Committee on Balance-of-Payments
Restrictions

DRAFT REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS
ON THE REQUEST FOR EXTENSION OF THE URUGUAYAN WAIVER
ON IMPORT SURCHARGES

1. The Committee met on 4 and 5 November 1971 to examine the Uruguayan request for a further extension of the waiver of 8 May 1971 relating to Uruguay's import surcharges.


3. At the Council meeting of 19 June 1971 it was decided that the Balance-of-Payments Committee would examine with the Uruguayan delegation the balance-of-payments aspects of the import surcharge, as modified in June 1971, and would report to Council.

4. The Committee had before it a Basic Document supplied by the Government of Uruguay (BOP/120 and Add.1) as well as background material supplied by the International Monetary Fund. The basic document for the discussion (BOP/120) contained a request for an extension of the waiver of 8 May 1961 relating to Uruguay's import surcharges.

5. The representative of Uruguay made a statement (the full text of which is reproduced as an addendum to this document) in which he recalled the legal basis for the application of the surcharge. He stressed that the immediate prospects for the balance of payments made it necessary to maintain provisionally the import surcharges. He recalled that the system of import surcharges had a transitional character and that it would be eliminated when circumstances would permit it. He concluded by requesting an extension, for a reasonable period of time, of the authorization to apply import surcharges, on the understanding that such authorization would be subject to the terms and conditions established by the Decision of 8 May 1961.
6. The representative of the International Monetary Fund stated that as could be noted from the background material, Uruguay recorded a balance-of-payments deficit of $36,000,000 in 1970 following two years of surplus, and the balance of payments had continued to be under severe strain during 1971. Foreign liabilities of the banking system exceeded its foreign assets by $32,000,000 at the end of June 1971. The Uruguayan authorities had taken several measures to ease the pressure of the balance of payments, including increases in import surcharges, temporary prohibition of certain imports, imposition of additional prepayment requirements and prescription of credit terms, introduction of special commission for practically all invisible payments, and reduction of travel allowances. The Fund believed that "at the present time the general level of import restrictions and import surcharges of Uruguay which were under reference, did not go beyond the extent necessary to stop a serious decline in its monetary reserves".

7. Members of the Committee expressed their understanding for the balance-of-payments difficulties facing the Uruguayan authorities. They noted the deficit on the trade and capital accounts for 1970, and enquired whether the Government disposed of any estimates for the balance-of-payments situation in 1971. The representative of Uruguay said that at the beginning of the year a surplus of some $45,000,000 had been expected, however, a strong decline in the export of meat and the continuing fall in the export price of wool had altered this estimate. A small surplus in the trade balance might be reached by the end of the year. In reply to a question as to whether there were any medium and long-term development plans under study, the representative of Uruguay said that plans for economic stabilization were being prepared but that he was not in a position to give any details as to their content. Such plans would be completed by the next administration which would come into power in March 1972.

8. A member of the Committee enquired whether the Uruguayan authorities had considered taking measures to curb speculation on foreign exchange, which seemed to account for a large loss of foreign exchange. The representative of Uruguay explained that this was a permanent problem in Uruguay which included capital movements away from the country following social disorders; these difficulties could not be expected to be solved until fundamental improvements had been obtained in Latin American economies.
9. Questions were asked on export promotion measures which had been taken or were envisaged in order to restore balance-of-payments equilibrium. Such export promotion measures had been taken for wool in September 1971 and fiscal measures concerning meat had been taken in 1970. The representative of Uruguay said that both in the case of wool and in the case of meat the fiscal measures taken had been aimed at maintaining an appropriate level of exports rather than increase them. He recalled that the serious problems caused by the decline of export prices for wool would have to be solved in the long term by restructuring agricultural production. In this context it was asked what expectations the Uruguayan Government had concerning the advantages they could derive from closer economic co-operation within LAFTA and from other trade agreements. The representative of Uruguay explained that in the long term only a modification of the agricultural structure in Uruguay and an increase of its industrial production, and therefore of capital imports, could lead to a stable economy. This was a considerable task which could only be achieved in the long term.

10. Members of the Committee recalled various points which had been raised in previous discussions, in particular on the exemption from the import surcharge of goods transported to Uruguay on Uruguayan Conference Line ships. Some doubts were expressed as to how this measure could favour the balance-of-payments position. Some members reiterated the view that this position was economically unsound as the resultant diversion from the cheapest means of transport meant higher prices and an additional burden on the balance of payments. Some members recalled that they had been unable to support the extension of the waiver in the past on account of this discriminatory element in the surcharge legislation. They still held the view that this element should be reduced or eliminated. The representative of Uruguay said that the present régime of freight under Decree of 30 June 1970 was provisional and that it would eventually be replaced by a general system embodied in a law which would define the extent of protection to be afforded to the national merchant marine.

11. A number of questions were asked on particular aspects and effects of the various Decrees passed since the 1970 examination of the import surcharge system. These questions concerned the surcharge system itself, measures taken with regard
to the importation of capital goods and consignaciones. As the available information did not indicate clearly the present position with regard to the products affected by the various measures taken, the representative of Uruguay undertook to supply the Committee, at a later date, with an up-to-date list of products subject to the surcharges together with their corresponding rates.

12. Noting that there was no possibility in the short term of removing the import surcharge system, and in the light of the statement of the International Monetary Fund quoted in paragraph 6 above, but the Committee considered that the Uruguayan Government should be urged to consider reductions in the rates should the Uruguayan balance of trade position be as favourable for 1971 as forecast. The Committee considered that the CONTRACTING PARTIES might justifiably agree to a further extension of the waiver for a limited period. The attached draft decision extending the waiver until ...... subject to the terms and conditions stated therein was presented to the Committee and is presented herewith to the Council for consideration.