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GENERAL AGREEMENT ON TARIFFS AND TRADE

COUNCIL
6-7 July 1992

TRADE POLICY REVIEW MECHANISM

URUGUAY

MINUTES OF MEETING

Chairman: Mr. G.E. Shannon (Canada)

92-1343

I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman, introducing the review of Uruguay's trade policies and practices, noted that the Council was to base its work on reports by the Government of Uruguay (C/RM/G/26), and by the Secretariat drawn up on its own responsibility, (C/RM/S/26A and 26B). Neither report had been issued within the normal four-week deadline, because of delays in receiving both the Government report and comments by the Uruguay Government on the draft Secretariat report. The Chairman stressed the need for strict observance of deadlines under the TPRM, to allow timely preparation and distribution of the background material in the three working languages. Delays could affect active participation by contracting parties in the meeting and, hence, the utility of the TPRM itself.

2. In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Uruguay on its trade policies and practices, as far as the six factual chapters of the report were concerned.

3. Australia had submitted in writing, prior to the meeting, some questions, which were passed to the representatives of Uruguay at the meeting.

4. With respect to the procedures for the debate, the Chairman suggested the following two main themes:

(1) General objectives of Uruguay's economic and trade policies. This would cover questions relating to the evolution of Uruguay's economy; its macro-economic reform policies and their effects on growth and investment; exchange rate policies; the abandonment of import-substitution policies; the efforts to develop new exports and new markets; moves toward privatization of the economy; the impact of reforms on resource allocation; and Uruguay's policy approach toward multilateral and regional trade liberalization, including the development of trade-related policies in the context of the Uruguay Round, relations within Latin America (LAIA and MERCOSUR) and with the United States in the context of the "Enterprise for the Americas";

(2) Changes in the use of trade and trade-related measures and policies, including recent and forthcoming tariff reforms; tariff escalation; reference prices and minimum "export" prices; the scope of implementation and recent changes of internal taxes; Government Procurement practices; state trading; export procedures; and progress in and new plans for further deregulating foreign trade and investment.

5. The Chairman invited the representative of Uruguay to make his introductory remarks, to be followed by the two discussants. Ambassador Tironi would speak first, followed by Ambassador Yerxa.

II. INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF URUGUAY

6. The representative of Uruguay recalled that his country was among those which had supported the establishment of the Trade Policies Review Mechanism. The mechanism was not meant to determine the GATT conformity of trade policy measures used by the country under examination. Although he did not share certain views expressed in the Secretariat report, he was pleased to see that it recognized that the international economic environment was unfavourable to Uruguay's trade liberalization efforts and that a more open multilateral trading system would help his Government's efforts.

7. The conclusion by Uruguay of an agreement with the International Monetary Fund the previous week showed that significant advances had been made in the areas of public finance and deregulation of the economy. This had been accompanied by a reduction in inflation. Efforts had been made to break with past price and wage indexation policies by adjusting them to projected inflation rates; to restrict the growth of credit; and to facilitate structural adjustment, by opening the economy through reductions in tariff and non-tariff barriers to trade and privatization of State-owned enterprises. Additional attention had been paid to restructuring the financial system and implementing a programme of administrative reforms aimed at improving the efficiency of the public services.

8. Two decades of import substitution policies had been followed by a broad, unilateral trade liberalization process, initiated in 1974, which had continued until the present without interruption. Greater integration of the Uruguayan economy into the world economy should, by increasing competition, improve resource allocation and assist in the diversification of non-traditional exports. Quantitative restrictions had been abolished. Tariffs had been reduced. The trade régime, based on the 1959 Exchange and Monetary Reform Law, had become more rational with the creation of the unified tariff in 1977 and trade regulations had been simplified. Uruguay's trade policy priority at regional level had been to intensify and expand trade links with Argentina and Brazil, as well as to reinforce trade relations with other LAIA members.

9. Uruguay's market-opening efforts had been undertaken in an international trade context characterized by protectionism in the main markets for agricultural products, fluctuations in commodity prices and disequilibria in the economies of neighbouring countries. The impact of these factors was reflected in the country's trade flows.

10. The trade policy instruments currently applied were tariffs, reference prices, minimum "export" prices, indirect tax refunds and export taxes of up to 5 per cent of the f.o.b. value on certain unprocessed agricultural products. In April 1990, despite the adverse international

economic environment, the Uruguayan Government had announced an accelerated timetable for tariff reductions which would bring rates down to 20, 15 and 10 per cent as from January 1993. In October 1991, the consular tax and cargo handling charges, two components of the global import tariff, had been abolished. The product coverage of reference and minimum "export" prices had been gradually reduced. Local content and compensatory export requirements for the automotive industry had been abolished on 1 July 1992.

11. Further regional liberalization through MERCOSUR was considered as a step towards the general opening of its member States' markets. Regional economic integration was therefore considered as complementary to, and not as a substitute for, international competition.

12. The delay in concluding the Uruguay Round, which was expected to provide a framework of rules for trade in agriculture and thus facilitate market access for Uruguayan products, was a major source of concern to Uruguay.

III. STATEMENTS BY DISCUSSANTS

(i) Statement by the first discussant (Ambassador Tironi)

13. The first discussant said that it was of fundamental importance for TPRM meetings to examine the extent of market opening resulting from Government policies. Uruguay's trade had liberalized overall between 1974 and 1991, with more than 30 different policy measures in this period. Uruguay's trade had, however, also been marked by a high degree of State intervention and by instability. In the period between 1982 and 1985 there was a return to protectionism, while from 1991 a more decisive and coherent trade liberalization process could be observed. Compared to countries with similar levels of GDP, Uruguay was one of the least open, particularly with regard to the ratio of imports to GDP. It had been shown that economies that opened faster grew more rapidly. Among the reasons for Uruguay's small opening up might be the offsetting of tariff reductions by the introduction of reference and minimum "export" prices, and a stronger trade diversion than trade creation effect from the 1974 and 1975 agreements with Argentina and Brazil. He was also of the view that if the liberalization process was to be sustained, currency over-valuation should be avoided.

14. He asked whether Uruguay was considering policy changes with respect to the protectionist and discretionary system of reference and minimum "export" prices, or by adopting a GATT consistent anti-dumping policy. In view of the uncertainty created by existing discretionary trade policy legislation (such as the right to fix prior import deposits, surcharges and other restrictive measures) available under the 1959 Exchange and Monetary Reform Law, he also asked whether the Government envisaged reducing its powers in this respect.

15. With regard to MERCOSUR, he asked what criteria would be used to determine common external tariff rates.

(ii) Statement by the second discussant (Ambassador Yerxa)

16. The second discussant noted that Uruguay had made significant efforts to pursue sound economic and trade policies. This had preserved a reasonably stable economy, despite spillover effects from macroeconomic policies in its two larger neighbours. He praised Uruguay's achievements in reducing the public sector deficit, external debt and inflation, maintaining freedom of capital movements with absence of exchange controls and keeping a favourable current account balance. Trade liberalization had been slow, but progressive. The tariff system had been rationalized and the level of protection reduced. Efforts had also been made to diversify and boost exports, particularly at regional level. He was also pleased to

learn that measures affecting automotive trade had been abolished, while those on wheat were soon to be eliminated.

17. Nevertheless, in several areas more reforms should be made if Uruguay were to benefit fully from the internationalization of its economy: for example, import controls through the reference and minimum "export" price system, State ownership, discriminatory Government procurement practices, and monopolies in the manufacturing sector.

18. Certain specific questions required closer examination. For example, the rate of 35 per cent offered in the Uruguay Round as a uniform ceiling binding was much higher than currently applied rates and allowed considerable scope for increases in the future. He asked whether Uruguay planned to reduce the hidden protection resulting from reference and minimum "export" prices tailored to individual interests. He was also concerned about the consistency with GATT of the port handling fee and the foreign shipping tax.

19. The discussant asked whether there were any plans to reduce the extensive rôle of the State in the domestic economy, or to address problems raised by deep-seated structural barriers to trade, such as inefficient port facilities, labour market rigidities and the discretionary use of regulatory controls by numerous government agencies.

20. Finally, he noted that MERCOSUR could encourage domestic restructuring, but could also divert trade to high cost imports from MERCOSUR partners. He asked whether MERCOSUR was likely to reduce import prices; how it would be implemented; and what effects were expected on the Uruguayan economy.

IV. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

21. The representative of Argentina praised Uruguay for its efforts to liberalize trade and deregulate the domestic market. General economic policy developments were related to, and had influenced, trade policy formulation in the past decade. The liberalization of the Uruguayan economy should be seen in the context of the general economic framework within which it was carried out. His country faced the need, similar to those of Uruguay and of other developing countries, to increase capital formation. In the 1980s, difficulties had arisen as savings were used to pay back debt. Private sector export revenues, and therefore gross capital formation, had been affected by the decline in agricultural exports and the stagnation of industrial exports resulting from the implementation of trade-distorting policies by other countries.

22. Uruguay's participation in MERCOSUR was expected to encourage a rational re-allocation of resources and allow the country to participate actively in, and benefit from, the multilateral trading system. The Common External Tariff of MERCOSUR was expected to reflect the average level of tariff protection in its member countries. Trade distortive measures would create problems for MERCOSUR, but their dismantling was related to a successful outcome of the Uruguay Round.

23. The representative of Chile praised the gradual and generally progressive evolution of Uruguay's trade policy, which had shifted from an inward-looking to an outward-oriented one. Recent liberalization efforts by Uruguay, supported by similar actions in export markets, would contribute to domestic and regional growth and development. Uruguay played an active rôle in both the Uruguay Round and the Cairns Group.

24. She inquired about the current product coverage of reference and minimum "export" prices and plans to phase out such measures. She sought the justification for maintaining price controls for wine, and the time frame for eliminating such controls. She wondered whether the Uruguayan Government was, at the same time, considering the elimination of export taxes which affected, inter alia, certain hides and skins, and the possible reintroduction of export quotas on these products. In general, in view of the MERCOSUR challenge, she wondered how Uruguay would cope with a more open common external policy.

25. The representative of Mexico noted that although the Uruguayan economy was passing through a period of stagnation, the Government was developing a trade policy compatible with its need to internationalize the national economy and increase domestic competition. In this context, the recent tariff reforms and the Uruguay Round offer to bind all tariffs at a uniform 35 per cent, were of fundamental importance. Uruguay's exports, a

central element in the country's development, faced serious obstacles in markets abroad, because of domestic and export subsidies by other countries.

26. Certain macroeconomic elements, including high and persistent inflation, the significant external debt and the concentration of exports on a handful of agricultural and agro-based products, required correction. There had been slow progress in privatization. Despite efforts to rationalize and simplify the tariff structure, reference and minimum "export" prices still remained on a number of products, including metals, rubber, wood and paper. Although 74 per cent of export earnings originated in the agricultural sector, milk and wheat were subject to import restrictive measures. Motor vehicle imports were restricted by specific import procedures. He believed that, although the opening of foreign markets was of great importance for both Uruguayan and Mexican exports, it was equally important for Uruguay to pursue and deepen its economic reform process in the areas of trade, privatization and deregulation of the economy.

27. The representative of Sweden, speaking on behalf of the Nordic countries, said that Uruguay's small economy was heavily dependent on foreign trade and external economic developments beyond the control of the Government. The far-reaching tariff reform, the decline in the use of discretionary policy instruments, and the reduction of preferential margins in government procurement were elements of unilateral liberalization worth highlighting. Overall, liberal elements in Uruguay's trade policy seemed to outweigh protective ones and it was encouraging that there were to be further trade reforms.

28. Nevertheless, sometimes it was rather difficult to see how the aims of policy and the means used to achieve them were related to each other. Uruguay's active and constructive participation in the multilateral trading system and the Uruguay Round was blurred by resort to policies and instruments which seemed inconsistent with Uruguay's overall economic aims. He regretted that Uruguay's GATT tariff bindings had been waived for more than 30 years, and hoped to hear more on the prospects for resolving this question in a reasonable period of time. Uruguay's failure to supply detailed information on the scope and coverage of measures such as the reference and minimum "export" prices obliged the Nordic countries to join other contracting parties in asking for such information.

29. "Buy-national" Government procurement policies and similar measures did not seem to assist in achieving a transparent, predictable and stable environment for trade and investment. He asked the representative of Uruguay to elaborate on the extent to which actions under the Foreign Trade Deregulation and Investment Plan would contribute to the removal of remaining discretionary and non-transparent trade policy measures.

30. MERCOSUR membership was an important regional development which should have trade creating effects and lead to further opening of Uruguay's policies. In this context, he sought more information on it's impact on the structure of protection in Uruguay. The Nordic countries were looking forward to a thorough examination of MERCOSUR in the general GATT context.

31. The representative of the European Communities commended Uruguay for having controlled inflation, dismantled its automotive industry régime and for planning to bring its maximum tariff down to 20 per cent by 1993. However, he expressed concern regarding certain trade policy questions, such as the continuing waiver of Uruguay's tariff bindings, the level of the tariff offer in the Uruguay Round, tariff escalation, reference and minimum "export" prices, export taxes, provisions in the 1959 Exchange and Monetary Reform Law permitting surcharges and temporary prohibitions, and export taxes. One of the Communities' concerns related to rates of the IMESI internal tax, which reached 85 per cent on alcoholic beverages, including whisky.

32. The average of 5 per cent of total imports subject to reference or minimum "export" prices could be regarded as either large or small. Using such minimum prices as an anti-dumping measure was a strange practice; however, he did not want to comment on their GATT conformity. The reports also showed the need for increased competition from regional and multilateral trade in Uruguay. He noted the extent of preferential agreements with neighbouring countries and the development of MERCOSUR; in this content he encouraged Uruguay to favour multilateral rather than regional solutions.

33. The representative of Canada agreed that timely provision of information and distribution of documents was essential. The over-riding objective of the TPRM exercise was transparency. The lack of access by the Secretariat to complete, up-to-date information on reference and minimum "export" prices, was particularly worrisome. Responses by the Uruguayan delegation would remedy the situation.

34. Canada recognized the trade liberalization efforts made by Uruguay over the past twenty years, its rôle in the ongoing Round, and its attempts to reconcile multilateral and regional approaches. However, the performance of the economy and of external trade reflected an uneven translation of those intentions into practice. The size of the public sector, lack of legislation on competition or restrictive business practices, persistent inflation and the effect of reference and minimum "export" prices detracted from the general liberalization. In addition, the MERCOSUR Agreement appeared to permit significant government intervention in the economy, and the 35 per cent uniform tariff binding offered by Uruguay and its partners provided a good deal of scope for protecting certain sectors from external competition.

35. He asked whether Uruguay would use the occasion of the introduction of the common market to simplify its import régime for trade with third countries; whether it was planned to amend or eliminate additional levies and charges, such as the port fee and the shipping tax on foreign vessels; what measures were contemplated to help Uruguayan firms meet new competition from MERCOSUR, apart from the slower pace of tariff cuts for 960 sensitive import items; and whether Uruguay planned to address problems caused by wide spread wage indexation. He sought an overall assessment of the adjustment likely to face Uruguayan entrepreneurs, workers and farmers under the MERCOSUR Agreement, and of plans to meet such challenges, including the rôle of the public sector. He also asked for clarification of the status of goods shipped from free-trade zones for domestic consumption in Uruguay or in other MERCOSUR countries.

36. Speedy completion of the renegotiation of Schedule XXXI was to be encouraged. In this connection, Canada asked whether the Harmonized System had been introduced on the scheduled date of 30 June and when this would be available to trading partners. Clarification of the rôle in foreign trade of State-owned monopolies, as well as their status in regard to Uruguay's obligations under Article XVII of the General Agreement, was also sought.

37. The representative of Bolivia said that the TPRM exercise allowed participants, particularly those which had recently become members of GATT, to learn about other contracting parties' record in the GATT. Uruguay was committed to the multilateral trading system. Greater openness in the system should benefit Uruguay's exports. He sought information on the economic and social costs of liberalization in Uruguay, the operation of the reference and minimum "export" price system, criteria set for privatization, and progress so far in this regard.

38. The representative of India noted the improvement in the debt situation of Uruguay. Trade reforms had resulted in a level of tariff protection, which was reasonable given the state of development of the economy. Uruguay had also offered to bind its entire tariff lines at 35 per cent. The absence of any significant non-tariff measures affecting imports was another noteworthy feature of Uruguay's trade policies and practices. However, the application of reference price and minimum export price to those items, which already benefited from relatively high level of tariff protection would have to be reviewed by Uruguay at the appropriate time.

39. Uruguay attached importance to trade liberalization at a regional level, which could lead to trade diversions. At some stage in future, Uruguay would have to think of ways and means to reduce its dependence on a few markets for its foreign trade. he expressed the view that the external trading environment was not conducive to a substantial increase in the export earnings of Uruguay, given its heavy dependence on agricultural and

agro based products for a substantial portion of its export earnings and the trade distorting policies and practices prevalent in that sector. A successful conclusion of the Uruguay Round would help Uruguay in its efforts at trade liberalization and economic growth.

40. The representative of Japan recognized that Uruguay had pursued liberal policies, intended to integrate the domestic economy in world markets, by reducing tariff rates and substantially eliminating quantitative restrictions. Nevertheless, the Government should reconsider the system of reference and minimum "export" prices in order to make Uruguay's liberal policies more credible. More information was requested on future treatment of this system either as a result of autonomous reform or in the framework of the Uruguay Round.

41. Uruguay's strong regional economic ties and its participation to MERCOSUR were an indication of increasing integration among Latin American economies. All such agreements should respect the conditions of, and be compatible with, Article XXIV of the General Agreement. Additionally, such schemes should have trade creating effects; the operation of MERCOSUR should not damage the interests of third countries.

42. In response to specific comments made by Uruguay, Japan considered that its animal sanitary regulation system was scientifically justifiable, especially considering the fact that Japan was free from foot-and-mouth disease.

43. The representative of Australia said that her country knew and understood Uruguay's difficult economic and trade circumstances over the last 25 years. They shared common interests and had a long history of co-operation on agricultural trade issues, both in the GATT and in specialized commodity groupings. Uruguay was an active participant in the Uruguay Round and a founding member of the Cairns Group. Its objectives in the Multilateral Trade Negotiations were reflected in its domestic economic and trade reforms. Tariffs had been reduced and their structure rationalized; the use of discretionary policy measures was declining and, despite the complex regulatory framework, efforts were being made to eliminate costly import and export procedures.

44. Nevertheless, a number of areas in Uruguay's trade policies ran counter to the changes. Elimination of the reference and minimum "export" price system should be considered. Australia also joined other signatories of Tokyo Round Agreements in asking Uruguay to subscribe to the Anti-Dumping Code. She asked whether Uruguay was considering suppressing levies or charges which were unrelated to the actual cost of services provided, such as the 1 per cent BROU commission, the port handling fee and the tax for extraordinary services, and the discriminatory foreign shipping tax.

45. The MERCOSUR initiative was an important development which ought to have trade creating effects and should fully meet the requirements of Article XXIV of the General Agreement. Finally, she urged Uruguay to consider the establishment of an independent statutory body to provide advice on trade and industrial policy to the Government. This would further encourage Uruguay's moves towards a more open and efficient economy.

46. The representative of Hungary noted that Uruguay's small market size had provided an incentive for its increased participation in international trade and in the Round of negotiations bearing its name. Trade policy reforms, dating back to the late 1950s, had been intensified in the past twenty years. Uruguay was among the few countries not relying on quantitative restrictions. However, some significant trade policy instruments and practices seemed to weaken the impact of tariff liberalization. Import fees and charges remained highly complex, with some operating in a discriminatory manner. His delegation was particularly concerned with the least transparent aspect of Uruguay's trade policies, the mechanism of reference and minimum "export" prices, directed against unfair trade practices, which currently covered 150 tariff items. He hoped that the Government could overcome opposition from the domestic business community and eliminate these measures.

47. Uruguay had maintained a waiver from its GATT obligations for more than 30 years. While the balance-of-payments justification for its import surcharges was no longer invoked, these were still applied. It was thus urgent to conclude negotiations for the new Schedule XXXI at the earliest possible date.

48. MERCOSUR would lead to a re-orientation of Uruguay's trade towards the region. The Agreement had not been discussed in the GATT. An important step in improving transparency would be its inclusion on the agenda of the forthcoming meeting of the Committee on Trade and Development. Additionally, it was expected that Uruguay and its MERCOSUR partners which were GATT contracting parties would submit the agreement for examination under the provisions of Article XXIV.

49. The representative of Switzerland noted that further liberalization and coordination in macroeconomic policies would lead to greater stability in Uruguay and the region. Four specific issues were of concern. Government procurement practices favoured countertrade options: this bias should be eliminated. The reduction to 10 per cent of the preferential margin for domestic goods in Government contracts was a satisfactory improvement, but further cuts would be welcomed. Lack of information on State-owned enterprises could be remedied by increasing transparency in this area. Although MERCOSUR could bring greater liberalization, its impact on trade should be examined under the provisions of Article XXIV.

50. The representative of the United States observed that gaps in the information supplied by Uruguay had been noted in the Secretariat report. The efforts made by Uruguay to liberalize the trade régime and strengthen macroeconomic performance, in a situation of political difficulties in introducing reforms, were appreciated. For most of Uruguay's history, import substitution policies had taxed the agricultural sector where Uruguay had a strong comparative advantage, while high level protection had been provided to manufacturing activities. From the mid-1970s a gradual, but progressive move away from such policies was observed. Nevertheless, it seemed that Uruguay had taken a few detours on the road to liberalization; it was not thus clear whether an informed assessment of Uruguay's current trade régime could be made. In view of the existence of reference and minimum "export" prices and the findings of the UNDP/World Bank and the GATT Secretariat in this respect, significant questions were raised about the present level of effective protection.

51. The goals of the TPRM exercise were increasing transparency in, and multilateral surveillance of, a contracting party's régime. This had been strongly supported by Uruguay in the context of the Round. Uruguay's participation in the GATT underscored the need for greater discipline in enforcing multilateral rules and obligations. The first GATT waiver for Uruguay was granted in 1961, allowing the implementation of import surcharges for balance-of-payment reasons. Import surcharges were still applied, although the last review in the Balance-of-Payments Committee was held in 1976. It seemed that import surcharges were applied selectively among countries, on the basis of Uruguay's preferential trading arrangements. Uruguay had for some time been reducing and rationalizing its tariff régime; however, none of these steps were reflected in its GATT bindings, nor in its market access offer under the ongoing Round.

52. The United States' representative shared others' interest in the Uruguayan delegation's assessment of the sustainability of certain recent trade and economic reforms, such as the likely restructuring of industry in the light of MERCOSUR, privatization of state-owned monopolies, elimination of wage indexation, or rationalization of the automobile sector. It would be useful to share the experience of Uruguay, a country where one quarter of the population were government bureaucrats, on its so-called National Debureaucratization Programme.

53. Transparency was critical to making the GATT system work. In this context, MERCOSUR countries should follow the procedures established in Article XXIV.

54. The representative of New Zealand expressed concern that the Secretariat had not obtained full information from the country under review. Uruguay's trade policy régime had generally evolved in a positive direction over the past few decades. Its industrial policy was also set on

a more rational footing. Uruguay should maintain policies that encouraged the production of internationally competitive goods. The recourse to reference and minimum "export" prices was regrettable and it was hoped that the scope of such discretionary instruments would continue to fall.

55. It was hoped that MERCOSUR liberalization, combined with the announced m.f.n. tariff reductions, would contribute to increasing Uruguay's competitiveness and would, overall, have a trade-creating effect. In this context, New Zealand reiterated the hope that MERCOSUR countries would submit the agreement for consideration under Article XXIV procedures.

56. His country shared a similar export profile with Uruguay. World trade in agricultural or primary products from both countries was highly distorted by barriers lifted by developed countries. The Round had been launched in Uruguay to resolve these serious distortions in world trade. A successful outcome was vital to Uruguay's efforts to reform internal structures.

57. The representative of Peru drew attention to Uruguay's small size, population, and share in world trade and to its status as a developing country. Its current economic situation was satisfactory, particularly with regard to fiscal deficit, external debt and inflation. Uruguayan trade policy was characterized by increasing openness, while growing exports of manufactures had reduced its export dependence on agricultural products. Uruguay's export diversification efforts coincided with protectionism in the world's largest markets. This situation encouraged the reinforcement of regional trade links. The growing liberalization of imports, including tariff cuts, was appreciated.

58. The conclusion of the Uruguay Round and participation in MERCOSUR would be challenges for Uruguay. The structural adjustment underway confirmed that Uruguay was making a particular effort to increase its contribution to the multilateral trading system. Despite requests by developed and developing countries delegations to Uruguay to further liberalize its trade régime and reduce its tariffs, she was of the view that Uruguay had already met such requirements autonomously.

59. The representative of Brazil noted that Uruguay, in parallel with a number of other developing countries, was undertaking a thorough liberalization programme despite an adverse external trade environment. This situation could lead, if the ongoing Round were not concluded successfully, to "reverse differential treatment", where measures abandoned by developing countries were still maintained by the major trading partners.

60. Uruguay had begun its trade liberalization in 1959, when quantitative restrictions were replaced by tariffs. This policy had been continued into

the 1980s, even though parallel measures such as administered prices had been introduced to offset the effects of the foreign debt crisis on the balance of payments. Recently, trade reform had been accelerated by further tariff cuts, the suppression of local content and compensatory export requirements, and the elimination of export measures. Regional trade integration in MERCOSUR was not at the expense of the multilateral trading system, as four-fifths of Uruguayan imports were subject to m.f.n. treatment. The international trading community, in particular the major partners, had a responsibility to open their markets to Uruguay's export products. In this way, they would contribute to a more balanced and fairer trading system.

V. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF URUGUAY

61. In responding to the comments by discussants and delegations, the representative of Uruguay emphasized that, in line with the TPRM objectives, his replies would be related to the impact of trade policies and practices of Uruguay and not to compliance with GATT rules, dispute settlement procedures or new GATT commitments. He expressed his satisfaction to the participants for the positive and friendly tone of their interventions, which had recognized Uruguay's difficulties in trade liberalization. Exports in which Uruguay had a comparative advantage were subject to trade distortions in other contracting parties' markets.

62. The Declaration of Punta del Este represented both a challenge and a commitment for Uruguay. The GATT waiver granted to his country was neither the oldest, nor the one with the greatest impact on the multilateral trading system. The justification for the waiver had changed three years ago; it was now related to the completion of negotiations on a new List XXXI. These negotiations had been overtaken by Uruguay's offer in the Round, to bind its whole tariff at 35 per cent. This offer comprised all tariff items compared to the approximately 300 lines in List XXXI; the tariff level was set on the basis of indications given by other negotiators, through the classical GATT procedure of formal and informal consultations. He recalled that Uruguayan products with comparative advantage were subject to much higher duties and quantitative restrictions in other markets. The Global Tariff Rate or TGA, composed of the import surcharge and the IMADUNI, was the import tariff which Uruguay was offering to bind at 35 per cent.

63. Efforts were being made to reduce disequilibria in the economy. The public sector deficit had been cut, and was expected to disappear by 1993. The political and social costs were common to all countries. Interest rates were set by market forces. Wage-indexation for the private sector was to be abandoned and wages in the public sector were to be adjusted on the basis of projected, not retrospective, inflation rates. Inflation was falling; the rôle of the State in the domestic economy was also to be simplified and reduced. Uruguay's long history of State intervention had inhibited the privatization process. Although the number of signatures necessary to have recourse against the decision to privatize the telecommunications and air transport had not been attained, a second opportunity for a plebiscite could occur in October 1992.

64. There were only three tariff levels. The relevant rates should be further reduced by 1993. As from 1 July 1992, the automotive sector was subject to the regular trade régime and no reference or minimum "export" prices were applicable. The new régime governing trade in the automotive sector would be submitted to the Secretariat in due course. The Harmonized

System would enter in force on 1 January 1993, and would be notified. The relevant Decree would be supplied after the meeting.

65. The port fee was a user fee on imported merchandise requiring port services and was applied to goods entering the country by sea. There were no plans for the suppression of this fee.

66. The BROU commission was a statistical tax on foreign trade. The Secretariat report stated that this commission was unrelated to the actual cost of the services provided by BROU in each particular case. As the Secretariat did not supply the methods of calculation which were used for drawing this conclusion, he could not share this view. Additionally, with respect to this tax, Article VIII, paragraph 1(a) of the General Agreement provided that all fees and charges "shall be limited in amount to the approximate cost of services rendered" without making reference to the criteria of each particular case. This charge reflected BROU's estimates of the approximate cost of its services.

67. The foreign shipping tax, established 30 years ago, was considered as a residual tax. It applied if a Uruguayan vessel was in port up to 10 days before or after the scheduled loading date. In practice, in view of the small Uruguayan fleet, this tax was not applied.

68. Since 1974, Uruguay had deployed significant market opening efforts. Their rhythm had been interrupted only between 1982 and 1984, when a serious foreign debt crisis caused a fall of over 17 per cent in GDP and a decline in imports. The closing of the economy at this period was the result of an involuntary situation, as the economic entrenchment affected imports, and not the outcome of protection. At that time, reference and minimum "export" prices were introduced. From 1985 onwards, liberalization efforts were resumed as GDP and foreign trade started growing again.

69. The description of reference and minimum "export" prices as protectionist devices was one which his Government did not share. A Commission was entrusted with the administration and review of the system as well as with providing replies to any questions which were raised. The reference and minimum "export" prices had been established to deal with unfair trading practices; to assist in maintaining a certain level of economic activity; and to adjust for exchange rate distortions and under- and over-invoicing practices. In the past, a maximum of 5 per cent of tariff items had been covered by reference and minimum "export" prices; currently, only approximately 2 per cent were affected. In 1989, 1.3 per cent of total import value was subject to this treatment, while in 1991 this share had risen to 2 per cent. If these measures were protectionist there might be some effect on the growth of imports, but this was not the case. The recent decrease in the levels of the prices and in their product coverage would further reduce their incidence.

70. Reference prices were expected to be abolished in one year's time. Minimum "export" prices would be phased out when the MERCOSUR entered into force. A list of the products currently covered by the system of reference and minimum "export" prices was to be submitted to the Secretariat at the end of the meeting.[1]

71. A large number of economic issues were regulated by the 1959 Exchange and Monetary Reform Law. In Uruguay, it was not easy to amend or repeal laws. The Government did not have any intention to abolish this Law. The powers to implement certain import restrictive measures granted to the Executive by this law, had not been used so far because they would have led to a setback in the liberalization effort.

72. Internal measures aimed at ensuring the good functioning of the MERCOSUR agreement encompassed adjustment efforts which would be put into effect by sectoral commissions, with the help of credits and technical assistance from international organizations. Three consecutive tariff reductions at six monthly intervals had brought the currently applicable TGA rate vis-à-vis other MERCOSUR partners down to 60 per cent of m.f.n. rates. Zero TGA rates for all tariff items would apply by the end of 1995. External considerations related mainly to the establishment of the Common External Tariff, which aimed, through promoting efficiency and competitiveness, to contribute to the integration of the economies in an international context. The Common External Tariff would be established in early 1993. The question of imposing import duties on goods imported from free trade zones established on MERCOSUR territory was under examination.

73. Significant initial efforts had been made to simplify procedures and reduce preferential margins in Government procurement. State participation through ILPE had ceased, leaving ANCAP as the sole State trading company with monopoly rights. Export taxes of 5 per cent applied to products with a low degree of processing. There were unlikely to be abolished. Export quotas were not expected to be used again.

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[1]This document has been circulated as document C/RM/G/26/Add.1.

VI. OTHER STATEMENTS

74. The second discussant said that Uruguay's efforts to open its economy had been rather successful. Certain trade distorting practices remained in place, but were likely to be reviewed. In recent years, the rate of liberalization had somewhat slowed down. The negative overall external trading situation affecting Uruguay's exports had unavoidable domestic repercussions. A successful outcome of the ongoing Round was crucial for sustaining liberalization in Uruguay.

75. He felt that a defensive tone characterized Uruguay's statements concerning the depth and significance of the 35 per cent tariff binding offer. It was always easy to find excuses for protecting the domestic economy. Each country should improve its offer in the negotiations and make it conditional upon deeper cuts by others rather than criticizing others' offers. Trade reforms should be undertaken because of their internal benefits.

76. The shifting justification for the maintenance of reference and minimum "export" prices was not entirely coherent. Reference was made to earlier crises, the balance of payments situation, the need to maintain economic stability, to address unfair trade practices and to cope with exchange rate fluctuations, etc. Additionally, this mechanism was defined as a flexible tool, without specific rational justification. The phasing out of these measures should not be shown on a tariff line basis: as a few tariff lines might represent a substantial proportion of the economy (e.g. automobiles) nor did the coverage in value terms reflect reality as imports could be deterred by setting prices high enough. Many questions remained on this issue.

77. The foreign shipping tax was obviously providing protection to Uruguayan shipping. He expressed doubt that port fees applied only to goods entering Uruguay by maritime ports. The GATT did allow user fees under certain conditions; but he would continue to question whether those conditions were met.

78. The first discussant expressed concern about the limited impact of trade liberalization by Uruguay over the past 15 years. The economy had stagnated for the last three years and had a low average growth rate. In 1980, Uruguay's income per capita and other economic indicators were higher than those of the Republic of Korea - the next country whose trade policies were to be examined by the Council - but today, the situation was dramatically reversed. The TPRM was devoted to the assessment of results as much as efforts, and as such it should focus on evidence regarding trade and revenue performance.

79. He could not understand what impeded the amendment of trade restrictive provisions of the 1959 Exchange and Monetary Reform Law permitting prior import deposits, temporary prohibitions and import surcharges.

80. He noted with satisfaction that the system of reference prices would be abolished in one year. However, reference and minimum "export" prices impeded liberalization efforts and an analysis of their impact was required. He wondered why imports did not increase if TGA rates were lowered. Had the artificially set price levels remained high?

81. The representative of Australia saw difficulties in relating the BROU commission to the effective cost of services provided by this institution. He wondered whether the phasing-out of reference and minimum "export" prices was the Government's firm intention. As the coverage of this system had apparently declined, more precise information was required concerning its impact on the economy.

82. The representative of Uruguay confirmed that the Government's intention was to eliminate reference prices within one year and to abolish minimum "export" prices between 1994 and 1995. In view of their limited product coverage, the dismantling of these measures would not have a significant impact on the economy. The list of items covered by the system contained in the Secretariat's report should be updated on the basis of data which would be submitted following the meeting.

83. Regarding the basis for the calculation of certain internal taxes there was no provision in the General Agreement indicating whether a tax should be collected on an ad valorem or a unitary basis. The rate of taxation should be related neither to the cost of the service rendered nor to the cost of the service for each transaction, but to the overall cost of the service.

VI. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

84. The reviews undertaken by the Council in the framework of the Trade Policies Review Mechanism aim to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. My closing remarks are intended to summarize, on my own responsibility, the salient points emerging from this review. These remarks are not a substitute for the full discussion and assessment by the Council. This, including Uruguay's responses to points raised by the participants, will be reflected in the minutes of the meeting.

85. In his opening statement, the representative of Uruguay highlighted the evolution of trade policy reforms since 1974. Elimination of quantitative restrictions, exchange regulations and other impediments to trade, as a first step, had been complemented by tariff rationalization and reduction. He emphasized the difficulties in pursuing trade liberalization efforts in an unfavourable trading environment for Uruguay's exports, particularly of agricultural products, textiles and clothing. Uruguay viewed its participation in MERCOSUR as an element in improving the integration of its economy into world markets.

86. He underlined progress already made in tariff rationalization and Uruguay's commitment to continuing its tariff reduction plan. The reference and minimum "export" price mechanisms had been introduced during a period of payments crisis; they were also used to correct distortions created by unfair trade practices and exchange rate fluctuations. The incidence of these instruments had been greatly reduced. In an additional move to reduce non-tariff barriers to trade, the automotive sector had been recently brought under the regular trade régime.

87. All participants complimented Uruguay on the reform programme underway, although some reversals had occurred in times of particular economic difficulties. Under the reform programme, Uruguay was making further revisions of several facets of its foreign trade régime and was continuing with its tariff reduction plan. The privatization programme and the deregulation of the internal market were central to the reform process, although they seemed to be facing some opposition. A number of participants expressed concern on the apparent difficulties Uruguay seemed to be encountering in bringing inflation under control.

88. Participants also commended Uruguay for its commitment to the fundamental principles of the multilateral trading system. Its contribution to launching the Uruguay Round and its continuing active participation, including chairmanship of the TNC at Ministerial level, provided evidence of this commitment. Uruguay's trade policy was generally open. Import restrictions and constraints on foreign exchange had been

liberalized. Investment policy was free. Export restrictions, which had been an area of concern in the past, had been virtually eliminated, while only few products were now subject to export taxes.

89. Attention was called to the growing regional orientation of Uruguay's trade in particular with Argentina and Brazil. Additional information was sought on progress in the establishment of the MERCOSUR Common External Tariff. Participants stressed the need for MERCOSUR to create, not divert, trade through joint progress in multilateral and regional liberalization. Several participants felt that MERCOSUR would facilitate structural adjustment in Uruguay. Some members said that MERCOSUR should be examined under the provisions of Article XXIV of the General Agreement.

90. A number of participants emphasized that the opening of Uruguay's market needed to be supported by an open international environment. They noted that Uruguay's efforts had not been matched by some of its trading partners. In particular, the effects of agricultural support policies in major trading entities and of restrictions under the MFA created serious barriers to Uruguay's exports, given Uruguay's high dependence on relatively few, principally agricultural or agro-based, exports. They stressed the responsibility of the international trading community to help Uruguay realize the benefits of its reforms. A successful conclusion to the Uruguay Round would greatly help Uruguay's economic prospects.

91. Participants noted that Uruguay's tariff binding commitments had been under GATT waiver for the last 30 years. Its offer in the context of the Uruguay Round negotiations to bind the entire tariff was therefore welcome. However, it was noted that the proposed binding level of 35 per cent was well above the average applied tariff and left considerable scope for variations in duty rates. Some participants also encouraged Uruguay to join remaining MTN Agreements, in particular the Anti-Dumping Code.

92. Some participants raised questions about the nature and operation of Uruguay's anti-dumping and countervailing measures law. In this context, the use of reference prices and minimum "export" prices as anti-dumping measures was criticised and more information was sought on the scope and operation of these practices.

93. In addition to these general points, specific questions were raised and clarification sought on:

- Legal provisions allowing for the introduction of import prohibitions or import deposits;

- The consistency of certain internal taxes, including port charges, bearing in mind GATT obligations;

- The application of the tax on foreign shipping;

- Uruguay's apparent lack of compliance with GATT notification requirements on State-trading;

- Protection provided through preferential Government procurement, given the importance of State-owned enterprises in the Uruguayan economy;

- The incidence of export taxes on leather;

- The extent and progress of privatization;

- The lack of competition policy.

94. In his reply, the representative of Uruguay noted that Uruguay had followed an economic reform programme since 1974, although this had suffered a setback during the debt crisis of 1982-85. The opening of the economy had occurred despite an external environment in which Uruguay's key exports faced severe restrictions. Internally, the public sector deficit was to be eliminated by 1993, and inflation was on a downward trend. The participation of the public sector in the economy was progressively being reduced, although the privatization process was not easy after 50 years of extensive state intervention and, admittedly, faced some opposition.

95. The re-negotiation of Uruguay's tariff schedule (Schedule XXXI) was now caught up in the Uruguay Round negotiation, in which Uruguay was offering to bind its entire tariff at 35 per cent.

96. The automobile sector was now under the general trade régime, with a 24 per cent tariff. There were no reference prices, nor any remaining local content or export compensation requirements. The new régime would be notified to GATT in due course.

97. With respect to reference and minimum export prices, Uruguay did not share criticisms of the protectionist nature of the system. The fixing of such prices was done in consultation with all concerned parties. The system, which had been introduced during the debt crisis of the early 1980s, had affected at most 5 per cent of imports; in 1991, 2 per cent of tariff lines and imports were covered. It was being progressively reduced. Reference prices would be phased out sometime within the next year; minimum export prices by January 1995.

98. Regarding MERCOSUR, there was no intention to create a closed market but, rather, to encourage greater competition. The level of the common external tariff would be decided early in 1993. The whole arrangement would be reviewed shortly in the GATT Committee on Trade and Development.

99. The Harmonized System would enter into force for Uruguay on 1 January 1993 and would be notified to GATT in due course.

100. The Global Tariff Rate was one overall, single rate with two components: the surcharge and IMADUNI. The overall rate was covered by Uruguay's offer to bind its entire tariff.

101. It was correct that Uruguay still had legislation (Law No. 12.670 dating from 1959) which could permit the use of restrictions or import deposits. However, these had not been used for some time. The Government had no intention to use such instruments, which would reverse its present policies.

102. Port charges were a user fee for services at seaports and did not affect goods imported by land or air. There was no intention to change these.

103. The fee charged by the Bank of the Republic of Uruguay (BROU) was a statistical fee, and it was inaccurate to say this was not based on costs. As such, it was allowed under Article VIII of the GATT.

104. The shipping tax had existed for 30 years. It was only charged if a Uruguayan vessel was in port for 10 days before and after loading and if it was not used. However, this residual tax was not being applied in practice because the national fleet was so small.

105. Remaining export taxes, at a rate of 5 per cent, were applied to the f.o.b. value of very few products with low value added. Their elimination could be considered in the context of MERCOSUR.

106. Government procurement had been rationalized and simplified. The domestic preference had been reduced from 40 per cent to 10 per cent.

107. The duty on imports from Free Zones under MERCOSUR had not yet been settled definitively.

108. Regarding state-owned enterprises, ILPE (for fisheries) no longer existed. The only State enterprise with monopoly rights in foreign trade, ANCAP, affected only fuels and derivatives, and alcohol.

109. The Council commended Uruguay for the progress it had made in the liberalization of its trade and the deregulation of its domestic market, in the face of economic difficulties. Uruguay's trade régime had been gradually changed from a highly protected to a relatively liberal one, over a prolonged period. Uruguay's trading partners had a responsibility to support this process by trade liberalization in areas of interest to Uruguay, particularly in agriculture and textiles.

110. At the same time, the Council looked forward to the abolition of the reference and minimum "export" price system, and the implementation of effective binding commitments by Uruguay following the Uruguay Round. The Council also expressed the hope that regional trade liberalization within MERCOSUR would be matched by multilateral liberalization, which would contribute positively to the development of the multilateral trading system.