

GENERAL AGREEMENT ON TARIFFS AND TRADE

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URUGUAY - IMPORT SURCHARGES

The following information has been submitted by the Delegation of Uruguay in connexion with its request for an extension of the waiver on import surcharges, and in compliance with the terms and conditions of the waiver. The paper contains:

- (A) An analysis of the measures Uruguay has taken in order to deal with its balance-of-payments situation and of the prospects for its future development;
- (B) supplementary information on products subject to payment of surcharges;
- (C) the current system of protection of vessels flying the national flag.

PART I

In 1973, the prospects for Uruguay's balance of payments differed fundamentally from those which may be deduced today from the present situation.

During that year, the evolution of Uruguay's international reserves was favourable, due to an appreciable surplus in the trade balance, which was mainly a result of the rise in prices of the country's principal exports.

In 1974, however, considering the rate at which import declarations are being received and the intention to apply a liberalization policy to imported inputs (in order to avoid a supply shortage in the market) and to fixed capital goods essential for development, the trade balance was not expected to show a substantial surplus. If one added to this the payment of the public sector's debt servicing in foreign currency and the Central Bank's short-term commitments with foreign countries, it was easy to surmise that, despite the favourable level of economic activity, it would not be possible to undertake a complete review of the policy of import surcharges. And now the increase in prices of energy products and some raw materials essential to the country has rendered the forecasts still less encouraging.

Chapter I of this part of our presentation covers the most indicative elements of the 1973-1977 Development Plan and describes its objectives and targets in respect of growth rate and development of some sectors of economic activity.

Chapter II analyzes the short-term policies which the government has decided to adopt under the Plan. It mainly comprises an analysis of import policy and the effect of the surcharges on that policy, as well as of exchange policy, balance-of-payments policy, etc.

Chapter III presents a panorama of the country since January 1974, i.e. since the rise in the price of petroleum and some raw materials, and concludes with the draft decision of the International Monetary Fund.

Lastly, Chapter IV contains our conclusions.

I - 1973-1977 Development Plan

In general terms, the principal objectives set by the five-year plan were:

1. Sustained growth rate of the gross domestic product.
2. Higher level of employment.
3. Strengthening of international reserves.
4. Improvement of the distribution of income.

A synthesis of the main points of the information which concerns us follows.

(A) In terms of product, an annual, accumulative growth rate of 2.8 per cent is expected, in relation to the period 1965-1969, and of 3.8 per cent if one takes 1972 as the base year (see Table I of annex).

During the next five years, changes will come about in the structure of overall demand. The sustained effort in respect of new and replacement investments in the period covered by the Plan will result in an increase in the share of gross investment in demand, which will rise from 7.7 per cent during the period 1965-1969 to 12.8 per cent in 1977. Concerning investment priorities in the public sector from 1973-1977, see Table II of the annex.

Although consumption is expected to increase during the five-year period, its relative share must decrease from 81 per cent to 74 per cent in order to permit the necessary growth of investments and exports.

External demand should expand at a more rapid rate than internal demand so as to represent 13.4 per cent of total demand in 1977 (see Table III of annex).

(B) In 1977, goods and services available per inhabitant are expected to increase to 205,000 in 1969 pesos, which would mean 15 per cent more than the average amount available during the years 1960-1964. This figure assumes greater significance if one considers that since this period and with the exception of the year 1970, the amount of goods and services available in the country has been decreasing. (In this connexion, see Table IV).

(C) It is anticipated that, over the coming five-year period 1973-1977, gross domestic product will increase at an annual accumulative rate of about 4 per cent, which will reach 5 per cent annually during the year 1977.

Agricultural production. - The gross value is expected to increase at an annual accumulative rate of between 4.8 per cent and 5.9 per cent during the period 1973-1977.

Livestock production. - The increase in bovine livestock will depend essentially on the expansion of the improved pasture area, which will be increased at a rate of 350,000 hectares annually over the next two years, and 400,000 hectares annually during the period 1965-1977.

Industrial sector. - The growth strategy for this sector is based on expansion and diversification of imports. It will enable us not only to enlarge existing industries but also to develop new activities which will make it possible to overcome our internal limitations in respect of the scale of production. The Plan provides for an annual accumulative growth rate of industrial production of about 5 per cent during the five-year period, in keeping with the forecasts for the economy as a whole.

(D) In respect of the development of some sectors of economic activity, two fundamental laws have been passed: one concerning industrial promotion and the other concerning foreign investments.

Industrial Promotion Act. - This defines the industries to be promoted on account of their national importance and provides for incentive measures of an economic and financial nature.

Article IV lays down methods of credit assistance and Article VIII provides for fiscal exemptions.

Foreign Investments Act. - This law is designed to give security to the foreign investor in respect of the monetary integrity of his investment and the interest thereon.

The law defines a foreign investment as "all capital coming from abroad, having the right to transfer of its value and its profits".

II - Short-term policies under the Plan

In order to relate the broad outline of the Development Plan to the short-term policies the Government has adopted, we shall analyze those which are of particular importance from the point of view of this presentation.

1. Exchange and balance-of-payments policy

As was decided in March 1972, the exchange rate will be frequently adjusted at irregular intervals in such a way as to maintain an adequate relation between it and other economic variables and, in particular, domestic and foreign price levels.

The rate will be fixed by deducting foreign price increases from domestic price increases. These prices will be calculated on the basis of a group of imports and exports representative of the country's trade.

The Government's objective in this respect is to unify exchange markets and liberalize financial transactions.

2. Anti-inflation strategy

The Government approached this problem convinced that a shock policy would tend to entail a high social cost which would be borne by the various groups of society in inverse ratio to their economic means.

This alternative being rejected, the sole remaining way to combat inflation was to apply a policy of gradual reduction.

Table V of the annex shows the evolution of prices and wages during the years 1969-1973.

3. Import policy

It is the Government's intention to strive for the greatest possible liberalization of import trade compatible with the public interest and to make such restrictions as may be established or maintained strictly provisional or exceptional.

This progressive liberalization will be applied in the shortest possible time to imports of raw materials and capital goods.

In respect of capital goods, after their import had been prohibited for almost two years, they have ceased to be subject to quantitative import restrictions since March 1973.

Capital goods considered essential to the country's economic development are exempt from consignations, whereas those not essential to development are subject to a prior deposit (350 per cent on products from the LAFTA countries and 500 per cent on those from other origins).

Export industries benefiting from the import system for capital goods are required to ensure that their f.o.b. exports over a period of three years are equivalent to the c.i.f. price of the capital goods imported.

As to the minimum financing required over a period of 180 days for many imports, there are lists of exceptions which include purchases made by the public sector, medicines, coffee, etc.

In respect of import taxes (in which import surcharges are included), during the year 1973, most existing exemptions were extended and new ones were authorized. Total or partial exemptions were granted mainly for imports of raw materials and capital goods for agriculture and industry.

As is shown in Table VI of the annex, the majority of imports are exempt from surcharges and only a small percentage is subject to surcharges at rates exceeding 10 per cent.

It may be pointed out that a series of provisions exist which either exempt goods listed at high or medium rates from the surcharges or authorize their import at the minimum surcharge rate.

Moreover, the overall incidence of the surcharges on total imports has varied very much in recent years, as Table VII indicates (see annex).

The significance of the surcharges in total fiscal receipts has likewise varied very little (see Table VIII). Furthermore, the high concentration of imports in the lower surcharge brackets clearly indicates that this instrument does not have an essentially fiscal object.

4. Exports

Although there has been a considerable increase in exports in recent years, as we have pointed out, this has been achieved as a result of an increase in the prices rather than in the volume of exports, the latter having remained more or less stationary.

It may be added that there has been a marked increase in non-traditional exports in recent years and this trend is expected to persist. The ratio, which was 83 to 17 in 1967, dropped to 73 to 27 in 1973.

In October 1973, all exports were exempted from export taxes, while the exceptions were still maintained on exports of traditional products.

III - Situation since January 1974

Since January of the current year, as is well known, there has been a pronounced increase in the price of petroleum. There is no doubt whatever but that this will cause a structural disequilibrium of considerable magnitude in Uruguay's balance of payments. Moreover, the rise in prices of other imported primary products, the rising cost of manufactures and the fact that meat, wool and leather (76 per cent of Uruguay's exports) are plentiful and their prices stagnant or falling complete the picture of the genuinely critical outlook for the situation of the country.

As is stated in a report prepared by the World Bank: "Uruguay will be one of the Latin American countries most adversely affected by the increase in prices of petroleum."

Already in 1972 and 1973, the value of the petroleum imports represented, respectively, 16 per cent and 20 per cent of Uruguay's total imports. It is now estimated that in 1974, these imports will cost the country 140 million dollars more, i.e. over one third of total imports anticipated this year. The impact on the balance of payments will therefore be very serious, even taking into account that exports rallied in the period 1972-1973, that trade arrears have been paid or consolidated and that there has been some recovery in foreign exchange reserves. Unless additional resources are mobilized, therefore, the possibility of achieving economic recovery in 1974 looks very difficult. In this connexion the estimates made by the International Bank (Table IX of the annex) are very illustrative.

Lastly, we consider it appropriate to add that in the draft decision prepared by the International Monetary Fund in connexion with its visit to Uruguay last February and March, it is stated that in 1973 Uruguay had a balance-of-payments surplus, but that real production did not increase and the inflation rate continued at a high level, despite the improvements in fiscal and credit policy. The text adds that while export prospects for 1974 are favourable, the balance of payments has been adversely affected by the increase in petroleum prices, and although the authorities have taken very drastic action, imports are expected to cost an additional 80 million SDRs.

IV - Conclusions

No discrimination is applied in Uruguay according to the origin of imported goods, although as a member of LAFTA Uruguay applies a special régime of surcharges and consignations in respect of goods originating in LAFTA member countries.

There are no import prohibitions based on protectionists considerations.

No doubt, elimination of the system of surcharges in the short term cannot be contemplated for the moment because of the present economic situation of Uruguay.

It is clear that Uruguay's balance of payments will be seriously affected by the increase in petroleum prices, both in 1974 and in the coming years. In this connexion it is relevant to mention the document prepared by the Committee on Trade and Development (COM.TD/W/208 entitled "The impact of higher petroleum prices on developing countries"). According to this study, the additional cost to Uruguay for crude petroleum imports will reach \$129 million, equivalent to 69 per cent of our total imports in 1972 (as already mentioned, the Central Bank estimates that this sum will in fact reach \$140 million).

PART II

Additional Statistical Documentation

In order to complete the information already furnished, some new material is added:

- (a) A list of the principal products imported in 1972, with an indication of their value and percentage share of total imports;
- (b) A list of imports in 1971 and 1972, indicating the heading corresponding to each product together with values and quantities, weight or volume.

(It should be noted that the nomenclature used in the list of surcharges differs from the BTN.)

- (c) Various data: a list of total imports and exports for 1961-73 (Tables X and XI), balance of payments for the years 1969-72 (Table XII), total indebtedness of the public sector in foreign currencies (Table XIII), and breakdown of foreign obligations of the public sector (Table XIV).

PART III

Promotion of the National Fleet

The system in force in this respect can be summarized as follows:

Consular fees are payable on cargo carried in Uruguayan vessels, since Act 14100 of 29 December 1972 (Article 182) abolished the exemption previously in force. The aforementioned provision states: "Article 11 of Act No. 12091 of 5 January 1954, amended by Article 186 of Act No. 13637 of 21 December 1967, is hereby replaced by the following: 'Article 11 - Vessels engaged in national coasting trade shall be exempt from payment of consular duties'".

The freight reservation established under Act 14106 of 14 March 1973 continues in force. Article 312 of that Act reads as follows: "Article 17 of Act No. 12091 of 5 January 1954, replacing Article 42 of Act No. 13032 of 7 December 1961, is hereby amended to read as follows: 'All imports of merchandise, goods or products consigned directly or through a third party to the central administration, State bodies, autonomous bodies, decentralized services, semi-public corporations or municipal authorities must be carried in national-flag vessels (whether overseas or coasting trade) when said transport is by sea or inland waterway and when cargo space is available. This requirement likewise applies to natural persons or legal entities importing or exporting merchandise or goods covered by fiscal exemptions or financing by any body falling within the State banking system; the Executive is authorized to liberalize transport of the exports mentioned above when it deems this to be consistent with the national interest. If this obligation is not complied with the operation concerned shall not be granted exemption except where liberalization is justified in terms of the following paragraph. The Bank of the Oriental Republic of Uruguay shall be responsible for ensuring that this provision is properly carried out, and may grant exemption only where the National Merchant Fleet Chamber certifies that no vessel is available to carry out the transport.'"

This system is similar to that which used to be applied by countries which today have large merchant fleets, in order to promote the development of their fleet, and it is very similar to the system in force in other Latin American countries.

It should be noted that because of the inadequacy of Uruguayan cargo space, the principle of freight reservation proves inapplicable in many cases, and transport in vessels under other national flags is then immediately authorized

Lastly, we wish to point out that, as already reported at the last consultation, the exemption from the 5 per cent minimum surcharge that was formerly granted on goods imported in national-flag vessels has been without effect since that surcharge was withdrawn under Decree No. 177/972 of 2 March 1972. Since the date of that Decree, therefore, national-flag vessels no longer enjoy, whether directly or indirectly, any benefit deriving from exemption from surcharges.

Our delegation is disposed to furnish any other relevant information that may be requested.

ANNEXES

TABLE I

Growth Rates of the Principal Variable Components
of Final Supply and Demand

(average percentage of annual variation at constant prices)

	1968-1972	1973-1977	% of GNP in 1972
Consumption	1.7	3.1	85.3
Investments	1.3	15.1	12.1
Exports	3.7	10.1	15.2
Imports	3.3	14.9	14.5
GNP	2.0	3.1	100.0

TABLE II

Investment Priorities for the Public Sector 1973-1977

(in million pesos at 1972 prices)

	1973-1977	%
TOTAL	280,564	100
Agriculture and livestock	7,321	2.6
Industry	11,580	4.1
Electricity	128,173	45.7
Water	13,122	4.6
Transport	47,914	17.1
Education	14,316	5.1
Communications	52,709	18.8
Health	5,279	2.0

TABLE III

Structure of Final Supply and Demand
(in % of values at 1969 prices)

	1965-1969	1977
GNP (at market prices)	90.4	84.6
Imports	9.6	15.4
Consumption	80.6	73.8
Investments	7.7	12.8
Exports	11.7	13.4

TABLE IV

Goods and Services Available Per Capita

Period	GNP	Imports	Exports	Goods and services available	Population	Goods and services available per capita
(in '000 million pesos of 1969)					('000)	(\$'000 1969)
1960-64	460	60	53	467	2,610	178.9
1965-69	479	51	62	468	2,783	168.2
1972	524	57	63	518	2,956	175.2
1977	630	115	100	645	3,138	205.5

TABLE V
Prices and Wages
(percentage variation)

	Cost of Living		Nominal wages		Real wages	
	During period	Annual average	During period	Annual average	During period	Annual average
1969	14.5	20.9	20.7	34.7	4.8	11.2
1970	20.9	16.4	17.8	14.9	- 2.4	- 1.3
1971	35.7	23.9	34.1	30.3	- 1.1	5.1
1972	94.7	76.5	48.6	44.3	-23.7	-17.1
1973 ^{1/}	80.0	97.3	91.8	96.0	6.5	- 1.3

^{1/} Estimate

TABLE VI

Total Imports by Surcharge Category
('000 pesos and percentage)

	No surcharge		Up to 10%		Up to 60%		Total imports
		%		%		%	
1970	152,258	66.1	214,246	92.8	219,226		230,918
1969	136,421	69.1	189,201	95.9	190,590		197,325
1968	121,563	76.3	154,016	96.7	157,286		157,383
1967	117,820	68.7	126,437	73.8	167,260		171,410
1962	182,055	79.0	182,055	79.0	209,956	91.1	230,484

Note: Accumulated percentages.

TABLE VII

Incidence of Surcharges on Total Imports
(millions of current pesos)

Year	Total imports		Surcharge
	\$	\$	%
1967	13,468.6	1,243.3	9.2
1968	31,794.8	2,698.7	8.5
1969	47,533.7	4,061.9	8.5
1970	56,815.7	5,868.3	10.3
1971	54,325.1	6,841.7	12.6

TABLE VIII

Year	Total fiscal revenue	Surcharges	%
1967	16,967	1,242	7.3
1968	47,446	2,698	5.7
1969	61,645	4,061	6.6
1970	90,685	5,868	6.5
1971	99,613	6,841	6.9

TABLE IX

Uruguay: Estimate of Payments Deficit, Possible Sources of Financing
for that Deficit and Shortfall Remaining
to be Financed, 1974 and 1975

(million pesos)

Current estimate of shortfall in resources		Estimated increases in net transfers of capital available to finance shortfall in resources ^{1/}				Additional financing required		Possible use of reserves and special system of IMF		Shortfall to be financed	
		Increase in 1975 over 1973	Increase in 1974 over 1973	Increase in 1975 over 1973		1974	1975	1974	1975	1974	1975
43	105	11	2		59	103	32 ^{2/}	0 ^{2/}	27	103	

^{1/} Including net transfers of official and long-term capital, net direct external investments, public and private transfers and workers' remittances.

^{2/} Excluding private autonomous flows, changes in reserves, short-term capital and private long-term loans.
Only funds of the IMF special system.

Source: IBRD.

TABLE X

Total Imports by Uruguay
('000 pesos)

<u>Year</u>	<u>Value</u>
1961	210,926
1962	230,484
1963	176,399
1964	193,363
1965	150,749
1966	164,242
1967	171,410
1968	157,383
1969	197,325
1970	230,918
1971	228,886
1972	211,588
1973	284,817

Source: Central Bank.

TABLE XI

Total Exports by Uruguay
(million pesos)

<u>Year</u>	<u>Value</u>
1961	174.7
1962	153.4
1963	165.2
1964	178.9
1965	191.2
1966	185.8
1967	158.6
1968	179.2
1969	200.3
1970	232.7
1971	205.7
1972	214.1
1973	321.5

TABLE XII
Balance of Payments
(million pesos)

	1969		1970		1971		1972	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
<u>A. GOODS AND SERVICES</u>								
1. Goods f.o.b.	263.3	290.5	291.5	345.9	253.5	325.3	312.4	204.6
2. Non-monetary gold	199.2	170.0	224.1	203.1	196.6	203.0	214.1	178.7
3. Freight and insurance on international shipments	-	-	-	-	0.2	-	27.9	-
4. Other transport	1.1	25.4	0.7	29.3	1.0	30.9	3.4	30.8
5. Travel	4.0	15.8	7.3	20.9	4.1	15.7	5.5	11.0
6. Interest, dividends, profits	43.5	37.7	42.6	45.0	39.9	84.8	44.9	40.4
7. Government transactions not included under other headings	3.4	25.6	1.5	26.3	0.8	22.4	1.4	25.0
8. Miscellaneous services	7.4	6.3	6.8	7.4	6.4	7.2	7.7	8.6
<u>B. TRANSFER PAYMENTS</u>								
9. Of a private character	4.7	9.7	8.5	13.9	4.5	11.3	7.5	10.1
10. Central Government	2.4	1.0	11.1	1.8	9.8	1.5	12.3	1.0
<u>C. CAPITAL MOVEMENTS</u>								
I. Non-monetary sector	0.5	0.9	0.5	1.4	0.5	1.1	0.5	0.7
II. Monetary sector	8.9	0.4	10.6	0.4	9.3	0.4	11.8	0.3
	25.8		35.6		71.6		58.4	
	17.2		25.2		114.3		44.5	
	8.6		10.4		42.7		13.9	

TABLE XII (cont'd)

	1969		1970		1971		1972	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
D. <u>SDR ALLOCATION</u>			9.2		7.4		7.9	
E. <u>INTERNATIONAL RESERVES OF MONETARY AUTHORITIES</u>		16.0	26.3		29.3			25.4
F. <u>NET ERRORS AND OMISSIONS</u>	9.3			26.0		44.8		60.0

Source: Central Bank

TABLE XIII

Total Indebtedness of the Public Sector in Foreign Currency

(million pesos)

	1969	1970	1971	1972	1973 (at 30 June)
I. <u>Debts with non-residents</u>	<u>281.6</u>	<u>324.0</u>	<u>387.1</u>	<u>493.2</u>	<u>400.0</u>
1. Monetary authority	149.7	161.5	187.3	207.9	138.1
2. Bank of the Republic	-	-	-	41.8	60.0
3. Rest of public sector	131.9	162.5	199.8	243.5	199.9
II. <u>Debts with residents</u>	<u>95.9</u>	<u>92.0</u>	<u>119.2</u>	<u>119.3</u>	<u>130.6</u>
1. Monetary authority	51.6	43.0	53.8	54.2	51.7
2. Bank of the Republic	-	-	-	18.4	16.4
3. Rest of public sector	44.3	49.0	65.4	46.7	62.5
III. <u>Total Indebtedness in foreign currency</u>	<u>377.5</u>	<u>416.0</u>	<u>506.3</u>	<u>612.5</u>	<u>530.6</u>

Source: Central Bank.

TABLE XIV

Foreign Obligations of Public Sector

Excluding Central Bank - Situation as at 30 June 1973

(million pesos)

	Credit not used	Credit used	Repaid	Owed	REPAYMENT SCHEDULE					TOTAL
					1973	1974	1975	1976	1977 onwards	
TOTAL	75.6	265.0	92.4	188.9	12.1	20.6	18.6	17.0	196.2	264.5

Source: Central Bank.