URUGUAY - IMPORT SURCHARGES

The following information has been submitted by the delegation of Uruguay in connexion with its request for an extension of the waiver on import surcharges.

I. Balance-of-payments situation and prospects

With the sole exception of 1973, when Uruguay enjoyed exceptional conditions in its external trade, in recent years the country's balance of payments has shown chronic disequilibrium that has seriously limited economic growth. Events in the world economy in 1974 and 1975 intensified that disequilibrium and as a result the deficit on current account increased to US$132 million in 1974 and US$203 million in 1975. Although Uruguay received significant amounts in respect of international financial co-operation, its balance of payments has shown deficits representing a loss of international reserves of the order of US$150 million in the past two years.

In examining performance of the external sector in 1975 and future prospects, account must be taken not only of the international economic context in which Uruguay's economy has been developing but in addition the changes introduced by the Uruguayan authorities in the mode of functioning of the national economy.

The growth strategy adopted by the national authorities is based on a gradual opening of the economy toward the rest of the world. State intervention in the various economic sectors being replaced by use of the price system as a basic mechanism for achieving adequate allocation of resources in the economy. As regards the external sector, an exchange and foreign trade policy has been adopted which is designed to promote and diversify exports and reduce the level of protection afforded to domestic industry. Thereby optimum use will be made of Uruguay's comparative advantages, and at the same time the competitive capacity of the industrial sector will be improved.
This re-organization of domestic economic activity and the policies that have been devised to strengthen the external sector, modernize the industrial sector and increase public investment imply substantial utilization of external resources.

Nevertheless, since changes in the international meat market situation — in particular the restrictions imposed by the EEC — and the increase in world petroleum prices came about just when the Uruguayan economy was adjusting to the new mode of functioning, a conjunctural situation developed in which, once more, the external sector became the principal bottleneck inhibiting more rapid growth of the economy.

It follows that the balance-of-payments problems that Uruguay had to face in 1974-1975 are not only attributable to the two factors already mentioned but are also linked, though to a less extent, to the new exchange and foreign trade policy adopted by the Uruguayan authorities with a view to opening the economy toward the rest of the world. Although this policy is contributing to create adequate conditions for rapid growth not only of traditional exports but also of a series of processed agricultural products in respect of which Uruguay enjoys comparative advantages, as a result of gradual liberalization of imports the value of the latter should have risen above the level directly attributable to world inflation and the increase in world petroleum prices.

Faced with the impossibility of maintaining a substantial increase in the import levels recorded in 1973-1974, the national authorities decided to slow down import liberalization by adjusting it to the situation imposed by the delicate balance-of-payments situation.

In addition to problems deriving from world inflation in 1974, Uruguay's economy has encountered two adverse factors that have significantly affected the balance of payments - an increase in the international price of petroleum and at the same time the establishment of import restrictions on meat in the EEC market.

As regards the former, it should be noted that Uruguay imports its entire consumption requirements of petroleum, and domestic energy production largely depends on this fuel. Although consumption remained virtually stable in the period 1973-1975, the value of imports of petroleum and petroleum products increased from some US$55 million in 1973 to US$161 million in 1974.

To this situation must be added a phenomenon that, though to a less extent than the factors already mentioned, has also contributed to reduce foreign exchange receipts - namely a substantial decline in earnings from tourism, as a fundamental consequence of changes in the exchange situation in Argentina, which accounts for 90 per cent of Uruguay's foreign tourists.
US$165 million in 1975. This means that the higher price of petroleum represented additional import expenditure of US$216 million in the period 1974-1975.

With respect to the second adverse factor mentioned, in 1971-1973 sales to the EEC countries represented 36.3 per cent of Uruguay's exports of this product which in turn accounted for 40.5 per cent of the total value of Uruguay's exports in that period.

The closing of the EEC market has caused export earnings from meat to fall by approximately US$100 million in the past two years, on the basis of the average price recorded in 1974. The impact on Uruguay's balance of payments of these restrictions imposed in the EEC market is not apparent in the statistics recording the volume of meat exports since a considerable effort has been made to diversify markets. Nevertheless, livestock reserves and supplies would have been sufficient to not only meet the demand volumes effectively recorded but also to permit sales in traditional markets that were no longer feasible.

The sudden collapse of prices of basic export products - meat and wool, by 46 per cent and 33 per cent respectively - caused additional damage to the balance of payments in 1975. For purposes of comparison, one can state that at 1974 prices, the volume of beef and wool exports in 1975 would have yielded approximately US$100 million more.

Given these unfavourable circumstances, the objective of Uruguay's economic policy has been to continue to afford an adequate incentive to non-traditional exports and to increase agricultural output, with a view to expansion of these exports. At the same time, foreign investment and inflow of financial capital have been encouraged. In both these respects there has been a positive response. Exports of agricultural and industrial products, which had accounted for slightly more than 20 per cent of total exports in 1971-1973 and 37 per cent in 1974, represented 50 per cent of the total in 1975. In terms of current dollars they increased by approximately 40 per cent, from US$140 million in 1974 to US$190 million in 1975.

On the other hand, net inflow of non-compensatory capital amounted to nearly US$58 million in 1974 and approximately US$132 million in 1975, and in this latter year was equivalent to about 65 per cent of the deficit on current account.

Indeed, in the past two years there has been an appreciable increase in the flow of financial and private capital into Uruguay. Loans granted by official financing agencies increased from an annual average of US$14.3 million in the period 1971-1973 to US$22.2 million in 1974, reaching the unprecedented level of US$194.3 million in 1975. (This last figure includes an IDB loan of US$95 million for construction of the Salto Grande hydro-electric dam.) In addition, in 1975
Uruguay obtained a loan of US$110 million from an international banking consortium, a credit line of US$50 million from the Brazilian Government, and succeeded in placing more than US$100 million in treasury bonds.

It should be noted that in parallel, as a result of import liberalization measures – elimination of compulsory financing of imports – foreign supplier credits to the private sector diminished by more than 50 per cent.

At the same time, the Government decided to cancel commercial debts contracted up to 1972, which had been consolidated by Circular No. 409 of the Central Bank of Uruguay dated 7 November 1972. Under Circular No. 683 of 15 October 1975, advance repayment was authorized in respect of redeemable obligations maturing not later than 31 December 1976.

The appreciable inflow of long-term capital considerably lessened the effect of the disequilibrium on current account on international reserves, which declined by some US$150 million on a net basis. The compensatory financing facilities available to the monetary authorities were sufficient not only to cover maturing credits from earlier years but also to furnish resources that contributed to maintain an appropriate liquidity element in reserves.

Uruguay seems to be on the way to overcoming the balance-of-payments difficulties caused by the circumstances already mentioned, without having abandoned any fundamental aspects of its economic policy. This policy has adjusted to the difficult situations that developed in the external sector in 1974-1975, and the results achieved in terms of product growth and of containing inflation are certainly encouraging if one considers that, at the same time, major changes have been made in the mode of functioning of the economic system and progress has been made in opening the economy toward the rest of the world.

Although the policy applied seems adequate for a critical situation such as that encountered - and even for the longer term - any extension of that policy beyond 1976 does not seem desirable because of its implications for the level of national indebtedness or for the degree of utilization of international reserves, unless there is an improvement in the world economic situation and a resumption of activity in meat markets. As Uruguay's Minister for the Economy, Mr. Vegh Villegas, has stated publicly, "the limiting factor for continuing this policy is the deficit on current account. It would be difficult and inappropriate to finance this deficit at the present rate beyond 1976 because of the high level of international indebtedness that would be required. Consequently, failing an improvement in the world market situation in the coming year, a re-evaluation and more restrictive policies will be necessary".
It is hoped, of course, that the favourable indications now apparent in the international economy will be maintained and that their influence on international trade will create the essential conditions so that Uruguay may continue to act, as it wishes to do, consistently with both the spirit and the letter of the General Agreement.

II. Legal and administrative basis of the import restrictions. System and techniques of restrictions

The legal basis of the import restrictions in force in Uruguay is Act No. 12,670 of 17 December 1959. This Act has been examined on the occasion of earlier consultations.

Although this Act reflects a system based on freedom of imports, which principle is set forth in Article 2, it nevertheless allows imports to be regulated through the following instruments:

(a) Prior deposits: At present, and since 1968, the prior deposit applies only to products covered by Article 1 of the Decree of 29 December 1964, i.e. bicycles, tricycles, motor-cars, lorries, vans, motorcycles, autocycles, omnibuses, trailers, semi-trailers, tractors, agricultural and road-making machinery, when entering the country assembled, non-assembled, in kits or chassis when imported with pneumatic tyres and/or inner tubes and/or flaps of foreign origin;

(b) Surcharges: These surcharges are applied on imports of merchandise, articles, products and goods that are non-essential, of a luxury character or in competition with domestic industry. The Executive may establish the surcharges at a rate not exceeding 300 per cent of the c.i.f. price of the goods concerned.

For the purposes of application of this levy, lists of goods have been drawn up (based on the NADI) showing the relevant surcharges which at present vary between 10 and 200 per cent.

It should be noted that under an Executive Decree dated 10 October 1974, the import surcharges were reduced in general: those at 60 per cent were reduced to 55 per cent; those at 90 per cent, to 75 per cent; those at 150 per cent, to 120 per cent; those at 225 per cent, to 150 per cent and those at 300 per cent, to 200 per cent. The same Decree amended Article 3 of the Decree of 17 February 1960 in respect of the definition of goods of foreign origin that are in competition with domestic industry.
Additional 7 per cent surcharge: The decree of 2 December 1975 established this surcharge on the c.i.f. price in respect of all imports except the following:

- (a) Imports exempted from surcharge by a specific legal provision;
- (b) Imports of goods classified as capital goods in terms of Decree No. 410/975 of 22 May 1975;
- (c) Imports of agricultural inputs included in a special list;
- (d) Imports of kits for the assembly in the country of tractors for agricultural use and Category "A" vehicles as referred to in Decree No. 123/970 of 13 March 1970 (lorries);
- (e) Imports of partially assembled diesel engines, kits and parts of kits for such engines, intended for assembly plants for diesel engines of between 40 h.p. and 180 h.p. as referred to by Decree No. 406/975 of 20 May 1975;
- (f) Imports effected under the régime of temporary admission, replacement declarations and without any exchange operation.

Likewise, exemption from the 7 per cent additional surcharge is granted in respect of imports of replacements and expendable parts of equipment when effected by undertakings engaged in the manufacture of export goods, in an amount not to exceed the equivalent of 3 per cent of their exports in the immediately preceding six months (Act. No. 14214).

(c) Import prohibition: Act No. 12670 empowers the Executive to prohibit as a general or specific measure, for a period not exceeding six months, and entirely or in part imports of goods of any kind that are non-essential, of a luxury character or in competition with domestic industry.

The Uruguayan Government has not availed itself of this authority.

(d) Consignations: The system of consignations was established by the Decree of 18 October 1965 empowering the monetary authorities to apply them.

The Central Bank may require consignations in national currency in respect of imports, having exclusive jurisdiction in all matters relating to the system of consignations in pursuance of Decree No. 275/975 of 9 April 1975.
At the present time the system of consignations is not applied except in respect of goods subject to price control by the Directorate-General for Foreign Trade. When in the view of the latter body the f.o.b. prices of such goods do not correspond to the normal levels prevailing in the most representative international markets, a consignation of up to 150 per cent is applicable. In other cases it is not applied. To date such consignations have been applied in only very few instances.

Systems applied to imports according to their origin

No discrimination is made in Uruguay according to the origin of imported goods. Nevertheless, as a member of LAFTA, Uruguay has to observe the commitments entered into under the Montevideo Treaty with the countries in the region, and in pursuance of those commitments applies a special régime of surcharges in respect of goods that have been the subject of negotiations in that form. Uruguay does not maintain any bilateral agreements.

Measures taken since the last consultation in relaxing or otherwise modifying import restrictions

Owing to the increase in the price of petroleum, Uruguay, at the time of the last consultation, was faced with a serious deterioration in its external sector, reversing the promising situation observed in 1973. Simultaneously, the difficulties encountered on international markets in placing Uruguay's traditional export products constituted an additional unfavourable element in the general picture of the external sector. To briefly illustrate the adverse impact of these two phenomena, it is enough to mention that the increased cost of petroleum meant somewhat more than US$100 million additional expenditure in 1974 at the same time as the drop in the unit values of Uruguay's basic exports - meat and wool - reduced earnings by a similar figure. It should be noted that average total annual exports during the three years prior to 1974 were less than US$250 million.

In the circumstances, the Uruguayan authorities had two basic options as regards an economic policy for dealing with the situation. The first was based on the assumption that the new physiognomy of international trade was of a permanent nature, or at least, would continue for a long time, consequently requiring an equally permanent correction at national level. The second option took as its premise that this physiognomy however discouraging for the country, would be not permanent but transitory and that - at least in its extreme phase - would not last more than a couple of years.
Faced with this difficult dilemma, the Government of Uruguay opted for the second premise, which implied the adoption of a policy aimed at opening up the economy as a prerequisite for sustained growth. This economic policy was designed to achieve increased efficiency of domestic production by promoting liberalization of the economy, relying on the functioning of the market for the allocation of resources, creating a propitious climate for private enterprise, encouraging national savings and attracting foreign investment.

In line with the above, the following measures were adopted:

In the external sector

(i) Liberalization of the financial exchange market, which is applicable to all non-commercial transactions, along with the expressed intention of reducing the gap between the commercial and financial exchange rates and eventually arriving at their unification. With regard to the commercial exchange rate, the monetary authorities continued the policy of adjustment at irregular intervals (mini-devaluations) described at the last consultation.

(ii) Provisions for bringing down the cost of imports: a Decree of 7 February 1975 provided for a substantial reduction in consular fees (from 12 to 6 per cent). Subsequently, a Decree of 9 April 1975 again reduced those fees to 4 per cent.

The requirement of minimum financing for imports over a period of 180 days, in force since 1971, was eliminated as from 1 July 1975.

The same date saw the abolition of the system of margins exempt from consignment, which had operated as a virtual quota system for imports by the private sector.

At the same time, the consignations applicable to imports which exceeded the margins established by the mechanism referred to in the preceding paragraph were abolished. Depending on the products concerned, the rates had varied from about 315 to 1,200 per cent.

That system was replaced by a single consignation - for five months - of 35 per cent of the c.i.f. value of the goods imported, which remained in force up to the month of December 1975, when it was abolished.

Imports of capital goods. Prior to the measures indicated above, imports of capital goods had been liberalized. In February 1975, the amount authorized for imports of capital goods for an undertaking's own use was increased to US$20,000 per undertaking annually, and it was made obligatory to obtain minimum
financing for three years for amounts between US$20,000 and US$100,000, and for five years for larger amounts. In May 1975, an Executive Decree revoked the requirement of own use for such imports. Lastly, a Resolution of 9 August eliminated the minimum consignment of 35 per cent for the extensive range of goods in this category - and this provision was incorporated in the decree which established the additional surcharge of 7 per cent. At the present time, imports of capital goods are entirely free, and importers may freely contract the form of payment to their suppliers. It should be noted that capital goods imports amounted in 1975 to approximately US$100 million, i.e. about 20 per cent of the country's total imports. This trend has become stronger in the early months of 1976. Total imports of capital goods up to 20 March 1976 were of the order of US$30 million, which not only constitutes a considerable increase over the 18 million for the corresponding period of 1975, but is equal to almost one third of Uruguay's total imports up to that date.

As may be seen, the Uruguayan authorities have dismantled the complex controls established in the past to ensure that foreign exchange was available for the most essential imports. This has been done because the authorities firmly believe that the methods formerly used to control imports brought about a misallocation of foreign exchange. At present, the use of realistic exchange rates and the application of monetary and credit policies are the essential elements used for accommodating the variables of foreign trade, with more determined reliance on market prices to allocate foreign exchange among the various import needs.

Apart from the above measures, mention must be made of others that supplement them in sectors that likewise have repercussions on the external sector, such as:

In the fiscal sector

Rationalization of taxes. With a view to optimizing the efficiency of tax collection and creating a propitious climate for productive investment, a number of taxes have been abolished, including, in particular, the tax on income of physical persons, the tax on the dividends of company shares, the tax on interest from private bonds and the inheritance tax.

In addition to the abolition of taxes whose collection was uneconomic, all public and private financial assets have been placed practically on an equal footing vis-à-vis the public exchequer.

Public subsidies and tariffs

With a view to improving the structure of charges for public services, measures have been taken to eliminate subsidies and to fix charges consistent with efficient management of the State enterprises supplying such services.
Investment promotion

During the period under review implementing regulations were adopted for the law on foreign investment and the law on the promotion of industry; at the same time, measures were taken to activate the respective advisory bodies responsible for studying foreign capital investment projects and projects for the establishment of industries eligible for the tax and credit facilities provided by the law in question.

Since December 1974, the advisory body for industrial promotion has approved some twenty investment projects, most of which are concerned with the production of non-traditional export goods.

Management of the fiscal deficit

An important factor in the management of global fiscal and monetary policies lay in the inflexibility that existed as regards any reduction of public expenditure, which in 1975 represented a percentage of gross domestic product similar to that observed in 1972 and 1973 (16 per cent). At the same time, the reduction of public revenue in real terms may be seen in its declining share of the GDP: from 14.6 per cent in 1973, it fell to 13.1 per cent in 1974 and 11.3 per cent in 1975. This decline, which is responsible for the fiscal deficit, must be attributed basically to the reduction of tax revenue from the external sector as a result of reduced taxation pressure on that sector and of conditions in the international meat and wool markets.

It has been the policy of the authorities responsible for running the economy to finance this deficit without impairing the objectives of anti-inflationary policy, by resorting only where absolutely unavoidable to credit assistance from the Central Bank. Thus, more than two thirds of the 1975 fiscal deficit was financed by the procurement of real resources through the sale of national treasury securities on the capital market, and this was made possible by the climate of confidence achieved around the country's economic policy.

In the monetary and credit sector

Monetary and credit measures were part of the general scheme of stabilization and gradual liberalization of the economy that was established and is being implemented under the country's economic policy.

As part of credit policy, measures were taken to eliminate restrictions on the amount and orientation of bank credit and to lift the credit prohibition in respect of certain sectors. These measures, which are based on the premise that credit selectivity is ineffective in the short term, again ensure that the allocation of resources responds to market mechanisms. Fundamental to that objective was the adjustment of interest rates - which for the first time in the
last fifteen years have in some cases approached and in others attained constructive realistic levels - resulting in the channelling of credit to those sectors whose profitability could absorb this increased financial cost. What is more, the higher cost of money together with the reduction of inflationary expectations has discouraged speculative investment.

At the same time, private enterprises were empowered to issue adjustable bonds - a measure which, along with the tax measures already mentioned, pursues the objective of equality in the tax treatment of public and private assets. Recently, further provisions have been adopted to enable the market mechanism to operate more extensively in the field of money and capital, inter alia as regards the creation and functioning of a bankers' acceptances market.

In the monetary field, measures to regulate the money supply made it possible to attune the evolution of this most important variable to the real needs of the economy within the limits imposed by the objective of slowing down inflation. A significant contraction of liquidity in real terms may be noted up to the end of the third quarter of 1975, after which monetary policy was neutral or inclined to expansion. As regards monetary discipline, the most critical stage from the aspect of its effect on aggregate demand was reached during the third quarter of 1975. In recent conversations between economic authorities and the IMF it was fully agreed that the positive achievements resulting from implementation of the stabilization programme will have to be consolidated, inter alia, through gradual and cautious expansion of the real money supply.

This approach brings out the Government's intentions to proceed gradually in its efforts to slow down the rapid inflation that has been characteristic of recent years. The need to opt for a gradual process arose from the existence of two important factors: first, a substantial fiscal deficit which it did not seem possible to eliminate completely in the short term, and secondly, and above all, the need to adjust and bring up to date an extensive complex of prices so as to restructure the system with more realistic levels that would serve to encourage production and guide the allocation of inputs consistently with market requirements.

Thus, three periods can be discerned in the implementation of the policy described. Up to the first quarter of 1975 the process followed in 1974 was continued; it was a process aimed at improving the structure of relative prices and at contributing to a reversal of expectations in order to encourage foreign capital inflow by such measures as liberalization of the financial exchange market, elimination of the tax on income of physical persons and the tax on company dividends. On the other hand, discouraging results as regards the inflation rate in 1974 (a 77 per cent increase in the yearly average, 107 per cent from January to December) and in the early months of 1975 (16 per cent during the first quarter)
underlined the probability that if a restrictive monetary policy was maintained without any change in prospects concerning the future rate of increase of prices, there would be a risk that containment of inflation might generate a serious rise in unemployment or that alternatively monetary discipline would have to be relaxed in order to maintain the level of employment, at the cost of a resumption of the inflationary process.

For those reasons, it was decided on 9 April 1975 to introduce what was termed a "pause" in progressive treatment under the stabilization programme by not making any adjustments of prices and wages during a period of time, whose duration was not fixed in advance, and reintroducing thereafter the progressive treatment but at a more moderate rate of adjustments. The restrictive character of Uruguay's monetary policy can be seen very easily during this second period. If one follows the evolution of means of payment or money supply in the strict sense (M1) and the growth of this variable is compared with the rise in price levels, it will be seen that during the first quarter of 1975 the two rose at a similar rate (15 and 16 per cent respectively), so that real liquidity in the economy remained practically constant. On the other hand, at the end of the first six months - after the first half of the "pause" - money was found to have expanded by some 16 per cent and prices by about 26 per cent, showing that there had been a contraction of liquidity in real terms during the second quarter. At the end of the third quarter the money supply had risen by some 19 per cent and prices by about 40 per cent, which means that contraction of the real money supply was accentuated in the third quarter.

At the end of September, with the resumption of mini-devaluations by the monetary authorities, the "pause" ended and there was a return to the earlier progressive approach. In the light of subsequent events, in particular the rate of inflation in the first months of 1976 (somewhat less than 5 per cent at the end of April), the policy modulation - and in particular the "pause" of the second and third quarters of 1975 - is regarded as having been a success in that it enabled the pernicious inflationary process to be mitigated substantially without introducing the traumatic and rigid elements that always accompany shock treatment administered in the form of a price and wage freeze. It was thus possible to overcome the painful dilemma previously referred to - of increasing either inflation or unemployment - faced by the authorities responsible for managing the economy in the early months of 1975.

In the energy sector

The Montevideo-Rio Negro interconnected system generates nearly 95 per cent of the electric power consumed by the country and has an installed capacity of 494 MW, the remaining 5 per cent being generated by thermal power stations.
situated in various places of the interior. 48.5 per cent of the generating capacity of the interconnected system is supplied by the Batlle thermal power station (240 MW), while the hydroelectric stations of Bonete (121.6 MW) and Baygorria (102.3 MW) provide about 45 per cent. The remaining 6 per cent of installed capacity is accounted for by Calcagno (30 MW), which is a gas turbine station.

From this it can be seen that the pronounced impact of the rise in the international petroleum price on Uruguay's balance of payments was due not only to the country's total dependence on foreign sources for meeting its fuel needs, but basically to the way in which the electric power generating system is structured.

The intensive use made of installed capacity of the thermal station and the consequent consumption of fuel oil depend on hydraulic factors, which determine the extent to which the hydroelectric stations of the system can be utilized. As the water flow in the Rio Negro basin of Uruguay is irregular, the generating of hydraulic power has been subject to wide fluctuations and the deficit has had to be covered by generating of thermal power.

The energy policy adopted by the authorities is aimed at two basic objectives: to reduce the interconnected system's great dependence on an irregular water flow and, secondly, to save foreign exchange by reducing the country's total dependence on foreign sources for its fuel supply.

The first of those objectives would be attained by building new hydroelectric stations in order to augment the system's capacity. One of these projects - the Salto Grande dam on the Uruguay River - is already under way and is expected to come into operation at the beginning of the next decade. There are also other projects for the construction of the Palmar dam (300 MW) on the Rio Negro and the Pasos Centurión (40 MW) and Talavera dams, both on the Yaguaron River.

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1. This amounted to close to 68 per cent of the total energy generated by the interconnected system in 1971, declining to only 45.8 per cent in 1972 and to an estimated 35 per cent in 1975.

2. The Salto Grande project, which is being carried out jointly with Argentina, will have a capacity of 1,620 MW and its cost, as initially estimated, will be approximately US$900 million.
In parallel with the expansion of hydroelectric generating capacity, which will undoubtedly make for a saving in fuel consumption, the country has been trying to reduce its dependence on foreign sources for its petroleum supplies. One of the steps taken to attain this second objective of energy policy has been to authorize closer co-operation between ANCAP and Yacimientos Petrolíferos Fiscales de Argentina (YPF). The two institutions have signed an agreement under which YPF will furnish technical assistance to ANCAP and be responsible for seismic prospection projects to determine whether there are conditions for the possible presence of oil-bearing deposits in the Santa Lucía sedimentary basin.

A basic aspect of the energy policy has been thorough investigation of the possibility of finding oil in the country's continental shelf. To that end, in August 1975 Uruguay awarded Chevron Overseas Inc. a contract to explore and exploit any petroleum deposits found in the country's submarine shelf. The contract, which is for thirty years, provides that drilling of the first well, which will be situated off Punta del Este, should be completed by the end of 1976.

Expansion of the hydroelectric potential, together with possible attainment of some degree of self-sufficiency in fuel supply, will make it possible to reduce the amount of external resources that the country has to earmark for petroleum imports.

It has been estimated that if Uruguay succeeded in substituting hydraulic power for all the electric energy generated by thermal stations, the economy in fuel oil consumption would be of the order of 300,000 m³ per year. This reduced consumption would in turn make it possible to cut back the cost of petroleum imports to a figure in the neighbourhood of US$25-30 million.

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1The agreement was signed on 11 April 1975 and stipulates that the joint prospection work, which began during the second half of 1975, will last for approximately six months.

2Other aspects of the country's energy policy include inter-connexion with the electricity systems of Brazil and Argentina with a view to meeting with the increased consumption requirements of electric power forecast for 1978-80. In addition, there are projects for increasing fuel storage capacity, expanding and modernizing the installations of the La Teja refinery, and installing a platform for unloading petroleum at sea.
However, this saving of foreign exchange would correspond only to smaller requirements of fuel oil resulting from reduced use of thermal power stations. Although such a saving would of itself help to alleviate the country's balance-of-payments situation, the total amount could be even greater inasmuch as the amount of any reduction in fuel oil consumption is governed not only by the requirements of thermal power stations but also by the fuel oil consumed by the industrial sector.

Since one of the characteristics of Uruguay's industrial sector is a system of motive power production designed to operate on liquid fuel, its annual requirements of fuel oil are somewhere near 400,000 m³. Consequently, the adoption of policies that promote modernization of this sector and the conversion of installations to adapt them to electric power could make for a substantial additional saving of foreign exchange of the order of US$35 million. For this purpose, a Group for the Study of Rationalization of the Use of Industrial Energy has been created in the Ministry of Industry and Power. These two potential sources of economy in the use of fuel - reduced use of thermal power stations and modernization of the industrial sector - could bring about a reduction of close to 50 per cent in the value of petroleum imports.

Effects of the import restrictions on trade

The policy described has involved a substantial increase in imports, appropriately regulated, given the circumstances, by the application of surcharges.

As may be seen from Table V, Uruguayan imports, in millions of dollars, rose from 212 in 1972 to 285 in 1973 and 487 in 1974, reaching the unprecedented figure of 541 in 1975.

Even after deducting the increases due to the price of fuel, it may be noted that there was a considerable expansion of other imports, which more than doubled between 1972 and 1975 (see Table VI).

What is more, the incidence of the surcharges has been losing in importance in relation to the global amount of imports, as may be seen from Table VIII. It is worth pointing out that, in 1974 and 1975, that incidence was less than half of the average for the preceding years 1970-73. It should also be remembered, as was pointed out at earlier consultations, that two thirds of all imports are exempt from surcharge and, overall, the surcharge on more than 90 per cent of imports is 10 per cent or less.

At the same time, surcharges have represented a declining proportion of the total tax revenue collected by the State, although an increase may be seen in the preliminary figures for 1975, which, however, are below the earlier levels (see Table IX).
ANNEX I*

Statistics

Table I  Balance of Payments 1969-1974
Table III Total Foreign Currency Debt of the Public Sector 1972-1975
Table IV External Commitments of the Public Sector (excluding the Central Bank) as at 31 December 1975
Table V Total Imports and Exports 1961-1976
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Table IX Share of Surcharges in Total Tax Revenue 1967-1975
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Table XV Evolution of Exchange Rates 1973-1975

*Spanish only; these tables may be consulted at the secretariat offices.
Decree No. 794/974, of 10 October 1974, reducing surcharges on certain goods and redefining goods in competition with national industry.

Decree No. 923/975, of 2 December 1975, establishing a 7 per cent import surcharge on all types of goods, including goods imported by the public sector, and determining exceptions.

Annex:
- List of merchandise exempt from the additional surcharge of 7 per cent.
- List of capital goods exempt from the additional surcharge of 7 per cent.

Decree No. 94/976, of 17 February 1976, waiving the 7 per cent surcharge on all imports by municipal supply authorities.

Decree No. 102/976, of 19 February 1976, incorporating in the list of duty exceptions (7 per cent surcharge) imports of certain agricultural inputs.

Decree No. 128/976, of 19 February 1976, exempting from the 7 per cent surcharge imports of goods to be used in investment projects.

Decree No. 116/976, of 23 February 1976, expanding provisions exempting from the 7 per cent surcharge goods imported under the Resolution of 11 September 1975.

Import Tariff Nomenclature - 1 volume.

*Spanish only; these texts may be consulted at the secretariat offices.