GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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

1. The Committee met on 16 October 1974 to examine the Uruguayan request for a further extension of the waiver of 24 October 1972[1] relating to Uruguay's import surcharges.

2. The Committee noted that originally a waiver had been granted by a Decision of 8 May 1961, which had been successively extended until the end of the twenty-seventh session of the CONTRACTING PARTIES in 1972. A new waiver had been granted by a Decision of 24 October 1972, which had been temporarily extended by a Decision of 22 July 1974 until the end of the thirtieth session of the CONTRACTING PARTIES, pending an examination by the Balance-of-Payments Committee.

3. The Committee had before it a basic document supplied by the Government of Uruguay (L/4052) as well as the full documentation as requested by the Committee in Council (C/M/79, page 5) listed in document L/4052/Add.1. The Committee also had supplementary background material supplied by the International Monetary Fund, dated 13 September 1974.

4. 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

[1]BISD 19S/9

General Agreement, the International Monetary Fund was invited to consult with the CONTRACTING PARTIES in this regard. At the invitation of the Committee, the representative of the Fund made the following statement:

"The Uruguayan economy in 1973 recorded virtually no growth in real terms while experiencing a high rate of inflation. According to the latest estimates, real output gains in agriculture were almost entirely offset by declines in construction and manufacturing. Mainly as a result of increases in wages and prices of public services, as well as increases in the prices of internationally traded primary products, the rate of inflation continued to be high in 1973; on a December to December basis the cost of living in Montevideo increased by 78 per cent which, nevertheless, is an improvement over the 95 per cent rate experienced in the previous year. For 1974, current projections indicate a likely decline in real output as the price level rises at the 1973 rate.

The balance of payments registered a surplus of SDR 81 million in 1973 after three years of consecutive deficits. This turnabout was mainly due to a substantial increase in exports and a sizable inflow of capital. The 37 per cent rise in exports (in SDR terms), however, largely reflects sharp increases in international prices inasmuch as the volume of Uruguay's main exports, notably wool, beef, and hides, declined. Imports increased by 21 per cent (in SDR terms) to about the level recorded in 1971. This increase, which mostly consisted of raw materials, was facilitated by the larger deposit-free quotas in effect in 1973. The fourfold increase in identifiable net capital inflows was largely related to the corresponding increases in import financing. At the end of 1973, the net foreign assets of the monetary authorities amounted to SDR 41 million, which was equivalent to about two months' imports in 1973.

Estimates based on partial data indicate that in 1974, the balance of payments will revert to a deficit of about SDR 78 million. This mainly reflects a projected swing in the balance of trade from a surplus of SDR 61 million in 1973 to a deficit of SDR 46 million in 1974, a sharp deterioration in net payments for freight and insurance, and a smaller net inflow of capital.

Due to tighter quantitative restrictions and increased import duties applied by the European Economic Community, exports of beef are expected to decline. Moreover, wool exports are expected to fall on account of lower volume and a weakening in international prices. Of the estimated increase of SDR 222 million in imports, 46 per cent is attributable to price increases in petroleum and petroleum products at unchanged volumes. A further 9 per cent is attributable to increases in imports of wheat and sugar at considerably higher prices. While the increase in imports would involve more import financing, net capital inflows are projected to decline on account of the termination of financing arrangements relating to petroleum contracts and the expectation of no significant drawings on development loans.

The favorable balance of payments outturn in 1973 permitted the authorities to introduce liberalization measures in the trade and payments system, notably to reopen progressively the financial market to almost all previously restricted payments, settle some outstanding commercial arrears and consolidate the remainder into interest-bearing bonds, allow the resumption of capital imports, increase deposit-free quotas, and exempt from export taxes nontraditional exports (i.e., exports other than beef, wool, and hides). Despite the unfavorable balance of payments prospects for 1974, the measures adopted since the beginning of the year by the Uruguayan authorities have generally been in the direction of further liberalization. Deposit-free quotas for the first three quarters of 1974 were larger than in the same period last year, the minimum financing terms for imports of capital goods were made more flexible, and the prohibition of exports of various types of raw wool was discontinued. Moreover, since September 24, 1974 the buying and selling of foreign exchange in the financial market for any purposes are completely free.

In view of the strong pressures on the balance of payments in 1974 and the existing level of reserves, the general level of restrictions in Uruguay, including the maintenance of the import surcharges at the present time, does not go beyond the extent necessary to prevent a further deterioration in the balance of payments."

5. The representative of Uruguay made a statement (the full text of which is reproduced as Annex II to this document) in which he set out the reasons for the Uruguayan request for a further extension of the waiver relating to Uruguay's import surcharges. He explained that the country had adopted a Five Year Plan for Development (1973-1977) which, together with a New Law on Industrial Development, another concerning foreign investments - for which implementing regulations had just been issued - and various economic and financial measures, was encouraging Uruguay's economic growth and diversification of its industries and foreign trade, with the favourable repercussions that could be expected to result for the balance of payments. He pointed out that the surcharges applied

by Uruguay had been partially reduced on 10 October of this year and that they were being applied without discrimination with regard to the country of origin of the products involved. However, Uruguay had to request a further extension of the waiver, as the closure of important markets for some of its main traditional exports and the rise of oil prices were gravely affecting the country's external position.

6. Members of the Committee welcomed the steps taken by Uruguay in the direction of trade and payments liberalization, which had been made possible by the improvements in the balance of payments registered in 1973. It was realized that the 1973 surplus, due mainly to increases in international prices for Uruguay's export commodities, was expected to deteriorate into a deficit in 1974 as the impact of higher import prices and smaller net capital inflows was felt. It was noted that a sharp deterioration in net payments for freight and insurance was expected and in this context it was asked what role Uruguayan national flag protection measures could be expected to play. The representative of Uruguay explained that while it was Uruguay's policy to protect the development of its merchant marine, the existing tonnage of Uruguayan vessels was insufficient to make the cargo reservation measures fully applicable.

7. Questions were asked concerning the frequent small adjustments of the commercial exchange rate for the peso, which was to be fixed "by deducting foreign price increases from domestic price increases"; in particular it was queried whether it was necessary to maintain both surcharges and import restrictions when exchange rate adjustments took foreign and domestic prices into account. It was also remarked that the incidence of the surcharge to total trade

was increasing over the years, even if it affected fewer items. In reply to a further question concerning the difference between the commercial and financial rates of the peso, it was explained that as the commercial peso had depreciated during 1973, the differential between the financial and commercial rates had gradually narrowed, and after September the financial rate became more appreciated. The net supply of exchange in the financial market had increased substantially in 1973, apparently due to the relatively tight liquidity condition in Uruguay, the restrictiveness of the régime for profits and dividends remittances even after the financial market was reopened for these payments, and the suppression of the parallel market. Supplies of foreign exchange previously passing through the parallel market were thought to have been rerouted into the financial market whereas certain demands previously met through the parallel market could not be similarly shifted due to legal restrictions.

8. Members of the Committee noted that foreign capital investments in Uruguay for 1974 were not expected to increase over their 1973 level, and asked in this context what influence the provisions of the investment law passed in March 1973 would have. It was explained that Act No. 14179 of 24 March 1974 on foreign investments was designed to encourage such investments by affording security to the investor in respect of the monetary integrity of his investment and remittance of the interest thereon. The following characteristics should be noted in respect of the Act: (1) the term "foreign investment" meant all capital coming from abroad, having the right to transfer of its value and its profits; (2) such capital could comprise foreign exchange, machinery, patents, manufacturers' marks or any other form of asset; (3) the State guaranteed remittance of interest and capital transfers: (a) by providing the corresponding foreign

exchange, at the rate of exchange prevailing at the end of the financial period in which the interest accrued, provided the relevant application was made within 60 days; thereafter the rate of exchange would be the rate prevailing on the day the remittance application was filed and in accordance with the seller's rate of exchange in the financial market; (4) remittances abroad were charged in the first place to interest; any remittances in an amount exceeding interest would be charged to the invested capital; (5) invested capital could not be repaid before three years after the date of the contract of establishment; (6) a foreign-capital undertaking was deemed to be one whose capital originating abroad represented more than 50 per cent of the total capital and was vested with decision-making authority; (7) such undertakings could not make use of medium and long-term internal credit, and for the use of international credit, with authorization from the Executive, the Central Bank would furnish the corresponding foreign exchange. On the same subject, Act No. 14244 of 20 July 1974 established a 40 per cent charge on interest in excess of 20 per cent of capital, and considered any interest not remitted within three financial years to constitute new capital contributions. Those legal provisions were expected to encourage foreign investments and contribute to the development of industries such as fishery and others that would help to expand non-traditional exports. Implementing regulations had just been adopted for the Act, consistently with the legal provisions, and there were grounds for hoping that the objectives of the legislation would be achieved.

9. In reply to several questions, the representative of Uruguay explained that, without prejudice to expansion of traditional exports, it was his Government's policy to develop and diversify non-traditional exports, including wool and leather manufactures, fish, dairy products, fruit, vegetables, cereals, flour, juices, clothing, etc. The Government was making export promotion efforts in this direction and was developing a network of market information for export sectors. In this context it was pointed out that the imposition of export taxes, and the general complexity of Uruguay's export régime, seemed to run counter to the Government's export promotion policy. The representative of Uruguay said that in practice the taxes were charged only on traditional export items and the proceeds were used for promoting agricultural and other industries needing encouragement. One member of the Committee pointed out that Uruguay's prohibition on the export of sheepskin in the wool seemed to be in conflict with the Government's policy to promote exports. He added that the measure was particularly bothersome to his country which was a large importer of this product. The representative of Uruguay said that in his view the measure was essential in order to protect domestic industry; he would, however, take note of the remark and bring it to the attention of his Government.

10. Members of the Committee commented in general on the complexities of Uruguay's import procedures and urged the Uruguayan authorities to simplify them in the interest both of exporters and importers. The Uruguayan representative said that his Government was giving attention to those complexities and considered it necessary to simplify them; that situation, however, was characteristic of very many countries, perhaps even of the majority.

11. Asked whether the contracting parties to the GATT would be informed of the details of the free trade agreement recently entered in with Argentina, the representative of Uruguay stated that the trade agreement between two LAFTA countries would be notified to GATT in due course.

12. Members of the Committee noted with some satisfaction that the rates of the import surcharges had recently been lowered. However, it was remarked that the measure had lost its original temporary nature. They also noted with satisfaction that there was no longer any flag discrimination applied by Uruguay.

Conclusions

13. Taking into account the views of the International Monetary Fund on the level of Uruguay's reserves, and bearing in mind the added pressures on the balance of payments in 1974, due in a large part to increased petroleum prices and to the uncertainties of prevailing world economic conditions, but also recalling its previous recommendation that the Uruguayan Government develop a programme for adjusting its import régime so that a waiver of Government obligations would no longer be needed, the Committee agreed to recommend to the CONTRACTING PARTIES to grant an extension of the waiver until 30 June 1976. To this end a draft decision is appended.

ANNEX I

URUGUAY - IMPORT SURCHARGES

Draft Extension of Decision of 24 October 1972

Considering the Decision taken by the CONTRACTING PARTIES under paragraph 5 of Article XXV on 24 October 1972[1] to waive, subject to the terms and conditions laid down in the Decision, the provisions of paragraph 1 of Article II of the General Agreement to the extent necessary to allow the Government of Uruguay to apply the import surcharges which were effectively applied on 31 May 1972 under the relevant laws and decrees in force on that date, as a temporary measure taken as part of and in conjunction with its stabilization and development programme, to items specified in Schedule XXXI, it being understood that the surcharges be levied in a manner consistent with the provisions of Article I of the General Agreement;

Considering that the above-mentioned Decision was extended by Decision of 22 July 1974[2] until the end of the thirtieth session of the CONTRACTING PARTIES;

Considering that the Government of Uruguay has requested a further extension of the above-mentioned Decision on the grounds that the surcharges are still needed as a means of safeguarding the balance of payments;

Considering that a detailed and careful examination of the balance-of-payments aspects of the import surcharge has been carried out with the Uruguayan delegation, and in consultation with the International Monetary Fund;

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[1]BISD 19S/9

[2]L/4063

The CONTRACTING PARTIES, acting pursuant to the provisions of paragraph 5 of Article XXV of the General Agreement;

Decide that the Government of Uruguay be authorized to maintain the surcharges at present applied by it, subject to the terms and conditions of the Decision of 24 October 1972, until 30 June 1976.