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REGIONAL ECONOMIC TIES LEAD TO INTERNATIONAL COMPETITION AND MARKET  
OPPORTUNITIES - SAYS GATT'S REPORT ON URUGUAY'S TRADE POLICIES

For two decades, the major aim of Uruguay's trade policies has been a gradual, progressive reduction of protection and state intervention with a view to improving economic efficiency, says the GATT Secretariat's report on the trade policies and practices of Uruguay. Average tariffs dropped from nearly 700 per cent in 1968 to 21.5 per cent by January 1992. In recent years the reform process has been accelerated and there has been a shift of emphasis towards reducing the rôle of the State. This process has met considerable domestic opposition.

In the early 1980s, tariff cuts were offset for many products by the introduction of a system of discretionary administered prices for imports to provide extra protection during the recession. "Their maintenance, and the discretionary manner in which they are set, has been one of the least transparent aspects of Uruguay's trade policies," says the report. Although intended to cope with the rapidly changing prices of imports from neighbouring countries, the system inhibited structural adjustment in a number of industries which have come to depend on protection.

The economic performance of its main neighbours, Argentina and Brazil, strongly affects the level of economic activity in Uruguay, according to

the report. "Thus, while the expansion and intensification of regional economic ties have always been a priority for Uruguayan policy-makers, in practice this has been approached with considerable caution."

Drawing attention to Uruguay's membership of MERCOSUR (the customs union with Argentina, Brazil and Paraguay), the report cautions that, given the rapid and extensive liberalization now taking place in the other member states, there is a strong possibility that the common external trade policy of the group will be more open than Uruguay's current policies. "In these circumstances, Uruguay's domestic industries will have to face greater competition from its partners' much larger manufacturing sectors, as well as from the outside world. Uruguay will need to meet these challenges by maintaining policies which facilitate the production of internationally competitive goods and services through trade liberalization and clear economic signals to entrepreneurs. The new environment created by Uruguay's own liberalization and the creation of MERCOSUR will necessarily mean the restructuring of the import-competing sector. In particular, the deadline for the accomplishment of MERCOSUR indicates that delay in the implementation of structural adjustment would have serious consequences for Uruguay's economy."

The report urges Uruguay's main trading partners to contribute to reinforcing the existing process of reform within the Uruguayan economy. For example, Uruguay's exports face serious actual or potential constraints in developed countries. Most of Uruguay's exports do not qualify for GSP, and barriers to entry and subsidized exports under the European Communities' Common Agricultural Policy and the United States' Commodity Credit Corporation seem to raise particular obstacles for Uruguayan exports of beef and dairy products. Reductions in m.f.n. tariffs by Uruguayan main trading partners, says the report, combined with the elimination of these non-tariff measures, are therefore crucial to creating a more positive climate for the expansion of Uruguay's exports.

The GATT Secretariat's report, together with a report prepared by the Uruguayan Government, will be discussed by the GATT Council on 6-7 July 1992 under the Trade Policy Review Mechanism (TPRM). The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The current reports cover all aspects of Uruguay's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment. Attached are summary observations from the Secretariat report. The full report is available for journalists from the GATT Secretariat on request.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in October 1992 as the complete trade policy review of Uruguay

and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), the European Communities (1991), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991), and the United States (1989 and 1992).

TRADE POLICY REVIEW  
URUGUAY

**Report by the Secretariat - Summary Observations**

Uruguay's trade policies have evolved in a gradual and generally progressive manner over the last 30 years. Quantitative restrictions were substantially replaced by high tariffs in 1959 and the process was taken further in 1974. Average tariffs dropped from nearly 700 per cent in 1968 to 21.5 per cent (simple average) by January 1992. Since then, tariffs have again been lowered in April 1992 and will be further reduced in 1993. The scope of discretionary policy instruments, such as officially determined reference prices, is falling. Preferential margins on Government procurement have been cut back. Fiscal policy is aimed both at reducing the budgetary deficit and at improving the allocation of resources, through increases in indirect taxes and the suppression of fiscal concessions for certain industrial activities. Membership of MERCOSUR - the newly-signed customs union with Argentina, Brazil, and Paraguay - will mean both increased competition from those countries and enhanced market opportunities for industries which can adapt to the changing economic environment.

In the early 1980s, the benefits of trade reforms were offset, to some extent, by the introduction of a system of discretionary administered prices for imports, which effectively delinked part of domestic production from trends in world prices. Although intended to cope with rapidly changing prices of imports from neighbouring countries, the system inhibited structural adjustment in a number of industries which have come to depend on protection. The full coverage of the system, the extent to which reference prices exceed world prices and the full details of changes in the system since its inception are not available to the Secretariat. Nevertheless, the reforms now being undertaken should promote greater adjustment.

Uruguay's economy has, historically, been relatively stable compared with those of its main neighbours, Argentina and Brazil. Freedom of capital movements and relatively low inflation contributed to the country's rôle as a haven for regional flight capital. However, these large capital movements have made the management of domestic macro-economic policies more difficult. Although foreign debt rose to a high level during the 1980s, Uruguay has had some success in stabilizing the economy and in bringing its foreign indebtedness under control. Current macro-economic policies are aimed at reducing or eliminating the public sector deficit and maintaining a rein on inflation.

Uruguay's small domestic market provides limited opportunities for the import-competing manufacturing sector, which has been characterized by monopolistic practices and a high degree of dependence on Government resources. Non-tariff protection to local industries has been mainly

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through reference prices, State participation in production and trade, and preferential Government procurement. At the same time, traditional agriculture and outward-oriented agro-industries are highly sensitive to international market conditions. The rationalization of the import régime, coupled with exchange rate policy, has helped to increase the share of non-traditional vis-à-vis traditional exports. Apart from a maximum export tax of 5 per cent, there are currently no significant export restrictions.

The size of the Argentinian and Brazilian economies, their common borders and their close economic integration with Uruguay, mean that the level of economic activity in Uruguay is strongly affected by economic performance in its neighbours. Thus, while the expansion and intensification of regional economic ties have always been a priority for Uruguayan policy-makers, in practice this has been approached with considerable caution. Trade agreements signed in the mid-1970s with Argentina and Brazil created market opportunities for Uruguayan exports, but rapid movements in the bilateral exchange rates affected their price competitiveness. Managed trade was favoured in this situation. Given the scope of MERCOSUR and the rapid and extensive liberalization now taking place in the other member States, there is a strong possibility that the common external trade policy of the group will be more open than Uruguay's current policies. In these circumstances, Uruguay's domestic industries will have to face greater competition from its partners' much larger manufacturing sectors, as well as from the outside world.

Uruguay will need to meet these challenges by maintaining policies which facilitate the production of internationally competitive goods and services through trade liberalization and clear economic signals to entrepreneurs. The new environment created by Uruguay's own liberalization and the creation of MERCOSUR will necessarily mean the restructuring of the import-competing sector. In particular, the deadline for the accomplishment of MERCOSUR indicates that delay in the implementation of structural adjustment would have serious consequences for Uruguay's economy.

#### Uruguay in World Trade

Uruguay's overall share in world trade is close to 0.04 per cent. However, it is a leading supplier of wool, with 3.4 per cent of world exports, of leather and leather goods and of rice, as well as an important beef exporter.

The share of agriculture in Uruguay's exports declined from 95 per cent in 1965 to 60 per cent in the 1980s. Although sales of manufactures (chemicals, semi-manufactures, wearing apparel) increased in the same period, Uruguay remains highly dependent on exports of products directly or indirectly based on agricultural inputs.

Uruguay's main trading partners are Brazil, the European Communities, the United States and Argentina. Historically, most of Uruguay's trade was outside Latin America, principally with Europe and the United States. However, a re-orientation of Uruguay's trade flows towards South America

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occurred following the signature of trade agreements in the 1970s with Brazil and Argentina. Between 1970 and 1990, the share of Brazil in Uruguay's exports increased from 5 to 30 per cent and that of Argentina increased from 2.7 to 4.8 per cent (with a peak of over 13 per cent in 1980). However, exchange rate fluctuations with Brazil and Argentina have been reflected in large fluctuations in Uruguay's export competitiveness vis-à-vis those markets.

Uruguay's export earnings are heavily influenced by world price and market developments: in particular by the incidence of import restrictions on beef, lamb, dairy products, sugar, and textiles and clothing in major trading partners, and by fluctuations in the market for wool. In addition, internal factors including lack of adequate investment in modern machinery and equipment, low competition and labour market rigidities discourage further processing of agricultural exports.

#### Institutional Framework

Uruguay's legal regulatory framework is complex. A large number of laws and decrees accumulated over several Administrations cover trade. The current trade régime is based on the 1959 Exchange and Monetary Reform Law, which allows for the introduction of import deposits, surcharges and temporary prohibitions.

The Ministry of Economy and Finance (Directorate General of Foreign Trade, COEX) is the main Government agency responsible for trade policy and negotiations. The Ministry of External Relations is involved in aspects such as international economic relations and representation in negotiations. The main inputs to trade policy design are provided by the Office of Planning and Budget, the Central Bank and the Banco de la Republica Oriental de Uruguay (BROU). COEX and the Ministry of External Relations implement and execute these policies.

Private sector views on trade policy matters may be officially expressed in the Working Group on Foreign Trade, established in March 1991. Close links are also maintained between the Government and the private sector through informal channels.

There are no independent statutory bodies through which the Government can receive advice on trade and industrial policy. However, a number of private-sector institutions publish papers and reports with the objective of influencing public opinion and policy-makers on economic policy issues. Press coverage of economic issues is also well-informed.

Uruguay negotiated its accession to GATT in 1949 (Annecy) and became a contracting party in 1953. It has participated in all subsequent rounds of negotiations and is a signatory to the MTN (Tokyo Round) Agreement on Subsidies and Countervailing Measures, the International Dairy Arrangements and the Arrangement Regarding Bovine Meat, while maintaining observer status in the Committee on Anti-Dumping Practices. As a signatory to the Multi-Fibre Arrangement, Uruguay maintains export restraint agreements on textiles and clothing with Canada and the United States, as well as a

framework agreement (without any specific limitations) with the European Communities. Other agreements with the EC cover market access conditions for beef, mutton and lamb and citrus fruit; with the United States, Uruguay is subject to quotas on certain cheese and on sugar.

In September 1986, Uruguay hosted the Ministerial Meeting that launched the Round of Multilateral Trade Negotiations bearing the country's name. Uruguay has been an active participant in the Round, inter alia, through its Chairmanship of the Trade Negotiations Committees at Ministerial level and of negotiating groups, and is also a founder member of the Cairns Group.

#### Trade Policy Features and Trends

Uruguay conducts its main formal trade relations through GATT and within the Latin American Integration Association (LAIA). Around four-fifths of total imports are subject to m.f.n. tariffs. The remaining 20 per cent enjoy preferential tariff reductions of up to 100 per cent under different LAIA agreements.

Uruguay has signed preferential agreements with most LAIA members. Two of these, the Trade Expansion Protocol (PEC) with Brazil and the Argentine-Uruguayan Convention of Cooperation (CAUCE), provide duty free entry for items which, in 1990, represented 14.5 per cent of total imports.

MERCOSUR, the Southern Cone Common Market grouping Argentina, Brazil, Paraguay and Uruguay, is to establish duty free trade, together with elimination of non-tariff measures, among its members by 1 January 1995. Tariff reductions by Uruguay will proceed more slowly than normal for 960 "sensitive" items.

#### Evolution of trade policies and instruments

The goods-producing sectors of the Uruguayan economy comprise export-oriented agriculture and agro-based industries, and largely inward-oriented manufacturing. Despite periodic slippages, for two decades the major aim of Uruguay's trade policies has been the greater integration of the economy into world markets. The main success has been in progressive rationalization of the tariff system and declining levels of nominal and effective tariff protection. However, during the 1980s, tariff cuts were offset for many products by the introduction of administered prices.

Moves away from import-substitution policies date back to 1959, when quantitative restrictions were substantially eliminated, export taxes were introduced on traditional agricultural exports (such as hides and skins) to encourage further processing in Uruguay, export subsidies were initiated and multiple commercial exchange rates were suppressed. Nevertheless, foreign exchange shortages led to the use of strict external controls, mainly through prohibitively high and complex tariffs (increased by import surcharges) and temporary import prohibitions.

Uruguay also made a major reform of its trading system in 1974. The formal guidelines of trade policy, set at that time, remain unchanged today. The tariff structure was simplified and rationalized, and tariff and tax concessions were introduced for imports related to exportable goods. A global tariff rate, composed of four elements, put order into the different import charges by covering import duties, import surcharges, consular fees, and cargo handling charges in one. Emphasis was also given to strengthening regional ties by negotiating trade agreements with neighbouring countries.

The opening of the economy was slowed by recession in 1982, when reference and minimum "export" prices were introduced to provide extra protection. These were estimated to increase nominal tariffs by between 7 and 18 percentage points on average in 1983. However, in some important sectors the price wedge associated with reference prices has exceeded 100 per cent. Their maintenance, and the discretionary manner in which they are set, has been one of the least transparent aspects of Uruguay's trade policies. However, the 1980s also saw important nominal tariff reductions. Since 1980, 11 tariff reforms have been carried out. Between 1980 and 1992, maximum global tariff rates were reduced from 50 per cent to 24 per cent and the structure of tariffs has been considerably simplified.

Currently, Uruguay maintains an essentially four-tier tariff, with rates of zero, 10, 17 and 24 per cent (as from 1 April 1992). As from 1 January 1993, the maximum level is to fall to 20 per cent. Any loss of Government revenue will be compensated through import growth, increase in indirect taxes and the abolition of some concessional entry provisions.

Tariff escalation remains particularly pronounced in fisheries, tobacco, wool tops, yarns and cotton. It is also significant in the production of leather goods, which is characterized by a high degree of vertical concentration and is dominated by a limited number of firms.

Uruguay's GATT tariff bindings have been subject to a waiver since 1961, covering the application of import surcharges. In the Uruguay Round, Uruguay has offered to bind its tariff schedule at a uniform ceiling rate of 35 per cent.

The scope of reference and minimum "export" prices has been considerably reduced, although the Secretariat, as noted, does not have detailed information on their application. This should have contributed to reducing further both nominal and effective protection.

Industries "of national interest" are eligible for concessional, duty-free entry for imported inputs. The recent elimination of duty and tax concessions for imports of raw material, machinery and equipment and parts used by industries termed of "national interest" may allow for a better reallocation of resources through foreign competition.

Indirect taxes, such as the value-added tax and the IMESI first-sales tax, are relatively neutral in their sectoral application. However, IMESI

rates on beverages containing fruit juice favour those containing a certain quantity of Uruguayan juice.

At present, export taxes penalize a few, but important, low value-added agricultural items, such as live animals, boned beef, greasy wool, raw hides and skins and bovine fat. Export prohibitions apply only to live, non-pedigree cattle, and this prohibition is expected to be eliminated during 1992. There is some pressure from tanners and the leather industry to re-introduce an export prohibition on hides and skins. Export restraints under the MFA and other agreements with Canada, the European Communities, and the United States affect trade in certain items. Export subsidies were eliminated in the early 1980s following Uruguay's adherence to the GATT Agreement on Subsidies and Countervailing Measures. However, Uruguay uses a drawback scheme for the rebate of domestic taxes on exports.

Uruguay's industrial performance is closely linked to trade arrangements in the region. While the 1974 economic reform encouraged a major re-allocation of resources from import competing sectors to exporting sectors, the economic complementarity agreements with Argentina and Brazil ensured preferential access for Uruguay's exports to those markets.

Exchange rate movements have had a strong influence on Uruguay's export competitiveness, particularly with regard to neighbouring markets. Delay has often occurred in compensating rapid price changes in these markets through changes in bilateral nominal exchange rates. Although the main preoccupation of successive Uruguayan Governments has been to avoid real appreciation of the peso, exchange rates are also regarded as important in avoiding inflation. Since early 1992, the band within which the Uruguayan peso is permitted to float under the "crawling peg" system adopted in 1986 has been widened from 4 to 6 per cent. This should reduce the need for Government intervention aimed at correcting parities.

Freedom of capital movements, together with an absence of foreign exchange controls or limitations on foreign capital have historically distinguished Uruguay from other countries in the area. As a result, Uruguay has had to absorb the impact of large, speculative capital inflows and outflows. Liberalization in Brazil and Argentina should lead to greater stability in this regard.

The State is the most important employer in Uruguay, providing employment for approximately one quarter of the active population. Privatization is not as advanced as in other countries of the region. Active consideration is being given to the divestment of State participation in production, processing, and trade of certain goods, including sugar, alcohols, alcoholic beverages, cement, oil refining and petroleum. Foreign direct investment may benefit from a recently approved privatization plan, expected to open opportunities in electric power, telecommunications and the national airline.

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Government procurement has, in the past, influenced resource allocation in Uruguay by providing particularly high levels of effective protection. However, from 1 January 1992, the preferential margin for domestic products has been reduced from 40 to 10 per cent. Countertrade, although not officially encouraged, has been used in the past to pay for imports from certain eastern and central European countries and Iran.

#### Temporary measures

Uruguay has never taken emergency protective measures under the provisions of GATT Article XIX, and has not since 1976 used balance-of-payments justification for import surcharges. However, reference and minimum "export" prices are officially used to counter any dumped or subsidized exports, or to counter abrupt price changes in neighbouring countries.

#### New initiatives

In May 1991, the Office of Planning and Budget was asked to oversee the execution of a new Foreign Trade and Investment Plan. Under this plan, various proposals have been developed for the revision of foreign trade and investment regulations, rationalization of procedures, co-ordination among Government institutions and adoption of new, more operational, trade policy instruments. So far, a number of improvements have been made to import and export procedures and the components of the global tariff rate have been reduced from four to two. A National Debureaucratization Programme is also leading to improved efficiency and simplification of State procedures, resulting in savings both for the Government and private enterprises.

#### Trade Policies and Foreign Trading Partners

The re-orientation of Uruguay's trade towards the Latin American region is both a consequence of external factors in traditional markets, and a deliberate policy. The most visible manifestation of the policy shift is Uruguay's participation in LAIA and MERCOSUR, which is expected to bring about ever-closer integration with its Southern Cone neighbours. The overall effect of such integration, if combined with continuing m.f.n. trade liberalization by MERCOSUR as a group, should be trade-creating and conducive to greater economic efficiency: this will strengthen pressures for adjustment within the Uruguayan economy.

Uruguay's exports face serious actual or potential constraints in developed country markets. Most of Uruguay's exports do not qualify for GSP. Barriers to entry and subsidized exports under the European Communities' Common Agricultural Policy and the United States' Commodity Credit Corporation seem to raise particular obstacles for Uruguayan exports of beef and dairy products. Reductions in m.f.n. tariffs by Uruguay's main trading partners, combined with the elimination of these non-tariff measures, are therefore crucial to creating a more positive climate for the expansion of Uruguay's exports. External liberalization would also contribute to reinforcing the existing process of reform within the Uruguayan economy itself.