1. As requested by the Council, the Committee has re-examined the request by the Government of Uruguay for a further extension of the Decision of 8 May 1961 relating to its import surcharge. It may be recalled that when the matter was last examined in November 1971, the Committee considered that the data made available to it were inadequate for the formulation of a recommendation and that the Council, in concurrence with this view, took steps to grant a provisional extension of the waiver, so as to afford time for a detailed and careful examination of the request on the basis of more complete data, which the Uruguayan authorities were requested to supply (see L/3618 and C/M/77).

2. When it convened on 21 June 1972 to carry out this assignment, the Committee had before it written material supplied by the Uruguayan authorities including: (a) a list of products and surcharge rates; (b) a paper supplementing the supporting document previously considered by the Committee (BOP/124); (c) a list compiled by the secretariat of items which appear to be bound under GATT and subject to the surcharges (BOP/124/Add.1 and Add.2). The Committee had also been supplied with a background paper on recent economic and financial developments in Uruguay prepared in the International Monetary Fund. An opening statement by the representative of Uruguay is reproduced in the Annex to this report.

Balance-of-payments position and prospects

3. The Uruguayan request for a further extension of the waiver was, as in the past, motivated by a need to restrain the increase in imports and to safeguard the balance of payments and the foreign exchange reserves. Pursuant to Article XV:2 of the General Agreement, the International Monetary Fund was invited to consult with the CONTRACTING PARTIES in this regard. The representative of the Fund, with reference to the Fund's written material, made a statement as follows:

"Uruguay's balance of payments showed deficits in 1970 and 1971 equivalent to SDR 35.5 million and SDR 38.2 million, respectively, as measured by the decline in the net international reserves of the banking system, and taking into account the allocation of SDRs. At the end of 1971, the net international reserve position of the banking system was negative and equivalent to

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1 This extension, by Decision dated 19 November 1971 (L/3632), was valid until 31 May 1972. A further extension of the waiver until 30 September 1972 has been proposed by the Council and is being voted upon by postal ballot (C/M/199).
SDR 66 million, including SDR 42 million in commercial arrears accumulated during 1971. The balance-of-payments deterioration continued through the first quarter of 1972 with a further foreign reserve loss of SDR 12.5 million (or SDR 19.8 million before the allocation of SDRs). The Government of Uruguay, which assumed office on 1 March 1972, took a number of measures affecting the exchange and trade régime. A dual exchange rate system was introduced with a pegged commercial rate for exports, imports, and government transactions and a freely fluctuating financial rate for invisibles and tourism; the commissions on the sale of foreign exchange, which had been imposed in 1971, were eliminated and import surcharges were reduced. The exchange and trade system of Uruguay still contains a number of restrictive practices including payments arrears, limits on sales for tourism, special import deposit requirements, prescription of terms of payment, import prohibitions, and import surcharges. Also, transfers for profits, dividends, technical assistance payments, and amortization of loans do not have access to the exchange market.

"The Fund believes that at the present time the general level of import restrictions and import surcharges of Uruguay which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves."

4. Members of the Committee expressed understanding and sympathy for the balance-of-payments difficulties facing Uruguay. In their view, however, the problems appeared to be of a structural nature and called for fundamental remedial adjustments beyond the mere curtailing of imports. In response to this comment and in reply to questions, the representative of Uruguay said that the new Government, which had taken office in March 1972, had introduced, within the framework of a general economic policy, a series of measures to combat inflation, to limit budgetary deficit and to control credit in the private sector. The economy was in need of massive capital investments and it was the aim of the Uruguayan Government ultimately to reverse the traditional sizeable outflow of capital. It was hoped that the specific measures taken would be beneficial to the economy and eventually help to restore external equilibrium. In addition to the structural problems, Uruguay had suffered from a short-fall in exports in 1970 and 1971, particularly in the meat, cattle and wool sectors which, compounded with problems of social unrest, had aggravated the situation.

5. Some members of the Committee wondered whether and to what extent the import surcharge really contributed to safeguarding the balance of payments, noting the Uruguayan statement that it had but minimum effects on imports. The representative of Uruguay explained that, since about two thirds of total imports were not subject to the surcharge, its incidence was felt only in regard to the remaining portion which comprised mainly less essential and luxury products. The surcharges, unlike import quotas and import licensing control, placed no quantitative limitation on these imports; and any effect that it might have had on total imports had been moderate, as might be seen in the steady growth of this total in the past five years. On the other hand, the surcharge, especially on account of the variation in the rates used, certainly had an effect on the commodity pattern of imports; it served the purpose of diverting scarce foreign exchange resources from luxury to essential imports.
6. Some members of the Committee noted with satisfaction that the Government of Uruguay had enlisted the aid of the International Monetary Fund and the Inter-American Council for the Alliance for Progress in planning its stabilization programme.

7. In the light of the material before the Committee, further discussion with the Uruguayan representative, and the statement made by the Fund representative, members of the Committee generally indicated that they had no reason to question the Uruguayan submission that action was needed to safeguard the balance of payments and the monetary reserves.

Administration of the import surcharge

8. The Committee recalled that one of the main issues which had been taken up by contracting parties when the question of extending the waiver was considered on previous occasions, was the "flag discrimination" feature of the surcharge system. Many contracting parties, while agreeing to the need and justification for the use of the surcharge by Uruguay for balance-of-payments reasons, considered it unjustified and irrelevant to draw a distinction between ships of national and foreign registration for purposes of applying this measure. Mainly on account of this objection, they had in the past found it difficult to vote in favour of the decisions extending the waiver. It was further recalled that, in a previous report (L/3409, dated 7 July 1970) it had been ascertained that:
(a) goods carried in vessels flying Uruguayan flag were exempted from the surcharge;
(b) goods carried in vessels flying non-Uruguayan flag were subject to an additional 5 per cent surcharge; (c) goods carried on vessels flying non-Uruguayan flag at a time when cargo space was available on Uruguayan flag vessels would be subject to an additional surcharge of 10 per cent. At its meeting last November, one of the questions on which the Committee had felt itself to have been inadequately informed related to the actual state of the "flag discrimination" provisions in the legislation and their implementation.

9. The Committee welcomed the Uruguayan statement in the latest document (BOP/124) that by virtue of Article 3 of Decree No. 177/972 of 2 March 1972, the 5 per cent surcharge formerly applied on the carriage of goods transported in vessels flying non-Uruguayan flag had been lifted and that discrimination no longer existed in this respect. Some members wished to be assured, however, that this in fact meant that in the administration of the surcharge, no distinction whatsoever was now made between goods shipped in Uruguayan and foreign vessels. The representative of Uruguay stated that, while he could not give a precise description of the way in which the surcharge was applied in practice, because of the numerous new decrees which were continuously affecting and modifying particular aspects of the measure, he could state, on the basis of Decree No. 177/972 and on information received from his Government, that no discrimination existed any longer in the administration of the surcharge between goods carried in vessels flying a foreign flag and those flying the Uruguayan flag (or a LAFTA country flag).

10. The Committee noted that the Uruguayan Government had established a Commission to study the maritime transport problem and to engage in the preparation of draft legislation on "freight reservation" and enquired as to the nature of such
legislation. The representative of Uruguay explained that because freight costs represented a very substantial proportion of Uruguay's foreign exchange disbursement ($28 million in 1970, compared to total export earnings of $232 million), the Government was anxious to reduce this expenditure, for example, as it had already done, through giving priority to ships of Uruguayan ownership in the transport of goods procured by, and for the use of, the Government. It was premature to forecast what draft legislation would emanate from the Commission.

11. Some members of the Committee recalled the view they had expressed at the November 1971 meeting that it was inappropriate and counter-productive for Uruguay to exempt from the surcharge imports from its LAFTA partners, especially as these exemptions vitiated the payments effects of the surcharge. The representative of Uruguay had replied at that meeting that customs unions and free-trade associations were, by definition, preferential systems and were expressly recognized as such in Article XXIV of the General Agreement. The representative of Uruguay now added that Article 9 of Decree 177/72 of 2 March 1972 provided for the review of the situation of goods negotiated within the framework of the Montevideo Treaty.

12. Members of the Committee noted that the representative of Uruguay confirmed the accuracy of BOP/124/Add. 1 and 2 as far as GATT bound items were concerned. They furthermore expressed the hope that the consulting country would provide the Committee with a complete list of items subject to the surcharge, including those not bound in GATT, as modified by the latest decrees.

13. The view was expressed that the surcharge, which had been in force for nearly twelve years, seemed to have acquired the attributes of an established feature of the Uruguayan import system. It was, therefore, suggested that the Uruguayan authorities might explore the possibility of dispensing with the necessity of the waiver. Some members expressed hope that the various measures taken by the Uruguayan authorities would have the desired effects so that early steps could be taken to remove the import surcharge and import restrictions. As an interim step, they urged the Uruguayan authorities to take measures to streamline and simplify the system and administration of the import surcharge and restrictions.

Other measures affecting imports

14. The Committee was informed at this meeting that a temporary embargo on imports of capital goods, first introduced in May 1971 for a period of ninety days, had been prolonged until 30 June 1972. Asked whether this measure was likely to be further extended, the representative of Uruguay pointed out that under Uruguayan legislation existing since 1959, while imports were generally to be unrestricted, the administration was empowered to regulate imports by requiring a prior deposit, by imposing a surcharge and by "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" (BOP/R/45, page 17). Such measures were taken from time to time as required by circumstances. With regard to the prohibition of imports of capital goods, certain exceptions had been provided for, notably in regard to those considered to be essential to the economy.
15. In this connexion, the Committee recalled that at the last consultation under Article XVIII:12(b) with Uruguay in June 1970, the Committee had been informed that "there no longer existed in Uruguay any quantitative import restrictions" (BOP/R/45, paragraph 13). In view of the new development, the Committee considered that the Uruguayan Government should be requested to supply the CONTRACTING PARTIES with information on this prohibition and any future changes in the use of quantitative restrictions such as was required from contracting parties acting under Article XVIII:B. The Committee understood that the findings of the Fund, quoted in paragraph 3 above, embraced this prohibition as well as the import surcharge.

16. Some members of the Committee pointed out that, in addition to the surcharge, the normal customs duty and the quantitative restrictions, a number of other measures were in force which affected imports. Among these was the deposit requirement applied to different goods at different rates ranging up to twelve times the value of the goods imported. In view of the high cost of borrowing in the country, this would seem to amount to a substantial or even prohibitive barrier to trade. The representative of Uruguay replied that the measure was used mainly for the purpose of mopping up excess liquidity, immobilizing part of domestic purchasing power and thus helping to combat inflation. He agreed with members of the Committee that the deposits, which were refundable upon application after six months from the date on which they were made, could place a significant financial burden on importers which, depending on the availability of funds and lending terms prevailing on the domestic money market, could have a deterring effect on imports.

17. Members also referred to the consular fee and asked for clarification of some aspects of its application. The representative of Uruguay stated that this fee, charged at different rates according to the nature and quantity of the goods imported, was additional to the import duty. There was a special exchange rate for the consular peso which did not correspond to the current exchange rate for the Uruguayan peso. On average, consular fees amounted to 12.5 per cent of the value of the goods. The system was indeed complex and reflected past practices built up over a long period.

18. Members of the Committee commented that the various commercial policy measures that were in force, comprising the import duty, the import surcharge, the "aforos", (officially determined import values) the consular fee, the special deposit and the temporary import prohibition, would seem to be as extensive as they were cumbersome, confusing and burdensome to the trading community as well as to the administration. They suggested that the Uruguayan authorities might find it rewarding to carry out a general review of the whole system, which appeared to represent the accumulated legacies of successive administrations, in order to lessen the burden to the Government and the trading community and reduce impediments to economic progress.
19. In the light of the discussion and taking note of the findings of the International Monetary Fund quoted in paragraph 3 above the Committee:

(a) concurred in the view that the Uruguayan import surcharge and restrictions, as applied at their present general level, are justifiable on balance-of-payments grounds;

(b) welcomed the statement by the Uruguayan authorities that all distinction between goods shipped in Uruguayan vessels and those shipped in foreign vessels having been abolished, there was no longer any discrimination relating to shipping in the administration of the import surcharge;

(c) considered that while Uruguay should be allowed to maintain the surcharge to the extent necessary to meet the balance-of-payments difficulties, it should be urged to reduce and remove it as early as possible;

(d) urged the Uruguayan authorities to explore the possibility of dispensing with the necessity of the waiver, which had been in force for nearly twelve years; and

(e) agreed to propose that, in order to allow time for such action, the present waiver be extended for a further period until mid-1974, on the understanding that the Uruguayan Government would furnish a progress report by 30 June 1973 on any steps taken or planned along the lines suggested in paragraph (c) above.
ANNEX

Draft Decision

Considering the Decision taken by the CONTRACTING PARTIES under paragraph 5 of Article XXV on 6 May 1961 to waive the obligation imposed by Article II of the General Agreement to the extent necessary to allow the Government of Uruguay to apply surcharges on imports of specified products not exceeding specified rates and incidence;

Considering that the above-mentioned Decision, as amended, has been successively extended and is valid until 30 September 1972;

Considering that the Government of Uruguay has requested a further extension of the Decision on the grounds that the surcharge is still needed as a means of safeguarding the balance of payments and the monetary reserves;

Having consulted fully with the International Monetary Fund under Article XVI:2 and taken into account the assessment provided by the Fund; and

While urging the Government of Uruguay to explore the possibility of dispensing with the necessity of a waiver from its obligations under Article II,

the CONTRACTING PARTIES, acting pursuant to the provisions of paragraph 5 of Article XXV of the General Agreement and in accordance with the procedures adopted by them on 1 November 1956,

Decide to extend the validity of the above-mentioned Decision until 30 June 1974, subject to the following terms and conditions:

1. The import surcharges authorized under the present Decision (i.e. on products subject to tariff binding as provided for in GATT Tariff Schedule XXXI) shall be those which were being effectively applied on 31 May 1972 under relevant laws and decrees in force on that date (the Government of Uruguay shall transmit to the CONTRACTING PARTIES not later than 30 October 1972 a certified copy of all such laws and decrees and a certified list showing the products, by customs tariff number and commodity description, which are subject to the surcharges and the surcharge rates applying to them).

2. The import surcharges authorized under this Decision shall be applied only to the extent that the circumstances giving rise to their introduction shall justify their application and shall be progressively reduced or eliminated whenever possible. They shall be totally eliminated not later than 30 June 1974.
3. The import surcharges shall be levied in a manner consistent with the provisions of Article I of the General Agreement.

4. The Government of Uruguay shall submit before 30 June 1973 a report on action taken or planned to reduce or eliminate the surcharges authorized under this Decision or to abolish the system of surcharges.

5. This Decision is without prejudice to the rights of any contracting party under Article XXIII.