STATEMENT BY AMBASSADOR DR. HECTOR GROS ESPIELL, DURING THE URUGUAY 
CONSULTATION ON 25 APRIL 1968


This is being done again, with the object of examining how its economic policy, especially the present system of imports, can be adjusted to the standards of the General Agreement, and also to comply with the Resolution adopted by the CONTRACTING PARTIES on 17 November 1967 (L/2940; W.24/16; SR.24/11, page 168).

2. This consultation will come under the Plan of discussion, which is still in force, adopted by the CONTRACTING PARTIES in 1958 (Seventh Supplement, pages 97 et seq.).

In reality, this consultation, in view of the present position of Uruguayan economy and the system in force, is not held to justify restrictions - because in practice there are hardly any - under the terms of Article XII, but to bring out the difficulties which exist and to show the firm will of the Government to overcome them, by means of a national effort which is the primary and necessary element, and international co-operation and understanding, already made manifest, for example, by the International Monetary Fund, the Intra-American Development Bank and the Agency for International Development, a spirit which, we do not doubt, will also be present here.

3. Before going into a special analysis of the topics included in the Plan referred to above, the delegations of Uruguay - which sent the GATT secretariat the texts of the governmental decisions now in force enough in advance for adequate information to be possible - would like to point out that its Government envisaged, mainly as from November 1967, a realistic and effective economic plan for an adequate national development together with the adoption of measures to cope with and restrict the process of inflation, thus achieving a reasonable stability.

These measures, taken in particularly difficult circumstances, at times when it looked as though there would be a very acute economic crisis, included in a wider series of catastrophes, when repeated, unusual natural calamities (drought, floods, etc.) were accompanied by the negative action of external factors which prevented the appropriate placing of exportable balances, have, in the short period of time during which they have been applied, given encouraging results.
The complete currency stability achieved in these six months, the substantial and immediate increases of exports, especially of wool, the progressive recovery of the gold reserves of the country as a consequence of the scrupulous fulfillment of its engagements abroad, the recuperation of more than $40 million hoarded by the public, generally abroad, the confidence and support obtained from international financial organizations, the creation of an internal climate of trust and will to work and progress, and the beginning of a substantial reduction in the rhythm of the cost of living as from March of last year, are results which have been achieved without a shadow of doubt. This is not all, but it shows the beginning of a slow and difficult path towards stability and recuperation which will have to be followed without hesitation.

This new economic policy, as regards foreign trade, is directed towards a radical promotion of exports and their rational and programmed diversification; as regards imports, it is intended to strengthen the full, already established liberalization - without prohibitions, quantitative restrictions or discriminations of any kind - subject only, through the unavoidable pressure of the existing situation as regards the balance of payments - hence, temporarily - to the application of certain surcharges and consignations.

4. It cannot be denied that Uruguay has suffered and is suffering from an extremely serious economic crisis of unusual duration and with very special characteristics.

Within the limits of its geographical dimensions and the size of its population, in the first decade of this century, Uruguay reached a high level of social, economic and political development. Its economy made very rapid strides while external conditions were favourable. Foreign capital flowed into the country, supplementing national savings to expand the basis of production. In the sphere of internal and external stability, progress was made towards an adequate distribution of income and wealth.

About the middle of 1950, there began a marked change. Production - particularly in the agricultural sector - decreased and our import capacity began to deteriorate. These changes had an adverse effect on the possibility of keeping up the rhythm of economic and social progress and the country embarked on a period of widespread and progressive inflation. In the process, there were serious losses in international reserves, the incentive to save was decreased and there was a substantial outflow of capital. The continuous fall in the rate of investment in real terms and the national and external instability of economy contributes to a marked decline in the productive powers of the country. Large sectors of the community, especially among the lower-income brackets, were the victims of this process.
The problem which is now confronting Uruguay is to check serious inflation and at the same time to begin a process of bringing the rate of growth up to a more adequate level. As regards stimulation of the rate of growth, it is clear that what is required is an overall revision of what the basic growth scheme of the country has been so far. The Government is well aware of the urgent necessity of stimulating a vigorous development, necessitating considerable expansion of investment towards a substantial increase in agricultural production, particularly of products that can be exported. Greater efficiency of local industry must be promoted and it must be directed towards production for foreign markets.

The first steps in this economic recuperation process are plans for: (a) reducing the inflation rate; (b) fostering the export drive; and (c) doing everything possible to increase investment.

It is vitally important to restore financial stability to obtain an increase in the rate of national savings and to have a more rational basis for the adoption of decisions on investment.

The part of the programme designed to promote exports and diminish fiscal pressure required a serious adjustment in the rate of exchange in November 1967, from 99.00 pesos per dollar to 200.00 pesos per dollar, the effects of which have already been explained.

It is obvious that in a country such as Uruguay which depends so largely on external trade, foreign exchange policy is a basic element of its economic policy. Furthermore, in countries with an increasing rate of inflation, the importance of exchange policy in the development process is even greater. The Government of Uruguay is firmly convinced that the maintenance of a realistic exchange rate is a basic necessity to prevent a drain on capital, to eliminate speculative pressure in external trade and to promote the orderly development of the foreign sector. The realism of the exchange rate is essential as a yardstick for planning activities in both the private and public sectors.

The Uruguayan programme includes an improvement in the position of external reserves which will make it possible to establish better order in the foreign commitments of the country. Although it cannot be said that the total of Uruguay's foreign debt is excessive, the accumulation of maturities in the forthcoming years constitutes a heavy burden. It is in relation with this problem that Uruguay has asked for help from the International Monetary Fund and adopted measures to increase its quota from $30-55 million, which we have effected by making the relevant payments.

I. Position and prospects of the balance of payments

In the first place we must analyze the present position of the balance of payments, in the light of evolution since the last consultation in 1965.
The position has steadily deteriorated. In 1965 - after successive and continued deficits in the trade balance from 1957 onwards, which had accumulated up to $489 million - a considerable recovery took place, exports having risen above imports by $40 million.

This recuperation was the consequence of a conjectural rise in the international prices of wool, but, even more, of a substantial temporary increase in exports of meat, as a result of a series of internal measures and an accidental improvement in the position on the international market.

In 1966 this tendency was maintained and, although the value of exports was less than in 1965, the trade balance was favourable by more than $30 million.

Naturally the surpluses of these two years had only a slight effect on the deficit accumulated in the balance of trade since 1951.

Unlike the years 1965 and 1966, the year 1967 was disastrous for Uruguayan exports.

In the first place, there was a very considerable decline in agricultural production due to bad climatic conditions. Twenty-five per cent of the production was lost and this coincided with a very difficult price position affecting the possibility of placing goods on international markets. It was a year in which even the scanty production could not find proper outlets. For example, in November 1967, the wool crop was still 25 per cent unsold.

In the three first quarters of 1967 there was a negative balance of almost $9 million despite the severe restrictions on imports. In the last few months there was a slight improvement, due mainly to the first effects of new governmental measures taken from October onwards.

But, on account of the difficulty of agricultural recuperation, the time required for the present export promotion economic policy to give its full results and the will of the Government not to prohibit or put quantitative restrictions on imports, the estimates for 1968 will be negative. For example, the report of the Ad Hoc Committee of the Inter-American Committee on the Alliance for Progress on the Uruguayan Economic and Social Development Plan, assesses 1968 exports at $138 million and imports at $180 million, although it is not considered that the price of exportable Uruguayan products will recover from the depressed levels of 1967.

So far I have been referring to the balance of trade. The position as regards the balance of payments is no better.

Without making a detailed analysis of each of its items, taking into account export and import prospects, the possible position and projections of the monetary sector and the non-monetary sector, it is obvious that in 1968 the position of the balance of payments will be very difficult.
For example, an estimate has been made—and I am giving this only as an example—which established the ordinary deficit of the balance of payments for 1968 at minus $34.8 million, which includes income on exports, tourism and other services to a value of $220 millions and expenditure on imports, tourism and other services, to a value of $254 millions.

As a result of recent arrangements, a standby credit of US$25 million has been granted by the IMF to support the 1968 balance of payments and the exchange policy. To this should be added a loan of US$9.5 million from the same source as supplementary financing for the decrease in income from exports. Total US$34.5 million.

On the other hand, for the years 1969 and 1970, there may possibly be a substantial increase in exports as a result of larger exportable surpluses of meat, wheat and wool.

This increase presupposes the elimination of the sequels of the negative climatic factors which occurred in 1967, but it will also have to be the consequence of the governmental measures for export promotion.

The adjustment of the exchange rate in November 1967 gave not only an immediate rise in exports which, between 6 November and 30 December, increased to 28,168,000 (of which 22 million for wool) as against only 5,516,000 in October, but also an immediate inflow of capital of more than $50 million with all the positive consequences entailed thereby.

This improvement in export prospects, without ignoring the negative factors which hamper or impede the entries of Uruguayan exportable products, and the affirmation of a policy directed to promoting certain non-traditional exports—a policy shown in the economic and financial programme for 1968—will make it possible to maintain the present system of absolute freedom of imports, without any discrimination or prohibition.

To conclude this survey of Point I of the Plan of Consultation, I should like to point out that the fact that at present in Uruguay there exist no quantitative restrictions, prohibitions or discrimination of any kind on imports, despite the balance-of-payments difficulties, clearly shows the will to strengthen and maintain a liberal policy and the desire to apply not only the letter of the General Agreement, but also its spirit.

II. Other measures for public rehabilitation

1. Using its legal powers to regulate credit and banking activities in general, the Central Bank, set up by the new Constitution in force since 1 March 1967, the powers of which are laid down in articles 23, 24, 30 and 41 of Law 13608 of 8 November 1967, has recently issued a series of provisions which can be regarded as basic for a reorganization of banking activity and a rehabilitation and canalization of credit.
For instance, it has forbidden private banks to carry out dealings that may be against the interest of the country, by fixing a selective system of private bank dealings (circulars No. 10 and 11), by supressing overdrafts on current accounts and requiring details on the whole of the credit (circular No. 12).

Recently other provisions were adopted by the Central Bank in order to regulate liquidity. Of these the following should be mentioned:

(a) raising of the bank minimum cash reserves to levels compatible with the cash requirements of the banks, fixing them at 40 per cent for deposits at sight and 20 per cent for deposits on term;

(b) utilization of part of the cash resources of the banks for deposits in the Central Bank or for investments which the Central Bank will indicate as preferential;

(c) increase in the month of December of up to 5 per cent of private banking deals and also credits for special rediscounts, in order to make it possible to increase credit according to seasonal requirements;

(d) to direct credit support by means of new special entries for rediscounts.

Provisions have also been issued for the rehabilitation of the banking system: amalgamation of private banks, increase of capital, uniform accountancy, etc., and for the promotion of bank savings: increase in the bank interest rates, etc., which are expected to make an efficient contribution to the better use of the resources of the private and public banking system.

2. (a) The unsatisfactory fiscal behaviour during the last few years has unquestionably affected the price trend. The Government is aware that fiscal policy is an essential element in reaching effective internal stabilization.

After examining the terms of the budget recently approved and the general targets proposed, the Government, through the Ministry of Finance, proposes a two thirds reduction of the fiscal deficit of the year 1967, maintaining the use of credit financing at that level within strictly legal limits.

The fiscal deficit in 1967 was 21 per cent of expenses and it is proposed to bring it down to 7 per cent in 1968, paying if off by recourse to credit taken from savings.
(b) The reduction of the deficit depends on the effective increase in fiscal income.

It is estimated that this income, as a consequence of the new taxes contained in the budget which came into force on 1 January 1968 and of the administrative steps taken to improve tax collection, will amount to 34,000 million pesos. Tax collection, from November 1967 and specially since the entry into force of the present budget has notably increased. For example, in January 1968 taxes collected were 250 per cent greater than in the same month of the previous year. The tendency continued in February.

(c) As regards income from surcharges on imports and rebates on exports, a substantial increase will be obtained, in accordance with projections that have been carried out, as a consequence of the high rebate margin fixed in the sector of traditional exports, recently increased by the devaluation of last November and the liberalization obtained in the sector of imports with high surcharges.

(d) The financing of public expenses by credit from the Central Bank has been replaced by Government bonds intended to obtain savings funds. The system of these securities in national and foreign currency of which we have previously made mention, and which came into application on 12 January last, brought into the public treasury during the first month about 1,000 million pesos, half of which sum corresponds to bonds in Uruguayan pesos and the rest to the sale of foreign currency to the Bank of the Republic.

(e) The Government, both in drawing up the budget and in parliamentary negotiations, has put forward its best efforts to cut down current expenses and to make economies under every item, aware of the importance of such a matter in any programme of stabilization.

In spite of such economies, the Ministry of Finance is proposing to order administratively that current expenses must be authorized, so as to have another channel for making additional economies during the execution of the budget.

3. After a detailed review of the national economic situation and of recent experience, the Uruguayan Government has concluded that efforts should be concentrated on the short- and medium-term aspects. Accordingly a National Plan of five-year targets (1968-72) has been drawn up, in implementation of the Ten-Year Plan 1967-74, with an economic and financial programme for 1968 and an investment and development promotion programme for the same period.

As already stated in Section 1, the immediate objective is to create the necessary conditions to permit a recovery of the economic development rate. First and foremost, this requires action to stabilize the economy in order to check the rapid rise in prices already recorded, without thereby creating any tendency towards recession.
Certain reforms are necessary for attainment of this objective, including a re-orientation of the public sector in order to ensure greater efficiency, and a programme of public investment in infra-structure projects for the country's development which will employ manpower during the stabilization period. At the same time special attention is being given to greater agricultural productivity which is essential for the economic take-off. Encouragement is also being given to traditional industries, in order to reduce unemployment still further.

Because of the fact that its own market is too small, Uruguay has based its plan of action on a broader export market. The country's economic development will depend on an increase in exports of agricultural and livestock products in the short term, and of industrial products in the medium term.

Priority must therefore be given to agriculture in the short and medium term, for recovery in that sector is a prerequisite, having regard to present circumstances, for a sound industrialization process and for rapid and sustained economic development in the long term. The Government has already taken a wide range of measures in this sector and it is hoped that they will yield immediate and positive results. (See the Investment and Development Promotion Programme, 1968, Part IV, page 14.)

All this calls for concomitant action by our principal clients in other countries to open up their markets and ensure reasonable access at remunerative prices for Uruguay's exports.

III. System and methods of the restrictions

1. The legal basis for the restrictions applied in Uruguay is the law of 17 December 1959 establishing a régime that has already been examined in earlier consultations.

The basic principle underlying the law, as stated in its article 1, is to establish a system of unrestricted imports, in contrast to the system existing when the law was enacted, but at the same time it allows the authorities to regulate imports by:

(a) requiring the payment of prior deposits;

(b) establishing surcharges of up to 300 per cent of the c.i.f. price on non-essential or luxury products and goods competing with national production;

(c) prohibiting entirely or in part, for a period of six months that may be extended, imports of non-essential or luxury products and goods competing with national production.
2. (a) Since November 1967 the new economic policy has in practice implied the gradual elimination of all existing prohibitions on imports. Under the decrees of 6 November and 1 December 1967 and of 9 January 1968, all prohibitions or quantitative restrictions on imports have been revoked with the exception of those on motor vehicle assembly kits. Accordingly the possibility mentioned in paragraph 1(c) of this section has not been invoked and the Government's policy is not to reintroduce any prohibitions or restrictions of this kind.

(b) With respect to consignations and prior deposits, by a decree dated 1 December 1967 the Central Bank was authorized to require consignations in national currency on imports, notwithstanding the corresponding prior deposits. Immediately thereafter the Central Bank abolished the existing system of consignations and under Circular No. 48 dated 1 December 1967, in order to control the volume and rate of imports on a temporary basis, a consignation was established in respect of imports authorized at that time, equivalent to 200 per cent of the c.i.f. value, and applicable to imports which over the period 1 December - 31 March 1968 are in excess of 20 per cent of the amounts normally imported in the period 1 July 1966-31 October 1967.

The consignation requirement was further eased under Circular No. 51 of 21 December 1967.

Circular No. 54 of 11 January 1968, containing implementing regulations for article 7 of the decree of 9 January 1968, pursued the same objective and amended the percentage rate of the consignations applicable to certain non-essential or luxury goods which had been authorized for import by the decree of 9 January. Lastly, Circular No. 67 of 1 April 1968, within this same general structure, established definitive regulations for the consignation system, amended it in certain respects, and organized the entire system resulting from the three decrees (dated 6 November, 1 December and 9 January). The system is designed to regulate the rate and volume of imports, while ensuring possibilities for importing any goods without prohibition, with the exception of motor vehicle assembly kits as referred to above.

Imports of all goods are free of consignations, provided the import volumes are maintained within specified limits based on imports in earlier years. Any imports over and above these limits are subject to consignations, at rates depending on the type of merchandise.

Under this system the consignations are payable only in a few cases, and most imports are not subject to these requirements. The system is designed solely to control the volume and rate of imports, as a temporary measure.

In the economic and financial programme for 1968 the following statement is made in this connexion:
"The authorities consider that this measure is temporary and is in conformity with the set of import liberalization measures. Nevertheless, in the coming year and in the light of progress in the stabilization and development programme, and more particularly in the balance of payments, the system of prior deposits will be re-examined with a view to abolishing it as soon as possible."

Under paragraph 2 of the decree of 9 January 1968, prior deposits have been abolished except with respect to vehicles imported with foreign exchange coverage.

This measure is in line with the policy of liberalizing imports, while at the same time avoiding any increase in the cost of goods because of the high interest rates charged by the banks for financing deposits.

(c) With respect to the third possibility provided for under the law of 17 December 1959 - namely the application of import surcharges - these are being maintained for the time being on certain goods but in the Programme mentioned above the Government has stated its intention of reviewing the system.

3. No discrimination is made in Uruguay on imports according to the origin of goods. There is no difference in treatment of imports from different countries or currency areas.

Because of the fact, however, that Uruguay is a member of the Latin American Free Trade Association (LAFTA), the Montevideo Treaty and implementing regulations pursuant to it are in force, providing in particular for a special system with respect to the surcharges and consignations (articles 3 and 8 of Circular 67).

4. Imports by the State, State-trading enterprises or State industries are exempt from prior deposits and consignations.

Special treatment is also provided for fuel imports by ANCAP, under the petroleum import monopoly established by law.

IV. Effects of the restrictions: protective effects of the restrictions

1. Under the system established pursuant to the Law of 17 December 1959, there are no import prohibitions for protective reasons.

The application of surcharges is, however, permitted inter alia on goods competing with national production.
No immediate and complete abolition of the surcharges can be envisaged at present, but the Government has realized the need to review its entire policy in this field; the Economic and Financial Programme for 1968 states that a review is to be made of the system of protection, including the present system of exchange surcharges, with a view to establishing a rational tariff mechanism that will encourage domestic activity in the context of greater efficiency in industrial activities (paragraph 23, page 11).

2. Accordingly, the present situation can be considered as being a transitional phase, pending the effects of measures already taken to improve the general economic situation, in particular measures to promote exports and to overcome the disastrous effects of the drought and floods already mentioned, so as to improve the balance-of-payments position from 1969 on. It will then be possible to carry out in full the decisions referred to in the foregoing paragraph of the Government's programme, and the necessary measures are in preparation to complete the present situation in which there are no prohibitions or quantitative restrictions on imports.

3. As may be seen, by having applied a minimum level of restrictions to ensure balance-of-payments equilibrium (import surcharges on certain goods, prior deposits and consignations in certain exceptional cases), Uruguay has strictly observed the requirements of Article XII:3(c) of the General Agreement, in that there is nothing in the existing system:

(i) to cause unnecessary damage to the commercial or economic interests of any other contracting party;

(ii) to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade;

(iii) to prevent the importation of commercial samples or prevent compliance with patent, trade mark, copyright, or similar procedures.

V. Conclusion

The foregoing describes the Government's intentions and the relatively positive results already achieved.

Uruguay is attending this consultation in order to explain its present economic situation, with particular reference to its balance of payments and to ensuring that all the measures adopted, more especially since November 1967, are in conformity with the General Agreement.
The measures recently adopted, and in particular the broad import liberalization, show that Uruguay is striving to solve its own problems, being aware that nothing can be achieved without such an effort, hard and difficult though it is in present circumstances.

At the same time, at the level of international trade, Uruguay is entitled to expect equal respect for the General Agreement and for the universally acknowledged principle that international trade must be an instrument and a factor for economic development. All States are responsible for ensuring this but, of course, first and foremost the developed countries, which so far as my country is concerned have an escapable duty to liberalize their markets and ensure better conditions of access and prices there for Uruguay's exportable surpluses.