

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## 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<sup>1</sup> 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 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

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<sup>1</sup>BISD 19S/9.

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 sizeable 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 rôle 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 pesos, 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 1974 would have. It was explained that Act No. 14179 of 28 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 undertaking 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. Members of the Committee asked why the temporary surcharge had not been phased out in 1973, when the balance-of-payments situation appeared strong. The representative of Uruguay replied that large payments arrears had to be met. Although the arrears were renegotiated, additional loans had had to be found and the surplus in the balance of payments was needed in full to meet these obligations.

10. 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, 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 sheep-skin 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.

11. 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.

12. 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 within a reasonable period.

13. 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, and that the GATT allowed surcharges only as temporary transitional measures, to be maintained while more fundamental corrective measures were taken. They also noted with satisfaction that there was no longer any flag discrimination applied by Uruguay.

#### Conclusions

14. Taking into account the views of the International Monetary Fund on Uruguay's balance-of-payments position, and bearing in mind the added pressures on the balance of payments in 1974, due in a large part to increased petroleum prices, to the uncertainties of prevailing world economic conditions, and to the current difficulties facing the marketing of Uruguay's beef, but also recalling its previous recommendation that the Uruguayan Government develop a programme for adjusting its import régime so that a waiver of GATT 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<sup>1</sup> 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<sup>2</sup> 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;

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.

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<sup>1</sup>BISD 19S/9

<sup>2</sup>L/4063

ANNEX II

URUGUAY

Opening Statement by the Representative of Uruguay

Our delegation has requested an extension of the waiver granted to Uruguay for the application of import surcharges because our balance-of-payments situation requires the adoption of measures to safeguard our country's foreign exchange reserves.

In this connexion, and as on earlier occasions, it is appropriate to examine Uruguay's economic policy and in particular the consistency of that policy with the rules governing the existence and operation of the General Agreement.

Although Uruguay is making tremendous efforts to achieve its own development, it has not been able to avoid or overcome factors that have adversely affected, and are still so affecting, its balance of payments.

We believe it would not be appropriate to spell out in detail these efforts and the difficulties that have had to be faced, nor to launch into lengthy and detailed comments; and we also believe that, for the purposes of this consultation, it is relevant to consider in a concrete and fundamental manner, together with the present situation of our balance of payments and recent developments, the future prospects in this regard, taking account of the measures adopted and the results they are expected to yield.

Consequently our submission will be along the same lines as the request which led to this consultation, outlining the fundamental considerations already expressed, while adding certain new elements of judgment also in summary form.

1973-1977 Development Plan

The Development Plan adopted by Uruguay for the five-year period 1973-1977 constitutes a set of essentially dynamic measures which, without prejudice to provisions applicable in the short term, aims to achieve economic growth by orienting investments, improving productivity, meeting technical requirements, promoting development of the export sector and continually improving income distribution levels among the Uruguayan people. In brief, Uruguay's Development Plan aims through appropriate measures to increase per capita income, employment and international reserves, and to ensure a better distribution of income.

In accordance with the overall objectives and targets of development for the five-year period 1973-1977:

(a) gross product will have to increase at an average annual cumulative rate of approximately 4 per cent, reaching 5 per cent annually in 1977;



(b) over the same period per capita product will increase at an annual cumulative rate of 2.8 per cent;

(c) goods and services available per inhabitant will increase from 175,000 pesos in 1973 to 204,000 pesos in 1977 (in 1969 pesos).

The sectors which will contribute most to this growth are agriculture, industry, construction and tourism.

The growth rate of agriculture in the five-year period will be higher than that of the livestock sector because of its greater flexibility. Nevertheless under the Plan particular attention will be given to increasing livestock production.

In the industrial sector, expansion will be based fundamentally on expansion and diversification of export industries.

The Plan contains forecasts concerning the growth of industries supplying the domestic market, the housing sector, in which a major target is the construction of dwellings, the tourism sector, with provision for major infrastructure and equipment projects. Now, as to the main indicators for attainment of the overall objectives and targets:

Aggregate supply and demand will increase at an annual cumulative rate of 5.1 per cent between 1972 and 1977.

Consumption will increase at an annual cumulative rate of 3.1 per cent, and gross investment at a rate of 15 per cent. This expansion can be achieved if the import target of 102,000 million (at 1969 prices) for goods and services is reached in 1977 - in other words approximately \$407 million.

The annual cumulative growth rate will be approximately 10 per cent for exports and 14.9 per cent for imports.

On the export side, the largest increase should be in respect of meat, reaching an annual cumulative rate of about 15 per cent. As regards other items, natural agricultural products are expected to increase so that wheat can be exported and there will be increased availabilities of fruit and vegetables. In addition, exports of fishery products should develop rapidly as a result of the substantial investments now being made and the promotion plans for this sector.

Consequently there will be some changes in the composition of imports.

The share of meat in total exports will rise from 38 per cent in 1970 to 50 per cent in 1977, while that of natural agricultural products will rise from 0.4 per cent to 3.7 per cent. Industry's contribution to exports will be of the order of 18 per cent in annual cumulative terms.

We believe there is no need for more detailed information concerning the overall objectives and targets of the Plan; in this respect we would refer you to what we have already submitted and can add any further information that may be necessary; it seems to us appropriate on the other hand, to underline briefly the dynamic character of the Plan.

Indeed, the Plan makes provision for modernizing producing sectors, strengthening infrastructure and the public sector, it gives sustained support to investment and foreign trade expansion and encourages planning as an instrument of government.

Also within the framework of the Plan is UNDP co-operation with a technical assistance programme amounting to \$10 million over the five-year period, and co-operation from FAO, UNESCO and other specialized agencies; all this - apart from ensuring an adequate and effective articulation for the Plan and, as stated in the Development Strategy, international consistency - contributes to creating the essential conditions for the formulation and implementation of new and more far-reaching projects for the country's development.

One example will suffice to illustrate the special characteristics of the Plan under reference. We stated in our request for this consultation that the increase in bovine livestock will depend essentially on 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 in the three-year period 1975-1977. This is so. In addition, however, provision has been made for technical assistance in the agricultural sector, focusing on technological development and research activities as embodied in the projects for an Experimental Station (the Laguna Merin station) and a Veterinary Research Centre (the Miguel C. Rubino Centre). The first of these will be concerned with testing and demonstrating agricultural and livestock production on both irrigated and non-irrigated land. The second will engage in veterinary research in order to increase and improve livestock production. Also relevant to this field is the project for the eradication and control of hydatidosis. And in direct and close relation with the human resources that will be needed for agricultural development, technical assistance projects have been formulated for the Faculty of Agronomy and the Faculty of Veterinary Medicine in the Workers' University (UTU). These projects will improve the curricula for agronomic and veterinary studies, intensify the training of teaching staff and contribute to greater efficiency among the technical personnel who are essential for the agricultural sector.

Similar remarks could be made regarding industry, trade, education, public health and also in respect of the support given to the economic and social planning sector whose services are being extended and strengthened. Thus the Development Plan for the period 1973-1977 comprises factors that are efficient and really conducive to development and, as already mentioned, the Plan is indeed of a dynamic character.

It should be noted that an Industrial Promotion Act was recently promulgated in order to promote industries of national interest, granting them economic and financial incentives, as well as a Foreign Investments Act to give security to the foreign investor in respect of the monetary integrity of his investment and the interest thereon.

As regards short-term policies under the Plan, we can give the following details.

With respect to exchange and balance-of-payments policy, since March 1972, the exchange rate has been adjusted whenever necessary in such a way as to maintain a balanced relation between it and other economic variables and in particular, domestic and foreign price levels. The rate is fixed by deducting foreign price increases from domestic increases, the prices being calculated on the basis of a group of imports and exports representative of the country's trade.

It should be noted, furthermore, that a realistic exchange policy is being pursued with a view to unifying exchange markets.

In accordance with the provisions adopted on 23 September last - we shall transmit the texts to the GATT secretariat for the information of representatives - the liberalization of the financial exchange market is complete and unrestricted, the only requirement being that for statistical purposes, an indication must be given of the purpose for which the foreign exchange is intended (tourism, travel, insurance, purchase of Treasury bonds, royalties, family remittances, payment of dividends). Operations are effected through the exchange counters of the banks and the price is determined according to the free play of supply and demand.

As regards measures to combat inflation, it should be noted:

(1) that efforts are being made to offset the adverse effects of fiscal policy on the inflationary process by rationalizing public expenditure;

(2) that monetary policy is regulated so as to ensure an adequate and fluid supply of financial resources for the economic system without aggravating inflationary pressures. To this end, annual monetary programmes provide for the channelling of credits consistently with the real necessities of production on a selective basis, so as to promote those sectors considered to have priority under the National Development Plan;

(3) that in the context of the fight against inflation a policy of gradual reduction has been applied without causing any sacrifice for the lower income brackets of the population. The Controller of Prices and Incomes takes account of three categories of goods and services: (a) essential articles, the prices of which are fixed administratively; (b) goods the prices of which are supervised under the sworn declaration system through indices linked with automatic effect to the cost of inputs; (c) goods the prices of which are recorded for statistical reasons.

The policy of gradual reduction has eliminated the price time-lag that formerly caused a shortage of certain goods; this policy ensures an adequate balance between prices and in 1973 the increase in prices was less than in 1972 and real wages were maintained.

For the current year, the necessary efforts are being made to lower costs, beginning with stringent measures to hold down costs in State services and relieve fiscal pressures on prices in order to maintain an adequate real wage level.

As regards import policy, we can repeat what we already stated in the note submitted to GATT on 17 June, comprising the following main points:

The fundamental objective of this policy is to achieve the greatest possible liberalization of international trade. To this end: (a) capital goods, after having been prohibited for import for almost two years, have ceased to be subject to quantitative restrictions since March 1973, and those considered essential to the country's economic development are exempt from consignations. Notwithstanding this, export industries benefiting from this import system are required to ensure that the f.o.b. value of their exports over a period of three years is equivalent to the c.i.f. price of the goods imported; (b) in respect of import taxes (including the exchange surcharges), most existing exemptions were maintained in 1973 and some new ones were granted, mainly in respect of imports of raw materials and of capital goods for agriculture and industry; (c) the consignment requirement applies only to non-essential capital goods (350 per cent on products from LAFTA countries and 500 per cent on those of other origins); (d) that as regards the minimum financing required for 180 days in respect of many imports, there are lists of exceptions which include purchases by the public sector, as well as products such as medicines, coffee, etc.; (e) that as is shown in Table VI submitted by our delegation, the majority of imports are exempt from surcharges and only a small percentage is subject to surcharges at rates exceeding 10 per cent; (f) that the overall incidence of the surcharges on total imports has not varied very much in recent years, as may be seen from statistical Table VII, nor have there been substantial variations in the amount of the surcharges in total fiscal receipts, as indicated in Table V.

Furthermore, the high concentration of imports in the lower surcharge brackets indicates that the surcharges do not have a definitely fiscal object.

Lastly, we should like to underline that despite the grave difficulties which Uruguay is encountering, the Government is making every effort to liberalize its international trade to the fullest extent possible. Specifically, and consistently with this intention, on 10 October, it reduced the surcharge rates of 60, 90, 150, 225 and 300 per cent to rates of 55, 75, 120, 150 and 200 per cent respectively.

In addition to the exchange provisions already mentioned, we shall communicate the text of this latest Decree lowering the surcharge rates. We did not mention this earlier, having been informed by telex before it was materially possible to receive copies of the official texts.

In 1973 the prospects for our balance of payments were frankly positive, due to a surplus in the trade balance which was mainly a result of the rise in prices of Uruguay's principal export products.

Up until the end of 1972 Uruguay had a debt of SDR 63 million in trade arrears respect of imports. Of this amount, approximately 39 million corresponded to imports prior to 1971 and the rest to delays in the receipt of foreign exchange.

During 1973 the trade arrears dating from before May 1971 were eliminated by the payment of SDR 5 million to foreign creditors. At the end of November negotiable bonds were issued in the amount of SDR 22 million (bearing interest at the rate of 7.5 per cent and redeemable in seven biannual quotas as from December 1973) for payment of the largest creditors, and other arrangements were made with the other creditors.

In October 1973 all exports were exempted from export taxes - with the exception of exports of traditional products - and also in 1973 institutional improvement of foreign trade system was undertaken so as to meet needs in regard to information, promotion, planning and implementation in regard to imports and exports.

The above-mentioned increase in exports enabled Uruguay to carry out obligations entered into earlier and to liberalize its international trade to the fullest extent possible, and furthermore, so to speak, to take action in furtherance of the course adopted for its own development, that of economic growth achieved through the Development Plan already examined in outline, which provides for improvement and diversification of our country's industries and foreign trade.

In the latter months of 1973, however, the favourable prospects for our balance of payments began to deteriorate because of the rate of import declarations as a result of the policy of liberalizing imported inputs, (with a view to preventing a supply shortage in the market) and fixed capital goods essential for development; as a result the trade balance no longer showed a substantial surplus. In the light of these circumstances, together with servicing of the public sector's foreign debt and the Central Bank's short-term commitments abroad, it became clear that complete elimination of the import surcharges, consistently with the firm intention of liberalizing international trade, could no longer be possible.

Furthermore, a certain reasonable period was clearly necessary for the Development Plan to yield results and to allow the country to improve and secure its development.

This year, however, since the increase in prices of petroleum and other raw materials, Uruguay's economic and financial situation has suddenly deteriorated.

As regards the impact of these increases on our economy - and it is relevant to note here that Uruguay is a developing country which has to import all the petroleum it consumes - various forecasts have been made. The report prepared by the IMF Mission in March of this year stated: "...the balance of payments has been adversely affected by the increases in petroleum prices...Although the authorities have taken very drastic action, imports are expected to cost an additional SDR 80 million...The consequence will be a decline in international reserves".

In the view of the Committee on Trade and Development in its study entitled "The impact of higher petroleum prices on developing countries", the additional cost to Uruguay for crude petroleum imports will reach \$129 million, equivalent to 69 per cent of total imports in 1972.

The Central Bank of Uruguay estimates that this amount will in fact reach \$140 million.

One more piece of information clearly reflects the contrast between Uruguay's present situation and the outlook at the same date in 1973.

Taking into account imports of fuels and lubricants, our country's trade deficit amounted to 373 million on 20 September last.

At the same date last year there was a surplus of \$84,630,000.

In order to appreciate Uruguay's present difficulties one need merely consider the following figures: at 30 June 1974 actual fuel imports had reached a value equivalent to the value of meat exports in the first six months of the year, and it must be borne in mind that the EEC market was subsequently closed. In order to cover fuel import costs in 1974, 136,000 tons of meat would have to be exported (meat exports in 1973 reached 111,000 tons) and by 31 August only 72,000 tons had been sold.

Add to this the fact that markets which used to take up our principal export products - in particular meat - have restricted or halted their purchases, and one can readily see that our country is undergoing a grave crisis.

This being so, Uruguay's present economic circumstances do not permit any elimination of the system of surcharges and they justify an extension of the waiver, as we have requested.

To conclude this statement - which has been longer than we would have wished - we would point out that the surcharges are applied without discrimination as regards the country of origin of goods, and imports are not subject to quantitative restrictions.

In addition, with reference to a remark made on other occasions concerning imports carried by sea, I must repeat that no exemption is granted as regards surcharges. Products carried in national-flag vessels have to pay the same surcharges. The only advantage accruing to such ships under Act No. 14106 of 14 March 1963 is that of freight reservation, under which goods covered by fiscal or financing exemptions, or under the responsibility of any body within the State banking system, must be carried in Uruguayan vessels. This system is similar to that in force in other countries, and because of the shortage of Uruguayan vessels, its application is very limited.

Lastly, we wish to state that despite the difficulties that Uruguay is at present encountering, we are convinced that recovery will come in the not too far distant future because apart from relying on our own domestic potentialities we must be able to count, at international level, on the support and co-operation that are today essential for all nations, more particularly those in the process of development. On this occasion, part of that support lies in the understanding and goodwill with which this Committee and the CONTRACTING PARTIES will receive this new request for a waiver extension.