components producers benefited most from the régime, as compensatory export requirements take the form of a subsidy for them. Despite this, the consumer loss represented an efficiency loss for the country which could have obtained such parts at lower prices.

According to a model developed by UNDP/World Bank (1990) to analyse the impact of the auto régime, tentative and illustrative estimates indicated that the loss by consumers and user industries (almost every sector of the economy) ranges from US$70 to US$80 million a year, increasing the domestic price of cars by 66 per cent. The consumers' loss transferred to the domestic assembly industry varies from US$32 to US$40 million while the efficiency losses are evaluated from US$17 million to US$35 million. The transfer to the components industry is about US$4.5 million and the efficiency loss varies from about US$0.2 million and US$0.4 million.

The operation of the régime had a number of adverse effects, apart from those on consumers and user industries. Lack of exact definition of what constitutes an automobile industry product allowed a number of products to qualify as such despite their wide use in different areas. Lack of quality requirements on imported kits allowed the assembly of vehicles without warranties or support from the automobile companies. With regard to compensatory exports, assembly companies were affected much more than importers of fully assembled vehicles whenever they do not include any domestically produced components. It seems that assembly companies which, in order to meet compensatory export requirements and obtain export credits, payed premiums to auto parts producers to put their exports to their names.

Other details of changes to the régime were not available to the GATT Secretariat at the time of finalizing this report.
(xv) **Ores and metals**

507. In 1990, basic metal products, including iron and steel, contributed 1.1 per cent to value added in manufacturing (Table V.3). In 1987, 5 per cent of domestic production was exported. Within the sector, steel production declined at an average annual compound growth rate of 15.4 per cent during the 1980s while unwrought metal products (non-flat-rolled) declined at an annual average rate of 2.4 per cent (Table V.9).

508. Minimum "export" prices, used to protect domestic production of wire rods, bars, angles and profiles of iron or steel at US$330 per tonne (c.i.f.), and reference prices applying to tubes and pipes and blanks of iron or steel have been abolished.

(xvi) **Precious stones and precious metals**

509. Small quantities of agate are produced and exported in finished form mainly to the EC, Brazil and the United States. Amethyst is produced and exported in raw, and cut and polished form to the United States the EC, Switzerland and others.

510. Uruguay mainly imports imitation jewellery.

511. Average nominal TGA calculations indicate that in late 1991, protection was higher for raw materials and finished manufactures than for semi-processed items.

(xvii) **Rubber**

512. In 1990, the rubber industry contributed 2.5 per cent to manufacturing value added (Table V.3). In 1987, 15 per cent of output was exported (Table V.4). Between 1980 and 1990 exports of rubber products grew by an annual average compound rate of growth of 7.3 per cent. Rubber tyres, tubes and materials were the main export items.

513. The domestic tyre market is dominated by Fábrica Uruguaya de Neumaticos S.A. or FUNSA, a domestic tyre producer, which operates behind very high minimum "export" prices. FUNSA, founded in 1935, is the largest private company in Uruguay with annual sales of US$58.6 million and exports worth some US$19 million. Domestic market provides a comfortable profit margin of 12 per cent while exports a limited 3 per cent.

514. Tariffs increase according to the stage of processing, affording high effective protection to the domestic industry. An average nominal TGA rate of 17.9 per cent for raw materials (late 1991) rose to 24.8 and
26.1 per cent for semi-processed and finished goods, respectively (Table V.8).

515. Imports of tyres are also subject to additional protection through the system of minimum "export" prices. According to UNDP/World Bank estimates, in 1989, this mechanism provided for nominal tariff protection of the order of 58 per cent for cars, 81 per cent for trucks and buses and 99 per cent for motorcycles, compared to the nominal tariff rate of 40 per cent.

516. Protection is also afforded through minimum "export" prices against imports of outer parts of tyres for transport vehicles in a range of US$3.2 to US$4.5 per kilogramme.

(xviii) Wood and cork

517. According to the World Bank (1989), Uruguay has a comparative advantage in wood production. Planting potential is high and afforestation with trees for different industrial uses could furnish domestic consumption and exports. A Forestries Law of 1968, as amended in 1974 provided incentives for planting. However, the incentives were abolished in 1979. Another Forestries Law, passed in 1987, had similar objectives, and provided for tariff and tax exemptions on imports of all relevant material ranging from seeds and fertilizers to certain motor vehicles, machinery, parts and components for the processing of domestically produced wood. Subsidies may be granted with regard to seeds. A new forestry law, under discussion in 1988-89, would have provided tax benefits (while the exploitation and development phases lasted), and import tariff exemptions for equipment but this has not been passed.

518. Pulpwood has been the main export item (66.3 per cent) of this sector whose total exports for 1990 did not exceed US$3.7 million. In previous decades, the sector's performance was insignificant. During the 1980s imports dropped at an annual average compound rate of 10 per cent. Shaped lumber (coniferous), the most important item, and veneer sheets, fibreboard, boxes and cases and builders woodwork have experienced serious declines.

519. In late 1991, the average nominal TGA rate was the highest for all sectors (26.6 per cent), while rates on semi-processed and finished goods attained the second top levels of tariff protection (28.5 per cent and

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28.3 per cent, respectively, Table V.8). This absence of tariff escalation should be indicative of effective protection comparable or lower than the nominal rates. However, nine items, including wood-based panels (agglomerates, hardboard, etc.), laminated wood products, etc., have been protected from imports through reference prices ranging from US$210 to US$578 per cubic metre and US$1.15 per square metre (builders board).

(xix) Pulp, paper and paperboard

520. In 1990, the paper and paper products industry contributed 2.6 per cent to manufacturing value added (Table V.3). In 1987, 11 per cent of the domestic production was exported (Table V.4). In the 1980s no particular changes have occurred to export growth. However, exports of several paper articles, including kraft paper and paperboard have considerably expanded.

521. Indirect tax reimbursements for exports of domestically produced offset paper (see Chapter IV), cardboards, wrapping paper, etc. have been of the order of US$9.17 per tonne, in 1991.

522. In late 1991, average nominal TGA for the sector was 23.5 per cent with a maximum tariff of 24 per cent.

523. Kraft paper, corrugated paper and boxes of corrugated paper were subject to reference prices of US$430, US$640 and US$800 per tonne (c.i.f.) respectively. These items were previously covered by minimum "export" prices set at above the world price level. According to the UNDP/World Bank (1990), estimates for 1989 indicate that this increased nominal protection from 40 per cent to 54 per cent. Minimum export prices protect domestically produced printing paper (offset, etc.) in rolls or cut.

(xx) Mineral products and fertilizers

524. Despite the existence of a wide range of natural resources, the mineral extraction sector is the least developed economic activity in Uruguay. As mentioned in Chapter IV, in the context of the industries of national interest, a policy centred on tax incentives with respect to imports of machinery and equipment and parts, has been implemented.

525. Imports stagnated in the 1980s, while exports declined slightly. Among the exports that may easily be distinguished are fertilizers, bricks and glass bottles (Chart V.16). The export decline mostly affected certain glass items and safety glass. The most dynamic export goods have been refractory building products, asbestos and non-ceramic mineral manufactures. Imports of most glass products (semi-manufactures) declined.
Chart V.16
Imports and Exports in 1980 and 1990: Mineral products and fertilisers
US$ million

Imports

<table>
<thead>
<tr>
<th>Category</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilisers NES</td>
<td>17.5%</td>
<td>26.7%</td>
</tr>
<tr>
<td>Refractory building products</td>
<td>9.5%</td>
<td>22.1%</td>
</tr>
<tr>
<td>Chemical nitrogenous fertiliser</td>
<td>10.5%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Natural phosphates NES</td>
<td>6.7%</td>
<td></td>
</tr>
<tr>
<td>Chemical phosphatic fertiliser</td>
<td>5.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>37.8%</td>
</tr>
</tbody>
</table>

Total Imports 1980 (US$ million): 61.8
Total Imports 1990 (US$ million): 61.7

Exports

<table>
<thead>
<tr>
<th>Category</th>
<th>1980</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brick, etc. nonrefractory</td>
<td>13.3%</td>
<td>29.2%</td>
</tr>
<tr>
<td>Bottles, etc. of glass</td>
<td>12.8%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Cement</td>
<td>6.2%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Chemical phosphatic fertiliser</td>
<td>7.9%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Fertilisers NES</td>
<td>7.1%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>31.0%</td>
</tr>
</tbody>
</table>

Total Exports 1980 (US$ million): 40.7
Total Exports 1990 (US$ million): 34.6

Source: UNSO Comtrade Data Base
526. In late 1991, the average nominal TGA rate for the sector was 22.9 per cent. Tariff escalation may be observed between raw and processing stages (Table V.8).

527. Since 1985, mining and quarrying has contributed 0.2 per cent of GDP. In 1990, the physical volume of the sector's share stood at 70.1 per cent of its 1983 level.

528. Granite production was US$3 million in 1989, while processed granite in different forms had an export value of US$3.4 million mainly to the EC (mainly Italy), Brazil, Argentina, Japan and others. (Dirección Nacional de Minería y Geología, 1989.)

529. Since 1960, the Uruguayan cement industry has progressively reduced its share in Latin American production (Table V.9). Negative annual growth rates of the order of 4.5 per cent were observed in the 1980s. Four firms, out of which one is ANCAP a State company, produce cement (see Chapter IV).

530. In 1990, the ceramics sector (porcelain china and earthenware) contributed 2 per cent to the total manufacturing value added. Glass and glass products, other mineral non-metallic products participated with 1.1 per cent and 3.8 per cent, respectively (Table V.3). In 1987, only 5 per cent and 7 per cent of domestic production was exported for the two sub-sectors (Table V.4).

531. The ceramics sector, dominated by one vertically organized company (Metzen & Sena S.A.), became export oriented at regional level in the early 1970s following the CAUCE Agreement with Argentina. The financial crisis of the 1980s and the establishment of regular intercontinental container liner services have contributed to the diversification of export outlets in other continents.

532. Reference prices of US$0.27 and US$0.36 per kilogramme (c.i.f.) applied to cast or rolled or drawn or blown glass were abolished in May 1992.

533. In the 1980s, fertilizer production declined at an average annual rate of 4.4 per cent (Table AV.2). Domestically produced fertilizers are not subject to VAT.
534. Specific legislation\(^43\) governs the importation, production, marketing and exportation of fertilizers and their raw materials for processing. The Ministry of Agriculture and Fisheries maintains a register containing all entities involved in these activities as well as fertilizers. Prior authorization is required by the same Ministry before fertilizers and raw materials may be imported. This Ministry is also entitled to set norms for the functioning of plants processing fertilizers and their raw materials. In order to facilitate supply and to encourage consumption of fertilizers the executive is authorized to take specific measures. Certain fertilizers (determined by the Ministry of Agriculture and Fisheries) and raw materials for processing can thus enjoy total or partial exemption from any import duty and charge including port taxes. There is legal provision for fertilizer subsidization: according to the authorities, this is not in use (Section IV.(4)(iii)).

535. Domestic stocks of raw materials for manufacturing of fertilizers and fertilizers are subject to specific rules.\(^44\) The aim seems to be availability of adequate quantities for domestic users. It also seems that these rules are intended at avoiding the concentration of large stocks of a specific industry in the hands of one purchaser. No more than 70 per cent of available stock at the factory can be purchased. There is an obligation to replace stocks with imports made under the temporary admission régime.

536. Importation, processing composition, storage, packaging and distribution of salt for human consumption, including raw salt, are subject to specific norms and tariff and tax exemptions (see also Chapter IV sections on tariff concessions, standards, production subsidies). Machinery and equipment necessary for processing of such salt is also covered under this treatment.

\(^{43}\) Law No 13.663 of 14 June 1968.

\(^{44}\) Decree No 56/83 of 23 February 1983.

\(^{45}\) Decrees No 375/90 of 17 August 1990 and No 247/91 of 9 May 1991, BROU Circulars 95/20 and 96/7.
VI. TRADE DISPUTES AND CONSULTATIONS

(1) GATT Dispute Settlement

(i) Articles XXII and XXIII

537. Uruguay has never been subject to a complaint under any GATT Dispute Settlement procedure. It has once made a complaint under Article XXIII and has three times associated itself with a complaint by other contracting parties.

538. The only occasion when Uruguay was a complainant under Article XXIII was in February 1962 when a panel was appointed to examine Uruguay's complaint on twelve different types of import restrictive measures applied to over thirty different products (temperate primary products) or groups of products by fifteen contracting parties.

539. Despite the unusually large number of countries and wide range of measures, the panel made recommendations, on 16 November 1962, based on nullification and impairment, addressed to seven countries. Measures not in conformity with GATT provisions, to be immediately removed, covered four out of the twelve originally claimed by Uruguay. The panel report requested the countries concerned to report on the compliance with its recommendations by 1 March 1963. Reports on compliance were submitted in March and April 1963. Uruguay questioned the degree of compliance with the recommendations, asked for the panel to be reconvened (21 to 25 September 1965) and proceeded to further consultations aimed at obtaining clarifications on the action that had been taken. The panel report was finally adopted on 3 March 1965.

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1BISD 115/95. The panel dealt with a complaint regarding tariff preferences, import charges, sales tax, production or turnover tax, wholesale tax, variable surtax or levy, compensation tax, minimum and maximum pricing systems, quotas, State trading, discriminatory import permit requirements, mixing regulations and health regulations on bovine and ovine meat and meat extracts and offals, meat conserves, wheat and wheat flour, barley, rice, linseed oil, edible oils, oil-cake and meal of vegetable oils, tanned hides, various types of leather, washed wool and waste, yarns of combed wool and wool textiles from Austria, Belgium, Canada, Czech and Slovak Republic, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland and the United States.

2BISD 115/56.

3Austria (discriminatory import permit requirements and mixing regulations), Belgium (import permit requirements and quotas thereof), France (import permit requirements involving discrimination and quotas), Germany (discriminatory quota, import permit requirement, quotas), Italy (quotas, discriminatory quota), Norway (import permit requirements involving maximum and minimum price system operations), Sweden (discriminatory import permit).

4BISD 135/35 and 45.
540. In 1986, Uruguay made a submission to the panel on import restrictions maintained by Japan with respect to certain agricultural products, underlining the major importance of prepared or preserved beef in its total exports. Between 1979 and 1986, such exports had fallen by more than twenty times in volume terms. The panel found that the import restrictions implemented by Japan were not justified under Article XI:2(c)(i). On the basis of this conclusion Japan was asked to eliminate or otherwise bring into conformity with the GATT provisions its quantitative restrictions.

541. In late 1988, in the recourse of Chile to the Dispute Settlement mechanism against the EC restrictions on imports of dessert apples, Uruguay was among the countries to reserve their rights to make submissions to the panel. Uruguay again reserved its rights in respect of the complaint by Australia against restrictions on imports of beef applied by the Republic of Korea.

(ii) Other concerns raised by Uruguay in GATT

542. Notifications by and against Uruguay in the area of non-tariff measures are listed in Tables VI.1 and VI.2.

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5BISD 35S/163: recourse by the United States to Article XXIII:2; panel established on 27 October 1986; report adopted on 22 March 1988.


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