

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

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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 17 June 1976 to examine the Uruguayan request for a further extension of the waiver of 24 October 1972 relating to Uruguayan 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 Decision of 22 July 1974, and further extended by a Decision of 19 November 1974 until 30 June 1976.
3. The Committee had before it a basic document supplied by the Government of Uruguay (L/4360) and background material supplied by the International Monetary Fund dated 26 May 1976.
4. The Uruguayan request for a further extension of the waiver was as in the past, motivated by a need to safeguard the balance of payments and the foreign exchange reserves and to regulate the increase in imports. 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:

"Developments in Uruguay during 1975 were encouraging as inflation abated somewhat and economic activity grew at a satisfactory rate. Real GDP rose by about 3.5 per cent, a rate of growth that, although modest, was in a marked

contrast to the stagnation of earlier years. The growth of the economy in 1975 was led by rapid expansion in the industrial and construction sectors. Agricultural output also rose at a faster rate than in previous years, mainly because of increased livestock output, while crop production fell slightly. The rate of inflation, as measured by the rise in the cost of living index for Montevideo, decelerated from 107 per cent in 1974 to 67 per cent in 1975. This decline resulted from an ample supply of major food items and a reduction in the internal cost of imported goods following the elimination of import quotas and of minimum foreign financing requirements. In addition, the rate of increase in wages slowed. The budgetary situation has deteriorated sharply in recent years with the deficit on central government operations reaching Nur\$201.6 million in 1974 as compared with Nur\$36.3 million in 1973. In 1975 the deficit, according to preliminary estimates, increased further to Nur\$368.2 million.

"On the basis of preliminary crop estimates, improved prospects for cattle and wool exports, and continued expansion of the industrial sector, real GDP is projected to grow in 1976 at a rate similar to that of 1975, while mainly through fiscal and monetary policies, inflation is expected to be reduced to below 40 per cent by the end of the year.

"After suffering a setback in 1974, Uruguay's balance of payments weakened further in 1975. The reversal was mostly the result of an unfavorable movement in the terms of trade which, according to Fund staff estimates, deteriorated by 44 per cent in 1974 and by a further 19 per cent in 1975 because of the simultaneous rise in petroleum prices and fall in beef and wool prices. Exports amounted to SDR 317 million in 1975, or about the same as in 1974, although exports of beef fell sharply because of declines in both volume and prices. In the case of wool, a drop in prices was more than compensated by a large increase in shipments. All other categories of exports, excluding hides, showed substantial gains. Imports increased by 8 per cent in value, half of which was accounted for by the higher cost of crude oil imports. In addition, imports of machinery and equipment also rose substantially. The trade balance in 1975 registered a deficit of SDR 134.7 million in comparison to a deficit of SDR 101.9 million in 1974. The deficit on services account widened, in part as interest payments on Uruguay's foreign debt continued to rise rapidly. As a result, the current account deficit increased from SDR 110 million in 1974 to SDR 167 million in 1975. In spite of a sharp increase in capital inflow, partly reflecting foreign investment in dollar-denominated bonds and bank deposits, the overall balance of payments in 1975 deteriorated by SDR 12 million to a deficit of SDR 60 million. At the end of 1975, gross official reserves amounted to SDR 193.4 million compared with SDR 205.5 million at the end of 1974. During the same period net official reserves declined from minus SDR 10.4 million to minus SDR 73 million.

"Uruguay's outstanding external public debt (excluding foreign debt held by the monetary authorities) has increased sharply in recent years, from SDR 299.8 million at the end of 1973, to SDR 383.0 million at the end of 1974, and SDR 465.4 million at the end of 1975.

"For 1976 an improvement in Uruguay's balance of payments is expected, based in large part on a higher volume of exports. On the basis of present projections, there should be a narrowing of the trade deficit to SDR 110 million, based on an expected increase in exports of 25 per cent while imports are expected to grow at a much slower rate. With a continuing high level of capital inflow, Uruguay's overall deficit is expected to fall sharply.

"During 1975 the restrictiveness of Uruguay's exchange and trade system was reduced considerably. Important changes in the import system included the elimination of the 35 per cent prior import deposit, the special deposit requirements for intermediate and consumer goods, and the minimum foreign financing requirement. These measures decreased the cost of imports and removed the indirect quota system under which prohibitive deposit requirements were placed on imports above a certain level. A trade agreement with Argentina has led to a reduction of tariffs on a bilateral basis, while an agreement with Brazil may provide scope for similar reductions.

"Most imports are subject to: (1) an import surcharge ranging from 10 per cent to 200 per cent and payable at the time of registration; (2) an additional import duty of 18 per cent payable upon customs clearance; and (3) another import surcharge of 7 per cent, introduced in December 1975, and payable two days after import registration.

"During 1975 export taxes were eliminated for beef and reduced for other traditional exports; in addition subsidies for nontraditional exports in the form of tax credit certificates were lowered.

"With respect to exchange rate policy, the Uruguayan authorities continued their policy of small, frequent adjustments of the commercial exchange rate. The rate was adjusted 14 times during 1975, for a total depreciation of 39 per cent against the U.S. dollar and up to the end of April 1976, on a further five occasions for a total depreciation of 12.5 per cent. The financial market rate continued to float with only minor intervention by the monetary authorities.

"The Fund welcomes the liberalization that has been effected in Uruguay's trade and payments system in 1975. A significant improvement in the balance of payments is anticipated in 1976 and therefore there should be less need for the import surcharges on balance-of-payments grounds. The surcharges continue to be an important source of budgetary revenue. The authorities should, however, give consideration to the possibilities of substituting other fiscal measures for the import surcharges."

5. The representative of Uruguay made a statement (the full text of which is reproduced in the Annex 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. The circumstances that had originally led to the imposition of surcharges subsisted in part; he referred to the balance-of-payments difficulties that Uruguay had experienced and to the world recession and inflation which affected more particularly the least-developed countries. He went on to describe the recent developments in the balance of payments and in the balance of trade and the steps taken by the Uruguayan authorities to implement a trade policy of liberalization. In particular, he stressed the following factors:

- (a) an increase in the deficit of the balance of payments,
- (b) a reduction in net foreign reserves,
- (c) an increase in the level of foreign indebtedness,
- (d) the effects of liberalization of foreign trade with an increase in imports,
- (e) the country's exchange rate policy and the liberalization of operations on the financial markets.

Balance-of-payments situation

6. Members of the Committee welcomed the positive developments in Uruguay's balance-of-payments situation in 1976 and the various measures that had been taken to liberalize the trade régime. It was noted that the import deposit scheme had been eliminated, that there had been a reduction in the rate of inflation, that efforts had been made towards industrialization and that the gross domestic product had grown. Members of the Committee asked whether the Uruguayan authorities expected further improvements in 1976. The representative of Uruguay recalled that his country was highly dependent on the state of world commodity markets, as Uruguay relied principally on the export of wool and beef for its export income. His authorities were reluctant to make overly optimistic projections but were confident that the effects of the present trade policy were going to be positive. He noted that the International Monetary Fund projections for 1976 were positive and invited the representative of the Fund to comment. The representative

of the Fund said that the projections that had been made by the Fund staff were based on data available some two and a half months ago; to the extent that no changes had occurred in the basic data, an improvement in the balance-of-payments situation of Uruguay could be anticipated. This was based on several factors: an upturn in the world economy and therefore better export prospects; a moderate increase in the level of imports; restrictive fiscal and monetary policies; and a lowering of the domestic rate of inflation. There were, however, some factors concerning the service account, such as servicing of the foreign debt and the level of freight rates, which could adversely affect balance-of-payments development in 1976.

7. Members of the Committee asked whether the Uruguayan authorities intended to pursue their policy of frequent, small adjustments of exchange rates or whether the increase in the margin between the commercial and the financial rate from some 2 to 20 per cent indicated a change in policy. The representative of Uruguay replied that his authorities intended to pursue the exchange rate policy presently applied and that they were making every effort to narrow the margin between the financial and the commercial rate.

8. Noting that there had been large flows of foreign capital into Uruguay in 1975, members of the Committee asked whether this was expected to continue and, more generally, whether Uruguay had had recourse to borrowing abroad and to IMF resources. The representative of Uruguay said that the inflow of foreign capital was largely a reaction to the liberalization of the trade policy. While there had been a capital outflow of \$27 million in 1972, there was a capital inflow of \$130 million in 1975 which was equivalent to about 65 per cent of the current account deficit. Several drawings had been made from the International Monetary Fund's Oil Facility, \$64 million in 1974. The Government had in 1975 also sold State treasury bonds of \$100 million mainly to non-residents. There was a line of credit negotiated with an international banking consortium of \$110 million; by the end of 1975 only \$35 million of this credit had been withdrawn. He added that whether the servicing of this foreign debt would prove burdensome in the future would depend mainly on the state of world commodity markets and Uruguay's ability to improve exports and contain imports.

9. Members of the Committee noted with interest the finding of the International Monetary Fund to the effect that the import surcharges were of considerable importance to Uruguay as a source of revenue. In reply to questions concerning the structure of the Uruguayan fiscal system, the representative of Uruguay explained that external trade taxes accounted for 13 per cent of the State's revenue in 1975. He recognized that this share was high but stressed that it was diminishing; in 1973 over 20 per cent of Uruguay's revenue had been derived from taxes on external trade. The large share of tax revenue derived from trade was partly due to the large share of trade in Uruguay's gross domestic product. In

reply to questions concerning the taxable base for imported goods, the representative of Uruguay explained that the tax base included the price of the goods plus the customs duties plus the surcharges. Asked whether the Uruguayan authorities would consider adapting their fiscal structure and eventually adopting a system of value added taxation which would place, for taxation purposes, imported products on the same basis as domestic products, the representative of Uruguay said that a number of reforms were being studied in Montevideo at present. Further questions were asked concerning changes envisaged in Uruguay's customs regulations and their likely impact. The representative of Uruguay said that his authorities were actively studying measures to modernize trade and customs regulations. In this context he pointed out that Uruguay had recently adopted the Brussels Customs Nomenclature and was considering the adoption of the Brussels Customs Valuation. His authorities were aware that there was need to simplify and order the Uruguayan customs regulations. He added that this was a lengthy process which would involve consultation with the private sector.

Import surcharges

10. Members of the Committee welcomed the various measures taken towards trade liberalization by Uruguay, in particular the reduction of customs duties, the reduction of consular fees and the elimination of the import deposit scheme. In reply to questions concerning the complexity and number of charges applied to imports, the representative of Uruguay stated that there were presently two surcharges applied: one which ranged, according to the goods involved, from 10 to 200 per cent and a new surcharge of 7 per cent introduced in December 1975. On 10 October 1974 there had been a general reduction of the original surcharge. The goods subject to a rate of 60 per cent had moved to a rate of 55 per cent, the rate of 90 to 75 per cent, the rate of 150 to 120 per cent, the rate of 225 to 150 per cent and the rate of 300 to 200 per cent. He recalled that the majority of imports were exempt from the surcharge. In its endeavour not to hinder the flow of import currents, the Uruguayan Government had set the rate of the additional surcharge introduced in December 1975 at a level equivalent to the financial cost of the five months, 35 per cent prior deposit that had been simultaneously eliminated. The 7 per cent surcharge was a regulatory instrument needed temporarily as a corrective to some of the effects of liberalizing trade, at a time when the level of foreign reserves and indebtedness were suffering the impact of a severe deterioration in the terms of trade.

11. Questions were asked concerning the volume of trade affected by the surcharges and their product coverage. Uruguay said that, as had been pointed out in the previous consultations, about two thirds of total imports were exempt from all surcharges, and of the remainder some 90 per cent were subject to a surcharge of only 10 per cent. In reply to a specific question the representative of Uruguay said that there was no breakdown available yet for the new surcharge of 7 per cent

introduced in December 1975. Generally the criteria to choose exemptions from this surcharge were based on essentiality; thus capital goods, and agricultural machinery and products were exempted.

12. Questions were asked concerning the treatment regarding the surcharge given to Uruguay's trading partners in LAFTA and in particular to Argentina and Brazil with whom Uruguay had negotiated special agreements. The representative of Uruguay pointed out that the agreements had not yet come into force. With regard to the surcharge he said that no special concession had been given in the context of these agreements. The agreements were covered by the Montevideo Treaty by which LAFTA, a free-trade zone in accordance with GATT provisions (Article XXIV), was created.

13. Several questions were asked concerning the tariff system of Uruguay and the reform under study. In particular it was asked whether in the course of the tariff reform the Uruguayan authorities would avoid increasing the level of protection and would give consideration to the reduction of administrative controls which remained quite burdensome and to the abolition or lowering of the surcharge. Confirmation was also sought as to the intentions of the Uruguayan authorities to fulfil its obligations under Article XXVIII of the GATT (modification of schedule) at the end of the projected reform. The hope was expressed that the adoption of the Brussels Customs Valuation System would allow Uruguay to end the system of consignations which, it was recognized, was rarely applied but which in some cases set the value of imported goods to as much as 150 per cent of the actual value. The Uruguayan delegation pointed out that the main purpose of these consignations was not to set a basis for customs valuation but to ensure that import prices were in line with prevailing world market prices. Noting that Uruguay had lowered its consular fees to 4 per cent, the hope was expressed that the Uruguayan authorities would soon find it possible to remove these fees altogether as well as consular formalities and at the same time to reduce or abolish the penalties for mistakes in import documents. The representative of Uruguay said that a customs reform was under study; it was a medium-term project which was complex as it would require the redrafting of some fifty existing laws. He confirmed that his Government had every intention to honour its obligations under Article XXVIII of the GATT, and under other treaties. He stressed that he was not in a position to make any comments on future results of the reform; however, he assured the members of the Committee that it was his Government's intention to pursue reforms that would lead to greater trade liberalization.

14. One member of the Committee drew the attention of the representative of Uruguay to a contradiction between Uruguay's fundamental law which assured freedom of trade and freedom of imports and a particular situation which was prevailing at the time in which importers of products from one particular country found that their applications to the National Bank for authority to obtain exchange were

systematically refused or delayed. The representative of Uruguay assured this member of the Committee that he would transmit these comments to his authorities.

Conclusions

15. The Committee noted with sympathy the different economic problems of Uruguay and commended Uruguay on its efforts to liberalize its trade régime at a time when its terms of trade were deteriorating. It welcomed the prospects of improvement in the balance of payments for 1976 and the growth of GNP.

16. The Committee took into account the view of the International Monetary Fund that the import surcharges continued to be an important source of budgetary revenue and that, given an anticipated improvement in 1976 of the balance of payments there should be less need for the surcharges on balance-of-payments grounds. The Committee welcomed the Uruguayan authorities' intention to undertake fiscal and trade reforms. The Committee, noting that the waiver had been extended and amended since 1961, and that in 1972 the Committee had urged Uruguay to remove the surcharges as soon as possible, the Committee urged Uruguay to give careful attention, in the context of these reforms, to reducing its reliance on surcharges as a source of revenue and to further liberalize its foreign trade system.

17. The Committee agreed to recommend to the contracting parties to grant an extension of the Uruguayan waiver until 30 June 1978. To this end a draft decision is appended.

ANNEX I

Uruguay Import Surcharges

Draft Decision

Considering the Decision taken by the Contracting Parties under paragraph 5 of Article XXV on 24 October 1972¹ 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 Decisions of 22 July 1974 and 19 November 1974;

Considering that the above-mentioned Decision expires on 30 June 1976;

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

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

Considering the view of the Fund that "a significant improvement in the balance of payments is anticipated in 1976 and therefore there should be less need for the import surcharges on balance-of-payments grounds" and that "the surcharges continue to be an important source of budgetary revenue".

Taking note that the Government of Uruguay has assured the contracting parties that its objective was to achieve gradually the liberalization of trade;

Taking note that the Government of Uruguay has assured the contracting parties that its objective was to undertake the necessary fiscal and trade reforms which would enable it to reduce its reliance on surcharges as a source of budgetary revenue;

¹BISD 19S/9

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 1978.

ANNEX II

The delegation of my country has submitted a request for an extension of the decision adopted at the time by the Contracting Parties authorizing Uruguay to impose import surcharges.

The circumstances which had led to the imposition of such surcharges subsist in part, in addition to the balance-of-payments difficulties which the country has experienced and the recent world recession and inflation which, logically, has affected more seriously the economies of the less-developed countries.

Uruguay has been included among the countries which have been most seriously affected (LDC countries) by the recent crisis and, due to its position as a net importer of oil and an exporter of meat, Uruguay has had at the same time to face the difficult situation resulting from an increase in expenditure and a decrease in earnings related to the import and export of the above-mentioned products.

In fact, while the volume of imports of oil and oil products was maintained during the 1973-1975 period, the value of such imports increased by US\$55 million to US\$165 million. This has resulted in the country having to spend an amount representing more than 40 per cent of its export proceeds to finance these essential imports.

In addition, it should be recalled that the decline in earnings from exports of traditional Uruguayan products - beef and wool - resulted in a loss amounting in 1975 to \$100 million at 1974 prices, and that this figure represents approximately 26 per cent of the Uruguayan export proceeds.

This situation has had a notable impact on the Uruguayan balance of payments which showed a current account deficit of US\$200 million in 1975. This, in turn, caused a significant loss in international reserves and a considerable increase in the level of foreign indebtedness. In spite of these circumstances, the country has initiated a process of opening and reordering the economy which affords the full benefit of comparative advantages in favour of Uruguay and increased competitiveness for the industrial sector.

As regards imports, this policy has implied the elimination of control measures and a decline in the impact of the burden of taxation on such imports, as indicated in a detailed manner in the documentation previously submitted by this delegation.

The liberalization of external trade has naturally resulted in a substantial increase in import levels. Considering that at the same time it has been difficult to place our traditional export products, the rate of liberalization has been moderated so as to adjust it to the balance-of-payments disequilibrium, our level of indebtedness and reserves which in terms of exports have been decreasing. (At end 1973 our reserves represented ten months of imports and this figure has declined to five months at end 1975.)

Although the very acute difficulties besetting the Uruguayan economy in recent months seem to be finding a gradual solution as a result of the measures taken, it is nonetheless certain that the balance-of-payments deficit has been a limiting factor within the general context of the sustained application of an economic policy of opening liberalization.

Nevertheless, there is need to reaffirm that, within the context of the policies followed, a flow of imports has been maintained and imports have increased from \$212 million in 1972 to \$541 million in 1975.

The situation as regards our external sector is therefore briefly characterized by the following features:

- (a) an increase in the balance-of-payments deficit,
- (b) a reduction in net foreign reserves,
- (c) an increase in the level of foreign indebtedness,
- (d) the liberalization of foreign trade with an increase in imports,
- (e) a policy of exchange rate adjustments and the liberalization of operations in the financial markets.

The prospects for recovery which are being noted in the Uruguayan economy in general and the improvement of our external sector for the current year give hopes that the liberalization policy will continue to the extent permitted by the situation obtaining in the world market, on which Uruguay is highly dependent.

Within this general framework, mention should be made that consideration has been given to a series of customs measures supplementing those adopted up until now, for the pursuit of the modernization of existing structures through the introduction of new techniques and the resulting adjustment of the relevant mechanisms to the international economy. Within this framework, mention should also be made of the recent introduction of the Brussels Tariff Nomenclature as

regards external trade transactions and the consideration at present given to the adoption of the Brussels definition of value and to the simplification of the composition and structure of customs charges.

It is against this general background that we submit a request for an extension of the waiver concerning the imposition of surcharges, and we wish to point out that the impact of such surcharges on imports is on a declining scale.

It should be further pointed out that, within the framework of the implementation of the system of surcharges intended to ensure balance equilibrium, Uruguay has maintained its attitude which consists in avoiding to cause any injury to the trade interests of other contracting parties or to disturb regulating trade flows and that Uruguay has not applied such restrictions to any undue protectionist or discriminatory purposes.