

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS ON THE 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 1961 relating to Uruguay's import surcharges.
2. The Committee noted that the waiver had originally been granted by a Decision of 8 May 1961 and had been successively extended by Decisions of 20 July 1963, 31 January 1964 and 18 March 1964; extended and amended by Decision of 23 March 1965 and further extended by Decisions of 14 December 1965, 17 November 1967, 26 July 1968, 20 February 1970, 28 August 1970, and 10 August 1971 until the end of the twenty-seventh session of the CONTRACTING PARTIES (L/3561).
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, and the effects of the revision of the Uruguayan surcharge system on the Uruguayan obligations under Article II of the General Agreement and to report to the 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 annex 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. 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 million 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 million at the end of June 1971. The Uruguayan authorities had taken several measures to ease the pressure on 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 million in the trade balance 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 stabilization and development plans were being carried out. These plans would be further implemented by the next administration which would take office in March 1972.

8. A member of the Committee enquired whether the Uruguayan authorities had considered taking measures to curb speculation on foreign exchange often practised by foreigners, which seemed to account for a large loss of foreign exchange. The representative of Uruguay explained that this was a permanent problem in his country, and included capital movements away from the country; 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 1971 and fiscal measures concerning meat had been taken in 1970. The representative of Uruguay said that such measures were taken and developed in the framework of the Plan for foreign trade of 1971. He added 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 increasing 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, which required 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 or reduction in the import surcharge for goods transported to Uruguay in ships of national lines or belonging to foreign lines participating in conferences in which Uruguay took part. It appeared to some members that this reduction vitiated the balance-of-payments effect that the surcharge was designed to provide, inter alia by diverting imports from the cheapest sources of supply or means of transport. In their view this discriminatory element should be eliminated. Some of these 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 legislation. The representative of Uruguay said that the Decree of 30 June 1970 had established a provisional régime which 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. The Committee was not clear whether the situation regarding shipping was still regulated by the Decrees 290/970 and 311/970 (or 811/970) of 18 and 30 June 1970¹ or whether new legislation had been enacted. Some members stated that, in view of this uncertainty, they could not at present take a position concerning the extension of the waiver.

11. Some members of the Committee recalled that the waiver had been granted and extended to prevent a serious decline in Uruguay's monetary reserves. For this reason, they believed it inappropriate and counterproductive for Uruguay to grant partial exemption from the surcharge to imports from Uruguay's LAFET partners, since these exemptions vitiated its balance-of-payments effects. The representative of Uruguay replied 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.

12. 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 consignations. 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 inter alia an up-to-date list of products subject to the surcharges together with their corresponding rates and, as far as possible, the percentage of imports subject to each rate, and details on the specific questions asked on the subjects mentioned in this and other paragraphs.

13. The Committee noted the statement by the representative of Uruguay that there was no possibility in the short term of removing the import surcharge system, but that the application of the surcharge was a temporary measure. In the light of the statement of the International Monetary Fund quoted in paragraph 6 above, the Committee considered that the CONTRACTING PARTIES might justifiably agree to a

¹Reproduced in L/3409/Add.1.

L/3618

Page 4

further extension of the waiver; but since the information available did not allow a detailed examination of the import surcharge system as required by the Committee's terms of reference, the extension should be for a limited period. Before the expiry of this period the information requested in paragraph 12 could be provided to enable the Committee to fulfil its terms of reference. The attached draft decision extending the waiver until 31 May 1972 subject to the terms and conditions stated therein is presented herewith to the Council for consideration.

ANNEX I

Draft Decision

Considering that the CONTRACTING PARTIES by Decision of 8 May 1961¹ waived, subject to specified terms and conditions, 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 provided for in its Decree of 29 September 1960, as a temporary measure taken as part of and in conjunction with its stabilization and development programme, to those items specified in Schedule XXXI enumerated in the table annexed to that Decision, on the understanding 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 successively extended by Decisions of 20 July 1963, 31 January 1964 and 18 March 1964; extended and amended by Decision of 23 March 1965 and further extended by Decisions of 14 December 1965, 17 November 1967, 26 July 1968, 20 February 1970, 28 August 1970², and 10 August 1971³ until the end of the twenty-seventh session of the CONTRACTING PARTIES;

Considering that the Government of Uruguay has requested a further extension of the above-mentioned Decision on the grounds of continuing balance-of-payments difficulties;

Having carried out a preliminary examination of the surcharges applied by Uruguay for balance-of-payments reasons; but noting that the information available did not allow a detailed examination as required by the Committee's terms of reference;

Having consulted fully with the International Monetary Fund and taken into account the assessment provided by the Fund,

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 that the Government of Uruguay be authorized to maintain the surcharges at present applied by it, subject to the relevant terms and conditions of the Decision of 8 May 1961 and the successive decisions mentioned above until 31 May 1972, it being understood that the Government of Uruguay will submit the information requested to enable the Committee to fulfill its terms of reference before the expiry of this period.

¹ BISD, Tenth Supplement, page 51

² L/3435

³ L/3561

ANNEX II

Statement Made on 4 November 1971 in the Committee on
Balance-of-Payments Restrictions by the Uruguayan Representative
Regarding the Extension of the Authority to Apply Surcharges

1. By Decision of 8 May 1961 the Government of Uruguay was authorized by the CONTRACTING PARTIES to apply import surcharges in the form and subject to the conditions set out in that Decision, as a temporary measure and as part of its stabilization and development programme.

This authorization was renewed by Decisions of 20 July 1963, 31 January 1964 and 18 March 1964. The last-mentioned Decision was extended and amended by the Decision of 23 March 1965, which itself was extended by the Decision of 14 December 1965 until the end of the first regular session of the CONTRACTING PARTIES in 1967.

2. During the twenty-fourth session of the CONTRACTING PARTIES the Uruguayan Government requested that the then existing waiver be extended for six months (document L/2880 of 2 November 1967).

3. By a Decision of 17 November 1967 (SR.24/11), the CONTRACTING PARTIES decided that the Government of Uruguay would "be authorized to maintain until 30 June 1968 the surcharges at present applied by it, subject to the relevant terms and conditions of the Decision of 8 May 1961".

4. Lastly, further extensions were granted under the Decisions of 26 July 1968 (document L/3051) and 10 August 1971 (document L/3561).

5. On 21 June 1971 the Uruguayan delegation addressed a communication (No. 9/III/1971) to the Director-General containing a further request for extension of the application of import surcharges.

Subsequently, in accordance with the Decision taken by the Council on 29 June 1971 (C/M/70) and as requested in a note of 13 July 1971 from the GATT secretariat, the Uruguayan delegation forwarded to the secretariat a basic document for this meeting, which was circulated as document BOP/120 of 22 October 1971.

This document analyzes the balance-of-payments position and prospects, the stabilization and development measures and the system and methods of the restrictions.

6. I think it would be useful if I made a brief reference to the last-mentioned point.

(1) The legal basis for the restrictions that can be applied on imports into Uruguay is still the Act of 17 December 1959, establishing a régime that has already been examined in earlier consultations.

The basic principle underlying the Act, as stated in its Article 1 is to establish a system of unrestricted imports, in contrast to the system existing when the Act was promulgated, 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 of non-essential or luxury products and goods competing with domestic production;
- (c) prohibiting entirely or in part, for a period of six months with the possibility of extension, imports of non-essential or luxury products or goods competing with domestic production.

(2) Since November 1967, the new economic policy has implied the gradual elimination of all existing prohibitions on imports. Accordingly, the possibility mentioned in Article 1(c) of the Act of December 1959 has not been invoked, and the Government's policy is not to re-introduce any prohibitions or restrictions of this kind.

At the last balance-of-payments consultation in this Committee, Uruguay explained in detail how the restrictions provided for in the aforementioned Act are applied. It also explained how, in practice, the system of prior deposits had been abolished and replaced by a system of consignations under the Decree of 1 December 1967 which authorized the Central Bank to require consignations in national currency in respect of imported goods. Under Circular No. 48 of the same date, the Central Bank abolished prior deposits and introduced the system of consignations, acting under authority conferred upon it by the above-mentioned decree of the Executive.

Since the last balance-of-payments consultation, some significant changes have been introduced in the surcharges and consignations which can be applied under the national legislation.

Under a decree dated 20 May 1971 the surcharges at the rate of 35 per cent, 65 per cent, 95 per cent, 155 per cent and 230 per cent have been replaced by surcharges at the rate of 50 per cent, 80 per cent, 110 per cent, 170 per cent and 250 per cent respectively (Article 1), and the 15 per cent surcharge on certain goods has been raised to 24 per cent (Article 2). These increases are not applicable to imported goods on which concessions have been granted under the Montevideo Treaty and goods classified as capital goods. The decree is not applicable to imports registered before 15 April 1971. Some amendments were made to the decree by another dated 24 August 1971.

Under a decree dated 4 June 1971, new surcharges were fixed for imports of certain products because of the fact that imports of products on which concessions had been granted under the Montevideo Treaty were subject to surcharges at differing rates; in many cases the surcharges had been established and/or increased after the LAFTA Conference at which the concession had been granted; as a result, an additional preferential margin was being granted by unilateral decision in respect of imports originating in LAFTA member countries. It was therefore necessary to adjust the surcharges concerned to the levels existing at the date of the negotiation.

By a decree dated 4 June 1971, consignations were fixed for certain imports in order to keep foreign exchange expenditure to a minimum and to contribute to the process of stabilizing domestic prices. The consignations are at the rate of 105 per cent for imports originating in LAFTA member countries, and 150 per cent for imports originating in other countries.

By Decree No. 246/971 of 7 May 1971, a ninety-day suspension was ordered on imports of goods classified as capital goods, in accordance with the list annexed to the Decree of 18 October 1965 (Article 1), with certain exceptions (Article 2), in order to allow a new system to be drawn up for these imports. Under the decree of 21 September 1971, the suspension has been extended until 31 December 1971.

These measures were adopted because of the emergence of elements that were disturbing balance-of-payments equilibrium and in order to ensure the success of the stabilization policy which had been adopted.

The upward trend in imports shows that the surcharges have had a regulating effect on the liberalized import régime provided by law, and have not been a negative instrument. Indeed, imports are tending to increase as can be seen from the following figures:

<u>Imports</u>	
(Annual totals in \$'000)	
1967	171,410
1968	159,343
1969	197,324
1970	233,078

(3) Under the import régime there are no prohibitions for protective reasons.

The application of surcharges is permitted, however, inter alia in the case of goods competing with domestic production.

No immediate and complete abolition of the surcharges can be envisaged at the present time, but the Government has realized the need to review its entire policy on these matters; for that reason the economic and financial programme 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 national tariff mechanism that will encourage domestic activity in the context of greater efficiency in the country's industrial activities".

(4) This legal basis is consistent with the economic and financial policy adopted by Uruguay and with the objectives and targets set by the Government since 1968.

Among the results recorded in 1970 the following should be noted: the anti-inflation policy achieved some measure of success; per capita GDP again increased, the targets set for monetary and credit policy were achieved and in addition the tax policy brought down the budget deficit. Taking all this into account, and despite the efforts made in respect of exchange policy and foreign trade policy, a substantial deficit developed in the balance of payments in the second half of 1969 and the first few months of the current year.

Among the economic and financial policy objectives set by the Government for 1971, we must mention a 5 per cent increase in GDP, a 20 per cent maximum increase in consumer prices, equilibrium in the balance of payments, and reduction to the minimum of the Government's cash deficit.

Immediate prospects do not point to any substantial improvement in the short term in respect of the balance of payments and the present régime must be maintained for the time being so that the stabilization and development policy can take its course. To eliminate that régime would amount to removing the only regulating element maintained, in conjunction with consignations, in Uruguay's import system which is based on freedom to import without any prohibition or discrimination. I repeat once more that the surcharge system is a transitional measure, as expressly stated by the Uruguayan Government in its economic and financial programme. When circumstances permit, the surcharge system will be eliminated but today it still corresponds to an undeniable factual situation and to a need that cannot be disregarded.

(5) In the present circumstances my Government considers that the application of the import surcharges is consistent with the letter and the spirit of the General Agreement.

The legal basis for the surcharges - the Act of December 1969 - has already been examined at earlier consultations.

(6) Having regard to what has been stated by my Government, through my intermediary, requests an extension for a reasonable period of the authority to apply import surcharges on the understanding that such authority would be subject to the terms and conditions established by the Decision of 8 May 1961.